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Economic and Financial Policies

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July 2, 2005

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The following item is a Letter of Intent of the government of Republic of Tajikistan, which describes the policies that Republic of Tajikistan intends to implement in the context of its request for financial support from the IMF. The document, which is the property of Republic of Tajikistan, is being made available on the IMF website by agreement with the member as a service to users of the [IMF](#) website.

**President
of the Republic of Tajikistan**

July 2, 2005

Dushanbe
Republic of Tajikistan

Dear Mr. de Rato:

I would like to take this opportunity to thank the International Monetary Fund for its continued support of our economic reforms and development programs.

In April 2005 the Government of Tajikistan held discussions with Fund staff for the fifth review under the Poverty Reduction and Growth Facility (PRGF). Based on these discussions, we have prepared a supplement to the Memorandum of Economic and Financial Policies (MEFP) of February 7, 2005. This supplement reflects the impact of recent economic developments on the macroeconomic framework, and proposes revisions to the performance criteria and additional measures for the period April 1–December 31, 2005.

I am pleased to report that we have made further progress in strengthening macroeconomic stability. The Tajik economy has continued to expand at a robust pace, inflation has remained moderate and the somoni exchange rate has been relatively stable. Budget revenue collections have been marginally higher than planned and expenditure has been kept well within the budget limits. We have observed all but one quantitative performance criteria for end-March 2005. The nonobservance of the floor on net international reserves (NIR) was temporary and due to a technical delay in the receipt of a program grant. On this basis, a waiver is being requested. We have completed the March 2005 structural benchmark on the Tajik Aluminum Plant (TadAZ), and have made considerable progress in implementing the benchmark concerning the rationalization of the functions of economic ministries. Also, the data for May 2005 indicate that we are likely to observe all quantitative targets for end June 2005, and we have made substantial progress in implementing the June structural benchmarks.

Based on the performance during the period through May 2005 and the policies set out in the attached supplementary Memorandum, we request the completion of the fifth review under the PRGF arrangement and request that the sixth review of the program take place on or after December 1, 2005. In addition, because of some delays in program implementation, we request that the PRGF arrangement be extended by two months to February 10, 2006.

The Government believes that the policies set forth in the attached Memorandum are adequate to achieve its objectives, but it will take any further measures that may become appropriate for this purpose. The Government will consult with the Fund on the adoption of

these measures, and in advance of revisions of the policies contained in the MEFP, in accordance with the Fund's policies on such consultations. In addition, we will provide the staff with the information required for monitoring economic developments and progress in program implementation.

In line with our commitment to transparency, we hereby request that the staff report, this letter of intent, and the attached Memorandum of Economic and Financial Policies (including all annexes) be published on the IMF website.

Please accept, Your Excellency, the assurances of my highest consideration.

/s/
Emomali Rakhmonov

To His Excellency
Mr. Rodrigo de Rato
Managing Director
International Monetary Fund

REPUBLIC OF TAJIKISTAN

Supplementary Memorandum of Economic and Financial Policies for the Period April 1, 2005 to December 31, 2005 Under the Poverty Reduction and Growth Facility

July 2, 2005

1. This Supplementary Memorandum of Economic and Financial Policies (SMEFP) reviews recent performance under the program of economic and financial reforms supported by the International Monetary Fund under the Poverty Reduction and Growth Facility (PRGF). It also details additional economic policy measures under the third annual program contained in our Letter of Intent and MEFP of February 17, 2005 (February MEFP).

RECENT DEVELOPMENTS AND PERFORMANCE UNDER THE PROGRAM

2. The macroeconomic environment remains positive. In the first quarter of 2005, real GDP rose by 7.8 percent relative to the first quarter of 2004, while consumer price inflation—at 6.5 percent—was slightly above expectations. Remittances from migrant workers, entrepreneurs, and small-scale exporters continued to boost household incomes and consumption and finance rapidly growing imports. After increasing to 7.3 percent of GDP in 2004, the trade deficit widened further in the first quarter of 2005 due to weak cotton and aluminum export prices and increased prices for imported fuels. The import cover of the NBT's gross international reserves fell slightly to 1.8 months of prospective imports at end March 2005, and the exchange rate remained broadly stable.

3. Sharply lower than projected government expenditure yielded a larger than projected budget surplus in the first quarter of 2005. Expenditure was low during the first quarter owing to delays in budget execution related to the introduction of the new budget classification, and to the need to recalculate wages and pensions following significant increases. While tax revenue was in line with the program, its composition differed from the projection. Receipts from the cotton sales tax were weak, owing to low cotton prices and delays in export shipments, but higher VAT receipts, boosted by strong consumer demand, more than offset this weakness. The implementation of the new tax and customs codes is proceeding and tax officials are adjusting to the new procedures.

4. Implementation of monetary policy focused on maintaining low inflation. Reserve money was substantially below the end-March 2005 program target. Commercial bank lending, with the exception of credit to agriculture, remained relatively subdued as banks focused on low risk lending and loan recovery to strengthen their capital base to meet the higher minimum capital requirements. The NBT reduced the required reserve ratio from 18 percent to 15 percent in May 2005.

5. All but one of the quantitative performance criteria under the Fund-supported program were observed (Annex I). The exception was net international reserves, which were temporarily below the program's target because of a delay (from March to early May) in the receipt of a program grant.

6. The indicative target for the avoidance of domestic arrears to utility companies was not observed in the March quarter, owing to the accumulation of arrears by TadAZ to Barki Tajik, repeating the problems of the December quarter 2004, but on a smaller scale. To address TadAZ's arrears, a transit account system was introduced for the company's electricity payments (structural benchmark for March 2005) at end April. Under this mechanism, TadAZ is paying the current cost of electricity and will pay the arrears according to the agreement under SAC 2. If TadAZ's payments are delayed, its bank will debit the needed funds from TadAZ's other bank accounts. Transactions on these accounts will be reported promptly to the NBT.

7. The reform of public administration is continuing. Specific plans for the four pilot ministries and the presidential administration are being developed. However, progress on the structural benchmark (for March 2005) for the streamlining of economic ministries, including the elimination of detailed production planning and the rationalization of aid coordination and planning, has been slower than anticipated. A presidential decree outlining the new organizational structure and distribution of the economic planning functions will be issued by early July, for implementation by end- September. Pilot programs for reforms in the financing arrangements for education and health are underway in several rayons. These have already contributed to the rationalization of some school facilities and the development of a guaranteed benefit package, which emphasizes publicly-financed maternal and child health care.

UPDATED POLICIES FOR THE THIRD ANNUAL PROGRAM

8. Recent developments suggest that while the key economic objectives in the February MEFP remain appropriate, some adjustments will be needed because of the weaker external environment. Real GDP growth is projected to be at least 8 percent in 2005 and inflation (12-month basis) is expected to reach 7 percent by the end of the year, slightly higher than originally envisaged. The main risks to this projection come from the recent downward trend in commodity prices, especially for cotton and aluminum, which could adversely affect both the growth outlook and the external position. Also, further increases in petroleum and gas prices, and higher inflation in some of Tajikistan's major trading partners, could put upward pressure on inflation.

A. Fiscal Policy

9. Developments so far in 2005 indicate that the budget framework for 2005 still holds. However, as a result of marginally stronger revenues in the first quarter and higher grants, the overall deficit (excluding the foreign financed public investment program, PIP) is projected to decline to 0.1 percent of GDP, compared with 0.5 percent in the original

program. At the same time, domestic bank financing of the deficit will increase marginally (by 0.2 percent of GDP, to 0.6 percent of GDP) to compensate for the projected decline in net foreign financing following delays in the disbursement of the World Bank's Policy Based Credit.

10. In order to continue with its revenue efforts, the government will strengthen implementation of the new tax and customs codes and the enforcement of payments from large taxpayers. To support the revenue mobilization effort, ministry of state revenues and duties (MSRD) will move expeditiously to increase the coverage of the large taxpayer inspectorate (LTI) (structural benchmark, June 2005). Although it was originally envisaged that the coverage of large taxpayers by the LTI would rise from 55 percent of taxes in December 2004 to 60 percent in June 2005, weaker performance by some existing large taxpayers in the cotton sector reduced the tax base. Thus, the MSRD will redouble efforts to add new large enterprises (including telecoms) to raise the coverage by 5 percentage points of tax collections, the originally envisaged increment, by end-June. In addition, the MSRD will use future external audits of TadAZ, which will be provided to MSRD, to review TadAZ's tax returns.

11. The government recognizes that the new investments in the energy and aluminum sectors contribute significantly not only to production and employment, but also to the budget. In this respect, TadAZ's operations will continue to be subject to the current legal framework, including the tax code, which for 2005 implies SM 13 million per month in tax payments. Any changes in tax arrangements will be fully evaluated for their revenue impact in subsequent years and in accordance with the legal framework.

12. The second tranche of the wage bill increase (SM 16 million) will be allocated to the sectors implementing the planned reforms foreshadowed in the February MEFP. Since general education reform has started in the five pilot rayons, the education sector will be allocated SM 4 million. The financing reform for the health sector was approved by the government in May, and new structures for the four pilot ministries and the presidential administration will be adopted by end-June. The remaining SM 12 million will be released after September 2005, conditional on the completion of the civil service registries, adoption of the rationalized wage structure, and implementation of new administrative and health reforms developed in consultation with the World Bank. Some of these funds may also be used for retrenchment.

13. After the implementation of the new budget classification system at the start of 2005, progress in improving fiscal transparency will continue with four important steps: (a) publication of the detailed 2004 budget execution report and the 2005 budget documents in both hard copy and on the internet, including expenditures classified by function, economic type, and key budget organization, and with details of domestically funded capital expenditures; (b) enhancement of the 2006 budget preparation process with the formulation of priorities that reflect those being developed for the new Poverty Reduction Strategy Paper (PRSP) and Socio Economic Development Plan (SEDP); (c) presentation of the domestic investment budget for 2006 by main project comparable to the PIP; and (d) progressive

introduction of per capita funding in education at the rayon level and on a nationwide basis (supplemented by factors that account for remoteness and age of facilities), starting with the 2006 budget.

14. To strengthen the treasury system, we have made progress in setting up the cash management unit to enhance the use of the single treasury account, which will become operational by September 2005 (structural benchmark). The completion of other elements of the benchmark, such as strengthening the links between the central treasury and its local branches, is being reviewed by an FAD technical assistance mission in July 2005.

15. To broaden the range of financial instruments, the MOF will start to issue SM 3 million of 28-day term marketable treasury bills in June 2005. Each weekly auction will be for about one quarter of this amount, and the management of these securities will be handled by the NBT, which will act as the MOF's agent. In addition, the NBT and the MOF will reach an agreement on the terms for the settlement of interest on government bonds and deposits by end-August 2005. The somoni bonds and deposits will earn interest calculated by explicit margins over inflation.

B. Monetary and Exchange Rate Policies

16. Monetary policy and quantitative targets for the remainder of 2005 will continue to be guided by the February MEFP, with reserve money targeted to grow by under 10 percent in order to keep inflation in check. The NBT will use the newly issued treasury bills as a first step in developing money market instruments. The NBT may consider a further reduction in the required reserve ratio in early 2006, after evaluating the impact of the recent reduction on lending.

17. The NBT has reduced its claims on the private sector (including banks) by a substantial part of the SM 10 million (structural benchmark for June 2005) and further collections are expected in the near future. The NBT will continue to recover such debt in the second half of 2005. This will be accomplished by enforcing debt repayments and the sale of collateral held in lieu of some of the nonperforming loans. The NBT will not relend the recovered funds.

18. The NBT will maintain the managed float exchange regime, limiting intervention in the foreign exchange market to reducing excess exchange rate volatility and building up international reserves to maintain an appropriate coverage of imports. The NBT will move to daily adjustment of the official exchange rate by end-August 2005. The adjustments will reflect the exchange rates in transactions from the previous day in the interbank market and between the banks and their clients.

C. External Debt Management Policies

19. The NBT and the government will continue to prohibit all external nonconcessional borrowing contracted or guaranteed by the government, and will not draw on any outstanding nonconcessional credit facilities. While a substantial part of the public sector external debt

inventory has been completed, the MOF will extend the coverage of the database to external debts of public enterprises without government guarantees. The MOF will also build on the recent achievements in debt data management and reports of past trends to develop the technical and analytical capacity to perform debt sustainability analysis. Work for developing a database of external liabilities of the private sector related to the cotton sector (structural benchmark for June 2005) is underway with the inclusion of the largest creditors, and the NBT will make further progress to complete the coverage of all creditors by September 2005.

D. Other Structural Policies

20. The NBT will publish the full external audit report for the 2003-04 financial year by the end of June 2005. This will be both in hard copy and on the NBT's external website. The external audit for the financial year ending on April 30, 2005 will be completed by the end of August 2005. Subsequently, the report will be sent to Parliament and placed on the NBT's external website. Anti-money laundering legislation is being developed and is expected to be presented to parliament for consideration by end-2005.

21. The NBT will continue to monitor and enforce compliance with all prudential regulations. While recognizing that the delays in cotton shipments in early 2005 were the main reason behind low loan repayments and the resulting sharp seasonal increase in outstanding credit, the NBT will enhance monitoring of commercial bank lending practices and their impact on nonperforming loans. Stronger prudential compliance may require the withdrawal of banking licenses from the weakest banks, particularly if they fail to meet the \$5 million minimum capital requirement applicable at the start of 2006. The government will also provide the state-owned Amonat Bank with the needed additional capital or find other sources of capital by the start of 2006. The amendments to the Banking Law to remove impediments to the entry of foreign banks have been reviewed by the government and will be submitted to Parliament by early July 2005. The NBT will support the creation of a credit bureau by encouraging banks to exchange data on borrowers and assisting in setting up a centralized database.

22. Recognizing the importance of diversifying the economic base, the government will strengthen the framework to promote the development of the private sector. One of the near-term tasks will be to streamline business regulation, including by significantly reducing the coverage of the Licensing Law, and to work with line ministries to enhance competition in the provision of international quality business services, especially air travel and telecommunications.

23. The government has adopted a strategy to resolve the problem of cotton sector debt that precludes the issuance of government guarantees. The strategy foresees the establishment of an independent commission to address the debt problem on a case-by-case basis. The modalities of the independent commission are still being discussed with donors,

but should be finalized in the near future. Other recent measures to improve agriculture include the elimination of local government interference with cotton production and land use decisions by farms, and the acceleration of farm privatization.

24. The government is committed to promoting the development of accurate macroeconomic data and will start to pursue subscription to the Special Data Dissemination Standard (SDDS) as part of its efforts to enhance the accessibility and timeliness of statistics. Assistance from the IMF's Statistics Department in developing the remaining required datasets and updating the necessary metadata will be sought, and a timetable for subscription to SDDS will be developed.

25. As outlined in the second annual Progress Report on the implementation of the PRSP, the government will coordinate more systematically the public investment and policy framework in support of growth. To achieve this, it will develop and adopt an interim National Development Strategy for the period 2006–08 by end-2005. This will integrate the SEDP, the PRSP, and the plan for progress towards the Millennium Development Goals. Drafts will be made public and input from civil society will be incorporated.

E. Program Monitoring

26. The program targets for end-September and end-December 2005 are detailed in Annex I and remain largely the same as in the February MEFP. Structural performance criteria and benchmarks through end-September 2005 are contained in Annex II. All of the structural measures will be implemented before the completion of the sixth review under the arrangement, subject to the understandings specified in this memorandum. Performance relative to these targets, criteria, and benchmarks will be measured as detailed in the Technical Memorandum of Understanding in Annex III.

27. To promote transparency, the letter of transmittal and the Memorandum of Economic and Financial Policies will be published on the Tajikistan government and IMF websites.

Annex I: Quantitative Performance Criteria

Annex II: Structural Performance Criteria and Benchmarks

Annex III: Technical Memorandum of Understanding

Table 1. Tajikistan: Quantitative Performance Criteria and Indicative Targets for the Third Annual Program
Under the PRGF Arrangement, October 2004–December 2005

(In millions of somoni, unless otherwise indicated)

	2005									
	2004 Actual 1/	End-Mar.		Actual 1/	End-Jun. 2/		End-Sept.		End-Dec. 2/	
		(IMF CR No. 05/132)	Adjusted		(IMF CR No. 05/132)	Adjusted	(IMF CR No. 05/132)	Revised	(IMF CR No. 05/132)	Revised
<i>Performance Criteria:</i>										
1. Ceiling on net domestic assets of the NBT 3/	73	58	40	34	82	64	86	101	77	90
2. Ceiling on net credit of the banking system to general government 3/	-218	-231	-249	-271	-196	-214	-186	-169	-188	-178
3. Floor on the cumulative overall fiscal balance of the general government (excluding foreign-financed public investment program) 4/	17	43	...	63	5	10	-24	-27	4	20
4. Ceiling on general government wage, and nonworking pensioners' pension arrears 5/	0	0	...	0	0	...	0	0	0	0
5. Floor on tax collection of the ministry of state revenues and duties 4/	250	526	...	529	798	...	1,070	1,070	296	290
6. Floor on total net international reserves (in millions of U.S. dollars) 3/	67	64	70	67	58	64	63	59	75	71
7a. Ceiling on the contracting or guaranteeing of short-term nonconcessional external debt with original maturity of up to and including one year 6/	0	0	...	0	0	...	0	0	0	0
7b. Ceiling on the contracting or guaranteeing of medium and long-term nonconcessional external debt with original maturity of more than one year 6/	0	0	...	0	0	...	0	0	0	0
8. New external payments arrears 5/	0	0	...	0	0	...	0	0	0	0
<i>Indicative targets:</i>										
Ceiling on reserve money	278	252	...	236	257	257	278	278	305	305
New arrears of budget entities and key state-owned enterprises to Naftрасon, Barqui Tajik, and Tajikgas	24	0	...	9	0	...	0	0	0	0
<i>Memorandum item:</i>										
Cumulative disbursement of program loans and grants (in millions of U.S. dollars) 7/	0	0	6	6	0	6	10	6	10	6

Sources: Tajik authorities; and Fund staff estimates.

1/ Calculated using the 2005 program exchange rates.

2/ Indicative targets.

3/ On a cash basis, the ceiling will be adjusted for the deviation of actual program loans and grants disbursements compared to the projections. Adjustment for grants is with effect from end-June 2005.

4/ For March–September 2005, the targets are cumulative from October 1, 2004.

5/ A continuous performance criterion.

6/ By the government, NBT or any other agency acting on behalf of the government as defined in the Technical Memorandum of Understanding.

7/ Program loans and grants for March–September 2005 are cumulative from end-October 2004.

**Tajikistan: Structural Performance Criteria and Benchmarks
for the Third Annual Program Under the PRGF Arrangement, 2005**

Measures	Status (as of June 15, 2005)
Continuous structural performance criteria (through May 2005)	
Prohibit the NBT from issuing directed credits.	Observed
Prohibit the NBT from making expenditures not related to its core business activities or paying dividends while it has negative net worth.	Observed
Implement quarterly adjustments of all utility tariffs, equivalent to the depreciation in the nominal exchange rate in the previous quarter.	Observed
Structural benchmarks	
For end-March 2005	
Implement the mechanism to ensure the immediate transfer to the treasury by Barki Tajik of the tax portion of TADAZ's payments to Barki Tajik.	Observed in April
As part of streamlining economic ministries, cease publication of detailed production targets disaggregated below the national level. Integrate various bodies preparing strategic plans and coordinating aid.	Partially observed, remainder in progress
For end-June 2005	
Reduce NBT's claims on the private sector by SM 10 million from October 2004 to June 2005 through collateral sales or other loan recoveries.	
Remove the regulatory limits on foreign capital in the banking system and the requirement for a Tajik citizen to head commercial banks in the banking law.	
Expand the register of the Large Taxpayer Inspectorate (LTI) to cover at least 60 percent of total tax collections.	
Develop and continuously update a database at the NBT for monitoring private sector external debt (starting with cotton sector debt).	
For end-September 2005	
Make fully operational a cash management unit in the ministry of finance and strengthen communication links between local branches of the central treasury with the headquarters to enhance fiscal management, cash control and forecasting.	

REPUBLIC OF TAJIKISTAN

Technical Memorandum of Understanding

1. Performance during third year of the PRGF-supported program will be assessed based on observance of quantitative performance criteria and structural benchmarks. This annex together with Annex I attached to the MEFP define the variables that constitute quantitative performance criteria and indicative targets under the program, and sets out the reporting requirements and frequency of data provision by the government and the NBT.

2. For the purpose of program monitoring, U.S. dollar-denominated components of the balance sheet will be valued at the program exchange rate, and other foreign currency denominated items will be valued at cross rates between the program exchange rate of the U.S. dollar and current official exchange rates of the U.S. dollar against those currencies. The program exchange rate for the U.S. dollar is SM 3.037 = \$1 (the end-December 2004 level). The SDR components will be valued at the program SDR exchange rate (SDR 1 = \$1.54). Official gold holdings shall be valued at \$438 per troy ounce.

I. QUANTITATIVE TARGETS

A. Fiscal Balance of the General Government

Table 1. Ceiling on the Cumulative Overall Balance of the General Government

	(In millions of somoni)
Cumulative balance from October 1, 2004 to:	
December 31, 2004 (indicative target)	15
March 31, 2005 (performance criterion)	43
June 30, 2005 (indicative target)	5
September 30, 2005 (performance criterion)	-27
Cumulative balance from October 1, 2005 to:	
December 31, 2005 (indicative target)	20

Definitions

3. The **general government** budget is defined to include the republican budget, local (including municipal) budgets, and all extra-budgetary funds at all levels of general government, including the social protection fund (SPF) but excluding the externally financed public investment program. The **overall cash balance** of the general government is defined from the financing side as the sum of the following:

- (i) The change in stocks of the NBT on the general government which includes all deposits of the general government with the NBT, counterpart deposits (which reflect balance of payment and/or general budget support from IFIs and other donors), NBT loans and advances to the general government, NBT holdings of government securities, bank restructuring costs, and the privatization account (where proceeds from the privatization of state property are held);
- (ii) The change in net claims (transactions) on the general government of the rest of the domestic banking system which are defined to include the net position of the general government with respect to other domestic commercial bank assets (loans, overdrafts, cash advances, holdings of treasury bills or other securities) and liabilities (deposits, etc.);
- (iii) The change in net claims (transactions) on the general government of domestic nonbank institutions and households is defined to include net sales of treasury bills, bonds or other government securities to nonbank institutions and households (including nonresidents and nonresident financial institutions), plus any other increase in liabilities of the general government to domestic nonbank institutions or households. Included in this item are also compensation payments to Tajik Rail for its servicing of external debt to Uzbekistan;
- (iv) Gross proceeds from the privatization of state property, which are kept in a separate account with the NBT, are defined as all receipts originating from the sale of state property; and
- (v) Net foreign financing of the general government which is defined as the difference between gross disbursements of foreign financing excluding the externally-financed public investment program and amortization of government debt to foreign financial and nonfinancial institutions, plus principal arrears, debt rescheduling and the drawdown of Tajikistan's claim on the Central Bank of Russia.

B. Total Tax Collections under the Budget

Table 2. Floor on Total Tax Collections Under the Budget

(In millions of somoni)	
Cumulative revenues from October 1, 2004 to:	
December 31, 2004 (indicative target)	248
March 31, 2005 (performance criterion)	526
June 30, 2005 (indicative target)	798
September 30, 2005 (performance criterion)	1,070
Cumulative revenues from October 1, 2005 to:	
December 31, 2005 (indicative target)	290

Definitions

4. **Tax collections** include all taxes collected under the budget. Regarding internal taxation, the definition excludes any proceeds from loans, or other banking system credits, the issuance of securities, or from the sale of state assets. Custom revenues are defined to include import duties, export duties and taxes, customs duties, exchange taxes, and other taxes (including VAT) on international trade and transactions.

C. Limits on the Stock of Net Domestic Assets of the NBT

Table 3. Ceiling on the Stock of Net Domestic Assets of the NBT

	(In millions of somoni)
December 31, 2004 (indicative target)	73
March 31, 2005 (performance criterion)	58
June 30, 2005 (indicative target)	64
September 30, 2005 (performance criterion)	101
December 31, 2005 (indicative target)	90

Definitions

5. **Net domestic assets (NDA) of the NBT** are defined as: reserve money minus net foreign assets of the NBT. Reserve money is composed of currency in circulation, required reserves, other bank reserves, and deposits of nongovernment nonbanks with the NBT. The value of the net foreign assets of the NBT is calculated as the difference between NBT's claims on nonresidents and its liabilities to nonresidents. The NBT's net domestic assets comprise the following assets and liabilities: net credit to the general government, claims on banks, credit to the economy, and other items net (OIN). OIN includes the foreign exchange revaluation and capital accounts of the NBT.

Adjustors

6. The ceiling on net domestic assets of the NBT will be adjusted downward/upward by 100 percent for excesses/shortfalls of the disbursement of foreign program loans and grants. **Program loans and grants** are defined as loans or grants received in foreign exchange that are not tied to the purchase of specific goods and services and are intended for budget support.

D. Limits on Net Credit of the Banking System to General Government

Table 4. Ceiling on Net Credit of the Banking System to General Government 1/

	(In millions of somoni)
December 31, 2004 (indicative target)	-218
March 31, 2005 (performance criterion)	-231
June 30, 2005 (indicative target)	-209
September 30, 2005 (performance criterion)	-169
December 31, 2005 (indicative target)	-178

1/ Calculated at fixed program exchange rate.

Adjustors

7. Net credit of the banking system to general government will be adjusted downward/upward by 100 percent for excesses/shortfalls of the disbursement of foreign program loans and grants.

E. Net International Reserves

Table 5. Floor under the Stock of Net International Reserves of the NBT

	(In millions of U.S. dollars)
December 31, 2004 (indicative target)	67
March 31, 2005 (performance criterion)	64
June 30, 2005 (indicative target)	64
September 30, 2005 (performance criterion)	59
December 31, 2005 (indicative target)	71

Definitions

8. Total **net international reserves of the NBT** are defined as the difference between total gross international reserves of the NBT and total reserve liabilities of the NBT. Total *gross international reserves* of the NBT are defined to include NBT's holdings of monetary gold, SDRs, convertible currencies in cash or in nonresident banks that are readily available and any reserve position in the IMF. Also included are holdings of foreign currency-denominated securities issued by governments or central banks of OECD member states. Capital subscriptions in foreign financial institutions, nonliquid assets of the NBT, convertible currency denominated claims on domestic banks and other residents, assets in nonconvertible currencies, foreign assets pledged as collateral or otherwise encumbered and the net forward position, if any (defined as the difference between the face value of foreign currency denominated NBT off balance sheet claims on nonresidents and foreign currency

obligations to both residents and nonresidents) are excluded. *Reserve liabilities* of the NBT are defined as the sum of outstanding IMF credit, and liabilities of the NBT to nonresidents with an original maturity of up to and including one year.

9. Fund staff will be informed of details of any gold sales, purchases, or swap operations during the program period, and any resulting changes in the level of gross foreign reserves that arise from revaluation of gold will be excluded from gross reserves (as defined above).

Adjustors

10. The floor on net international reserves of the NBT will be adjusted upward/downward by 100 percent for excesses/shortfalls of the disbursement of foreign program loans and grants.

F. Limits on Short-, Medium-, and Long-Term External Debt

Table 6. Cumulative Ceiling on the Contracting or Guaranteeing of Nonconcessional External Debt

	0-1 Year Maturity	Over 1 Year Maturity
During the period from end-September 2004 to:		
December 31, 2004 (indicative target)	0	0
March 31, 2005 (performance criterion)	0	0
June 30, 2005 (indicative target)	0	0
September 30, 2005 (performance criterion)	0	0
December 31, 2005 (indicative target)	0	0

Definitions

11. The external debt limits (short, medium, and long term) apply to the government of Tajikistan, the National Bank of Tajikistan and any other agency acting on behalf of the government. For short, medium- and long-term external debt, the performance criterion applies not only to debt as defined in point No. 9 of the Guidelines on Performance Criteria with Respect to Foreign Debt (Decision No. 12274-(00/85), adopted August 24, 2000), but also to commitments contracted or guaranteed and for which value has not been received.

12. The definition of debt set forth in point No. 9 of the guidelines reads as follows: “(a) For the purposes of this guideline, the term “debt” will be understood to mean a current, i.e., not contingent, liability, created under a contractual arrangement through the provision of value in the form of assets (including currency) or services, and which requires the obligor to make one or more payments in the form of assets (including currency) or services, at some future points in time; these payments will discharge the principal and/or interest liabilities under the contract. Debts can take a number of forms, the primary ones being as follows: (a) loans, i.e., advances of money to obligor by the lender made on the basis of an

undertaking that the obligor will repay the funds in the future (including deposits, bonds, debentures, commercial loans, and buyers' credits) and temporary exchanges of assets that are equivalent to fully collateralized loans under which the obligor is required to repay the funds and usually pay interest, by repurchasing the collateral from the buyer in the future (such as repurchase agreements and official swap arrangements); (b) suppliers' credits, i.e., contracts where the supplier permits the obligor to defer payments until some time after the date on which the goods are delivered or services are provided; and (c) leases, i.e., arrangements under which property is provided which the lessee has the right to use one or more specified period(s) of time that are usually shorter than the total expected service life of the property, while the lessor retains the title to the property. For the purpose of the guideline, the debt is the present value (at the inception of the lease) of all lease payments expected to be made during the period of the agreement excluding those payments that cover the operation, repair or maintenance of the property. (b) Under the definition of debt set out in point 9(a) above, arrears, penalties, and judicially awarded damages arising from the failure to make payment under a contractual obligation that constitutes debt are debt. Failure to make payment on an obligation that is not considered debt under this definition (e.g., payment on delivery) will not give rise to debt."

13. External debt limits apply to the contracting or guaranteeing of new nonconcessional short term external debt (with an original maturity of up to and including one year), and to the contracting or guaranteeing of new nonconcessional medium- and long-term external debt (with original maturities of more than one year).

14. Excluded from the external debt limits are loans contracted for the purpose of debt rescheduling or refinancing if the terms of the new loan are more favorable. IMF credit is excluded from the external debt limits. The performance criterion on new nonconcessional short-term external debt will not apply to loans classified as international reserve liabilities of the NBT (liabilities of the NBT to nonresidents with an original maturity of up to and including one year). Normal import-related financing is excluded from the performance criterion on new short-term external debt.

15. Debt falling within the external debt limits that are denominated in currencies other than the U.S. dollar shall be valued in U.S. dollars at the exchange rate prevailing at the time the contracting or guaranteeing takes place or at the exchange rate stipulated in the contract.

16. For the purposes of the program, the guarantee of a debt arises from any explicit legal obligation of the government or the NBT or any other agency acting on behalf of the government to service such a debt in the event of nonpayment by the debtor (involving payments in cash or in kind), or indirectly through any other obligation of the government or the NBT or any other agency acting on behalf of the government to finance a shortfall incurred by the debtors.

17. A concessional debt is defined as one with a grant element equivalent to 35 percent or more. The grant element is calculated using the commercial interest reference rates (CIRRs) plus a margin, which will be taken as those for January 1, 2005 until this is revised in the

program. For debts of an original maturity of 15 years or more, the average CIRR over the last 10 years will be used, while the average of CIRRs of the preceding six-month period will be used to assess the concessionality of debts with original maturities of less than 15 years. To the ten-year and six month averages of CIRRs, the following margins will be added: 0.75 percent for repayment periods of less than 15 years; 1 percent for 15–19 years; 1.15 percent for 20–29 years; and 1.25 percent for 30 and more years. In general, grant element is calculated as value of the loan minus present discounted value of future payments over the loan value (multiplied by 100). Present discounted value is sum of all future discounted payments (both amortization and interest), where the discount rate corresponds to the above commercial interest reference rate.

II. CONTINUOUS QUANTITATIVE TARGETS

A. No Directed Credits by the NBT

18. The NBT will not issue any directed credits. These involve credits that are issued in the absence of a competitive auction or on nonmarket terms and conditions. This requirement will be monitored on the basis of changes in the NBT's balance sheets supported by the NBT's regular reporting on credit related activities.

B. No Noncore Activities of the NBT and no Dividend Payments by the NBT

19. The NBT will neither make any expenditures not related to its core business activities nor pay dividends while it has negative net worth.

C. No New External Payments Arrears

20. No new external payments arrears shall be accumulated at any time under the PRGF arrangement, excluding those which are subject to negotiation among creditors. External payments arrears are defined as debt service overdue for 30 days or more arising in respect of obligations incurred directly, guaranteed, or converted into interstate debt by the government of Tajikistan or the NBT, including penalties or interest charges.

D. Ceiling on General Government Wage and Nonworking Pensioners Pension Arrears

21. For purposes of the performance criterion, arrears on general government and nonworking pensioner's pension shall be monitored as any shortfall in monthly disbursements of wages and pensions. The monthly disbursement plan will be a third of each quarter's budgeted wage and pension payments as in the general government budget and budget of the Social Protection Fund. These payments are defined as overdue if they have come due at the end of the month and remain unpaid thereafter for 30 days or more. The program ceilings on the stock of wage and pension arrears are presented in Table 7 below:

Table 7. Stock of Wage and Pension Arrears

(In millions of somoni)	
Cumulative from October 1, 2004 to:	
December 31, 2004 (indicative target)	0
March 31, 2005 (performance criterion)	0
June 30, 2005 (indicative target)	0
September 30, 2005 (performance criterion)	0
Cumulative from October 1, 2005 to:	
December 31, 2005 (indicative target)	0

22. To permit monitoring as defined above, the government will provide data on actual wage payments (as part of the monthly budget execution statements submitted to Fund staff). The Social Protection Fund will provide quarterly reports and statements of their operations.

III. INDICATIVE QUANTITATIVE TARGETS

A. Reserve Money

Table 8. Indicative Ceiling on the Stock of Reserve Money

(In millions of somoni)	
December 31, 2004	278
March 31, 2005	252
June 30, 2005	257
September 30, 2005	278
December 31, 2005	305

Definition

23. The stock of reserve money is defined as the sum of: (a) domestic currency issued by the NBT; (b) deposits of commercial banks and other financial institutions held with the NBT; and (c) deposit liabilities of the NBT with respect to the public. NBT reserve money liabilities with respect to commercial banks and other financial institutions comprise all deposits held by these institutions at the NBT, including required reserves and excess reserves held in the correspondent accounts, but excluding NBT liabilities held by commercial banks and other financial institutions in the form of short term NBT notes. Deposit liabilities of the NBT to the public include all deposits placed at the NBT, in domestic or foreign currency, by the nonbank public.

B. New Arrears of Budget Entities and State-Owned Enterprises to Nafrason, Barqui Tajik and Tajikgas

Table 9. Indicative Ceiling on New Arrears of Budget-Entities and Key State-Owned Enterprises to Barqui Tajik, Nafrason, and Tajikgas

	(In millions of somoni)
December 31, 2004	0
March 31, 2005	0
June 30, 2005	0
September 30, 2005	0
December 31, 2005	0

Definition

24. Budget entities include all entities that are included in the state budget law. Key state-owned enterprises are Tadaz, Nitrogen (Sarband city), and Tajikcement.

IV. REPORTING REQUIREMENTS UNDER THE PROGRAM

25. For monitoring program targets, the following data should be reported to the Fund.

Table 10. Data reporting frequency for program monitoring

Data	Frequency	Lag
1. NBT analytical balance sheet	Weekly	3 working days
2. NBT balance sheet	Monthly	2 weeks
3. Commercial banks' and Kredit Invest balance sheets	Monthly	4 weeks
4. Auction results for NBT certificates and treasury bills	Weekly	1 week
5. Foreign exchange transactions	Weekly	1 week
6. Fiscal revenues, expenditures and financing of budget execution, and extrabudgetary funds	Monthly	4 weeks
7. Reports and statements from the Social Protection Fund	Quarterly	6 weeks
8. Arrears of budget entities and state owned enterprises	Quarterly	4 weeks
9. Tax arrears of the largest tax payers in arrears	Quarterly	4 weeks
10. Stock of disbursements and commitments of external debt, with details of principle, interest rate, maturity, grace period. and armotization.	Quarterly	4 weeks