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Republic of Tajikistan: Staff-Monitored Program: Letter of Intent, Memorandum of Economic and Financial Policies, and Technical Memorandum of Understanding

June 10, 2008

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10 June, 2008

His Excellency
Mr. Dominique Strauss-Kahn
Managing Director
International Monetary Fund
700 19th Street, N.W.
Washington, D.C. 20431

Dear Mr. Strauss-Kahn:

I would like to take this opportunity to express my gratitude to the International Monetary Fund for its support of Tajikistan at this critical moment for our economy. We regret the recent misreporting incident and assure you that we are determined and ready to address the institutional weaknesses that led to it.

I am pleased to inform you that during the April 17-30, 2008 mission, we reached understandings with Fund staff on a Staff Monitored Program (SMP) covering the period June 1-December 31, 2008. The SMP establishes a macroeconomic framework that will support our efforts at economic stabilization and implementation of structural reforms to help address the current problems faced by Tajikistan. At the core of this program are measures to strengthen the autonomy and governance of the National Bank of Tajikistan (NBT), aiming to address weaknesses exposed by the recent incident of misreporting. In this connection, after agreeing with Fund staff on the appropriate terms of reference, we have launched the hiring process of a reputable independent international auditing firm to conduct a special audit of the NBT.

The Government believes that the policies outlined in the Memorandum of Economic and Financial Policies (MEFP) will enhance the prospects for achieving the objectives of our economic program for 2008. We intend to remain in close consultation with Fund staff and provide timely information necessary for monitoring economic developments and implementation of policies under the SMP.

In addition, the Government stands ready to take any further measures that might be required to ensure that the overall objectives of the program are attained. In order to enhance transparency of our economic policies, we find it appropriate that all the documents related to the SMP be published on the Fund's website. In addition, we will also publish all key findings of the special audit of the NBT.

Once the SMP is successfully completed, we hope to begin discussions on a new program that could be supported by the Fund under the Poverty Reduction and Growth Facility.

Your Excellency, I would like to resume my best regards to you,

/s/
Emomali Rakhmon
President of the Republic of Tajikistan

MEMORANDUM OF ECONOMIC AND FINANCIAL POLICIES FOR THE REPUBLIC OF TAJIKISTAN

I. INTRODUCTION

1. This memorandum outlines the economic and financial policies of the Government of Tajikistan for the remainder of 2008, which are aimed at restoring macroeconomic stability and reestablishing the credibility of our policy reform efforts in light of the recent misreporting episode. We are hereby asking Fund staff to monitor the implementation of these policies, with a view to building a policy track record that could support an eventual request for a new Poverty Reduction and Growth Facility (PRGF) arrangement.

II. THE FOCUS OF THE PROGRAM

2. The main objectives of the proposed Staff-Monitored Program (SMP) will be twofold:

- **Addressing potential shortcomings in the National Bank of Tajikistan's (NBT) governance and legal framework.** Efforts in this area will be closely linked to the conduct of a special audit of the NBT and other involved parties. The audit will look specifically into the circumstances surrounding the misreporting of data to the Fund by the NBT and the origin and extent of related financial operations and transactions. Moreover, as recommended by the FSAP team, a number of changes will be introduced to the NBT and other banking laws to address the governance problems exposed by the misreporting episode, including conflict of interest.
- **Providing an appropriate macroeconomic policy framework for price stability and growth.** The current low level of international reserves and the limits on the flexibility of monetary policy imposed by the insolvency of the NBT, call for the continuation of a prudent fiscal policy stance and the implementation of well-defined debt strategy aimed at limiting the risks of future debt distress.

3. In addition, these efforts will be complemented by the implementation of measures consistent with the broad outlines of a comprehensive strategy that tackles the fundamental problems of the cotton sector. We are in the process of identifying and developing the measures in consultation with the World Bank and the Asian Development Bank (ADB).

A. The Macroeconomic Framework for 2008

4. **The 2008 macroeconomic framework envisages a slowdown in real GDP growth to about 5 percent and targets a limited reduction in inflation to 15 percent.** While we expect a strong rebound in economic activity in the second half of 2008, to be supported by the continuing stimulus from remittances and the commissioning of the Sangtuda 1 hydropower plant, the weather-related problems experienced in the first quarter of the year are likely to put a dent in the growth rate for the year as a whole. Specifically, the agricultural

sector is likely to underperform as it was particularly hit hard by the frost. While inflation is targeted to slow from its current rate of about 20 percent, it will remain in double digits largely on account of the impact on the CPI of high international food and fuel prices and required adjustments in electricity and gas tariffs. The current account deficit is expected to remain relatively high at about 10 percent of GDP, but should remain fully financed by FDI flows and official concessional project finance disbursements. Gross official reserves are targeted to increase, but import coverage will remain relatively low at less than one month.

B. The Special Audit of the NBT and Related Legal Reforms

5. **We have agreed with Fund staff on the terms of reference (ToR) for a special audit of the NBT** (prior action). In order to launch the hiring process of a reputable independent international auditing firm (prior action), on May 14, 2008, we forwarded these ToR to potential candidate firms and requested bids. As progress is made in the conduct of the audit, we will be sharing interim reports with Fund staff. The main objectives of the special audit will be:

- To assess the effectiveness of the governance structure and control environment at the NBT, including ascertaining the nature of the governance breakdown and weaknesses that led to the credits provided to Kredit Invest being excluded from the NBT's audited balance sheets and the nondisclosure of significant pledges and guarantees.
- To review the transactions involving balances linked to information that was not provided to the Fund and the previous external auditor of the NBT. This review would also seek to confirm the legitimacy of the payments to third parties by Kredit Invest.
- To verify the accuracy of data reported to the Fund after the discovery of the misreporting episode and review existing procedures for reporting data, with the final objective of making recommendations for strengthening controls to ensure the accuracy and veracity of the data.

6. **The program also includes measures to strengthen the autonomy and governance of the NBT.** Specifically, by end-December 2008, we will amend the NBT law, and other related legislation as needed (structural benchmark), to address shortcomings in the areas of:

- *Terms of appointment and removal of board members.* The NBT Chairman and his/her deputies will be appointed for fixed terms, which will not coincide with the electoral cycle. Moreover, the reasons for their dismissal will be clearly defined in the law.
- *Conflict of interest.* We will introduce clearer provisions for what constitutes conflict of interest behavior and introduce sanctions to be applied in the case of violations.

- *Disclosure of beneficial ownership.* We will introduce requirements for the identification and disclosure of beneficial ownership of companies registered with the Agency for Securities in the Ministry of Finance and other authorized entities, including financial institutions.
7. We have requested technical assistance from the World Bank to draft these legal amendments, with the aim of conducting a more comprehensive assessment of the financial sector legal framework to bring it up to international standards.

C. Monetary and Exchange Rate Policies

8. **Our monetary program envisages an expansion in reserve money in line with nominal GDP growth.** Nevertheless, given that changes in velocity are still difficult to predict in the current environment, should signs emerge that underlying inflation is not falling as planned, the NBT will tighten monetary conditions in consultation with Fund staff, while aiming to maintain its international reserves accumulation program target. In addition,
- the NBT will refrain from issuing credits to the private sector, except to commercial banks (including Amonatbank) for liquidity and lender of last resort purposes; and
 - tightly enforce reserve requirements on all deposit liabilities of all financial institutions without exception.
9. Moreover, in order to support our inflation objective and help the country cope with external shocks, the NBT remains committed to a managed floating exchange rate regime, with intervention in the foreign exchange market limited to smoothing operations and to ensuring that targeted reserves gains are achieved.

D. Fiscal Policy and Public Financial Management

10. **The fiscal program for 2008 envisages a balanced budget (excluding the Public Investment Program [PIP]).** Despite the slowdown in economic activity early in the year, the strong revenue performance of 2007 carried over to the first four months of 2008. Much of this strong revenue performance was due to continuing strength in remittances inflows, but also reflected comprehensive efforts to improve tax administration. Given the fiscal overperformance in 2007 (a surplus in excess of 1½ percent of GDP), aiming for a balanced budget will still allow for an increase in real expenditures, including for tackling the basic needs of those hit hard by the recent weather-related events and providing financing to the cotton sector transparently through the budget. The PIP will be limited to about 9 percent of GDP in 2008.
11. **While public financial management has improved, we still need to shore up the monitoring and corporate governance of state-owned enterprises.** In this connection, we intend to:

- Issue tender papers for an audit of Talco's and Barki Tajik's 2007 financial operations by an internationally recognized auditing company by end-September 2008 (structural benchmark);
- Issue a government decree by end-September 2008 establishing a unit in the Ministry of Finance for regular monitoring of financial operations of the 10 SOEs with the highest annual turnover (structural benchmark). The decree will require the SOEs to provide the Ministry of Finance and Ministry of Economic Development and Trade draft annual financial plans for review and approval before the beginning of each financial year and submit their quarterly financial statements and their external audit reports.

E. Debt Management Strategy

12. **In order to mitigate increased risks of debt problems, we will adopt a well-defined debt strategy.** The strategy includes:

- No new contracting or guaranteeing of nonconcessional debt.
- A commitment that any new concessional foreign debt disbursement over the next three years will be consistent with the government's borrowing plan already approved by Parliament in January 2008.

13. **This strategy should serve to stabilize the external public and publicly guaranteed debt-to-GDP ratio in the medium term at about 40 percent.** Moreover, in order to supplement these efforts, we will continue to strengthen our debt data management framework, including by establishing a contingent liability reporting regime by end-December 2008 to cover state-owned enterprises, public institutions and the NBT (structural benchmark).

F. Cotton Sector Reforms

14. **We are taking steps to reinvigorate our cotton sector reform efforts.** As a stop-gap measure, we have put in place a transparent cotton financing mechanism that uses budgeted public funds for lending to farmers through commercial banks. To safeguard the financial position of the banks involved in this scheme, we will be introducing appropriate performance-based management contracts for banks to make efforts to collect the outstanding sums without unduly penalizing them for delinquencies. We are also, in consultation with the World Bank and the ADB, in the process of designing a comprehensive strategy to deal more permanently with the long-standing problems of the sector. The strategy will deal with the two key aspects of this problem: a) improving the profitability of the sector; and b) resolving the outstanding stock of debt. On the former, we are currently taking steps to implement Decree 111, which addresses distortions in cotton production, including issues of freedom to farm and ability to use land rights as collateral. As regards the outstanding debt stock, we are currently in discussions with Kredit Invest's external creditors seeking to improve the terms of the obligations that were guaranteed by the NBT, including through the extension of maturities and a reduction of interest rates. As part of the process of

resolving Kredit Invest, we are also exploring the possibility of swapping some of its external obligations for assets that were used by domestic borrowers (cotton investors) to collateralize their own obligations to Kredit Invest. In this connection, we will endeavor to maximize loan recoveries from these domestic borrowers. In support of our cotton sector reforms, by end-September 2008 we will also issue a decree that will abolish the practice of the NBT issuing export licenses beginning with the 2008 crop.

G. Program Monitoring

15. We have reached understandings with Fund staff on a set of quantitative financial targets and structural benchmarks for the remainder 2008 (Tables 1 and 2), which are defined in the attached Technical Memorandum of Understanding (TMU) and will be used to monitor progress in implementing the program. Specifically, the TMU defines the quantitative targets, the program adjustors, and specifies reporting requirements. The program comprises indicative quantitative targets and structural benchmarks for September and December 2008. There will be two reviews of the program, one in October 2008 and the other in January 2009. The first review will focus mainly on assessing progress in the conduct of the special audit of the NBT.

Table 1. Tajikistan: Prior Actions and Structural Benchmarks under the 2008 Staff-Monitored Program	
Areas of reform	Implementation Date
1. Reach understandings with Fund staff on the Terms of Reference for the special audit of the NBT and other involved parties, as defined in the terms of reference.	Prior action
2. Request bids for the selection of an internationally reputable audit firm to conduct the special audit of the NBT and other involved parties defined in the terms of reference.	Prior action
3. Provide interim reports, as noted in the terms of reference of the special audit of the NBT to Fund staff.	Monthly
4. NBT will refrain from issuing new credits to the private sector, except to commercial banks (including Amonatbank) for liquidity and lender of last resort purposes. These involve credits that are issued in the absence of a competitive auction or on non-market terms and conditions.	Continuous
5. Make legislative changes to: (i) appoint the NBT chairman and his deputies for fixed terms that do not coincide with the electoral cycle, and outline the reasons for their dismissal explicitly in the law; (ii) require official identification and disclosure of beneficial owners of companies registered with the Agency for Securities in the Ministry of Finance and other authorized entities, including financial institutions; (iii) clarify the provisions covering conflicts of interest for the NBT management and staff and require them to disclose their personal holdings in financial institutions and excuse themselves from official decisions affecting those institutions.	End-December 2008
6. Issue tender papers for an audit of Talco's and Barki Tajik's 2007 financial operations by an internationally recognized auditing company.	End-Sept. 2008
7. Introduce legislative changes for establishing a contingent liability reporting regime to cover state-owned enterprises, public institutions and the NBT.	End-Dec. 2008
8. Issue a government decree to establish a supervision unit in the Ministry of Finance (MoF) for regular monitoring of financial operations of the 10 SOE's with the highest annual turnover and require these enterprises to provide the MoF and Ministry of Economic Development and Trade draft annual financial plans for review and approval before the beginning of each financial year and submit their quarterly financial statements and their external audit reports.	End-Sept. 2008

Table 2. Tajikistan: Quantitative Indicators under the 2008 Staff Monitored Program

(In millions of somoni, unless otherwise indicated)

	2007		2008		
	End- Dec.	End-March	End-June	End-Sept.	End-Dec.
	Est.	Est.			
<i>Indicative Targets:</i>					
1. Ceiling on net domestic assets of the NBT	500	420	454	528	551
2. Ceiling on net credit of the banking system to general government	-857	-1,044	-953	-831	-759
3. Floor on total net international reserves (in millions of U.S. dollars)	66	93	96	117	151
4. Floor on the cumulative overall fiscal balance of the general government (excluding foreign-financed public investment program and PIP related grants) 1/	202	206	148	62	8
5. Ceiling on general government wage, and nonworking 2/ pensioners' pension arrears	n/a	n/a	0	0	0
6. Floor on tax collection 1/	2,274	778	1,502	2,277	2,979
7. New tax arrears of Barki Tajik and Talco	n/a	n/a	0	0	0
8. Ceiling on contracting or guaranteeing of any nonconcessional external debt 2/ 3/ 4/	n/a	0	0	0	0
9. Ceiling on disbursements of concessional external financing (in millions of U.S. dollars) 1/ 3/ 4/	308	117	206	283	350
10. New external payments arrears 2/	n/a	0	0	0	0
<i>Memorandum item:</i>					
Cumulative disbursement of program loans and grants 1/ (in millions of U.S. dollars)	10	0	0	0	25

Sources: Tajik authorities; and Fund staff estimates.

1/ Cumulative from January 1 of the year.

2/ Continuous quantitative targets.

3/ Short, medium and long-term debt by the government, NBT or any other agency acting on behalf of the government as defined in the Technical Memorandum of Understanding, excluding normal trade-related loans.

4/ Excluding the obligations resulting from the restructuring of the cotton debt.

TECHNICAL MEMORANDUM OF UNDERSTANDING FOR THE REPUBLIC OF TAJIKISTAN

16. Performance under the Staff-Monitored Program will be assessed based on observance of quantitative targets and structural benchmarks. This annex defines the variables that constitute quantitative targets under the program, and sets out the reporting requirements and frequency of data provision by the government and the NBT.

17. 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 3.435 = \$1 (the end-March 2008). The SDR components will be valued at the program SDR exchange rate (SDR 1 = \$1.647). Official gold holdings shall be valued at \$978.25 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 January 1, 2008 to:	
March 31, 2008	206
June 30, 2008	148
September 30, 2008	62
December 31, 2008	8

Definitions

18. 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 Agency on Social Protection and Pensions, 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's net claims on the general government, which include all deposits of the general government with the NBT, counterpart deposits (which reflect balance of payment and/or general budget support from the 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;
- (iv) Gross proceeds from the privatization of state property 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 and debt rescheduling.

B. Total Tax Collections under the Budget

Table 2. Floor on Total Tax Collections Under the Budget

(In millions of somoni)	
Cumulative balance from January 1, 2008 to:	
March 31, 2008	778
June 30, 2008	1,502
September 30, 2008	2,227
December 31, 2008	2,979

Definitions

19. **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 customs duties 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)
March 31, 2008	420
June 30, 2008	454
September 30, 2008	528
December 31, 2008	551

Definitions

20. **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

21. The ceiling on net domestic assets of the NBT will be adjusted upward by the value in domestic currency of any existing pledged deposits of the NBT that is not renewed by the deposit holder. The pledged deposits amounted to \$241 million as of end-March 2008.

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)
March 31, 2008	-1,044
June 30, 2008	-953
September 30, 2008	-831
December 31, 2008	-759

1/ Calculated at fixed program exchange rate.

E. Net International Reserves

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

	(In millions of U.S. dollars)
March 31, 2008	93
June 30, 2008	96
September 30, 2008	117
December 31, 2008	151

Definitions

22. 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. Excluded are 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). *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.

23. The Fund staff will be informed of details of any gold sales, purchases, pledges, guarantees 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

24. The floor on the net international reserves of the NBT will be adjusted upward for any conversion of existing pledged deposits into long-term debt.

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

Table 6. Cumulative Ceiling on the Contracting
or Guaranteeing of Non-Concessional External Debt

	0-1 Year Maturity	Over 1 Year Maturity
During the period from end-December 2007 to:		
March 31, 2008	0	0
June 30, 2008	0	0
September 30, 2008	0	0
December 31, 2008	0	0

Definitions

25. 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, including but not limited to state-owned banks. For short-, medium- and long-term external debt, the target 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.

26. 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.”

27. External debt limits apply to the contracting or guaranteeing of new non-concessional 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).

28. 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 rollover of the existing guarantees will be excluded from the debt limits. If pledged reserves of the NBT were to be securitized, these amounts will also be excluded from the debt limits. The indicative target on new non-concessional 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 target on new short-term external debt.

29. 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.

30. 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.

31. Concessional debt is defined as debt with a grant element equivalent of 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 February 15, 2008 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 commercial interest reference rate mentioned above.

II. CONTINUOUS QUANTITATIVE TARGETS

A. No Directed Credits by the NBT

32. The NBT will not issue any directed credits except to banks for liquidity and lender of last resort purposes. These involve credits that are issued in the absence of a competitive auction or on non-market 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.

C. No New External Payments Arrears

33. No new external payments arrears shall be accumulated at any time under the program, 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

34. For purposes of the target, arrears on general government and nonworking pensioners' pension shall be monitored as any shortfall in monthly disbursements of wages and pensions. 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 January 1, 2008 to:	
March 31, 2008	0
June 30, 2008	0
September 30, 2008	0
December 31, 2008	0

35. 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 the Fund staff). The Agency on Social Protection and Pensions will provide quarterly reports and statements of their operations.

E. Disbursements of Contracted Government and Government Guaranteed External Debt

Table 8. Ceiling on Cumulative Disbursements of Contracted Government and Government Guaranteed External Debt
(In mln. of U.S. dollars)

Test dates:	
End-March 2008	117
End-June 2008	206
End-September 2008	283
End-December 2008	350
In millions of U.S. dollars	
2008	350
2009	667
2010	814

Definition

The ceiling applies to disbursements of debt contracted or guaranteed by the government as defined in paragraphs 8-14 of this Annex. The ceiling on disbursements will be consistent with the government's borrowing plan already approved by Parliament in January 2008.

III. REPORTING REQUIREMENTS UNDER THE PROGRAM

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

Table 9. 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 Agency on Social Protection and Pensions	Quarterly	6 weeks
8. Arrears of budget entities and state owned enterprises	Quarterly	4 weeks
9. Stocks, disbursements, guarantees, new contracts of external debt including terms and disbursement profile.	Monthly	4 weeks