

ATTACHMENT I

November 26, 2008

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

Dear Mr. Strauss-Kahn:

Using the opportunity I would like to express my gratitude to the International Monetary Fund for its continued support of our economic reforms, including through the ongoing staff monitored program (SMP). We are currently taking the necessary measures to address the problems associated with the episode of misreporting that was exposed late last year, and to remove the institutional weaknesses that led to it. The field work for the special audit of the National Bank of Tajikistan (NBT) has been completed and the draft report will be made available to the NBT in late November of this year. We also made three repayments to the IMF through November, and expect to make the remaining three monthly payments as scheduled.

It is heartening that macroeconomic developments through end-September 2008 were positive, despite last winter's difficulties and the drought and locust problems during the recent crop season. Economic growth was stronger than envisaged under the SMP. This was partly driven by a surge in remittances, which allowed the NBT to accumulate net international reserves faster than programmed. We were able to achieve an overall fiscal surplus (excluding the externally financed public investment program, PIP), higher than targeted, largely because of buoyant revenues. At the same time, concessional loan disbursements under the PIP at end-September were faster than anticipated, though all disbursements were made under existing loan agreements and do not constitute additional borrowing. As a result of these disbursements, we now project a higher amount of concessional external borrowing at end-December than programmed. In this context, the government, on October 28, 2008, approved a three year debt management strategy that sets a debt ceiling of 40 percent of GDP. We also tendered the audit of the state-owned aluminum smelter Talco and the state-owned electricity company Barki Tajik, and issued a decree establishing a supervision unit in the Ministry of Finance for regular monitoring of the financial operations of the 10 largest state-owned enterprises. Despite our efforts, Barki Tajik's tax arrears increased, mostly due to the non-payment by water users in the agricultural sector. In this regard, we are working on a plan to significantly reduce tax arrears, including through higher penalties for all categories of tax arrears, and the implementation of an effective mechanism of arrears repayment by water users.

We are confident that we will achieve our SMP policy objectives for end-December 2008. In this context, we remain committed to the policies and targets I set out in my letter dated June 10, 2008. During the last quarter of 2008, we expect to strengthen our net international reserves position somewhat faster than previously projected, and intend to save any revenue overperformance while maintaining strict expenditure control.¹ However, it will take more time than initially thought to

¹ See Table 1.

finalize the amendments to the NBT Law of the Republic of Tajikistan and the Commercial Banking Law of the Republic of Tajikistan. We have prepared a first draft of these amendments which go beyond the scope of the program, incorporating additional recommendations from the Financial Sector Stability Assessment (FSSA) report, and which we will now discuss with Fund staff. We plan to submit these amendments to the national parliament by March 2009.²

It is of note that the external environment will weigh on Tajikistan's macroeconomic outlook in 2009. The projected global slowdown, in particular in Russia and Kazakhstan, may affect remittances and thus dampen domestic demand. In addition, cotton and aluminum exports are likely to be adversely affected by a reduction in external demand and declining international prices. However, with little direct linkages to global financial markets, we do not foresee any direct impact on Tajikistan's financial sector. All in all, we still aim to sustain the same growth level as in 2008.. At the same time, with global food and fuel prices subsiding, we see inflation slowing throughout the year.

In this difficult global context, macroeconomic policies will be geared toward maintaining stability, while structural reforms will aim at raising Tajikistan's medium-term growth potential. The 2009 budget targets a modest overall fiscal deficit (excluding the PIP) of ½ percent of GDP, allowing us to raise social spending by over 60 percent and undertake important investments in hydropower and other infrastructure. We see only little scope for a further build-up of reserves in 2009, and will allow the exchange rate to move in line with market trends.

Negotiations with foreign creditors over guarantees issued by the NBT are currently ongoing, and we are committed to settling all valid claims promptly while maximizing loan recoveries from domestic investors. Our structural reform agenda for 2009 will focus, inter alia, on: improving the financial position and governance of the NBT, enhancing transparency and management at key state-owned enterprises, strengthening tax administration and public financial management, creating an environment for financial sector development, and resolving the domestic cotton debt problem.

In line with our commitment to transparency of economic policies, we will continue publishing all SMP-related documents on the IMF's website as well as the recent FSSA report. In addition, we will publish all key findings of the special audit of the NBT on the NBT's website.

Given the good progress we have made so far under the SMP and our firm commitment to successfully completing our 2008 program, we hope to begin discussions on a new program that could be supported by the Fund under the Poverty Reduction and Growth Facility in early 2009.

Your Excellency, please accept my assurances of my highest consideration,

/s/

Emomali Rakhmon
President of the Republic of Tajikistan

² See Table 2.

Table 1. Tajikistan: Quantitative Indicators under the 2008 Staff Monitored Program

(In millions of somoni, unless otherwise indicated)

	2008								
	End-June			End-Sept.			End-Dec.		
	Prog.	Adj. Prog.	Est.	Prog.	Adj. Prog.	Est.	Prog.	Rev. Prog.	
<i>Indicative Targets:</i>									
1. Ceiling on net domestic assets of the NBT 1/ 2/	454	540	394	528	1,043	809	551	551	
2. Ceiling on net credit of the banking system to general government	-953	-953	-1,149	-831	-831	-1,178	-759	-759	
3. Floor on total net international reserves (in millions of U.S. dollars) 2/	96	96	122	117	117	181	151	170	
4. Floor on the cumulative overall fiscal balance of the general government (excluding foreign-financed public investment program and PIP related grants) 3/	148	148	310	62	62	331	8	8	
5. Ceiling on general government wage, and nonworking pensioners' pension arrears 4/	0	0	0	0	0		0	0	
6. Floor on tax collection 3/	1,502	1,502	1,572	2,277	2,277	2,423	2,979	2,979	
7. New tax arrears of Barki Tajik and Talco	0	0	7	0	0	22	0	0	
8. Ceiling on contracting or guaranteeing of any nonconcessional external debt 4/ 5/ 6/	0	0	0	0	0	0	0	0	
9. Ceiling on disbursements of concessional external financing (in millions of U.S. dollars) 3/ 5/ 6/	206	206	156	283	283	323	350	413	
10. New external payments arrears 4/	0	0	0	0	0	0	0	0	
<i>Memorandum item:</i>									
Cumulative disbursement of program loans and grants 3/ (in millions of U.S. dollars)	0	0	0	0	0	0	25	25	

Sources: Tajik authorities; and Fund staff estimates.

1/ In June, September and December the program ceiling on NDA of the NBT was adjusted upwards to reflect the retention of the pledged deposits.

2/ At program exchange rates.

3/ Cumulative from January 1 of the year.

4/ Continuous quantitative targets.

5/ 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.

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

Table 2. Prior Actions and Structural Benchmarks under the 2008 Staff-Monitored Program

Areas of Reform	Implementation Date	Status
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	Completed Apr. 2008
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	Completed May 2008
3. Provide interim reports, as noted in the terms of reference of the special audit of the NBT, to Fund staff.	Monthly	Complied with
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	Complied with
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-Dec. 2008	Expected to be delayed until March 2009
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	Completed 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	Completed Sept. 2008