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Republic of Tajikistan: Letter of Intent, Memorandum of Economic and Financial Policies, and Technical Memorandum of Understanding

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TAJIKISTAN: LETTER OF INTENT

December 22, 2011

Her Excellency
Ms. Christine Lagarde
Managing Director
International Monetary Fund
700 19th Street, N.W.
Washington, DC 20431

Dear Ms. Lagarde:

I would like to express my gratitude to the International Monetary Fund (IMF) for its continued support of our economic reforms. Tajikistan has emerged from the global crisis, but nonetheless remains vulnerable to external shocks. Continued support from international financial institutions (IFIs) and donors will be critical in safely navigating these risks.

Economic performance in 2010 was strong, and has continued in the first half of 2011. Despite adverse weather conditions and the negative impact of high food and fuel prices, real GDP growth registered 6.9 percent during the first six months of 2011, fueled by trade and services, agriculture, and construction. However, inflation has been high, reflecting trends in international food and fuel markets. Financial sector indicators also remain a concern, and we continue to devote attention to finding a solution for this problem.

There have also been significant challenges to macroeconomic management. As explained in the attached Memorandum of Economic and Financial policies, external shocks, and liquidity needs by the banking system led to deviations from program targets for net international reserves of the National Bank of Tajikistan (NBT), and the level of liquidity support to commercial banks. Pension arrears also briefly emerged in September and October 2011 due to an unanticipated shortfall in wage taxes (which cover pension payments). These arrears were cleared as of October 20 and November 30, 2011, respectively.

In response to these slippages, and to bring performance back on track with program objectives, monetary and fiscal policies have been tightened in the second half of 2011. This should, inter alia, help to ease pressures on inflation and the balance of payments, ensure compliance with revised program targets, and prepare Tajikistan for any potential regional or global economic slowdown. The central bank policy rate was raised by 100 basis points as of mid-October, and the terms on NBT liquidity loans have also been tightened considerably. The NBT will also maintain the outstanding stock of liquidity loans at an average outstanding

balance of SM 100 million by end-December—in line with the revised path agreed with IMF staff. On the fiscal side, we are committed to keeping the fiscal deficit (excluding the externally financed public investment program) to no more than 0.6 percent of GDP, but will also save any over-performance in excess of this goal to help rebuild the fiscal buffers drawn down during recent years.

On the structural side, all but one of the benchmarks for the first half of 2011 were completed. The coverage of the Large Taxpayer Inspectorate was increased, banks not meeting prudential standards submitted action plans, a government resolution on recapitalization of the NBT was passed, Roghun OJSC released its fifth quarterly financial report in September, and audited financial statements for Talco Management were published in November. I am also pleased to inform you that the first shareholder meeting of Roghun OJSC was conducted in May 2011. We have also recently published the audited 2010 financial statements of the NBT, in accordance with a structural benchmark for end-September. However, due to delays in inter-ministerial approval and a survey of fixed assets, it was not possible to complete the audit of Roghun OJSC in line with the timing set out in the program. We ask that this benchmark be rephased to March 2012.

We are committed to achieving the reforms outlined in the Memorandum of Economic and Financial Policies (MEFP) of November 9, 2010. However, while recent economic performance is encouraging, we remain concerned about inflation, the risk of another global downturn, and the potential impact on Tajikistan in terms of growth, poverty, and fiscal and external balances. We ask the international community for assistance in these areas. We also recognize the potential macroeconomic and financial ramifications of the Roghun project. We remain committed to ensuring that this project and its financing are undertaken in a way consistent with macroeconomic stability, and external and fiscal sustainability.

We hereby request completion by the Executive Board of the fifth review under the ECF arrangement, and disbursement of the sixth loan totaling an amount equivalent to SDR 13.045 million. In parallel, we seek continued concessional support from donors for the coming year to achieve the objectives of the 2010–12 Poverty Reduction Strategy. For the fifth review under the ECF arrangement we request waivers for nonobservance of the performance criteria on NIR of the NBT on the basis of the corrective actions outlined in the MEFP, and for the continuous performance criterion on pension arrears on the basis that these arrears were small and corrected within a short period. We also request modification of the quantitative performance criteria on NDA, NIR, and the fiscal deficit for end-December 2011, as well as indicative targets, and structural benchmarks described in the attached tables, the MEFP of December 22, 2011, and Technical Memorandum of Understanding (TMU) to enable us to monitor progress in implementing our reform agenda.

The Government believes that the policies set forth in this letter and the MEFP are adequate to achieve the objectives of its program, but will take any further measures that may become

appropriate for this purpose. We will consult with the Fund on the adoption of these measures and in advance of any revision to the policies contained in the MEFP, in accordance with the Fund's policies on such consultation. 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 ECF arrangement. 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.

Finally, in continuing with our commitment to transparency, we hereby request that all program related documents, including this letter, be published on the IMF website.

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

/s/

Emomali Rakhmon
President of the Republic of Tajikistan

Table 1. Tajikistan: Quantitative Performance Criteria and Indicative Targets under the 2011 Extended Credit Facility
(in millions of somoni; unless otherwise indicated)

	2010		2011		2012	
	Act.	Prog.	Act.	Prog.	Act.	Prog.
<i>Quantitative Performance Criteria (PC):</i>						
1. Ceiling on cumulative flow of net domestic assets of the NBT 1/ 2/	...	120	19	210	213	678
2. Floor on cumulative flow of total net international reserves (in millions of U.S. dollars) 1/ 2/	...	25	3	45	21	32
3. Zero-ceiling on new lending from the NBT to private sector (continuous quantitative performance criterion) 2/	...	0	0	0	0	0
4. Floor on cumulative overall fiscal balance of the general government excluding foreign-financed Public Investment Program and related grants 2/	...	-134	150	-208	301	-187
5. Ceiling on general government wage and pension arrears (continuous quantitative performance criterion)	...	0	0	0	4	4
6. Ceiling on contracting or guaranteeing of any non-concessional external debt (continuous quantitative performance criterion)	...	0	0	0	0	0
7. Ceiling on disbursements of concessional external financing (in millions of U.S. dollars) 2/	...	154	87	231	142	308
8. New external payments arrears (continuous quantitative performance criterion)	...	0	0	0	0	0
<i>Indicative Targets (IT):</i>						
1. Floor on tax collection 2/	...	2,470	2,717	3,837	4,211	5,759
2. Floor on social and poverty-related expenditure 2/	...	1,421	1,200	2,131	1,853	2,841
3. Ceiling on gross equity sales and contributions for Roghun (in millions of somoni) 3/	...	880	840	860	841	880
4. Ceiling on loans to banks for liquidity purposes by the NBT (average per quarter)	...	227	263	244	218	100
<i>Memorandum items:</i>						
Program exchange rate	4.40					
NDA of the NBT (in millions of somoni) 1/	1,739	1,285	1,758	1,375	1,952	2,417
Net international reserves (in millions of U.S. dollars) 1/ 4/	376	400	378	420	397	408
1/ AI program exchange rates of end-December 2010.						
2/ Cumulative from January 1 of the year; performance criteria for end-June and end-December 2011, and indicative targets for end-March and end-September.						
3/ Cumulative from January 1, 2010.						
4/ Adjusted for presumed forward sale of foreign exchange on June 30, 2011 in the amount of 10.8 million U.S. dollars.						

Table 2. Tajikistan: Structural Benchmarks and Prior Actions for 2011 and 2012

	Date	Rationale	Status
Publish the audited financial statements of Talco Management for 2008–09 together with the audit reports.	Prior action for Board meeting	Transparency	Met on Nov. 17, 2011
NBT to set the interest rate on liquidity loans in Somoni and foreign exchange no lower than the average interest rate on commercial bank credits (as published on the NBT website) of the preceding month, plus a margin of not less than 200 basis points, and to publish this rate on the NBT website.	Prior action for Board meeting	Transparency	Met
Appoint a senior member of the ministry of finance to attend monthly monetary policy committee meetings and to report on monthly projected spending on the Roghun hydropower project.	Prior action for Board meeting	Transparency/liquidity management	Met
Banks not meeting established prudential criteria to submit to NBT for approval time-bound actions plans to become fully compliant with these standards, including correct provisioning for nonperforming loans.	End-March	Financial sector stability	Met on March 31, 2011
Expand the number of large taxpayers under the Large Taxpayer Inspectorate (LTI).	End-June	PFM / Revenue	Met
Issue a government resolution specifying a multi-year (2011–18) schedule for injections of capital from the government into the NBT as part of the NBT recapitalization plan and in line with IMF recommendations.	End-June	NBT recapitalization	Met on June 30, 2011
NBT Board to approve an action plan, in line with IMF recommendations, for addressing weaknesses in the financial sector.	End-June	Financial sector stability	Met on June 24, 2011
National Bank of Tajikistan to publish audited 2010 financial statement	End-September	Transparency	Met on Dec. 13, 2011
Submit to cabinet a strategy for reform of the tax regime.	End-September	Revenue	Met
Fiscal risk statement related to condition of SOEs to be introduced as part of the published 2012 budget document.	End-December	SOE governance	
Publish the audited financial statements of Roghun OJSC for 2008 and 2009 with the audit reports on the Ministry of Finance's website.	End-March 2012	Transparency	
Submit to cabinet a revised tax code consistent with IMF recommendations.	End-March 2012	Revenue/transparency	
Implement in line with IMF recommendations a Treasury Single Account (TSA) at the Republican level.	April 1, 2012	Public financial management	

**TAJIKISTAN: MEMORANDUM OF ECONOMIC AND FINANCIAL POLICIES
(MEFP) FOR 2011– 12**

December 22, 2011

I. INTRODUCTION

1. This memorandum outlines economic and financial policies of the Government of Tajikistan for 2011–12, and augments the letter of intent and the memorandum of economic and financial policies dated November 9, 2010 focusing on our policies for the remainder of 2011 and 2012. These policies are intended to serve as the basis for the ongoing IMF-supported program under the Extended Credit Facility (ECF).
2. Tajikistan has emerged from the global economic downturn of 2009, but continues to navigate through an uncertain economic environment. Real economic growth rose to 6.5 percent in 2010, and to 6.9 percent through the first half of 2011—driven by domestic trade and services, as well as agriculture, construction, and industry. We expect real GDP growth to reach at least 6 percent for the year as a whole. The post-crisis recovery of inward remittances has been an essential pillar in supporting the recovery, and reflects both the rebound in neighboring economies and Tajikistan’s close ties to the region. Total inward remittances increased by about 40 percent year-on-year through June, providing welcome income support. However, inflation has been high for most of the year—reflecting the surge in international food and fuel prices, as well as the imposition of higher taxes on imported fuel products. We expect end-2011 inflation to be about 13 percent or less, falling further in 2012 as commodity prices decline. Financial sector indicators remain a concern but have stabilized in recent months.
3. Macroeconomic management in the first half of 2011 was challenging. Despite heavy external shocks related to import of fuel products, we increased international reserves, remained current on all financial obligations, exceeded targets for tax collection, and kept the government budget in line with program targets. However, four quantitative targets under our program for June were missed—the performance criteria on net international reserves (NIR) of the National Bank of Tajikistan (NBT); the continuous performance criterion on non-accumulation of wage and pension arrears; and indicative targets on government social spending and on liquidity loans from the NBT). Fuel price shocks and the need to smooth short-term volatility in the somoni contributed to lower NIR accumulation. The shortfall in government social spending is linked to the timing of government wage and salary increases and the continued high level of vacancies in health and education. Pension arrears emerged in September and October, due to a shortfall in tax receipts on salaries. These arrears have already been cleared.
4. In this environment, our program focuses on fostering the recovery and providing greater support to the poor, while taking actions to address the pressures that emerged in the

first half of 2011 and thus ensure macroeconomic, fiscal, and balance of payments sustainability. We have reached understandings with IMF staff on a set of prior actions for the fifth review, and on quantitative performance criteria, indicative targets, and structural benchmarks for the remainder of 2011 and 2012. Key pillars include closer coordination of fiscal and monetary policies, infrastructure projects to address Tajikistan's energy bottlenecks, accelerating structural reforms in support of private sector-led growth, strengthening governance of public sector institutions, increasing budgetary allocations for social spending, and ensuring the safety and soundness of the financial sector.

5. Our macroeconomic policies are based on the government's National Development Strategy for the period until 2015, and the 2010–12 Poverty Reduction Strategy (PRS). In the short term, our program aims to maintain macroeconomic stability—which is a precondition for sustained high growth and poverty reduction. Structural reforms in the financial and state-owned enterprise (SOE) sectors are designed to enhance the potential for higher and more inclusive economic growth over the medium term. We intend to move forward with infrastructure projects in the energy sector, which we see as essential to sustained growth and, in turn, poverty reduction. In this context, we are committed to the principle that planned increases in better-targeted social spending and associated recurrent costs be fully covered by revenue from tax, administrative, and public financial management reforms. Given limited fiscal space, we are working closely with the Development Coordination Council to further streamline and prioritize the PRS, fulfilling commitments under the Action Plan agreed in the December 2010 development forum.

II. MACROECONOMIC POLICIES FOR 2011–12

6. Within our overall macroeconomic policy framework, the construction of the Roghun hydropower plant (HPP) is of the highest strategic importance to address Tajikistan's energy deficit and thus lay the foundation for future growth and poverty reduction. This will be crucial to meet Tajikistan's growing energy needs, though additional generation capacity and significant maintenance on existing facilities is also likely to be needed. The Roghun project has significant ramifications for macroeconomic policies, and will continue to have an impact on fiscal and balance of payments performance in 2011 and beyond. We are committed to ensuring the project is constructed in a way that is consistent with macroeconomic stability and fiscal and external sustainability. Techno-economic and environmental assessments are underway. Based on evaluation results we are ready to revisit our financing strategy in close consultation with IMF staff. In the meantime, it will be critical to ensure that spending on the Roghun project is carefully planned and monitored, and ensure consistency with macroeconomic objectives and program targets.

7. We have reached an understanding with IMF staff on macroeconomic policies for the remainder of 2011 and for 2012. For 2011, we expect real GDP growth to reach at least 6 percent, and year-end inflation to be about 13 percent or less. To address recent high money growth and mitigate potential pressure on inflation and on the balance of payments, the

government has tightened fiscal and monetary policies in the second half of 2011. This has involved a reduction in NBT liquidity loans to commercial banks, and more stringent terms for such loans. No further drawdown of Roghun-related funds (raised during the 2010 financing campaign and deposited in the NBT) will be made for the remainder of 2011. NBT bills will be issued to mop-up remaining excess liquidity and keep reserve money growth in line with inflation objectives.

8. On the fiscal side, the government will fully execute the official budget agreed with IMF staff, but will seek to achieve an overall deficit of 0.6 percent of GDP on the basis of higher-than-anticipated revenues. We further commit that any additional over-performance on the budget target (either by higher revenues or lower expenditures) will be saved to rebuild the fiscal cushion drawn down during the crisis years. External borrowing will continue to be limited to a level consistent with medium-term debt sustainability and will only be undertaken on concessional terms.

9. For 2012, we expect growth to continue in the range of 6 percent, and inflation to decline to an average of about 10 percent. The government will begin a gradual process of fiscal consolidation, as envisioned in our Medium Term Expenditure Framework (MTEF)—with the objective of eventually rebuilding the fiscal buffers drawn down during the 2008–09 global crisis. In line with our ongoing commitment to improve social services, the official budget will also reflect a continued rebalancing from capital expenditures to social spending (health, education, and social protection). Monetary and fiscal policies will be coordinated to ensure achievement of inflation objectives. This will include careful planning and coordination on extra-budgetary spending on Roghun, and careful use of resources raised during the sale of public shares in 2010. The NBT will also target further increases to the cushion of international reserves, and in this context will limit its interventions in the foreign exchange market to smoothing short-term excess volatility.

10. In the medium term, we hope that a more favorable international environment will pave the way toward higher growth, lower inflation, and a stronger external balance. In these circumstances we hope to significantly strengthen our international reserves position, and target reserves coverage of two months of imports by 2016. In the fiscal area, we will balance the pressing social and infrastructure spending needs, while broadly aiming for overall fiscal balance (excluding PIP), with a view to keeping government debt below the ceiling of 40 percent of GDP that we have set in our debt strategy. In this context, we are committed to strengthen public debt management and reporting by public enterprises. Our debt strategy—which we intend to revise in the near future—also addresses the fiscal impact of the cotton debt resolution.

III. STRUCTURAL REFORMS FOR 2011–12

A. Monetary and Financial Sector Reforms

11. A safeguards assessment update of the NBT was completed in mid-2010. The findings indicated that initial steps have been taken to address the risks identified by the special audit on cotton sector financing, but that considerable safeguards risks—related to fragmented accounting and organizational structure, and lack of external independent oversight—remained at the NBT. An action plan (based on the main recommendations of the special audit of the NBT, as well as recommendations of the safeguards assessment) to address these deficiencies and restore the credibility of the national bank has largely been implemented (Table 1). A task force, chaired by a non-executive Board Director, to assess progress on these reforms on a semi-annual basis was appointed in June 2010. To ensure transparency and accountability, we have also completed six semi-annual external reviews of the NBT's net international reserves. One more such review is planned for December 2011. The NBT's audited financial statements for 2010 were also published on the NBT website in mid-December (structural benchmark).

12. Strengthening of the laws and regulations surrounding central bank operations has been a key pillar of reform. A revised Law on the National Bank of Tajikistan and a new Law on Resolution of Bankrupt Credit Institutions were submitted to parliament at end-2010 in line with commitments under the IMF program, and were ratified in the first half of 2011. The government also remains committed to recapitalization of the national bank. Our NBT recapitalization strategy balances the NBT's needs (strong balance sheet, instruments for monetary policy) and the government's interests (minimize fiscal costs). A first injection of government funds to the NBT equivalent to SDR 60 million received as part of the Multilateral Debt Relief Initiative has been implemented. An additional injection, through a placement of government bonds, will also be made before the end of 2011. A schedule of further injections of government capital was adopted as a government resolution in June 2011, and will be integrated into forthcoming government budgets. Efforts will also be strengthened to collect principal and interest on amounts due from cotton investors, as specified in the Presidential Order of August 2010.

13. In its monetary policy operations, the NBT will, in line with the new Law on the National Bank of Tajikistan, focus primarily on price stability. In this context, the NBT will continue to refrain from issuing new credits to the private sector, except for emergency liquidity purposes or in cases of bank distress or failure (lender of last resort). All lending to commercial banks and nonbank financial institutions is restricted to the NBT's short-term liquidity facility. To protect the NBT's balance sheet and foster a more robust interbank market, we also have moved to tighten the terms surrounding liquidity loans (reflecting their nature as emergency financing) by bringing liquidity loan interest rates to a level above prevailing bank lending rates (a structural benchmark), and (in compliance with the new

NBT Law) will restrict such loans to solvent lending institutions with sufficient collateral but no other source of funding). To ensure these goals are met, the government will refrain from directed lending.

14. Coordination on liquidity management has been enhanced through appointment of a senior MOF official as an observer to the NBT's monetary policy committee. We will also circulate between the NBT and the MOF, and to IMF staff, a schedule of expenditure commitments (including projected import content) for the Roghun hydropower project for the last quarter of 2011 and for 2012, such that the spending on this project can be assessed against macroeconomic and program objectives.

15. Building a sound financial system that enjoys public trust and contributes to private sector-led growth is a priority. Based on recommendations from the World Bank and IMF, the NBT also adopted in June 2011 a Financial Sector Stability Action Plan (Table 2) which comprises a series of reforms through March 2012 to bolster the transparency of bank operations and accounting, and contribute to financial system stability. Progress in implementing this plan is being monitored in coordination with the IMF. To further support this effort and build public confidence in the banking system, we are, in consultation with the World Bank, seeking assistance from the FIRST Initiative to support technical assistance to strengthen bank regulation (including licensing procedures, asset classification, provisioning, risk management, and internal controls), strengthen supervision of banks and deposit-taking microfinance organizations, move toward consolidated and risk-based supervision, and develop prompt remedial action frameworks. The government has also issued a decree to raise the interest rate, beginning January 2012, on bonds placed with banks as part of the cotton debt resolution, with a view to strengthening banks' balance sheets. Subject to the availability of fiscal resources, we will consider further improvements in the terms of these bonds in 2012.

B. Fiscal Reforms

16. A fair, efficient, and transparent tax system is an essential element in creating a robust business environment. Over the years and through successive amendments, Tajikistan's tax code has become difficult to understand and implement, and in some areas has strayed from best principles for tax policy. To address these problems, broaden the tax base, and foster private sector-led economic growth, we are committed to redrafting the tax code in line with IMF recommendations by early 2012 (structural benchmark) with a view to implementing the revised code in 2013. We ask the international community for continued support and technical assistance in this area.

17. Improvements in tax administration will also help to raise government revenue over the medium term and foster a transparent business environment. With the support of the Asian Development Bank, we have embarked on a three-year development plan aimed at improving the efficiency of the tax authorities and strengthening public-private dialogue

between tax authorities and taxpayers. The coverage of the Large Taxpayer Inspectorate (LTI) has been increased in 2011 (structural benchmark) and will be increased further in 2012. In line with IMF recommendation, the operations of the Tax Authority will also be restructured along functional lines with a view to boosting the efficiency of tax collection efforts.

18. We are also pursuing steps to further enhance public financial and debt management. In this context, our public financial management strategy aims at the introduction of a full Treasury Single Account (TSA) system at the Republican level by April 2012 (benchmark), together with implementation of an electronic financial management information system to support the TSA. We are committed to prudent debt management, and will restrict our external borrowing to loans on concessional terms. To avoid potential problems vis-à-vis the requirements under the program, we have strengthened coordination with IMF staff to ensure that an appropriate level of concessionality is achieved for all new loans. We undertook a Debt Management Performance Assessment (DEMPA) by the World Bank in April 2011, followed by a reform plan exercise in July 2011. We agree with the findings of the DEMPA report. We intend to publish the results of the report and aim to implement recommended reforms to improve debt management capacity. Donor support to finance a comprehensive reform plan would be helpful. Further, we have strengthened the monitoring framework for government guaranteed debts through enhanced notification procedures prior to payment dates with both borrowers and lenders. Finally, with donor-supported technical assistance, a fiscal risk assessment covering the condition of Tajikistan's state owned enterprises (SOEs) will be prepared in the context of the 2012 budget (structural benchmark).

C. State Owned Enterprises, Agriculture, and Data

State-Owned Enterprises

19. We are taking steps to address financial weaknesses—including inter-enterprise and tax arrears—in key SOEs and put them on sound financial footing. Some arrears reflect structural deficits in SOEs, while others reflect nonpayment of dues from government entities. Tax arrears represent foregone government revenue, while inter-enterprise arrears pose a potential fiscal liability and a threat to macroeconomic stability. We seek a lasting and financially viable means of addressing these problems, and to subject SOEs to financial discipline going forward. For the near-term, we have ensured that the 2011 and 2012 budgets include sufficient resources for all spending agencies to remain current on their obligations.

20. The SOE Supervisory Unit has made substantial progress in its operations, with the help of the European Union and IMF technical assistance. The unit has assessed the financial performance of SOEs for 2010, and their 2011 financial plans. The unit has also prepared and published reports on SOE performance that will be published on the ministry of finance's website on a semi-annual basis. By June 2011, all SOE's subject to review by the SOE unit (MOF) have been required to publish on the MOF website 2010 financial statements and

results of external audits conducted in line with accepted standards of auditing. We will be looking to the international community for further technical assistance to support these important efforts to boost transparency and public financial accountability.

21. Tajikistan Aluminum Company (Talco) has undergone an external audit of its 2006–09 financial statements, and the audit report and the financial statements together with the audit opinions have been published on the company’s website. Audited financial statements for 2010, along with the audit opinion, were posted on the company’s website in November. Supported by the World Bank, an audit of TALCO’s energy use will also be undertaken in 2011 to identify options for increasing efficiency. Talco Management has also completed an external audit of its financial statements and published the results on the company website.

22. State electricity company Barki Tajik will—with World Bank and Asian Development Bank support—undertake a reform program through 2013 that will include, among other measures, restructuring into functional units, a resolution of arrears, and adjustments in electricity tariffs with a view to progressively achieve cost recovery.

Agriculture

23. We remain committed to market-oriented and private sector-led comprehensive agriculture reforms, leading to long-term growth and development of agricultural production, and improvement of the rural populations’ lives and livelihoods. Agriculture is a key pillar of the national economy. Agricultural growth and development will entail production means intensification, diversification of the sector through sustainable use and management of natural resources, and establishment of market-based vehicles for sustainable agricultural financing. In this context, the government will, by end-2011, approve the *Action Plan of the Agrarian Reform* agreed with donors and where necessary advocate parliamentary approval. With support from development partners, we will prepare sector development strategies for agriculture, water, and land for the period 2012–20.

Data

24. We plan to continue to improving our national accounts and price statistics, with technical assistance from the regional IMF statistics advisor, who will coordinate closely with the STATCAP project led by the World Bank. With IMF assistance, we will also continue to improve the quality and timeliness of our monetary and balance of payments statistics, which are essential to the conduct of sound macroeconomic policies.

25. Strengthening our debt data management framework is a priority. We have completed an inventory of government domestic debt and domestic and external debt of SOEs. This information has been published, together with a report on government and government-guaranteed external debt, in the 2011 budget documents. In addition, the NBT continues to

strengthen the monitoring system of private external debt, and began publishing these data on the NBT website on a semi-annual basis starting as of June 2010—sharing this data on a quarterly basis with the ministry of finance.

IV. PROGRAM MONITORING

26. We will continue to monitor progress in implementing the program through quantitative performance criteria and indicative targets, as well as prior actions, and structural benchmarks set for 2011 and 2012. These are listed in the tables attached to the letter of intent. The technical memorandum of understanding which is also attached to this letter defines the quantitative targets of the program and their adjustors, and specifies reporting requirements. Completion of the sixth review under the ECF arrangement—which is envisaged for April 18, 2012—will require observance of the quantitative performance criteria for end-December 2011 and other relevant performance criteria.

Table 1: NBT Reform Action Plan

Reform	Timing	Status
<i>GOVERNANCE</i>		
Close down the Cotton Debt Department at the NBT.	June 2009	Done
Develop proposals to restructure the NBT' organizational set up	December 2010	
Appoint the NBT Board for a fixed term with 3 non-executive members.	June 2010	Done
Establish NBT Board Committees, such as an audit committee, chaired by a non-executive member of the NBT Board.	June 2010	Done
Create and publish on the NBT's website a register of commercial interests of NBT Board members and top management	June 2010	Done
A draft revised central bank law substantially compliant with the recommendations of Fund staff should be approved by the President of the Republic and submitted to Parliament for enactment.	December 2010	Done
<i>AUDITING</i>		
The appointment of the external auditor for the 8 months ended December 31, 2009 should be finalized in time for the external auditor to attend vault counts in headquarters and all branches to confirm the balances in vaults as well as unissued currency at end-December.	Before end-December 2009	Done.
External audit of the April 2009 financial accounts to be completed.	Prior action for 1 st and 2 nd reviews	Done. Audit posted on NBT website in April 2010.
Continue NIR reviews by an international audit firm at test dates under the ECF arrangement. Such reviews should be completed before the IMF Board meeting and the TOR for the reviews should be adapted as needed to ensure that (i) the auditor attends vault counts on the relevant test date; (ii) emerging issues are addressed; and (iii) previous	End-June 2011 audit prior to fifth Board meeting.	Done

Reform	Timing	Status
recommendations are being addressed.		
Publish on its external website in a dedicated section the financial statements and audit opinion within 1 month from completion of the audit, also including all past audit reports.	Continuous	Completed for fiscal year ending April 2009, December 2009, and 2010.
Develop an internal regulation to define a formal policy for the selection and appointment of its external auditor. The policy should stipulate: (i) the composition of the selection committee, including participation by non-executive Board members; (ii) criteria for making the selection; (iii) a timeline for the tendering, bidding and appointment, ensuring the contracting of the external audit not later than 3 months before the year-end; and (iv) multi-year audit contracts.	By September 2010, in time for the 2010 audit selection	Done
Outsource—through a formal tendering process—to an external consulting firm the internal audit of the activities of (i) the international relations department, including foreign exchange lending and liquidity support; (ii) the domestic lending and liquidity support activities; and (iii) the management of foreign currency vault operations at headquarters. Ensure that external consultant contributes to capacity building in the Internal Audit Department.	April 2010	Done
Plan and organize an external quality assurance review of the NBT's Internal Audit Department by certified experts on its compliance with Institute of Internal Auditors (IIA) standards.	June 2011	Extended for 5 years in line with IMF TA recommendations
<i>ACCOUNTING AND OPERATIONS</i>		
Create a new base of the NBT balance sheets and continuously monitor their conformity with analytical data	June 2009	Done
Keep full records of adjustments made with regard to audited financial reports, and keep full records to confirm the data that the IMF publishes in its reports	Continuously	Completed for 2009.
Increase the number of sudden checks of cash available in the NBT's head office and regional branches.	Continuously	Done
Develop a mechanism to transfer and share information	Continuously	Done

Reform	Timing	Status
between departments on any reclassification of items in the NBT's accounting balance sheet for the purpose of compiling the monetary analysis.		
Establish a register of the gold bars held in the NBT vaults, including gold owned by the ministry of finance. This register must include details on the serial number of the gold bars and the ownership. This register must be included in the scope of the NIR review, starting with the end-December 2009 test date.	March 2010	Done
Take measures to create a centralized accounting system of the NBT by transferring all accounting functions to relevant departments and introduce software for centralized recording of transactions done by the NBT's regional branches.	June 2010	All departments excluding International Reserves Department now part of centralized accounting system.
Include the issue of accounting and monitoring of the NBT balance sheet items in daily meetings of the working group. Include representatives of the internal audit and accounting into the working group		Not done. No representation from Audit Department
Strengthen cash management by setting up basic structures which assure the segregation of duties between the front-office, back-office and accounting functions in order to mitigate operational risks.		Done

Table 2: Financial Sector Stability Action Plan

Reform	Timing	Status
<i>Asset Quality</i>		
NBT to approve regulation on uniform classification and provisioning (Regulation 177).	July 2011	Done
Banks to fully provision for NPLs in accordance with established prudential criteria.	August 2011	Done
All banks to work on an accrual basis and (i) stop accruing interest on NPLs, or (ii) make 100 percent provision for interest earned on NPLs.	August 2011	Done
Banks to provide for treasury bills issued in lieu of cotton sector NPLs, in accordance with international financial reporting standards (IFRS) principles.	September 2011	Done
Banks to implement regulation 177 to ensure uniform classification of NPLs and full provisioning.	September 2011	Done
In accordance with Regulation 177, banks to upgrade NPLs to a category requiring lower provisioning <i>only</i> after all amounts due (including principal and interest) have been repaid and the borrower continues to service the loan without default at least for 6 months.	September 2011	Done
In accordance with Regulation 177, all rescheduled accounts to remain in the same asset classification as at the time of the restructuring (for the first restructuring) and downgrade by at	September 2011	Done

least one level for the second restructuring.		
In accordance with regulation 177, NBT to allow banks to upgrade rescheduled NPLs to <i>standard</i> category only after they demonstrate satisfactory performance under the revised terms for at least 6 months.	September 2011	Done
<i>Liquidity, Funding, and Contingency Planning</i>		
NBT to require banks to reflect all material corrections from the annual external audits in their general ledgers to make retroactive corrections.	July 2011	Done
NBT to prepare, on a rolling basis, contingency plans to meet and overcome vulnerabilities in individual banks that may arise during the following 12 months.	August 2011	Done
To assess liquidity position of banks, NBT to require an independent audit for cash counts in all banks.	September 2011	Partially completed. Several banks allowed to finalize audits by end-2011.
Banks most vulnerable to liquidity and funding risks to submit contingency liquidity and funding plans for managing liquidity under stressful situations and rectify structural liquidity and funding imbalances, <i>without</i> any reliance on NBT's liquidity facilities.	October 2011	Done
<i>Provisioning and Capitalization</i>		
In line with regulation 177, banks to provision for re-possessed assets, on par with those of doubtful assets.	November 2011	Not completed

Banks to maintain higher level of provisions and capital for exposures to customers who have unhedged foreign currency risk exposures; and comply with proposed prudential limits for such exposures.	November 2011	Not completed
Increase the minimum capital-to-asset ratio (CAR) for the top 6 banks from 12 to 15 percent.	December 2011	
NBT to adjust banks' capital adequacy position for correct provisions and asset valuation until actual implementation by banks, and require those banks that either breach or are close to breaching the regulatory minimum to infuse capital within a prescribed timeframe.	December 2011	
NBT to improve its prompt remedial action framework (PRAF) including reviewing and understanding the shortcomings of the current framework, creating a supervisory manual covering off- and on-site aspects, develop internal guidelines, procedures, and sanctions to ensure effective remedies are initiated at the earliest stage of bank problems.	January 2012	
NBT to review its supervisory function and undertake an assessment of its compliance with the gaps identified by the assessment of Basel Core Principles (BCP) for effective banking supervision conducted in February 2011.	March 2012	

TAJIKISTAN: ADDENDUM TO TECHNICAL MEMORANDUM OF UNDERSTANDING

This addendum supplements the Technical Memorandum of Understanding (TMU) of April 19, 2011. It updates the definitions and adjusters of these targets. Unless an update is provided in this TMU, the definitions, adjusters and reporting requirements outlined in the TMU of April 19, 2011 apply to the program targets set for end-December 2011 and end-March 2012.

Quantitative Performance Criterion 1: Ceiling on a cumulative flow of net domestic assets of the NBT for the year.

Adjustor for budgetary grants. The cumulative NDA flow is adjusted upward (downward) for the negative (positive) difference between actual and programmed budgetary grants recorded in revenue.

Quantitative Performance Criterion 2: Floor on a cumulative flow for the year of total net international reserves (in millions of U.S. dollars).

Adjustor for budgetary grants. The cumulative NIR flow will be adjusted downward (upward) for the negative (positive) difference between actual and programmed budgetary grants recorded in revenue.

Quantitative Performance Criterion 4: Floor on the cumulative overall fiscal balance of the general government excluding foreign-financed PIP and related grants.

Adjustor for budgetary grants. The floor on the cumulative overall fiscal balance of the general government excluding foreign-financed PIP and related grants will be adjusted downward, i.e., the deficit target will be increased, (upward, i.e., the deficit target will be reduced) by the amount of the negative (positive) difference between actual and programmed budgetary grants recorded in revenue.