

April 1, 2008

**IMF Resident Representative Answers to Questions from Asia Plus Regarding
Misreporting Case of Tajikistan**

1) What was meant by “inaccurate information” in the recent IMF press release on Tajikistan? What was the main reason of this step by the IMF?

Simply put, we were presented the wrong books of the NBT. This “misreporting” relates to information that led to five disbursements, in the total amount of about \$ 79 million, of the loan Tajikistan received from the IMF under the last program in the context of the Poverty Reduction and Growth Facility (PRGF), which ran between 2002 and 2006. Any disbursement under an IMF program is always based on “performance criteria” that need to be achieved for certain variables that are crucial for macroeconomic stability. As the press release says: “Based on new information provided by the authorities to IMF staff in December 2007 and January 2008, the Executive Board concurs that these disbursements were made on the basis of inaccurate information provided by the Tajik authorities relating to the performance criteria on the net international reserves of the Republic of Tajikistan, the net domestic assets of the National Bank of Tajikistan (NBT), and against the NBT issuing directed credits.” As I hope everybody will understand, it is extremely important that the IMF gets accurate information on which to base its decisions on whether or not to disburse a loan.

2) Many experts say that the NBT pledged gold and currency reserves of the country for cotton loans; how accurate is this information?

This information is correct. At the end of last year, the NBT informed us that it pledged a large part of its reserves as collateral for loans from foreign banks to Kredit Invest, the private intermediary that finances cotton investors. Until that time, these pledges, which began in 2001 and continued throughout the period of the last program, had gone unreported to the IMF (and donors more generally). With usable reserves therefore sharply reduced, this leaves the NBT and Tajikistan more vulnerable to potential external shocks, such as a further increase in international oil prices, or a decline in workers’ incomes from abroad.

3) What was meant in the press release with the wording “the nature and extent” of misreporting? So it isn’t the first time? Or is the extent of misreporting so big?

Tajikistan has had five previous cases of misreporting under IMF programs, although some of these were relatively minor. This last case is the most serious, mainly because it covered such a long period. Information about misreporting cases is made publicly available on the website of the IMF, and, for Tajikistan, also on the website of my Representative Office.

4) Why did this mistake become known only now? Did the IMF mission not work already in December?

Yes, an IMF mission to look into the matter took place in December. The Tajik authorities were fully cooperative, and the mission received information suggesting that misreporting had indeed taken place. From there on, we followed procedures that are designed to ensure that such information is only made public after careful consideration, to make sure it is correct. In this context, two main things had to be done. First, your government was given the chance to formally reply to the findings of the December mission. They did this in early February, when they confirmed that misreporting had occurred. Second, the Executive Board, as the decision-making body of the IMF, including representatives from all member countries including your own, had to formally agree that this was misreporting, and what remedial measures should be taken in response. This Board meeting took place on March 5th. The press release was issued on the same day.

5) The IMF says in its press release that the NBT agreed to a special audit. What is the question about? How will it go? When will this audit take place?

The audit is necessary to ensure that the accounts of the NBT reflect the true financial position of that institution. Furthermore, the audit is expected to shed light on the changes required in the NBT's governance procedures to make sure that events such as these misreporting episodes do not reoccur. Finally, inasmuch as possible, the audit will attempt to retrace the use of the resources for which NBT pledges were obtained. The special audit will have to be undertaken by a reputable international firm, contracted on the basis of a competitive bidding process.

6) What sources will the mentioned sum of about \$ 48 mln be paid from? Was it somehow agreed on (reserved)?

It will be repaid from NBT reserves. There was some confusion about this in the press, suggesting that, for example, taxes would have to be raised. In fact, no budget resources will be needed for this repayment. This has to do with the nature of IMF financing, which is often not well understood, and it is true that it is somewhat technical. Unlike financing from international donors giving official development assistance, any IMF financing goes straight into central bank reserves. As the mirror of that, these repayments will also come directly from NBT reserves. Incidentally, had this misreporting case not occurred, the NBT would still have had to repay this loan amount to the IMF, but of course at a much later stage. The "standard" reaction to such misreporting, for any country, is repayment within 30 days of the loan amount that was received on the basis of inaccurate information, unless it is a minor incident. In this regard, note that, as the press release says: "In taking its decision, the Executive Board carefully weighed the Republic of Tajikistan's very difficult economic circumstances, in particular its balance of payments position as well as the severe humanitarian crisis prevailing in the country, against serious instances of misreporting by the Tajik authorities." As a result, repayments are not expected to start until September this year, running until February 2009.

7) What was the NBT's reaction to the IMF press release?

You have seen NBT's press release issued in reaction, which essentially says that it will fully comply with the IMF Board's decision. We continue to work closely and cooperatively with the NBT, and the government more broadly, but I hope you will understand that I can only speak for the IMF.

8) How do you intend to further cooperate with Tajikistan? Did they give you and other IMF staff any recommendations regarding Tajikistan in the IMF Headquarters?

I am happy you are asking this question, as I would like to stress that we will maintain a very active involvement with the Tajik authorities. It is clear that a lot of work needs to be done to rebuild the credibility of your government with our Board and the international community more generally. In response to the government's request to begin talks on a new program, we will be fielding a mission soon to start discussions with your government on a Staff Monitored Program (SMP). This will not involve any new lending, but will give Tajikistan an opportunity to rebuild a track record of effective policy implementation, which will be essential if we are to resume lending to Tajikistan at some point in the future.