

Tajikistan: First and Second Review Under the Three-Year Arrangement Under the Extended Credit Facility, Request for Waiver of Performance Criteria, and Request for Augmentation of the Arrangement—Staff Report; Staff Statement; Press Release on the Executive Board Discussion; and Statement by the Executive Director for Tajikistan.

In the context of the first and second review under the three-year arrangement under the extended credit facility, request for waiver of performance criteria, and request for augmentation of the arrangement, the following documents have been released and are included in this package:

- The staff report for the First and Second Review Under the Three-Year Arrangement Under the Extended Credit Facility, Request for Waiver of Performance Criteria, and Request for Augmentation of the Arrangement, prepared by a staff team of the IMF, following discussions that ended on May 20, 2010, with the officials of Tajikistan on economic developments and policies. Based on information available at the time of these discussions, the staff report was completed on May 21, 2010. The views expressed in the staff report are those of the staff team and do not necessarily reflect the views of the Executive Board of the IMF.
- A staff statement of June 3, 2010 updating information on recent developments.
- A Press Release summarizing the views of the Executive Board as expressed during its June 7, 2010 discussion of the staff report that completed the request and/or review.
- A statement by the Executive Director for Tajikistan.

The documents listed below have been or will be separately released.

Joint Staff Advisory Note of the Poverty Reduction Strategy Paper
Letter of Intent sent to the IMF by the authorities of Tajikistan*
Memorandum of Economic and Financial Policies by the authorities of
Tajikistan*
Technical Memorandum of Understanding*

*Also included in Staff Report

The policy of publication of staff reports and other documents allows for the deletion of market-sensitive information.

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INTERNATIONAL MONETARY FUND

REPUBLIC OF TAJIKISTAN

**First and Second Review Under the
Three-Year Arrangement Under the Extended Credit Facility, Request for Waiver of
Performance Criteria, and Request for Augmentation of the Arrangement**

Prepared by the Middle East and Central Asia Department
in Consultation with Other Departments

Approved by David Owen and Dhaneshwar Ghura

May 21, 2010

Missions: A mission visited Dushanbe on April 7–14 to finalize discussions for the first and second reviews under the three-year arrangement under the Extended Credit Facility (ECF), following missions in September 2009 to discuss the first review, and in February 2010 to discuss the combined first and second reviews.

Team: Mmes. Unigovskaya, Vtyurina, Messrs. Abdychev, Schimmelpfennig (head) (all MCD), and Mr. Stepanyan (SPR). Mr. Moers, the resident representative assisted the missions.

Key Tajik officials: President Rahmon, State Economic Advisor Davlatov, Minister of Finance Nadjmuddinov, and National Bank of Tajikistan (NBT) Chairman Rakhimzoda.

Fund relations: On April 21, 2009, the Executive Board concluded the 2009 Article IV consultation and approved a three-year arrangement under the Extended Credit Facility (ECF) with access of 90 percent of quota (SDR 78.3 million, \$116 million). See Country Report No. 09/174.

Exchange system: Tajikistan has accepted the obligations under Article VIII, Sections 2, 3, and 4 and maintains an exchange system free of restrictions on payments and transfers for current international transactions. The authorities' exchange rate regime has been classified as stabilized since June 2009.

ECF: The authorities met the program's quantitative performance criteria, with two exceptions. In the Memorandum of Economic and Financial Policies (MEFP) attached to President Rahmon's Letter of Intent (LOI), they have outlined their economic program covering the period through March 31, 2012 for which they seek support under the ECF. The authorities also request augmentation of access under the ECF to 120 percent of quota (SDR 104.4 million, \$162 million).

Data: Despite some weaknesses, data provision is broadly adequate for surveillance. Tajikistan participates in the GDDS.

Outreach: The missions met with local representatives of the donor community, including the Asian Development Bank (ADB), the World Bank, the European Union, and UNICEF, and briefed members of the diplomatic community. The missions also gave a press briefing.

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EXECUTIVE SUMMARY

Tajikistan was hit by severe external shocks in 2009. While the impact on growth was cushioned by supportive policies, a 31 percent fall in remittances led to a decline in disposable per-capita income. The authorities met all but two quantitative performance criteria under the program. Structural reforms also progressed, albeit with some delays.

The outlook for 2010 is cautiously optimistic, but risks remain. Remittances and trade have started to recover. However, the campaign to raise funds for the Roghun hydropower project (HPP) is expected to weigh on growth and social indicators. Disruptions in rail traffic through Uzbekistan, as well as lower-than-projected export demand for aluminum and cotton could also hold back growth. International reserves remain low, despite recent increases.

The authorities plan to:

- Address the structural energy deficit and achieve energy independence, including by accelerating the construction of the Roghun HPP.
- Continue raising social expenditures by allowing a modest widening of the overall deficit (excluding externally financed investment) in the face of declining budget grants. Exchange rate flexibility is seen as safeguarding external stability, while donor support and the requested Fund support would help build international reserves.
- Continue with their structural reform agenda, in particular, strengthening governance at the NBT and in key state-owned enterprises (SOE).

Staff agrees with the authorities' policy strategy and notes:

- The authorities need to proceed with care on the Roghun project, paying close attention to regional, social, macroeconomic, and debt sustainability considerations. The equity campaign should be phased out quickly, given its adverse social and macroeconomic impact.
- The authorities need to strike a careful balance between social and capital spending, which are complementary for growth.
- Macroeconomic policies are appropriate, but there are a number of contingent fiscal liabilities, including the weakened health of the banking sector and of SOEs, that need to be addressed urgently.

I. INTRODUCTION AND BACKGROUND

1. **The global economic crisis has affected Tajikistan mainly via declining remittances.** With around half of the labor force working outside of Tajikistan, the 31 percent fall in remittances in 2009 contributed to a decline in per-capita disposable income in U.S. dollar terms by 8 percent.¹ With financial support from the international community, the authorities have responded to these challenges by raising social spending while relying on exchange rate flexibility to facilitate external adjustment. Performance under the program supported by an ECF arrangement in 2009 was satisfactory. However, delays with the safeguards assessment led to the first and the second reviews being combined, and subsequently, discussions over the authorities' financing strategy for the Roghun hydropower plan slowed down the reviews. The authorities request waivers for the nonobservance of two performance criteria.
2. **Supporting the incipient recovery while maintaining external stability are the key objectives of the authorities' 2010 program.** Remittances and exports of aluminum and cotton are expected to stabilize in 2010, but government spending will have to remain an important pillar supporting growth. The authorities' LOI and MEFP set out macroeconomic policies for 2010 under the three-year program supported under the ECF, and request an augmentation of access to SDR 104.4 million (120 percent of quota, or about \$166 million). Approval of the first and second reviews will help the authorities secure continued budget support from the Asian Development Bank (ADB), World Bank, and European Union.
3. **The objectives of the program are consistent with the Third Poverty Reduction Strategy for 2010–12 (PRS 3) formally approved in February 2010.** Building on the first PRS for 2002–05 and the second PRS for 2007–09, the PRS 3 operationalizes the country's long-term development vision laid out in the National Development Strategy (NDS) for 2006–15. The PRS was developed via participatory process, and its overarching objective is to promote sustainable strong economic growth and improvements in the living standards of the population, especially of vulnerable groups.²
4. **Parliamentary elections in February 2010 did not alter the political landscape.** President Rahmon's party, the People's Democratic Party, won a majority in both houses. The main opposition party, the Islamic Revival Party, came second with about 7 percent of votes. As in past elections, serious irregularities were noted by international observers.

¹ Data from the 2009 household survey are still being processed, and recent poverty trends since 2007 cannot yet be assessed. UNICEF has carried out a special survey to analyze the impact of the 2009 crisis on poverty, which will become available later this year.

² See Joint Staff Advisory Note (page 103).

II. RECENT ECONOMIC DEVELOPMENTS AND PERFORMANCE UNDER THE ECF

5. **Economic growth remained positive, despite severe external shocks.** Real GDP growth was 3 percent in 2009—down from 8 percent in 2008. With the somoni depreciating by 26 percent, the trade deficit narrowed, offsetting the sharp decline in remittances and contributing to a modest decline in the current account deficit. Growth was particularly strong in agriculture, benefiting from ongoing reforms that allowed farmers to shift from cotton to foodstuffs and livestock. With benign international commodity prices, inflation declined to 5 percent year-on-year in December 2009 from double digit levels at the beginning of the year.

6. **The authorities achieved their fiscal deficit target for 2009, but wage and pension arrears arose temporarily.** The overall deficit (excluding the externally financed public investment program, PIP) was $\frac{1}{2}$ percent of GDP for the year, consistent with the program target (LOI, Table 1). Revenues declined as a percentage of GDP, mainly because of the fall in imports—value-added tax (VAT) on imports accounts for a third of total tax revenue—but also reflecting a reduction in the VAT rate from 20 to 18 percent, effective July 1, 2009. The authorities continued efforts to enhance revenue administration, which helped offset some of the decline in tax collection. In addition, the authorities exercised strict expenditure restraint on current spending, including official travel and maintenance, but excluding wages. At the same time, the authorities increased social expenditures on health, education, and transfers to 9.0 percent of GDP, from 7.3 percent of GDP in 2008, broadly in line with the program's indicative target. However, a temporary accumulation of wage and pension arrears in mid-2009 led to the nonobservance of a continuous performance criterion. The pension arrears were settled by the end of the year, including through withdrawals from the Pension Fund's defined contribution component. The Pension Fund is now expected to be replenished by grants from the European Commission (EC). A small remainder of the wage arrears was settled in April 2010.

7. **Reserve money growth was stronger than projected.** With somewhat higher-than-anticipated foreign exchange inflows and the August SDR allocation (\$122 million), the NBT was able to build net international reserves (NIR) faster than programmed, while the somoni stabilized by mid-2009. The NBT refrained from lending to the private sector except for liquidity purposes. However, banking sector liquidity needs were higher than anticipated in the last quarter of 2009, leading to the nonobservance of the performance criteria for net domestic assets (NDA) at end-December—NDA increase was by 0.4 percent of GDP higher than anticipated. The NBT did not accumulate external payment arrears.

8. **The authorities made progress on structural reforms.** All end-June structural benchmarks, and two out of four end-December structural benchmarks were completed (LOI, Table 2), albeit with delay.

- The government adopted a cotton debt resolution strategy in June 2009 which is now being implemented. The strategy envisages the write-off of all farm debt of around \$550 million. An additional \$154 million debt by cotton investors will be repaid to the NBT.³
- The audit of the NBT's financial statements for the year ending April 2009 has been completed and the reports were published on the NBT's website. In addition, the NIR audit for end-June 2009 was completed and the report is also available on the NBT's website, while the NIR audit for end-December 2009 is being finalized. At the same time, the NBT did not initiate quarterly internal audits because of capacity constraints. Instead, the NBT plans to hire an external firm to assist it with the internal audit coverage of the activities within the international relations department, which inherently carries the highest operational and financial risk. The authorities also developed a recapitalization strategy for the NBT with Fund assistance, and the NBT's cotton debt department was closed in June 2009.
- SOEs have started to report their financial plans to the monitoring unit in the ministry of finance. The field work for the audit of the aluminum smelter Talco has been completed and the audit reports are expected to be published shortly. However, Talco did not hire one of the big four companies to conduct the audit because this would have doubled the costs.
- Electricity tariffs were raised in June 2009 by 25 percent and again in January 2010 by the same amount. With these increases, the current average electricity tariff covers over 80 percent of estimated costs. The authorities intend to revisit the issue of tariff increases in the second half of the year with a view to achieving cost recovery by the end of 2010.

III. AUTHORITIES' VIEWS

9. **Discussions focused on four issues:**
- a. The government's campaign to finance the construction of Roghun HPP;
 - b. Macroeconomic policies for 2010;
 - c. Safeguarding financial stability; and
 - d. Ongoing governance reforms, in particular at the NBT.

³ For a discussion of cotton debt issues, see Box 6 in Country Report No. 09/174.

A. The Roghun Financing Campaign

10. **Energy independence has become a top priority for the government (Box 1).** Tajikistan has a structural energy deficit that is expected to widen over the medium term. The authorities' energy strategy is mainly centered on the Roghun HPP, but also includes the rehabilitation of existing facilities. Concerned that international support and financing for Roghun could be delayed or not forthcoming, the authorities launched an equity campaign in January 2010 to raise domestic funds for the construction of Roghun in addition to existing budget allocations. Staff expressed strong concerns about widespread reports of coercion which rendered share purchases a *de facto* one-off tax, and noted the campaign's adverse social and macroeconomic implications, particularly its effect on poverty and near-term growth.⁴ Staff also emphasized that the campaign did not address the project's foreign exchange needs. In response, the authorities agreed to stop the active campaign, and expected that sales would decline sharply over the remainder of the year to \$2 million in the fourth quarter (an indicative ceiling under the program) compared to \$180 million (3 percent of GDP) collected in January-April.

11. **The authorities hope to finalize their financing strategy once an ongoing feasibility study is completed.** The authorities intend to ask the World Bank to lead an international consortium to finance Roghun, assuming a positive outcome of an ongoing techno-economic, social, and environmental impact assessment which is also financed by the World Bank. The attached debt sustainability analysis (DSA) shows that, if financed on concessional terms, the Roghun project would increase government debt by 7 percent of GDP by 2014, but can be consistent with a sustainable debt trajectory if the project has a positive economic return. The DSA also highlights the risks to the strategy, in particular if planned investment projects do not yield the expected increase in growth.

B. Macroeconomic Policies for 2010

12. **The outlook for 2010 is cautiously optimistic.** Tajikistan's external environment appears to be stabilizing. With Russia's economy recovering and the ruble strengthening against the U.S. dollar, remittances rebounded by 18 percent year-on-year in the first quarter of 2010. Exports (excluding aluminum) and industrial production are also up in the first quarter (by 19 and 16 percent, respectively), reflecting improved international markets for aluminum, cotton, and better domestic electricity supply. Real GDP growth should reach 4–5 percent in 2010. One risk to this outlook stems from intermittent disruptions in rail traffic through Uzbekistan, which accounts for about ¾ of Tajikistan's trade flows.

⁴ The adverse impact on disposable income resulting from the *de facto* tax increase runs counter to the authorities intention of supporting near-term growth.

Box 1. Tajikistan: Roghun Hydropower Project

Roghun HPP was conceived in the late 1970s, during the Soviet time, to become potentially the largest electricity producer in Central Asia. Construction commenced in the 1980s, but was abruptly stopped following the breakup of the Soviet Union, and the site fell into disrepair. Tajikistan resumed construction in 2008, with financing being provided by the budget. Once completed, Roghun is expected to generate 13 billion kWh of electricity per year, compared to a total of 16 billion kWh generated by Tajikistan in 2009.

In January 2010, the government initiated an equity campaign to raise financing for Roghun from the population and domestic corporates. An open joint stock company (OJSC) was established with an authorized capital of \$1.4 billion—corresponding to the estimated cost of the first phase of the project with two out of six turbines operating. 25 percent of the capital was slated for sale to the public, while the government would keep 75 percent plus one golden share. While there is genuine support from the public for Roghun, including through the purchase of shares, the equity campaign was marked by widespread coercion. The government relied on equity financing before in the case of the Sangtuda I HPP. No dividends have been paid so far on Sangtuda I shares, and it is unclear whether shares still represent a claim on the company, which is nowadays owned to 75 percent by Russia and 25 percent by the government of Tajikistan.

The equity campaign has adverse social and macroeconomic implications. The World Bank estimates that poverty could rise temporarily by 2 percentage points on account of the campaign, as households have to reduce consumption to replenish savings. Growth would be dampened by up to 1 percentage point in 2010, as the equity campaign is equivalent to a fiscal contraction of 2 percent of GDP. Moreover, equity purchases by commercial banks undermine the already weak financial health of these institutions, given that the equity holdings are unlikely to yield a positive cash flow over the medium term. Likewise, equity purchases by SOEs only serve to increase contingent fiscal liabilities. Lastly, the equity campaign could reduce tax compliance and collection as a result of lower disposable income, though the first quarter of 2010 did not show a significant decline that could be attributed to the share purchases.

13. **With the recovery still gaining traction, the authorities see a continued need for supportive policies in 2010.** They target an overall fiscal deficit of the general government (excluding PIP) of 1 percent of GDP in 2010, compared to ½ percent in 2009. Revenues should show some increase as a percentage of GDP, but this would not suffice to offset the expected decline in donor grants. Within an unchanged expenditure envelope, the authorities seek to increase social spending by another ½ percent of GDP to 9½ percent, mainly through raising wages in social sectors and increasing the minimum pension. Wages in the health and education sector are low, and the planned increases are expected to improve the quality of social services. Increasing the minimum pension provides a direct benefit to low-income

groups. Expenditure projections include the NBT recapitalization costs, but do not yet account for the issuance of treasury bills to commercial banks in the context of the cotton debt resolution. Staff notes that the planned expansionary budgetary stance is more than offset by the Roghun equity campaign, which implies a surplus of about 1½ percent of GDP once the general government is consolidated with Roghun (Table 1).

14. **The authorities believe that the flexible exchange rate regime has served them well.** The NBT aims to continue building international reserves, mainly from projected donor support. Interventions in the foreign exchange market would be limited to smoothing excess volatility. The authorities see reserve money as the nominal anchor, and the NBT will mainly rely on liquidity loans, certificates of deposits, and a planned deposit facility to guide reserve money growth. In addition, the authorities may place some of the deposits from the equity sales with commercial banks as an alternative form of liquidity injection, and will commence using the newly issued treasury bills as instruments, though their volume is still very low.

C. Safeguarding Financial Stability

15. **The authorities are concerned about growing stress in the banking system, which is holding back private sector credit growth.** Financial soundness indicators weakened during 2009, in particular asset quality and profitability (Box 2). As a result, bank lending has slowed down dramatically, despite deposit growth of 22 percent year-on-year through December. Prudential norms are not observed by two small banks.

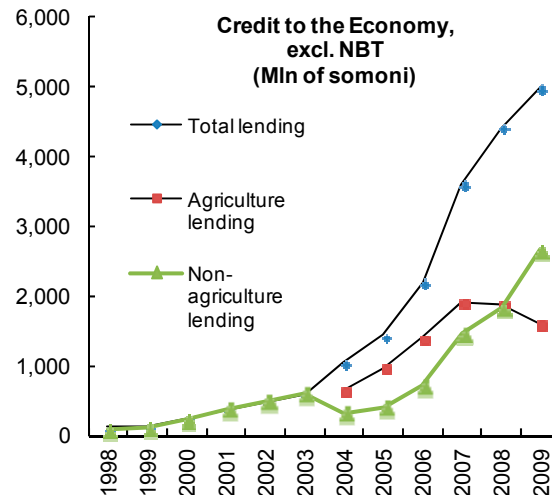
16. **In response, the authorities are implementing measures to support banks and safeguard financial stability.** They are tightening prudential norms and stepping up supervision, with one bank that violated the minimum CAR for a protracted period of time now under administration. Moreover, the supervisor has required those banks with the highest nonperforming loans to present time-bound action plans to deal with potential capital losses. The authorities are also working with the World Bank to address gaps in the commercial banks law, which would help in dealing with problem banks, as well as establishing an appropriate anti-money laundering and counterterrorism financing framework (MEFP, Paragraph 15).

17. **The NBT is strengthening its liquidity management tools.** In 2009, the government started auctioning a small volume of treasury bills for the first time, under an IMF-SECO regional technical assistance project, with a view to developing a secondary market. The NBT also intends to shorten the maturity on liquidity loans and introduce a statutory deposit facility (MEFP, Paragraph 15), permitting an improvement in the overall liquidity situation. Lastly, as part of the cotton debt resolution, the government will issue around \$100 million treasury bills with a 2 percent interest rate and a mandatory roll over at maturity. Staff notes that these terms are not in line with market prices, but agrees that the issuance will on the margin improve banks' assets.

Box 2. Tajikistan: Increasing Vulnerabilities in the Banking Sector

During 2009, indicators for the banking system have worsened. Of main concern is an increase in nonperforming loans (NPLs), which at end-2009 account for about 20 percent of all loans, compared to less than 10 percent at end-2008. Of those, three quarters are concentrated in the three largest banks. In addition, banking sector profitability, measured by the return on assets and equity, has declined by more than 50 percent. Provisioning for NPLs is low, at less than 30 percent on average, with the largest banks having the lowest provisioning ratios. Two small banks do not meet the required 12 percent capital adequacy ratio (CAR).

Much of the deterioration is the result of lending to the cotton sector. Over the last decade, about 50 percent of credit was extended to agriculture—mainly the cotton sector, which accounts for only about 7 percent of GDP (agriculture is 20 percent of GDP). A large share of loans was directed, including through moral suasion, implying that lending standards were relaxed—which subsequently led to poor asset quality. The weakening of economic activity last year also contributed to deteriorating asset quality.



In addition, NPLs have risen on account of the somoni depreciation in early 2009 which affected the repayment capacity of unhedged foreign currency borrowers (loan dollarization stood at 60 percent as of end-December 2009).

If not tackled decisively, the deterioration in banking assets will seriously jeopardize future credit growth. Although further deterioration in banking assets may not lead to a systemic banking crisis, given that banks' deposit base mainly consists of government agencies and SOEs, it is likely to negatively affect credit flow to the private sector and could jeopardize growth and development. Therefore, decisive actions are needed to repair banks balance sheets, including via new capital injections, and to further limit government interference with banks' lending decisions. The latter will mainly require developing a private sector-led financing mechanism for the agriculture sector, which the authorities are developing with donor assistance including from the World Bank and the ADB.

D. Governance and Other Structural Reforms

18. **The authorities will push forward with governance reforms at the NBT.** Efforts are underway to enhance the effectiveness of the NBT's Board and the internal audit function, and to address financial reporting weaknesses, identified in the safeguard assessment. In addition, the authorities have adopted a recapitalization strategy for the NBT, developed with Fund technical assistance that seeks to minimize fiscal costs. The strategy, inter alia, relies on improved reserve management practices, including diversifying away from gold toward income earning assets. The authorities also plan to review the NBT law, with Fund assistance, and submit a revised law to parliament by the end of the year.

19. **Revenue administration and public financial management reforms are ongoing.** The authorities plan to draft and ratify all remaining implementing regulations for the 2005 Tax Code and assess the cost of existing tax exemptions. The authorities also plan to issue an order requiring the implementation of the full Treasury Single Account (TSA) system at the republican level before end-December 2010, enabling them to introduce the TSA with the 2011 budget. In parallel, civil service reforms are progressing, and the authorities have prepared draft pension and health insurance laws. Staff notes that these two laws have not been costed yet, and advises that this be done prior to them coming into effect. In the fiscal area, a widespread use of tax exemptions continues to present risks for the tax revenue. The authorities indicated their concern on this matter and established an interministerial commission to assess the tax exemption policies and propose a plan on elimination of their excessive use.

20. **SOEs and agricultural reforms are also continuing.** For SOEs, the authorities' priority remains to restore financial health and to fight tax evasion including by having external audits as a first step and close monitoring by the ministry of finance. The authorities also aim to develop a tax arrears settlement and prevention strategy, while ensuring that the 2010 budget allocates sufficient resources for government entities to remain current on their obligations to SOEs. In this context, staff notes that a large share of profits generated in the aluminum production are shifted offshore and thus not taxed in Tajikistan. In the agricultural sector, the emphasis now is on strengthening market forces, including by gradually moving toward market-based financing.

E. Program Design and Risks

21. **The key program objectives for 2010 remain largely unchanged from 2009: maintaining external stability while meeting the country's large social and capital spending needs.** Structural reforms will focus on governance at public entities, in particular the NBT, raising the revenue yield as well as the effectiveness of government spending, and reducing fiscal risks emerging from SOEs.

22. **Specifically, the proposed program includes quantitative performance criteria, indicative targets, and structural benchmarks set for January-December 2010.** The

quantitative framework broadly maintains the 2009 program design, with the addition of two indicative targets. Specific performance criteria seek to:

- Safeguard external stability (floor on net international reserves, zero ceiling on new external payment arrears, ceiling on disbursement of concessional external debt, zero ceiling on contracting or guaranteeing nonconcessional external debt) and maintain monetary control (ceiling on net domestic assets and zero-ceiling on new lending from the NBT to private sector).
- Ensure fiscal sustainability (ceiling on the overall fiscal deficit excluding PIP, zero ceiling on general government wage and pension arrears).

The indicative targets support these quantitative performance criteria by:

- Setting a floor on revenue collection.
- Setting a floor on social and poverty related expenditure designed in close cooperation with the World Bank.
- Setting a ceiling on liquidity loans by the NBT (a new target) to help the NBT better monitor liquidity loans to banks and meet its NDA target.
- Setting a ceiling on gross equity sales and contributions for Roghun OJSC (a new target) to monitor the implementation of the commitment by the government to curtail the Roghun financing campaign.

Prior actions and structural benchmarks serve to monitor progress on the authorities' reform agenda and provide assurances to the Fund that the problems underlying the misreporting episode that was revealed in 2007 are being addressed (LOI, Table 4). The third review, planned for September 2010, will focus on the 2011 budget and the medium-term fiscal strategy. The fourth review, planned for February 2011, could focus on strengthening the banking sector.

23. Even with the proposed policies, Tajikistan faces an external financing gap in 2010, which is higher than previously assessed (see Country Report No. 09/174). This gap stems from the need to rebuild the country's reserve buffer, which had been depleted by the NBT's involvement in financing of the cotton sector during 2004–07. At end-2009, gross reserves reached only about 1.1 months of next year's imports, and the authorities aim to raise this ratio to 1.4 months by end-2010, implying an external financing gap of \$116 million.⁵ The financing gap is expected to be filled by budget support from the World Bank

⁵ In response to discussions during the safeguards assessment, the authorities have tightened their definition of international reserves to exclude gold that is refined but does not yet fulfill London good delivery standard. This revision reduces NIR by \$68 million for end-December 2009, but leaves net foreign assets unchanged.

(\$28 million), the ADB (\$10 million), and the EC (\$16 million), as well as by the Fund augmenting access under the ECF to 120 percent of quota (SDR 104.4 million, \$162 million) with disbursements amounting to SDR 39.2 million (\$62.4 million) in 2010.⁶

Tajikistan: External Financing Needs and Sources
(In millions of U.S. dollars)

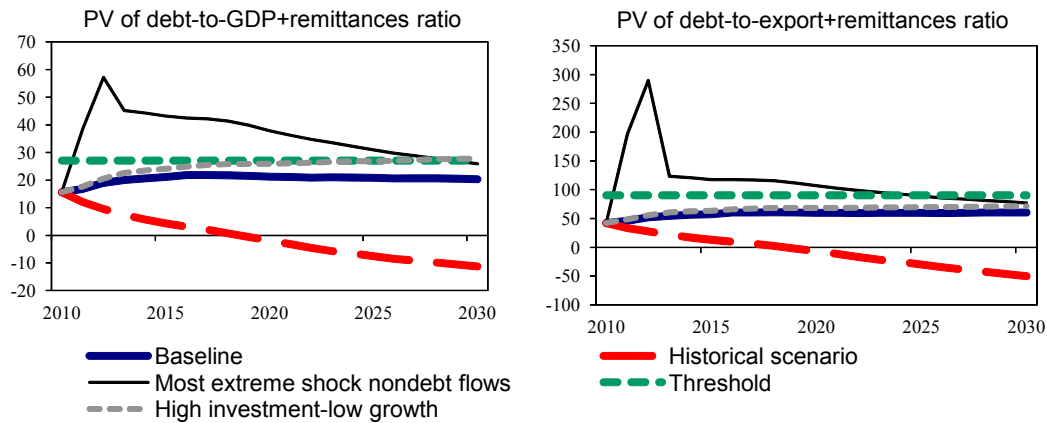
	2010		
		Rev. proj.	Diff.
Current account	-460	-389	71
Goods and Services	-2,054	-2,204	-150
Balance on income	-120	-72	48
Balance on transfers, of which	1,714	1,887	173
Remittances, net	1,624	1,797	173
Capital and Financial account	495	383	-112
Donor support (AsDB, WB, EC)	10	53	43
Change in reserves (- increase)	-65	-110	-45
IMF (120 percent access)	20	62	42
Residual financing gap	0	0	0

Sources: Tajik authorities; and Fund staff calculations.

24. **Given the size of the financing gap, staff believes that the augmentation of access from 90 to 120 percent of quota is justified.** The severe external shock that hit Tajikistan during 2009 has repercussions in 2010, and it will take time for the economy to fully adjust. Since the approval of the current program, the health of the banking sector has weakened substantially, and the authorities are rightfully concerned about the impact of large exchange rate movements. As such, it is important that they aim to build NIR by more than originally expected under the program to ensure that they can maintain stability in case of unexpected external shocks. The authorities' policy to save most of Tajikistan's general SDR allocation is welcome in this regard. The proposed access under the program combined with expected donor support would help the authorities reduce external vulnerabilities. Staff's DSA update shows that, even with the augmentation of access, external public debt is projected to gradually fall toward more sustainable levels (Appendix I). However, the risk of debt distress remains high. As such, Fund support can play a useful role, including by providing a macroeconomic framework for other donors, but Tajikistan should primarily rely on grants and highly concessional borrowing over the medium term.

⁶ The authorities have initiated discussions with the Anti Crisis Fund under EurAsEC for a concessional loan of up to \$90 million. No decision has been taken yet to apply for the loan, and any disbursement is unlikely to come before end-2010 so that these resources would become available for financing of the 2011 budget deficit.

Tajikistan: Critical Debt Burden Ratios



25. **An update of the safeguards assessment of the NBT confirmed that safeguard risks are high.** The safeguards assessment noted that although initial steps have been taken to address the risks identified by the special audit on cotton sector financing, considerable weaknesses remain in key functions. Accounting of financial information is still fragmented. Internal audit mechanism is weak and does not cover certain core operations. Due to the ‘silo’ organizational structure, inadequate controls over financial reporting and a complete absence of any oversight bodies, and basic access to broad and complete information remains restricted. Consequently, data and operational integrity continue to lack transparency and remain a concern. Restoring the credibility of the central bank and building the required capacity in key functions, such as internal audit and financial reporting will require more time. The safeguards assessment also made long-term recommendations. The authorities have incorporated these recommendations in the NBT action plan summarized in Table 1 of the MEFP.

26. **Tajikistan is expected to meet its financial obligations to the Fund in a timely manner.** Tajikistan has an established record of timely servicing its obligations to the Fund. With respect to capacity to repay, outstanding purchases would be manageable in absolute terms, and debt service to the Fund would remain below 1 percent of exports of goods and nonfactor services over the projection period.

27. **The program is not without risks.** On the upside, the external environment is improving, and remittances and exports could be stronger than currently projected. At the same time, continued disruptions of trade flows via rail through Uzbekistan could weigh on trade and growth. In addition, weaknesses in the banking sector may become more pronounced, requiring government or NBT intervention. Uncertainties about the pace of revenue reforms to stimulate collection and reduce the fiscal deficit in line with the program could pose additional risk. Finally, institutional capacity remains weak, despite significant improvements in recent years, and could constrain the speed and quality of reforms. In this regard, there is also a risk that vested interests could adversely affect the quality of reforms as was the case prior to 2008.

IV. STAFF APPRAISAL

28. **Tajikistan managed the challenges of 2009 relatively well.** Despite the severe external shocks, real GDP growth held up well, though disposable income declined. Ongoing reforms in the agriculture sector that allowed diversification from cotton toward foodstuff, and the flexible exchange rate regime facilitated external adjustment by shifting demand toward domestic resources. The outlook for 2010 is cautiously optimistic, with remittances and exports set to recover.

29. **The authorities should proceed with care on the Roghun project, paying close attention to social, macroeconomic, and debt sustainability implications.** The equity campaign to finance the Roghun project was coercive, had adverse social and macroeconomic consequences, and did not address the project's foreign exchange needs. Staff welcomes the phasing out of the campaign and calls upon the authorities not to repeat such an effort in 2011 or beyond. The priority the authorities give to addressing Tajikistan's energy deficit and exploiting its hydropower potential is understandable. However, any final decision on the project needs to await the outcome of the techno-economic, social, and environmental assessments, which will take account of the regional implications. If these are positive, staff encourages the authorities to work closely with the World Bank to establish an international consortium to finance the Roghun project, within the constraints imposed by Tajikistan's already high external debt levels.

30. **Staff supports the overall fiscal deficit target for 2010, but encourages the authorities to seize opportunities to further strengthen social services.** The fiscal program seeks to balance social and capital spending, while allowing for a modest widening of the overall deficit (excluding the PIP). However, staff is concerned that expenditure restraints in areas such as maintenance may not be sustainable and could lead to a degradation of public infrastructure. As such, the authorities should consider options to raise the revenue take over the medium term to ensure that they have sufficient resources to pursue their policy objectives in a sustainable manner. Also, staff notes that a large share of the wage increases in the social sectors has been offset by civil servants' contributions to the Roghun project. In general, staff advises the authorities to further strengthen social services—including by increasing social spending within the deficit ceiling—since education and health spending are complementary to infrastructure investments to foster long-term growth.

31. **Monetary and exchange rate policy are appropriate, but financial sector pressures need to be addressed urgently.** Given Tajikistan's external vulnerabilities, the NBT needs to continue building international reserves. In this context, the flexible exchange rate regime should continue to serve the country well. Reserve money is an appropriate nominal anchor for monetary policy, and should not be compromised by extending liquidity loans to address structural weaknesses in the banking sector. These weaknesses result from directed lending in the past, continued lax lending practices, insufficient provisioning for impaired assets, and persistent violations of prudential standards. The NBT needs to step up its enforcement of such standards and require banks to prepare credible strategies to repair their balance sheets.

32. **The authorities rightly put the emphasis on structural reforms to strengthen governance at the NBT and SOEs.** However, progress in both areas has been slower than hoped for. Staff welcomes the completion of the external audit of the financial statement of the NBT for the year ending April 2009. It encourages the authorities to move swiftly on implementing the policy recommendations listed in their MEFP. In the SOE area, staffing of the monitoring unit in the ministry of finance needs to be completed, and the external audits of key SOEs such as Talco should be finalized and published in a timely fashion. Moreover, the authorities should seek to ensure that all income generated from onshore activities in aluminum production are subject to domestic taxation, not least given the country's limited fiscal resources.

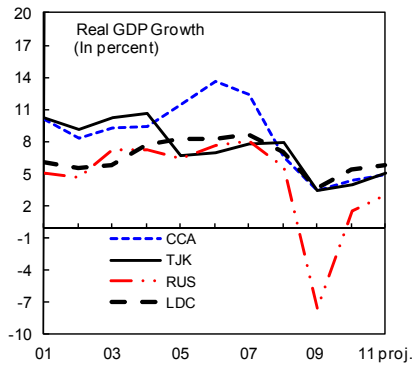
33. **Staff supports the authorities' request for two waivers.** The temporary accumulation of wage and pension arrears in 2009 was regrettable, but these arrears have been settled and the government has committed to providing adequate budget resources to prevent a recurrence. In addition, the government is stepping up the monitoring of wage and pension payments at the subnational level, including by introducing—with support from the World Bank—a financial management information system to enhance fiscal management reporting and monitoring. The higher-than-programmed NDA growth was temporary and reflected unforeseen stress in the banking sector. The NBT has stepped up supervision to address the underlying causes of banking sector stress and has also strengthened its monitoring of liquidity loans to improve its ability to meet its NDA targets.

34. **Staff supports the authorities' request for the completion of the first and second review and the augmentation of access to 120 percent of quota.** The authorities have successfully implemented their 2009 program, and completion of the reviews would provide valuable support to help sustain recovery and further reduce vulnerabilities in 2010. The program's macroeconomic framework continues to serve as an anchor around which donors are structuring their support. The augmentation is justified in light of Tajikistan's low level of international reserves and domestic and external vulnerabilities, and does not materially affect debt sustainability. There are risks to the program, but in light of the authorities' good track record under the 2008 staff-monitored program and the ECF so far, and their commitment to take additional measures if needed to achieve the program's objectives, the 2010 program has a good chance of success.

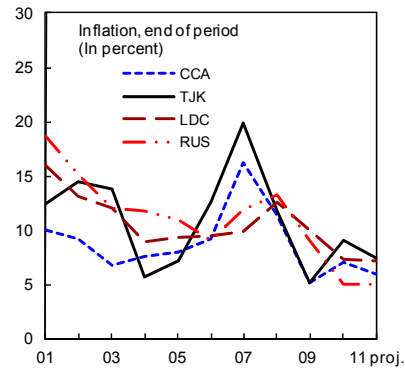
Figure 1. Tajikistan: Economic Developments in a Cross-Country Perspective, 2000–10 1/

Economic developments in Tajikistan followed largely the same pattern as the rest of the Caucasus and Central Asia (CCA) region and Least Developed Countries (LDCs), reflecting the global nature of the crisis.

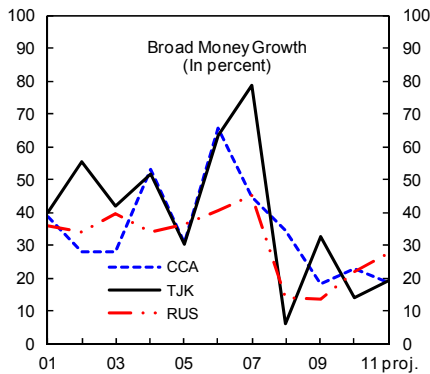
Following the slowdown in 2009, a recovery is expected in 2010.



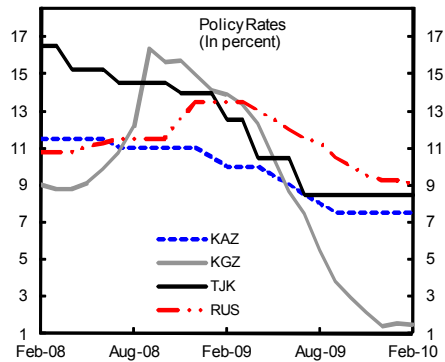
Inflation has receded...



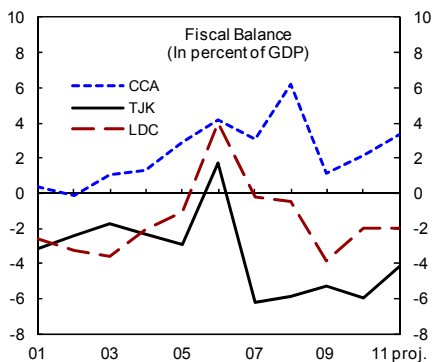
...and money growth has slowed from its pre-crisis peak.



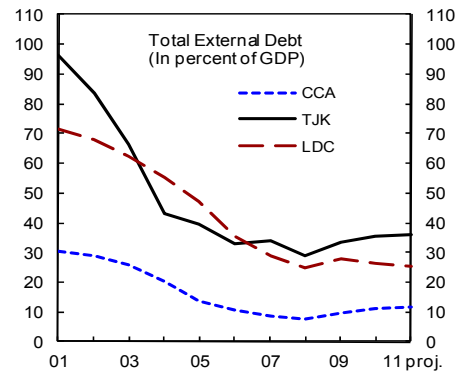
Monetary policy has been eased...



...and fiscal stance loosened across the region.



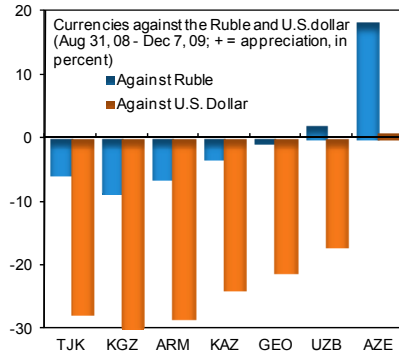
With heavy reliance on external borrowing, Tajikistan's external debt-to-GDP is higher than in its peers.



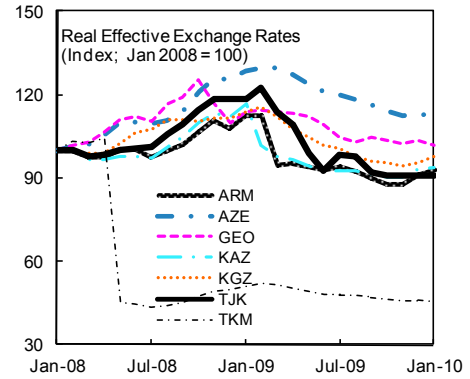
Sources: Tajik authorities; and IMF staff estimates and projections.

Figure 1 (cont.). Tajikistan: Economic Developments in a Cross-Country Perspective

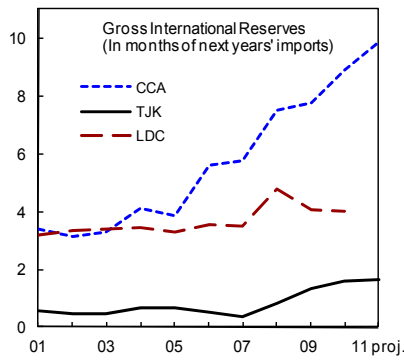
Strong depreciation of somoni against the U.S. dollar and the Russian ruble in 2009...



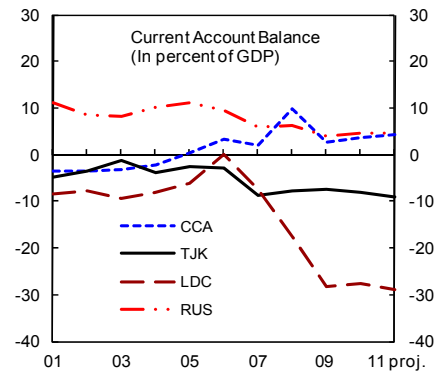
...served as a shock absorber, contributing to Tajikistan's improved competitiveness in the CCA region.



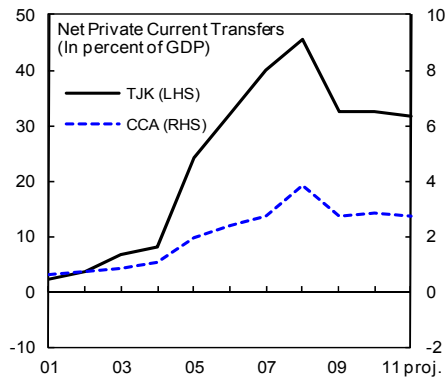
...protecting Tajikistan's already low reserves...



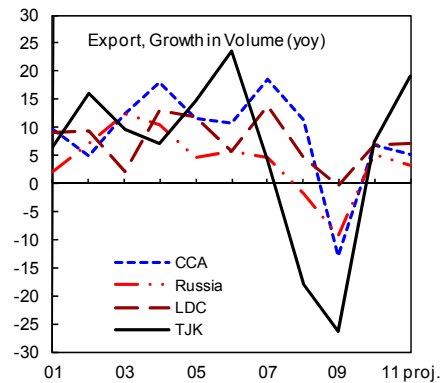
...and facilitating current account adjustment...



...despite a significant drop in remittances.



Similar to growth, exports are expected to see a V-shaped recovery.

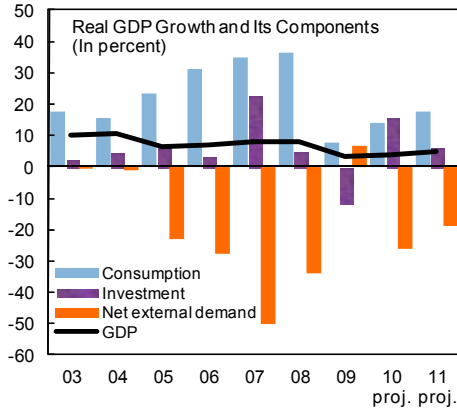


Sources: Tajik authorities; and IMF staff estimates and projections.

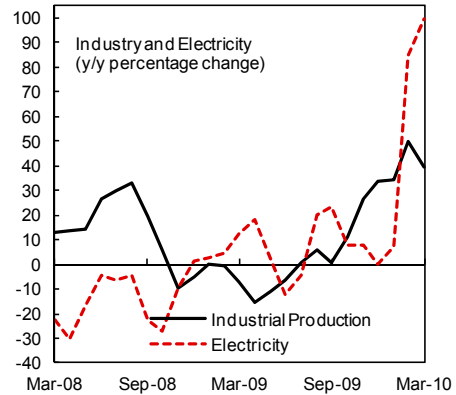
Figure 2. Tajikistan: Real Sector Developments

Real GDP growth has slowed down, reflecting the impact of the global recession. In the second half of 2009 following a year of decline, industrial production started to rebound as global conditions, including demand for aluminum and cotton, and electricity supply improved. Agriculture and trade remained domestic engines of growth. Inflation, after a decline has started trending upwards, reflecting a rebound in commodity prices.

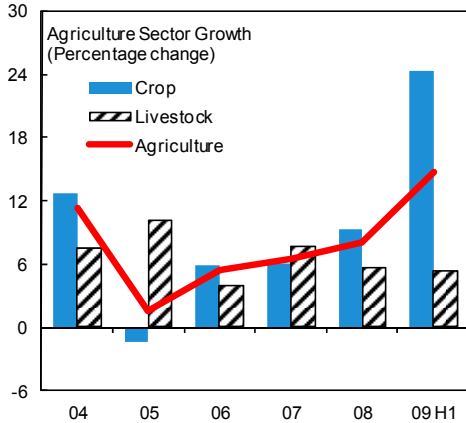
Falling investment and remittances hampered growth in 2009...



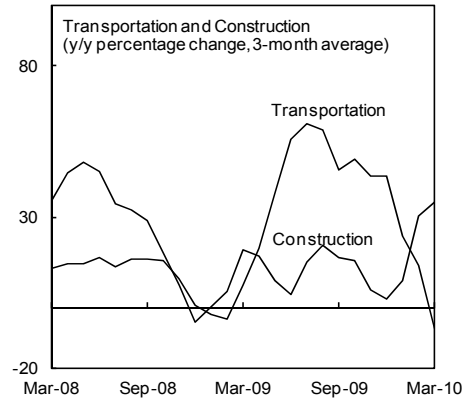
...but rebound is expected in 2010, with industrial production on an upward trend.



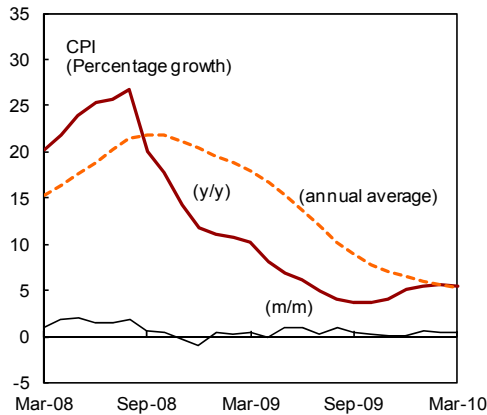
Noncotton agriculture is the key driver of growth.



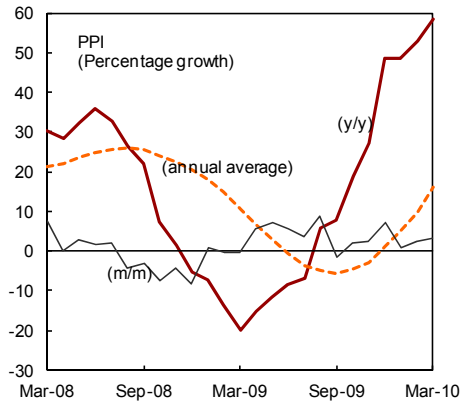
Construction and transportation remain resilient.1/



CPI inflation came down...



...but PPI inflation has recently increased sharply reflecting rebound in commodity prices.



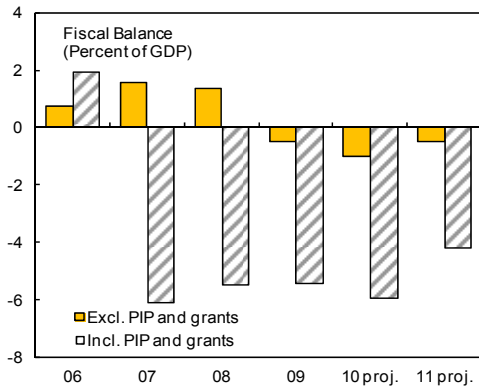
Sources: Tajik authorities; and IMF staff estimates and projections.

1/ In recent months, however, transportation has been hampered by rail blockades in Uzbekistan.

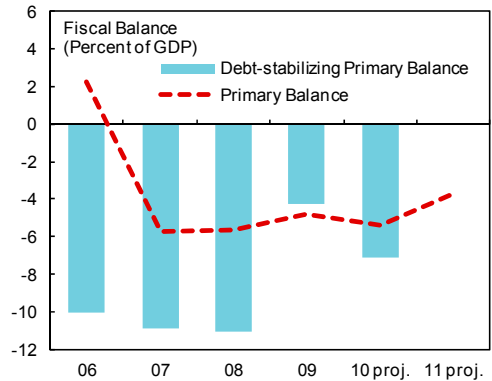
Figure 3. Tajikistan: Fiscal Sector Developments

In 2009, the overall balance (excluding the externally-financed public investment program) reversed to a small deficit, as revenues (excluding grants) declined and expenditures remained broadly constant in terms of GDP while being redirected toward social and domestic capital spending. After falling to 30 percent, public debt could rise again to 40 percent of GDP, partly to accommodate Roghun financing needs.

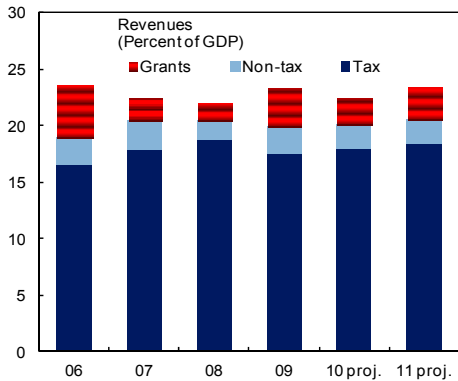
Government runs moderate deficits to offset declining private demand.



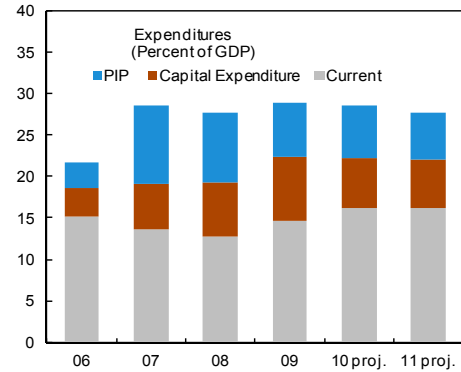
Debt-dynamics turn unfavorable in 2009.



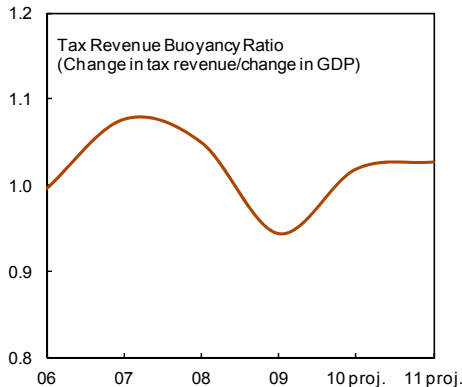
Sluggish imports and domestic activity leads to a decline in tax revenues...



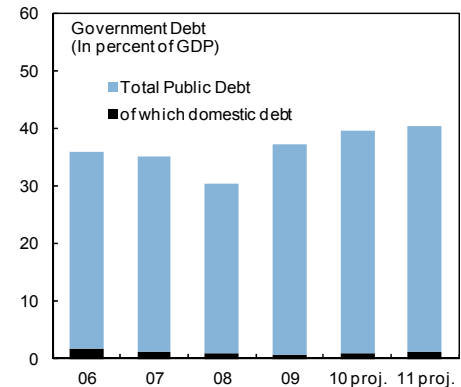
...while current and domestic capital expenditure is rising.



Tax revenue buoyancy ratio falls below one in 2009.



External borrowing for PIP and a depreciation of the exchange rate drives up debt-to-GDP ratio.

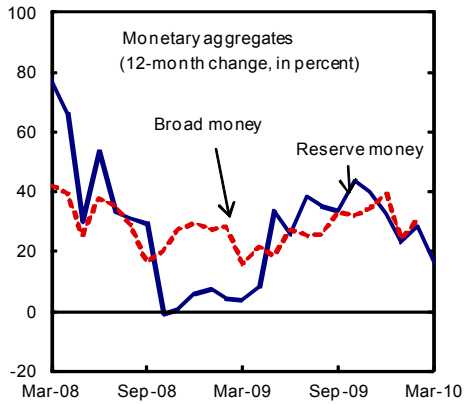


Sources: Tajik authorities; and IMF staff estimates and projections.

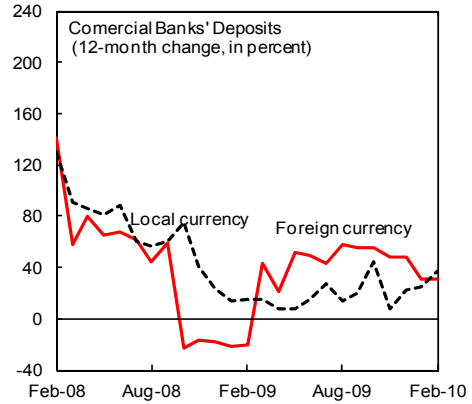
Figure 4. Tajikistan: Monetary Developments

After a period of deceleration, reserve and broad money growth are recovering, and so are deposits. However, private sector growth does not show significant signs of recovery.

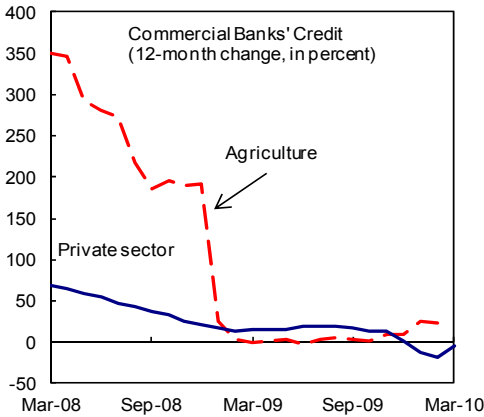
Roghun financing campaign contributed to slowdown in reserve money growth in recent months.



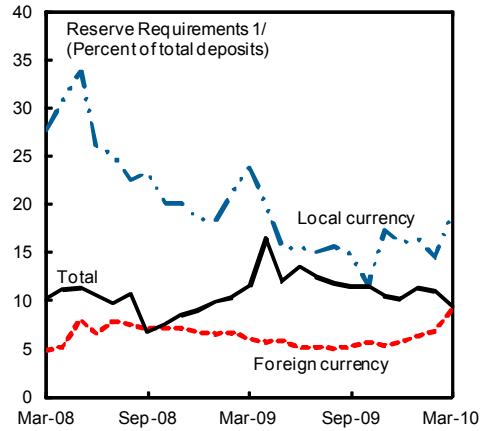
Growth in deposits is stabilizing at a slower than pre-crisis rate.^{1/}



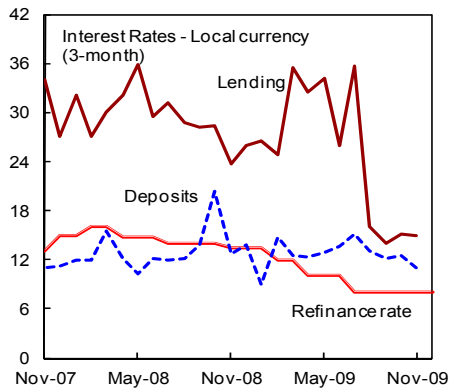
Credit continues to decelerate, but banks' again lend to agriculture after a period of conserved exposure.



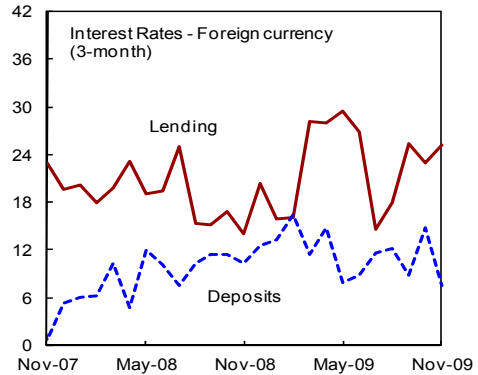
Liquidity has begun to improve slowly...



...with SM lending rates coming down...



...but foreign currency rates edging up...



Sources: Tajik authorities; and IMF staff estimates.

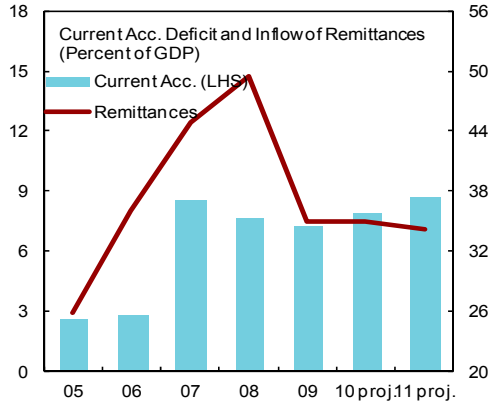
1/ A dip in foreign currency deposits at end-2008 reflects a withdrawal and subsequent return of deposits by Talco.

2/ As of April 2009, the statutory requirements are 7 percent on somoni deposits and 9 percent on foreign currency deposits.

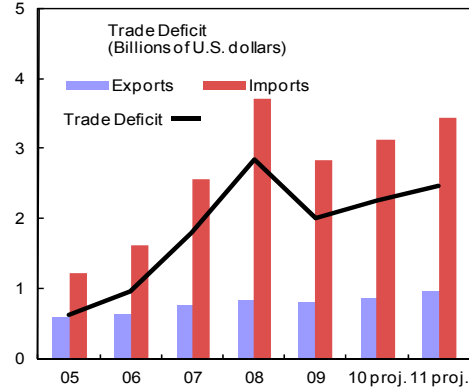
Figure 5. Tajikistan: External Sector Developments

A sharp decline in remittances led to a sharp drop in disposable household income and forced external adjustment in 2009. However, remittances have started to rebound.

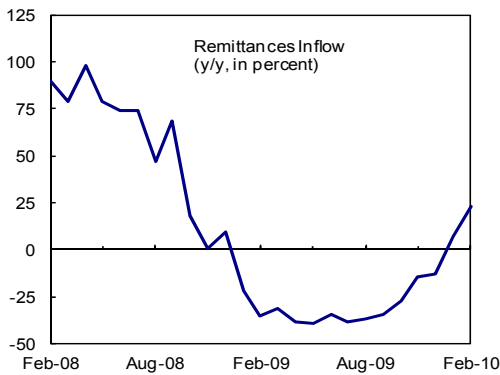
As remittances have contracted sharply in 2009, the current account did not deteriorate...



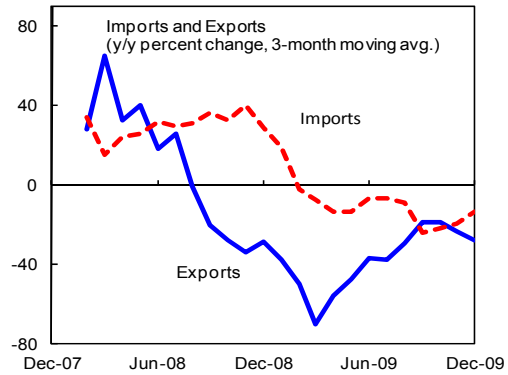
...because of improved trade balance.



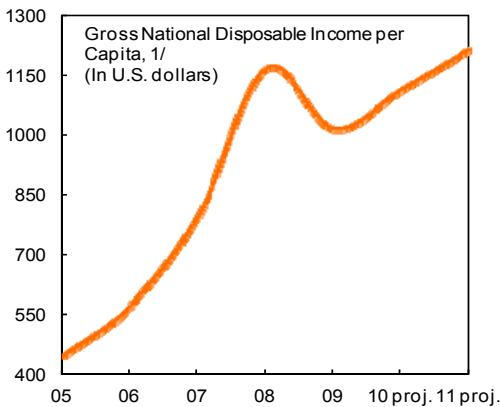
Remittances, being hit by the contraction in Russia, are now rebounding.



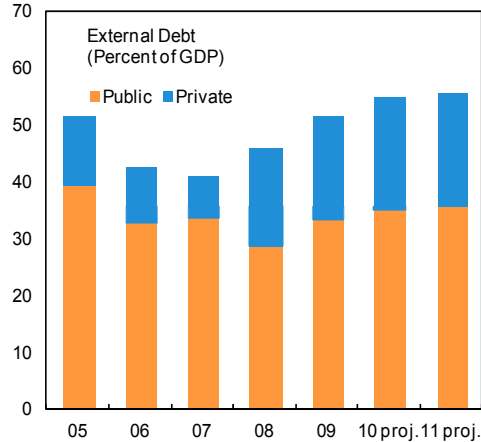
Imports and export decline has been slowing down, but export revival is hindered by winter electricity shortages.



Progress on poverty has suffered a temporary setback in 2009.



Project financing (mainly from China and to finance Roghun HPP) is contributing to a moderate build-up of external debt.

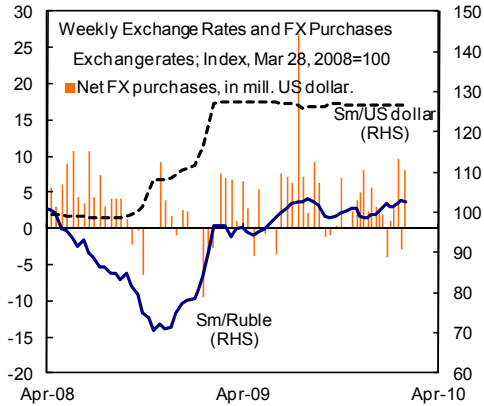


Sources: Tajik authorities; Balance of Payments Database, and IMF staff estimates and projections.
1/ Gross National Disposable Income is defined as GDP + net factor income + net transfers.

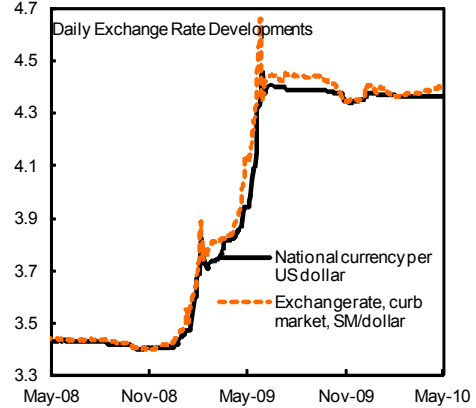
Figure 6. Tajikistan: Exchange Rate Developments

The NBT allowed somoni to depreciate against the U.S. dollar and the Russian ruble, which helped Tajikistan to regain competitiveness against its trading partners. The NBT intervened mainly to smooth volatility at points of pressure.

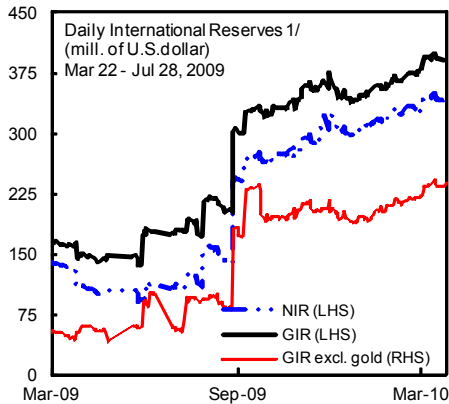
NBT's interventions in the fx market were limited.



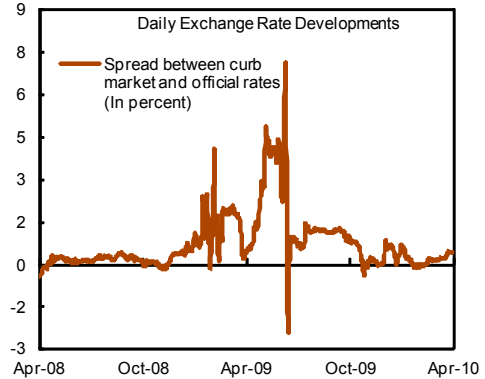
After two depreciation waves in the first half of 2009, the somoni has stabilized in recent months.



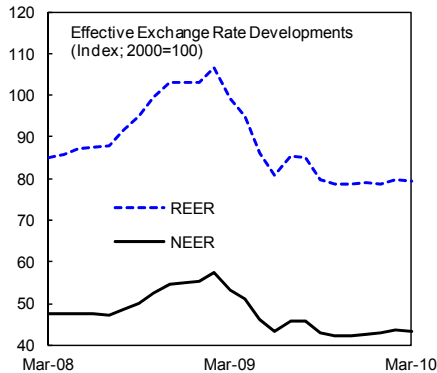
Despite pressure, international reserves were maintained thanks to exceptional financing.



At times of pressure, the official rate has lagged the curb market rate.



Real depreciation reflected nominal depreciation.

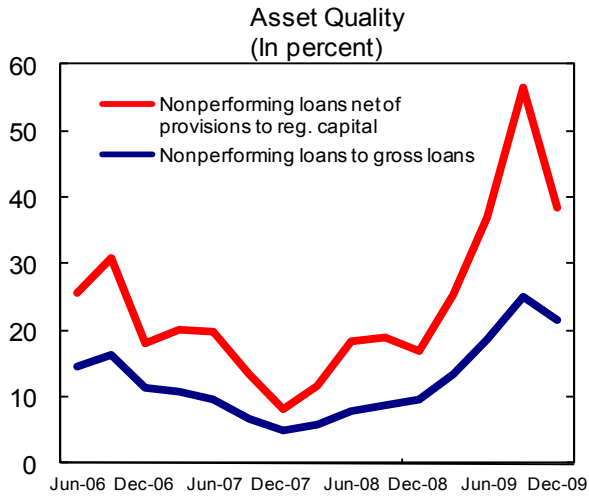


Sources: Tajik authorities; and IMF staff estimates.
1/ Including nonmonetary gold.

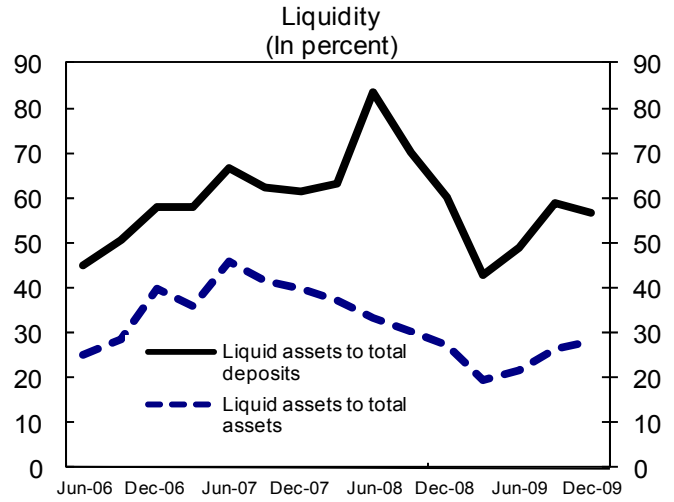
Figure 7. Tajikistan: Financial Soundness Indicators

The banking sector is under stress, mainly reflecting the impact of subdued economic activity on corporate profits, past lending to agriculture, but also the impact of the somoni depreciation on debtors' ability to repay U.S. dollar denominated loans (loan dollarization is 60 percent). 3 out of 12 banks three have not been meeting prudential requirements.

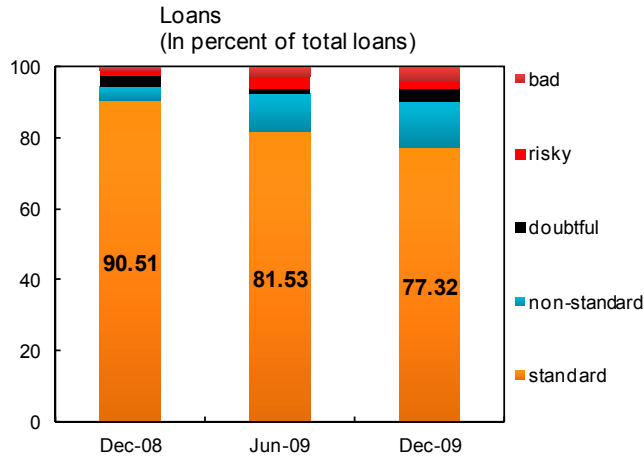
Until recently, asset quality has been deteriorating...



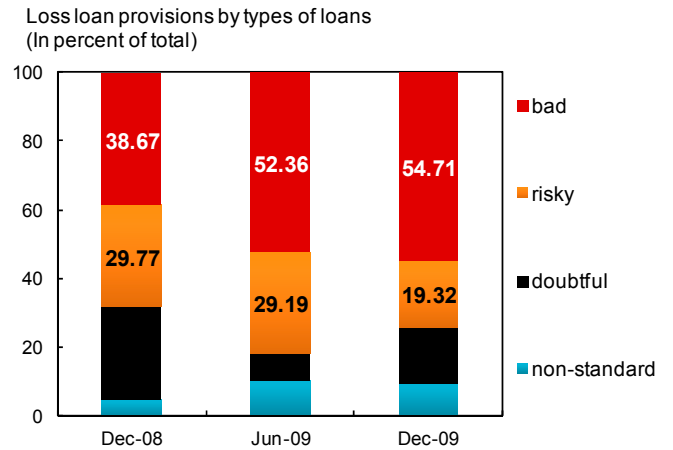
... and liquidity drying up.



Quality of banks' lending portfolio has declined...



... reflecting worsening economic environment.



Sources: Tajik authorities; and IMF staff calculations.

Table 1. Tajikistan: Selected Economic Indicators, 2007–15

	2007	2008	2009		2010	2011	2012	2013	2014	2015
	Act.	Act.	EBS/09/43	Est.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.
(Annual percent change, unless otherwise indicated)										
National accounts										
Real GDP	7.8	7.9	2.0	3.4	4.0	5.0	5.0	5.0	5.0	5.0
GDP deflator (cumulative)	27.9	27.7	19.2	13.3	15.0	13.5	12.0	11.0	11.0	11.0
CPI inflation (end-of-period)	19.8	11.8	13.0	5.1	9.0	7.5	6.0	5.0	5.0	5.0
CPI inflation (period average)	13.2	20.4	12.4	6.5	7.0	8.3	6.7	5.5	5.0	5.0
(In percent of GDP)										
Investment and saving 1/										
Investment	22.9	21.3	16.6	18.8	19.7	21.7	22.8	20.9	19.2	18.1
of which :Fixed capital investment	22.0	20.5	14.6	14.3	14.7	16.7	18.3	17.9	18.9	16.8
Government	15.0	14.5	10.6	13.3	12.7	13.7	13.8	12.4	11.9	9.8
Private	7.0	6.0	4.0	1.0	2.0	3.0	4.5	5.5	7.0	7.0
Gross national savings	14.3	13.6	6.9	11.5	12.6	13.4	13.8	11.6	9.9	9.0
Public	8.9	9.0	3.6	7.8	9.4	7.1	6.2	5.9	5.8	3.7
Private	5.4	4.7	3.3	3.7	3.3	6.3	7.6	5.7	4.1	5.3
General Government and Roghun JSC 2/										
Revenue and grants 3/	22.5	22.1	21.0	23.3	25.1	22.8	22.1	22.2	22.1	21.5
of which: tax revenue	17.8	18.7	16.9	17.6	18.0	18.4	18.6	18.6	18.6	18.6
Expenditure and net lending	28.6	27.6	27.9	28.8	28.5	29.4	29.7	28.6	28.2	27.5
of which: current	13.6	12.6	16.3	14.6	16.2	16.2	16.3	16.4	16.5	16.7
capital	15.0	14.5	10.6	13.3	12.7	13.7	13.8	12.4	11.9	9.8
Overall balance (excluding PIP and statistical discrepancy) 3/	1.6	1.4	-0.5	-0.5	1.6	-2.8	-3.6	-2.8	-2.2	-2.4
Overall balance (including PIP and statistical discrepancy)	-6.1	-5.5	-7.0	-5.4	-3.3	-6.6	-7.6	-6.4	-6.1	-6.0
Domestic financing	-1.3	-1.0	1.0	1.3	-1.2	1.3	2.0	1.7	1.6	1.1
External financing	7.4	6.5	6.0	4.2	4.5	5.2	5.6	4.5	4.4	4.8
Total public and publicly-guaranteed debt	33.3	29.4	...	33.5	36.3	39.0	44.4	46.5	47.9	49.0
(12-month growth in percent of broad money, unless otherwise indicated)										
Monetary sector										
Net foreign assets of the banking sector	4.8	-10.9	5.9	32.5	9.5	8.6	6.1	7.4	7.9	9.4
Net domestic assets of the banking sector (incl. bills payable)	74.0	16.9	2.4	2.0	8.0	10.5	13.4	12.1	11.7	10.1
Broad money	78.8	6.0	8.3	34.5	17.4	19.2	19.5	19.5	19.5	19.5
Reserve money (12-month percent change)	40.3	29.6	12.1	39.2	16.8	10.6	14.9	18.9	19.5	19.5
Velocity of broad money (eop)	4.7	5.8	6.8	5.4	5.5	5.5	5.4	5.3	5.2	5.0
Interest rate (weighted average NBT bill rate, in percent)	7.3	12.2	...	4.8	...	...	...	...	...	...
(In percent of GDP, unless otherwise indicated)										
External sector 4/										
Exports of goods and services (U.S. dollar, percent change)	16.9	12.8	-7.1	-5.5	7.2	10.0	12.5	10.2	10.7	9.1
Imports of goods and services (U.S. dollar, percent change)	57.9	45.0	-19.5	-23.7	9.0	10.6	11.0	10.6	11.7	8.0
Current account balance	-8.6	-7.7	-9.7	-7.3	-7.1	-8.3	-9.0	-9.2	-9.3	-9.1
Trade balance	-45.1	-53.0	-33.7	-38.7	-38.9	-38.9	-39.1	-38.9	-39.3	-38.4
FDI	4.3	5.8	1.9	0.7	1.6	1.8	3.2	4.3	4.7	4.6
Total public and publicly guaranteed external debt 5/	33.7	29.2	34.2	33.2	35.9	38.8	41.8	43.0	43.6	44.2
Gross official reserves (in U.S. dollars) 6/	85	150	228	278	388	468	538	608	688	788
in months of next year's imports 7/	0.4	0.8	1.3	1.1	1.4	1.5	1.6	1.6	1.7	1.8
in percent of broad money	9.1	15.1	18.2	17.5	19.4	18.2	16.3	14.7	13.2	12.1
Memorandum items:										
Nominal GDP (in millions of somoni)	12,780	17,609	21,402	20,623	24,665	29,394	34,568	40,289	46,957	54,728
Nominal GDP (in millions of U.S. dollars)	3,712	5,135	5,383	4,982	5,499	6,086	6,665	7,398	8,212	9,115
Nominal effective exchange rate (Index 2000=100)	50.2	49.5	...	47.4	...	...	...	...	...	...
Real effective exchange rate (Index 2000=100)	83.6	90.4	...	86.8	...	...	...	...	...	...
Average exchange rate (somoni per U.S. dollar)	3.44	3.43	...	4.14	...	...	...	...	...	...

Sources: Tajik authorities; and Fund staff estimates.

1/ Private investment and savings are estimates. Investment includes changes in stocks.

2/ For consolidation, Roghun equity sales in 2010–11 are added to general government revenue. Over 2011–15, it is assumed that the remaining financing needs of Roghun OJSC are met from external sources at concessional terms.

3/ PIP expenditure includes investment financed by loans from China.

4/ Receipts from aluminium exports under the tolling arrangements are booked as services exports.

5/ Includes external financing gap in 2011–15 to cover projected needs of Roghun HPP.

6/ Includes SDR 81.2 million allocation in Q3 2009.

7/ Excluding electricity, which is on barter basis, and imports related to projects financed with loans from China.

Table 2. Tajikistan: General Government Operations, 2007–11
(In millions of somoni, unless otherwise indicated)

	2007	2008	2009		2010	2011
	Act.	Act.	EBS/09/43	Act.	Proj.	Proj.
Overall revenues and grants	2,871	3,895	4,487	4,814	5,555	6,910
Total revenues	2,621	3,610	4,082	4,120	4,963	6,055
Tax revenues	2,274	3,289	3,627	3,635	4,428	5,417
Income and profit tax	305	453	532	609	748	901
Payroll taxes	253	346	423	481	586	719
Property taxes	92	121	174	143	170	209
Taxes on goods and services	1,398	2,081	2,184	2,122	2,599	3,188
VAT	1,061	1,571	1,626	1,525	1,847	2,306
Excises and other internal indirect taxes	337	510	557	597	752	882
International trade and operations tax	226	288	314	280	326	400
Sales taxes	95	77	84	83	93	114
Import duties	131	211	230	197	233	286
Nontax revenues	347	320	454	485	535	638
of which: Extrabudgetary funds	218	176	183	270	284	255
Grants	249	286	405	695	592	855
of which: Public Investment Program (PIP) financing	215	286	72	332	322	578
Total expenditures and net lending	3,661	4,937	5,982	5,906	7,021	8,168
Current expenditures	1,740	2,223	3,498	3,017	3,985	4,749
Expenditures on goods and services	1,197	1,525	2,629	2,009	2,727	3,152
Wages and salaries	525	726	1,093	971	1,141	1,360
Others	672	799	1,536	1,038	1,585	1,792
of which: extra-budgetary funds	143	222	183	170	284	255
Interest payments	59	54	136	104	129	175
External	34	53	109	88	106	127
Domestic	25	2	27	15	23	48
Transfers and subsidies	484	643	733	904	1,130	1,422
Transfers to households	445	593	640	837	981	1,199
Subsidies and other current transfers	39	51	93	68	149	223
Capital expenditures	1,914	2,551	2,269	2,736	2,906	3,288
Externally financed PIP	1,207	1,494	1,460	1,346	1,542	1,662
Of which: with loans from China	746	0	721	576	281	477
Domestically financed	707	1,057	808	1,390	1,364	1,626
Net lending 1/	8	163	216	154	129	131
Statistical discrepancy ("+" = additional spending)	-10	-72	...	28	...	...
Overall balance (incl. PIP)	-780	-970	-1,495	-1,121	-1,466	-1,232
Overall balance (excl. PIP and PIP-related grants)	202	239	-106	-107	-247	-147
Total financing (incl. PIP)	780	970	1,495	1,121	1,466	1,232
Net external	947	1,149	1,278	858	1,122	1,050
Disbursements	1,100	1,209	1,389	1,014	1,220	1,375
Program loans	0	0	0	0	0	0
Project loans	1,100	1,209	1,389	1,014	1,220	1,375
Amortization	-153	-60	-111	-156	-98	-325
Net domestic	-166	-179	217	262	345	182
NBT	-136	-175	192	84	230	125
Commercial banks	-47	-57	10	163	100	42
Gross proceeds from privatization	17	53	15	15	15	15
Accumulation of arrears	0	0	0	0	0	0

Sources: Tajik authorities; and Fund staff estimates.

1/ Includes 140 million somoni lending to the cotton sector in 2008 and 180 million somoni in 2009.

Table 3. Tajikistan: General Government Operations, 2008–11
(In percent of GDP, unless otherwise indicated)

	2008	2009		2010	2011
		Year			
	Act.	EBS/09/43	Act.	Proj.	Proj.
Overall revenues and grants	22.1	21.8	23.3	22.5	23.5
Total revenues	20.5	19.8	20.0	20.1	20.6
Tax revenues	18.7	17.6	17.6	18.0	18.4
Income and profit tax	2.6	2.6	3.0	3.0	3.1
Payroll taxes	2.0	2.1	2.3	2.4	2.4
Property taxes	0.7	0.8	0.7	0.7	0.7
Taxes on goods and services	11.8	10.6	10.3	10.5	10.8
VAT	8.9	7.9	7.4	7.5	7.8
Excises and other internal indirect taxes	2.9	2.7	2.9	3.0	3.0
International trade and operations tax	1.6	1.5	1.4	1.3	1.4
Sales taxes	0.4	0.4	0.4	0.4	0.4
Import duties	1.2	1.1	1.0	0.9	1.0
Nontax revenues	1.8	2.2	2.3	2.2	2.2
<i>of which:</i> Extra-budgetary funds	1.0	0.9	1.3	1.2	0.9
Grants	1.6	2.0	3.4	2.4	2.9
<i>of which:</i> Public Investment Program (PIP) financing	1.6	0.3	1.6	1.3	2.0
Total expenditure and net lending	28.0	29.0	28.6	28.5	27.8
Current expenditures	12.6	17.0	14.6	16.2	16.2
Expenditures on goods and services	8.7	12.7	9.7	11.1	10.7
Wages and salaries	4.1	5.3	4.7	4.6	4.6
Others	4.5	7.4	5.0	6.4	6.1
<i>of which:</i> extrabudgetary funds	1.3	0.9	0.8	1.2	0.9
Interest payments	0.3	0.7	0.5	0.5	0.6
External	0.3	0.5	0.4	0.4	0.4
Domestic	0.0	0.1	0.1	0.1	0.2
Transfers and subsidies	3.7	3.6	4.4	4.6	4.8
Transfers to households	3.4	3.1	4.1	4.0	4.1
Subsidies and other current transfers	0.3	0.5	0.3	0.6	0.8
Capital expenditures	14.5	11.0	13.3	11.8	11.2
Externally financed PIP	8.5	7.1	6.5	6.3	5.7
<i>of which:</i> with loans from China	0.0	3.5	2.8	1.1	1.6
Domestically financed	6.0	3.9	6.7	5.5	5.5
Net lending 1/	0.9	1.0	0.7	0.5	0.4
Statistical discrepancy ("+" = additional spending)	-0.4	...	0.1	...	...
Overall balance (incl. PIP)	-5.5	-7.2	-5.4	-5.9	-4.2
Overall balance (excl. PIP and PIP-related grants)	1.3	-0.5	-0.5	-1.0	-0.5
Total financing (incl. PIP)	5.5	7.2	5.4	5.9	4.2
Net external	6.5	6.2	4.2	4.5	3.6
Disbursements	6.9	6.7	4.9	4.9	4.7
Program loans	0.0	0.0	0.0	0.0	0.0
Project loans	6.9	6.7	4.9	4.9	4.7
Amortization	-0.3	-0.5	-0.8	-0.4	-1.1
Net domestic	-1.0	1.1	1.3	1.4	0.6
NBT	-1.0	0.9	0.4	0.9	0.4
Commercial banks	-0.3	0.0	0.8	0.4	0.1
Gross proceeds from privatization	0.3	0.1	0.1	0.1	0.1
Accumulation of arrears	0.0	0.0	0.0	0.0	0.0
<i>Memorandum item:</i>					
Public debt (in percent of GDP)	26.7	34.2	33.0	35.9	38.6
Nominal GDP (in millions of somoni)	17,609	21,402	20,623	24,665	29,394

Sources: Tajik authorities; and Fund staff estimates.

1/ Includes 140 million somoni lending to the cotton sector in 2008 and 180 million somoni in 2009.

Table 4. Tajikistan: General Government Social and Poverty-Related Expenditure, 2007–10

	2007	2008	2009		2010				Year
	Act.	Act.	EBS/09/40	Act.	Q1 Proj.	Q2 Proj.	Q3 Proj.	Q4 Proj.	
	(In millions of somoni)								
Total social spending	958	1,284	1,866	1,847	564	564	564	658	2,351
Social protection	376	462	660	711	211	211	211	246	880
Education	437	606	893	848	258	258	258	302	1,077
Health	145	216	314	287	95	95	95	110	394
(In percent of GDP)									
Total social spending	7.5	7.3	9.0	9.0	2.3	2.3	2.3	2.7	9.5
Social protection	2.9	2.6	3.2	3.4	0.9	0.9	0.9	1.0	3.6
Education	3.4	3.4	4.3	4.1	1.0	1.0	1.0	1.2	4.4
Health	1.1	1.2	1.5	1.4	0.4	0.4	0.4	0.4	1.6
<i>Memorandum item:</i>									
Nominal GDP	12,780	17,609	20,623	20,623	...	...	...	...	24,665

Sources: Tajik authorities; World Bank; and Fund staff estimates.

Table 5. Tajikistan: Roghun Financial Indicators, 2008–14

	2008	2009	2010	2011	2012	2013	2014	2010–14
	Act.	Act.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.
(In millions of somoni)								
Receipts	140	543	1,521	728	618	308	215	3,390
Equity	140	533	1,500	663	573	282	204	3,222
Government	140	533	650	663	573	282	204	2,372
Households	...	...	550	0	0	0	0	550
Corporates	...	...	300	0	0	0	0	300
Contributions	0	10	20	...	...	...	...	20
Interest on deposits	...	...	1	66	46	26	11	148
Expenditure	140	533	875	1,411	1,707	1,235	1,017	6,246
Current	47	178	233	403	407	335	283	1,662
Capital	93	355	642	1,008	1,300	900	734	4,584
Overall balance	0	10	646	-683	-1,089	-927	-802	-2,856
Financing	0	-10	-646	200	200	150	106	10
Deposits	0	-10	-646	200	200	150	106	10
External financing gap 1/	...	...	...	483	889	777	696	2,846
<i>Memorandum items:</i> (In percent of GDP)								
Receipts	0.8	2.6	6.2	2.5	1.8	0.8	0.5	...
Expenditure	0.8	2.6	3.5	4.8	4.9	3.1	2.2	...
<i>of which: interest</i>	...	...	...	...	0.0	0.0	0.0	...
Overall balance	0.0	0.0	2.6	-2.3	-3.2	-2.3	-1.7	...
Foreign currency spending (in millions of U.S. dollars)	...	40	92	101	171	143	122	629
Import spending (in millions of U.S. dollars)	...	40	92	100	170	140	118	620
Interest (in millions of U.S. dollars)	...	...	...	1	1	3	4	9
Deposit balances (in millions of somoni)	0	10	656	456	256	106	0	...
Roghun debt stock								
In percent of GDP	...	...	0.0	1.6	4.0	5.3	6.1	...
In millions of U.S. dollars	...	...	92	193	364	507	629	...

Sources: Tajik authorities; and Fund staff estimates.

1/ Assumes possible financing with 40-year maturity, 10-year grace period, and interest rate of 0.75 percent.

Table 6. Tajikistan: Public and Publicly-Guaranteed Debt, 2007–11

	2007	2008	2009	2010	2011
	Act.	Act.	Proj.	Proj.	Proj.
(In millions of U.S. dollars)					
Public and publicly-guaranteed debt	1,235	1,508	1,670	1,996	2,370
<i>of which: public debt</i>	1,125	1,370	1,644	1,973	2,351
Domestic	3	30	14	24	10
Government	0	0	2	22	8
Debt 1/	0	0	2	22	8
Guarantees	0	0	0	0	0
NBT	3	30	11	2	2
Debt	3	0	11	2	2
Guarantees	0	30	0	0	0
External	1,232	1,478	1,656	1,972	2,360
Government	1,074	1,350	1,597	1,851	2,201
Debt	1,046	1,323	1,572	1,828	2,181
Guarantees	29	28	26	23	20
NBT	158	127	59	121	159
Debt	76	47	59	121	159
Guarantees	82	81	0	0	0
(In percent of GDP)					
Public and publicly-guaranteed debt	33.3	29.4	33.5	36.3	39.0
<i>of which: public debt</i>	30.3	26.7	33.0	35.9	38.6
Domestic	0.1	0.6	0.3	0.4	0.2
Government	0.0	0.0	0.0	0.4	0.1
Debt	0.0	0.0	0.0	0.4	0.1
Guarantees	0.0	0.0	0.0	0.0	0.0
NBT	0.1	0.6	0.2	0.0	0.0
Debt	0.1	0.0	0.2	0.0	0.0
Guarantees	0.0	0.6	0.0	0.0	0.0
External	33.2	28.8	33.2	35.9	38.8
Government	28.9	26.3	32.1	33.7	36.2
Debt	28.2	25.8	31.6	33.3	35.8
Guarantees	0.8	0.5	0.5	0.4	0.3
NBT	4.3	2.5	1.2	2.2	2.6
Debt	2.1	0.9	1.2	2.2	2.6
Guarantees	2.2	1.6	0.0	0.0	0.0
<i>Memorandum item:</i>					
Government deposits (in millions of U.S. dollars)	130	193	133	77	30
NBT claims on government (in millions of U.S. dollars)	44	45	35	97	149

Sources: Tajik authorities; and Fund staff estimates.

1/ Excludes outstanding government promissory notes issued to NBT in 2002 in the amount of SM 154 million to cover for losses due to direct financing of agriculture.

Table 7. Tajikistan: Accounts of the National Bank of Tajikistan, 2007–10
(End-of-period stock, unless otherwise specified)

	2007	2008	2009				2010			
	Dec. Act.	Dec. Rev. est.	March Act.	June Act.	Sept. Act.	Dec. Act.	March Proj.	June Proj.	Sept. Proj.	Dec. Proj.
	(In millions of somoni)									
Net foreign assets	907	264	234	293	378	661	691	738	838	914
<i>of which</i> : Net international reserves 1/ 2/	1,030	369	235	297	911	1,034	1,072	1,128	1,237	1,322
Gross reserves 2/	296	519	392	568	1,181	1,217	1,258	1,503	1,617	1,802
Gross short-term liabilities	175	151	157	272	69	0	0	0	0	0
Net domestic assets	525	1,592	1,436	1,547	1,792	1,922	1,483	1,559	1,782	2,102
Net credit to general government	-774	-949	-1,109	-997	-983	-865	-1,301	-1,181	-937	-626
General government	-774	-949	-1,109	-997	-983	-855	-821	-741	-685	-626
Roghun JSC	....	...	...	...	...	-10	-480	-440	-252	0
Credit to the private sector	1,162	2,359	2,497	2,686	2,870	1,687	1,702	1,676	1,673	1,670
Claims on banks	982	2,241	2,383	2,573	2,710	1,577	1,593	1,567	1,564	1,560
<i>of which</i> :										
Cotton sector	885	2,019	2,159	2,357	2,382	1,247	1,247	1,247	1,247	1,247
NBT bills	-10	0	0	-7	-6	0	0	0	0	0
Liquidity loans	0	40	56	49	164	164	179	153	150	147
Credit to nonbank institutions	180	118	114	113	160	110	110	110	110	110
Other items, net	137	182	48	-141	-95	1,100	1,082	1,064	1,046	1,059
<i>of which</i> : Retained profits and provisions (+ losses)	12	2,143	2,267	2,281	2,282	2,271	...	...	...	...
Reserve money	1,432	1,856	1,670	1,840	2,170	2,583	2,175	2,297	2,620	3,017
Currency in circulation	1,123	1,566	1,419	1,593	1,797	2,041	1,812	1,914	2,201	2,534
Bank reserves	249	278	245	229	348	533	358	379	415	479
Required reserves	139	157	188	153	165	181	223	253	284	319
Other bank deposits	109	121	57	76	183	353	136	126	132	159
	(12-month growth in percent of reserve money)									
Reserve money	40.3	29.6	15.6	27.2	32.8	39.2	30.2	24.8	20.7	16.8
Net foreign assets	22.9	-44.9	-54.7	-50.8	-24.0	21.4	27.4	24.2	21.2	9.8
<i>of which</i> : gross international reserves	33.8	15.6	-1.5	6.0	34.4	37.6	51.9	50.8	20.1	22.6
<i>of which</i> : net international reserves	31.6	-46.2	-63.1	-58.1	2.0	35.8	50.1	45.2	15.0	11.2
Net domestic assets	17.4	74.5	70.3	78.0	56.8	17.8	2.8	0.7	-0.5	7.0
<i>of which</i> :										
Net credit to general government	-13.5	-12.2	-13.1	1.0	2.2	4.5	-11.5	-10.0	2.1	9.2
Credit to the private sector	22.5	83.6	90.6	99.4	72.6	-36.2	-47.6	-54.9	-55.1	-0.7
<i>of which</i> : NBT bills	-0.6	0.7	0.0	2.3	1.8	0.0	0.0	0.4	0.3	0.0
Other items net	8.4	3.1	-7.2	-22.4	-18.0	49.4	61.9	65.5	52.5	-1.6
<i>Memorandum items</i> :										
Net international reserves (in millions of U.S.dollars)	35	107	62	67	208	236	242	251	272	287
Net international reserves (percent of broad money)	4.4	12.7	8.0	9.1	25.2	26.8	31.5	29.9	29.4	29.6
Official exchange rate (somon/U.S. dollars)	3.44	3.45	3.81	4.40	4.38	4.37	...	...	...	...
Guarantee settlement (in millions of U.S. dollars)	....	...	9	20	13	38	0	0	0	0

Sources: National Bank of Tajikistan; and Fund staff estimates.

1/ Includes SDR 81.2 million allocation in Q3 2009.

2/ Revised from EBS/09/43 to exclude nonmonetary gold.

Table 8. Tajikistan: Monetary Survey, 2007–10

	2007	2008	2009				2010				
	Dec.	Dec.	March	June	Sept.	Dec.	March	June	Sept.	Dec.	
	Act.	Act.	Act.	Act.	Act.	Act.	Proj.	Proj.	Proj.	Proj.	
(In millions of somoni, end-of-period stock, unless otherwise specified)											
Net foreign assets		59	-239	-202	57	421	703	822	891	992	1067
National Bank of Tajikistan 1/		907	264	234	293	378	661	691	738	838	914
Commercial banks		-849	-503	-436	-236	42	42	131	153	153	153
Net domestic assets	2,697	3,151	3,171	3,244	3,266	3,210	2,645	2,948	3,279	3,466	
Net credit to general government (including Roghun JSC)	-859	-1,104	-1,248	-1,151	-1,162	-1,044	-1,774	-1,673	-1,450	-1,371	
General government	-859	-1,104	-1,248	-1,151	-1,162	-1,044	-972	-872	-795	-715	
National Bank of Tajikistan	-774	-949	-1,109	-997	-983	-855	-821	-741	-685	-626	
Commercial banks	-85	-154	-139	-154	-179	-189	-151	-130	-110	-89	
Roghun JSC	...	...	...	...	...	-10	-801	-801	-656	-656
National Bank of Tajikistan	...	...	...	...	...	-10	-480	-440	-252	0
Commercial banks	...	...	...	...	...	0	-321	-361	-404	-656
Credit to the private sector	3,794	4,523	4,812	5,127	5,247	4,554	4,737	4,959	5,077	5,237	
Other items, net	-238	-268	-393	-732	-819	-300	-319	-339	-348	-400	
Broad money	2,736	2,900	2,932	3,251	3,623	3,850	3,404	3,776	4,207	4,470	
Somon broad money	1,447	1,868	1,708	1,847	2,083	2,328	2,059	2,283	2,544	2,704	
Currency outside banks	1,037	1,383	1,217	1,317	1,491	1,735	1,534	1,679	1,871	1,988	
Deposits	410	484	490	530	592	593	524	604	674	716	
Foreign currency deposits	1,289	1,033	1,224	1,405	1,540	1,522	1,345	1,492	1,663	1,767	
Bills payable 2/	19	12	37	50	64	63	63	63	63	63	
(12-month growth in percent of broad money)											
Broad money, excl. bills payable	78.8	6.0	3.5	25.7	23.6	32.7	16.1	16.1	16.1	16.1	
Net foreign assets	4.8	-10.9	-13.1	8.7	21.2	32.5	34.9	25.7	15.8	9.5	
National Bank of Tajikistan	15.3	-23.5	-27.9	-28.4	4.9	13.7	15.6	13.7	12.7	6.6	
Commercial banks	-10.5	12.6	14.8	37.1	16.3	18.8	19.3	12.0	3.1	2.9	
Net domestic assets, incl. bills payable	74.7	16.6	17.0	18.0	3.3	2.0	-17.9	-9.1	0.3	6.6	
Net credit to general government	-12.1	-8.9	-7.2	-0.1	2.9	2.1	-17.9	-16.1	-8.0	-8.5	
Credit to the private sector	91.7	26.6	21.1	27.4	14.9	1.1	-2.5	-5.2	-4.7	17.7	
Other items, net	-4.9	-1.1	-1.6	-12.3	-14.5	-1.1	2.5	12.1	13.0	-2.6	
Bills payable	0.7	-0.2	0.4	1.0	0.9	1.8	0.9	0.4	0.0	0.0	
<i>Memorandum items:</i>											
Credit to the private sector 12-month percent change)	58.7	19.2	14.2	16.0	9.0	0.7	-1.5	-3.3	-3.2	15.0	
Deposit dollarization (in percent)	76.4	68.3	71.6	72.4	72.2	72.2	...	...	...	...
Velocity	4.7	5.8	...	...	...	5.4	...	...	...	5.5
Money multiplier	1.9	1.6	...	...	...	1.5	...	...	...	1.5

Sources: National Bank of Tajikistan; and Fund staff estimates.

1/ Revised from EBS/09/43 to exclude nonmonetary gold.

2/ Liabilities to cotton financiers related to domestic cotton financing.

Table 9. Tajikistan: Balance of Payments, 2007–15
(In millions of U.S. dollars, unless otherwise indicated)

	2007	2008	2009		2010	2011	2012	2013	2014	2015
	Act.	Act.	EBS/09/43	Est.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.
Current account	-319	-393	-522	-363	-389	-506	-603	-683	-764	-829
Balance on goods and services 1/	-1,788	-2,839	-2,035	-2,008	-2,203	-2,443	-2,698	-2,988	-3,350	-3,601
Balance on goods	-1,673	-2,722	-1,816	-1,929	-2,141	-2,365	-2,606	-2,879	-3,231	-3,496
Exports	385	457	354	458	468	533	628	695	770	855
Imports	-2,058	-3,179	-2,170	-2,387	-2,608	-2,898	-3,233	-3,574	-4,001	-4,351
Balance on services	-115	-117	-219	-79	-62	-78	-92	-109	-118	-105
Balance on income	-86	-53	-116	-67	-73	-66	-71	-75	-81	-88
Balance on transfers	1,555	2,499	1,630	1,712	1,887	2,003	2,165	2,379	2,667	2,860
of which: migrants' remittances, net	1,487	2,343	1,547	1,622	1,797	1,935	2,105	2,327	2,621	2,839
Capital and financial account	293	489	412	377	383	377	422	533	648	702
Capital transfers	31	39	18	70	79	60	20	20	20	20
Public sector (net)	273	313	311	194	239	204	190	192	238	262
Disbursements	308	352	349	241	272	285	285	278	329	342
of which: projects financed by China	217	277	181	137	63	99	105	100	100	100
Amortization	-35	-39	-39	-47	-33	-81	-94	-86	-91	-79
FDI	160	300	100	35	90	110	210	320	390	420
Commercial bank NFA (- increase)	44	-99	32	-155	-25	3	1	1	0	0
NBT 2/	-102	241	...	46	0	0	0	0	0	0
Other capital flows and errors and omissions 3/ 4/	-114	-305	-49	188	0	0	0	0	0	0
Overall balance	-26	96	-110	14	-6	-129	-181	-150	-116	-126
Financing items	26	-96	-44	-128	-110	-80	-70	-70	-84	-118
Use of international reserves (- increase)	26	-65	-29	-128	-110	-80	-70	-70	-80	-100
IMF repurchases	0	-31	-15	-15	0	0	0	0	-4	-18
Financing gap	0	0	154	113	116	209	251	220	200	244
IMF	...	...	70	40	62	42	21	0	0	0
Other identified and potential financing	...	...	84	73	53	58	50	70	70	70
World Bank	...	...	20	21	28	...	...	...	...	...
AsDB	...	...	40	40	10	...	...	...	...	...
EC	...	...	24	13	16	...	...	...	...	...
Residual financing gap	...	...	...	...	...	110	180	150	130	174
<i>Memorandum items:</i>										
Nominal GDP	3,712	5,135	5,383	4,982	5,499	6,086	6,665	7,398	8,212	9,115
Current account balance (in percent of GDP)	-8.6	-7.7	-9.7	-7.3	-7.1	-8.3	-9.0	-9.2	-9.3	-9.1
Gross reserves	85	150	228	278	388	468	538	608	688	788
(in months of next year's imports of goods and services) 6/	0.4	0.7	1.3	1.1	1.4	1.5	1.6	1.6	1.7	1.8
Total Public and Publicly Guaranteed (PPG) external sector debt	1,253	1,498	1,843	1,656	1,972	2,360	2,789	3,184	3,580	4,032
(in percent of GDP)	33.7	29.2	34.2	33.2	35.9	38.8	41.8	43.0	43.6	44.2
Debt service on PPG external debt	50	91	105	168	61	111	129	122	133	138
(in percent of exports of goods and services)	6.5	10.5	...	20.5	6.9	11.5	11.9	10.2	10.1	9.6

Sources: Tajik authorities; and Fund staff estimates.

1/ Starting from 2005, the export and import figures reflect the transition to the tolling arrangement for aluminium exports.

2/ Includes SDR 82.1 million allocation to Tajikistan in Q3 2009.

3/ Includes change in foreign currency balances held by residents of Tajikistan.

4/ For 2008, includes the decline in other foreign liabilities which resulted from pledged deposits settlement.

5/ Pakistan's government converted Tajikistan's debt into a grant.

6/ Excluding electricity, which is on barter basis, and imports related to projects financed with loans from China.

Table 10. Tajikistan: External Financing Requirements and Sources, 2007–2015
(In millions of U.S. dollars)

	Est.			IMF Staff Projections					
	2007	2008	2009	2010	2011	2012	2013	2014	2015
Total requirements	354	432	395	421	587	697	769	855	908
Current account deficit	319	393	363	389	506	603	683	764	829
Debt amortization	35	39	32	33	81	94	86	91	79
Multilateral 1/	5	9	14	17	19	33	35	36	24
Bilateral	30	30	19	16	62	62	51	55	55
Total sources	329	287	379	416	458	516	619	739	782
Capital inflows	329	287	379	416	458	516	619	739	782
Foreign direct investment	160	300	35	90	110	210	320	390	420
Disbursement from official creditors 2/	339	391	311	351	345	305	298	349	362
Other flows 3/	-171	-404	33	-25	3	1	1	0	0
Change in reserves (- increase)	26	-65	-128	-110	-80	-70	-70	-80	-100
Financing gap	0	-210	-144	-116	-209	-251	-220	-196	-226
Financing items 4/	0	-31	113	116	99	71	70	66	52
IMF 5/	0	-31	25	62	42	21	0	-4	-18
Other financing	0	0	88	53	58	50	70	70	70
AsDB	...	...	40	10	...	...	...	...	...
EC	...	...	13	16	...	...	...	...	...
World Bank	0	0	21	28	...	...	...	...	...
Exceptional financing	0	0	15	0	0	0	0	0	0

Sources: Tajik authorities; and Fund staff calculations.

1/ Excluding the IMF.

2/ Includes project loans and grants.

3/ Includes all other net financial flows, and errors and omissions.

4/ Includes estimates for potential financing.

5/ Net of repurchases.

Table 11. Tajikistan: Capacity to Repay the Fund, 2009–20

	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Existing and prospective Fund credit 1/											
In millions of SDRs 2/	65.3	91.4	104.4	104.4	101.8	90.7	73.1	52.8	32.0	13.7	3.9
In millions of U.S. dollars	103.9	145.5	166.3	166.3	161.6	144.0	116.0	83.9	50.7	21.7	6.2
In percent of exports	11.9	15.1	15.3	13.9	12.2	10.0	7.4	4.9	2.6	1.0	0.3
In percent of external debt	3.4	4.1	4.1	3.6	3.1	2.4	1.8	1.2	0.7	0.3	0.1
In percent of gross reserves	26.8	31.1	30.9	27.3	23.5	18.3	12.4	7.7	4.1	1.6	0.4
In percent of quota	75.0	105.0	120.0	120.0	117.0	104.2	84.0	60.7	36.7	15.7	4.5
Repurchases and charges due from											
existing drawings											
In millions of SDRs	0.1	0.1	0.1	0.1	2.7	5.3	5.3	5.3	5.3	2.6	0.0
In millions of U.S. dollars	0.2	0.2	0.2	0.2	4.4	8.5	8.4	8.4	8.4	4.2	0.0
In percent of exports	0.0	0.0	0.0	0.0	0.3	0.6	0.5	0.5	0.4	0.2	0.0
In percent of external debt	0.0	0.0	0.0	0.0	0.1	0.1	0.1	0.1	0.1	0.1	0.0
In percent of gross reserves	0.1	0.1	0.0	0.0	0.8	1.3	1.3	1.2	1.1	0.5	0.0
In percent of quota	0.1	0.1	0.1	0.1	3.1	6.1	6.1	6.1	6.0	3.0	0.0
existing and prospective drawings											
In millions of SDRs	0.0	0.0	0.5	0.5	3.1	11.6	18.0	20.5	21.1	18.4	9.8
In millions of U.S. dollars	0.0	0.0	0.8	0.8	5.0	18.4	28.7	32.7	33.6	29.3	15.6
In percent of exports	0.0	0.0	0.1	0.1	0.4	1.3	1.8	1.9	1.7	1.4	0.7
In percent of external debt	0.0	0.0	0.0	0.0	0.1	0.3	0.5	0.5	0.5	0.4	0.2
In percent of gross reserves	0.0	0.0	0.2	0.2	0.9	2.9	4.3	4.7	4.6	3.9	2.0
In percent of quota	0.0	0.0	0.6	0.6	3.6	13.3	20.7	23.6	24.2	21.1	11.3
<i>Memorandum items:</i>											
Gross reserves (in millions of U.S. dollars)	388	468	538	608	688	788	938	1,088	1,238	1,388	1,538
Quota (in millions of SDRs)	87	87	87	87	87	87	87	87	87	87	87

Sources: Tajik authorities; and Fund staff estimates.

1/ End of period.

2/ This table assumes SDR 26.1 million augmentation of the existing ECF in 2009–12.

Table 12. Tajikistan: Reviews and Disbursements under the Three-Year ECF Arrangement, 2009–12 1/

Date	Action	Original disbursements, million SDRs	Augmentation, million SDRs	Disbursements after augmentation, million SDRs
On May 7, 2009	Approval of the ECF arrangement	26.100	...	26.100
On or after April 15, 2010	Completion of the first and second reviews	26.120	...	26.120
On or after September 15, 2010	Completion of the third review	6.523	6.523	13.045
On or after March 15, 2011	Completion of the fourth review	6.523	6.523	13.045
On or after September 15, 2011	Completion of the fifth review	6.523	6.523	13.045
On or after March 15, 2012	Completion of the sixth review	6.523	6.523	13.045

Source: Fund staff estimates.

1/ This table assumes SDR 26.1 million augmentation of the existing ECF in 2009–12.

APPENDIX I. TAJIKISTAN: DEBT SUSTAINABILITY ANALYSIS (DSA) – AN UPDATE

This update by Fund staff incorporates new developments since the DSA prepared at the time of the 2009 Article IV consultation and Tajikistan's request for access under the ECF (Country Report No. 09/174), and reflects the latest guidance on preparing DSAs. The update shows that when remittances are taken into account as foreign exchange inflows, the vulnerability indicators are substantially lower than previously assessed and remain below their respective thresholds. However, this does not change Tajikistan's rating of being at high risk of debt distress, which is based on indicators that do not account for remittances.

I. MAIN CHANGES SINCE THE PREVIOUS DSA

1. **The main changes regarding the macroeconomic outlook and assumptions since the previous DSA include:**

- Lower GDP growth to reflect the impact of the global crisis (by a half percentage point);
- External borrowing on concessional terms to finance \$560 million in foreign exchange needs during 2011–14 for the Roghun HPP construction at IDA terms, which increases public debt by about 7 percent of GDP by 2014;
- Augmented access under the Fund's Extended Credit Facility (ECF) from 90 to 120 percent of quota, resulting in additional disbursements of SDR 26.1 million;¹ and
- Fiscal costs associated with recapitalization of the central bank in the amount SM 1.3 billion (interest and principal), or 2.7 percent of 2014 GDP.

2. **This update also incorporates remittances as a foreign exchange inflow comparable to exports, in line with the revised DSA guidelines.** In Tajikistan, remittances mainly from Russia, have proved to be a fairly stable and significant source of income, averaging 30–40 percent of GDP over the past years. Under these circumstances, remittances can be included in the denominators of debt burden indicators, following the modified DSA methodology.

¹ In addition, Tajikistan received equivalent of \$128 million as part of the new SDR allocation to IMF members, but used only about \$17 million in 2009 to retire expensive external debt.

II. EXTERNAL DEBT—RISK ASSESSMENT

The revised DSA shows improved debt sustainability when including remittances in the calculations of the debt indicators, with only the extreme shock scenario breaching the respective thresholds. Still, Tajikistan remains at high risk of debt distress, given that in a DSA without remittances, there are prolonged breaches of the policy thresholds.²

3. External debt ratios remain below the policy thresholds when remittances are included into the denominators of the modified debt burden ratios (Figure 1).

Compared to the original DSA (without remittances), the modified DSA (with remittances) shows that the debt ratios under the baseline scenario remain under the policy thresholds, and that breaches occur only under the most extreme shocks and under high investment-low growth scenario for debt-to-GDP plus remittances ratio.

4. However, Tajikistan’s risk of debt distress remains high because of significant and prolonged breaches of thresholds under the baseline scenarios and stress tests in the DSA without remittances (Figure 2). In particular, the debt-to-export ratio significantly exceeds the threshold throughout the projected period, and the debt-to-GDP ratio breaches the threshold during 2014–19, albeit only marginally.

5. Compared to the previous DSA, the debt indicators in the DSA without remittances have worsened, in part reflecting revised external financing needs for the Roghun HPP while making very conservative assumptions with respect to the project’s impact on growth. The worsening is mainly due to additional external borrowing to finance Roghun, as well as a lower discount rate applied in the DSA. Other effects come from downward revision to growth projections, and further domestic currency depreciation.³ Alternative scenarios and stress tests demonstrate additional vulnerabilities of debt outlook to lower GDP growth, real exchange rate shocks, and nonconcessional or new concessional borrowing, and point to the need for the government to exercise extreme vigilance when incurring new debt, making sure that projects with the highest growth dividends are selected. Regarding Roghun, it should be noted that in the absence of a feasibility study, conservative estimates of Roghun’s impact on growth have been used in this DSA. These estimates will likely be revised upward once the feasibility study, currently undertaken by the World Bank, is completed.

² DSA with (without) remittances refers to DSA, in which remittances are incorporated (not incorporated) in denominators of debt burden indicators,

³ Compared to the last DSA, the discount rate was revised downwards from 5 to 4 percent to reflect new global financial conditions.

6. **With respect to the proposed ECF augmentation from 90 to 120 percent of quota, the DSA suggests that no serious additional risks to debt sustainability arise.**

First, the ECF is currently provided at zero interest rate.⁴ But more generally, given that the authorities are committed to using the Fund disbursements to build reserves, the ECF leaves the country's net wealth position unchanged. Furthermore, in the absence of additional Fund financing, the BOP risks increase with potentially serious negative effects on growth.

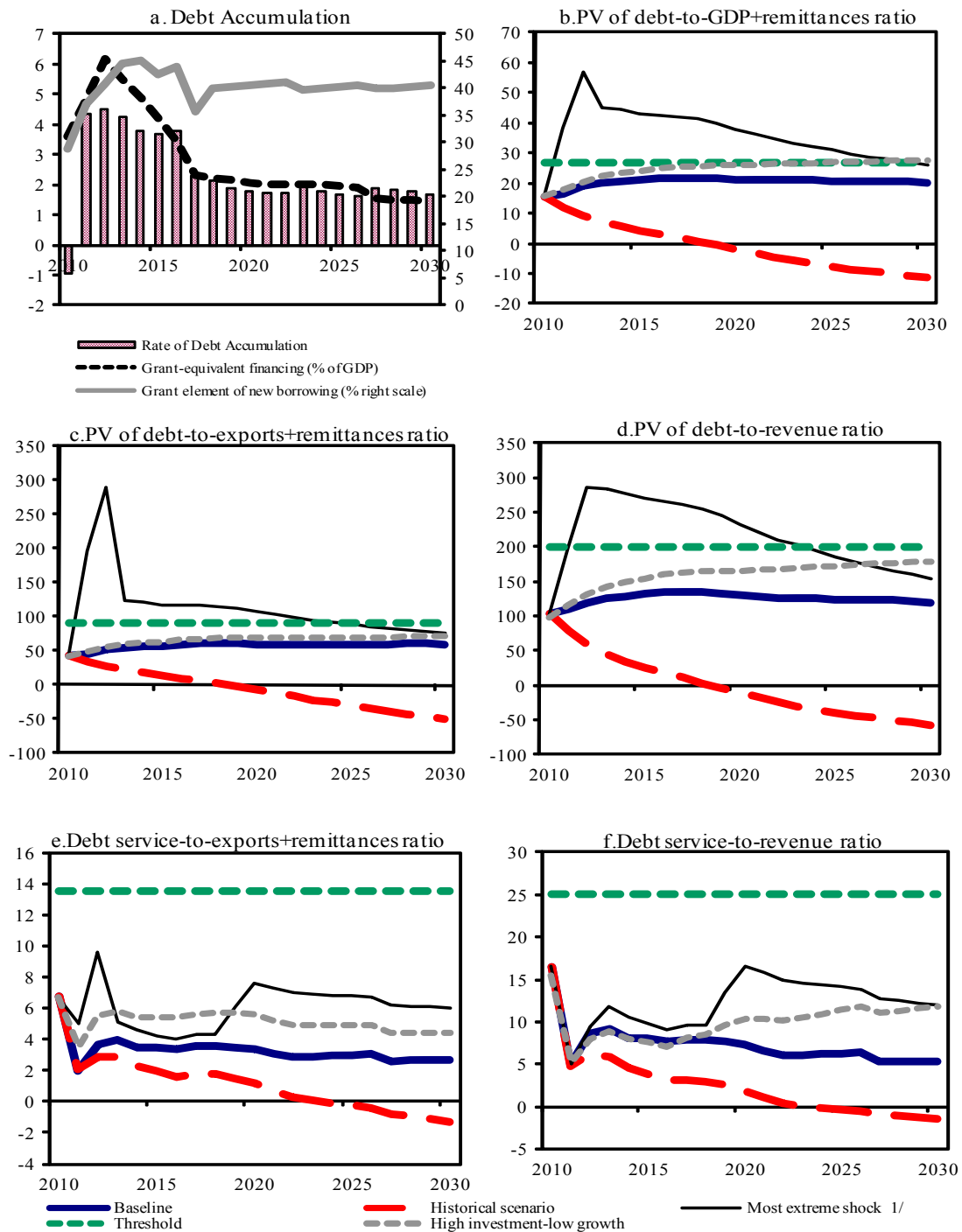
III. PUBLIC DEBT

7. **The DSA demonstrates that public debt is sustainable, even after incorporating the costs of recapitalization of the central bank, however, risks could increase if fiscal deficits are not contained and/or growth dividends from high investments do not materialize (Figure 3).** Both the baseline scenario and the scenario incorporating additional debt issuance to implement the cotton debt resolution strategy show that public debt remains sustainable. Under the cotton debt resolution strategy, the government is expected to compensate commercial banks and the NBT for losses incurred as a result of financing of the cotton sector. As noted above, the costs associated with the recapitalization of the NBT are reflected in the baseline scenario, according to the estimates of these costs provided by the recent MCM mission. The public DSA's cotton debt resolution scenario reflects additional costs associated with issuance of bonds (SM 500 million) to banks in compensation for losses from past financing of the cotton sector at the refinancing rate of the NBT.⁵ Public debt is unsustainable under low growth and/or fixed primary balance scenarios. The latter highlights the risk associated with insufficient fiscal consolidations compared to that assumed in the baseline scenario.

⁴ The Fund reviews the level of interest rates for all concessional facilities every two years.

⁵ The authorities currently intend to issue government bonds carrying 2 percent interest rate (i.e. much lower rate than assumed in the DSA).

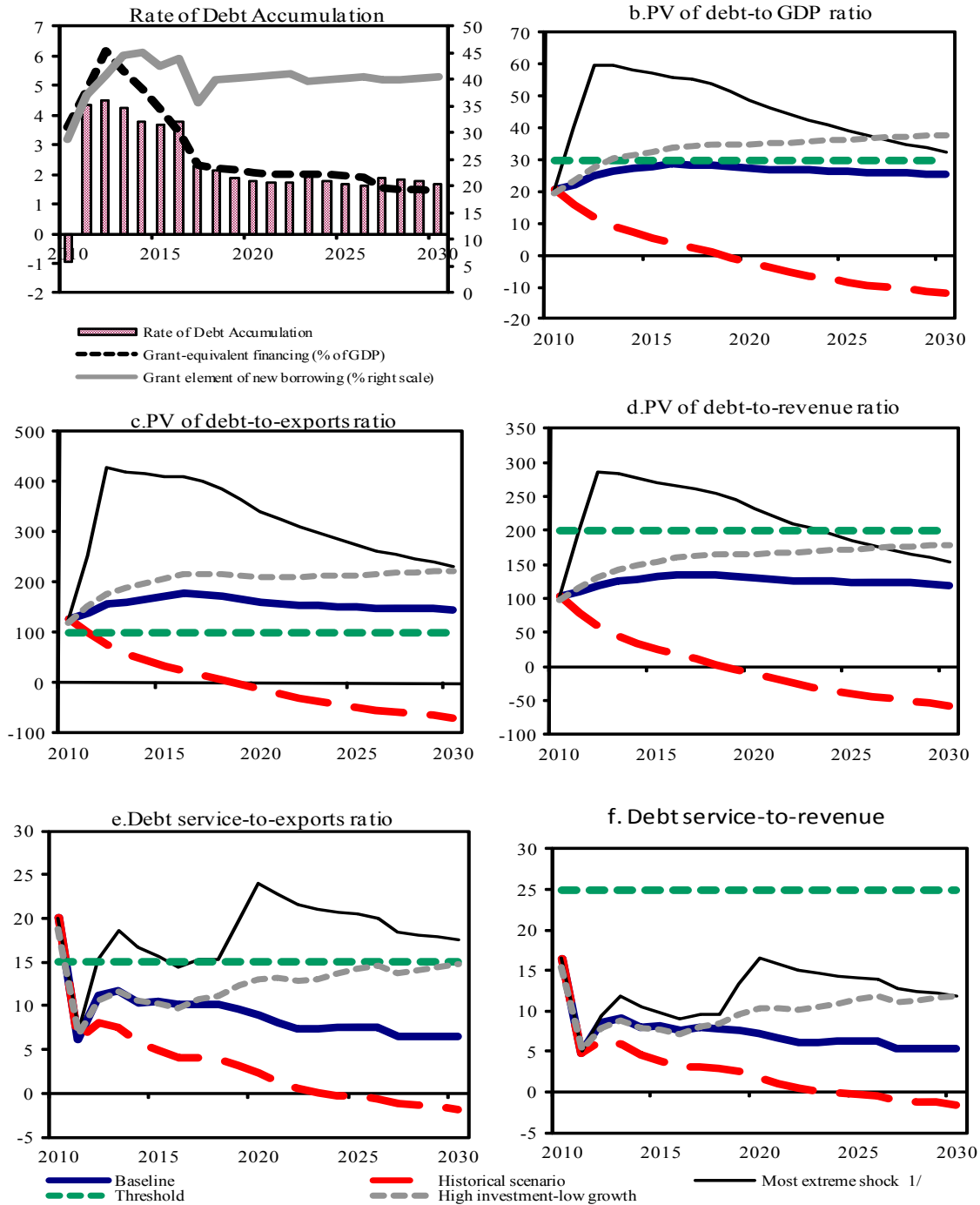
Figure 1. Tajikistan: Indicators of Public and Publicly Guaranteed External Debt under Alternatives Scenarios Incorporating Remittances, 2010-2030 1/



Sources: Country authorities; and staff estimates and projections.

1/ The most extreme stress test is the test that yields the highest ratio in 2020. In figure b. it corresponds to a Non-debt flows shock; in c. to a Non-debt flows shock; in d. to a Non-debt flows shock; in e. to a Non-debt flows shock and in figure f. to a Non-debt flows shock.

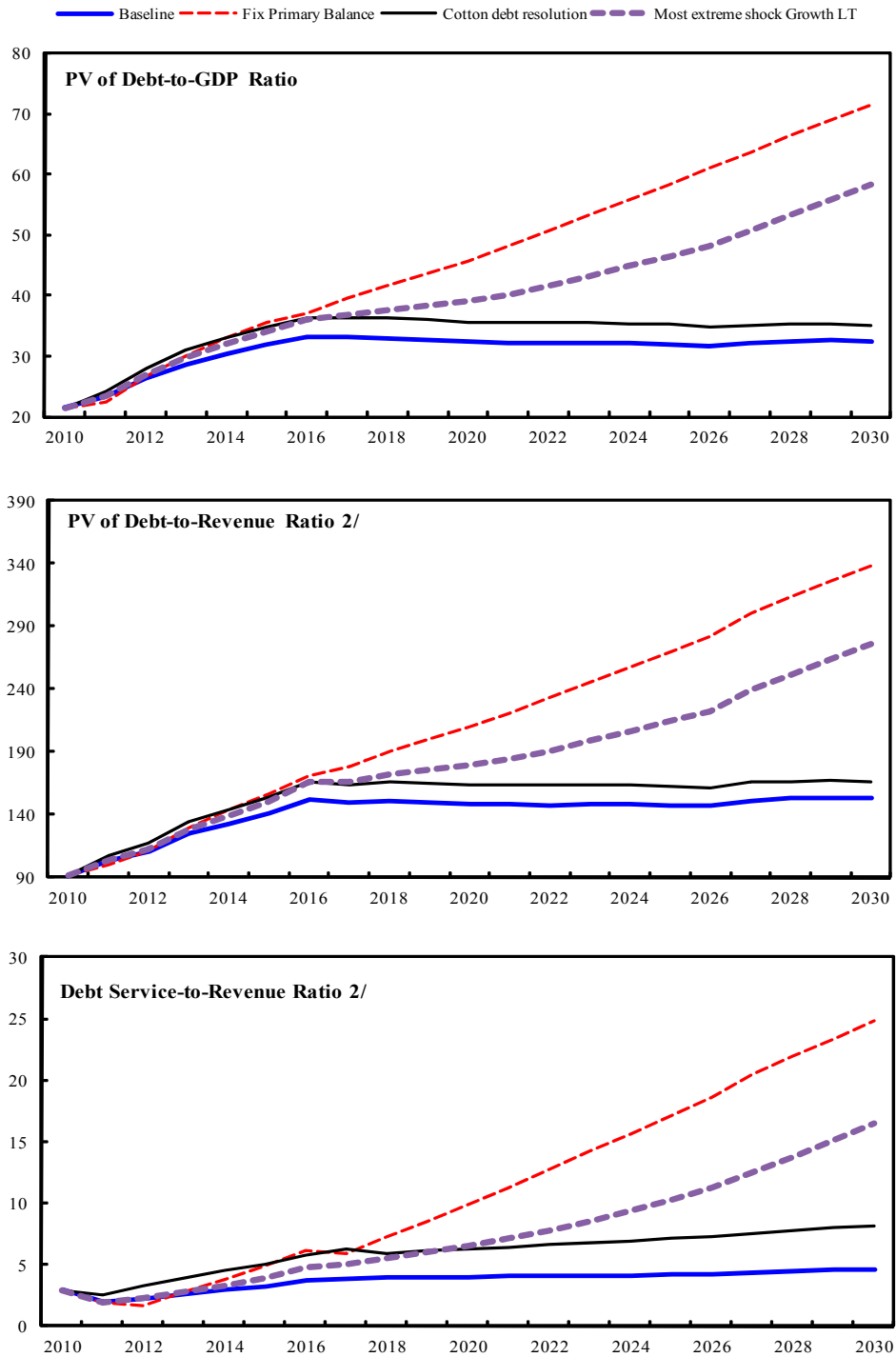
Figure 2. Tajikistan: Indicators of Public and Publicly Guaranteed External Debt under Alternatives Scenarios, 2010-2030 1/



Sources: Country authorities; and staff estimates and projections.

1/ The most extreme stress test is the test that yields the highest ratio in 2020. In figure b. it corresponds to a Non-debt flows shock; in c. to a Combination shock; in d. to a Non-debt flows shock; in e. to a Combination shock and in figure f. to a Non-debt flows shock.

Figure 3. Tajikistan: Indicators of Public Debt Under Alternative Scenarios, 2010-2030 1/



Sources: Country authorities; and staff estimates and projections.

1/ The most extreme stress test is the test that yields the highest ratio in 2020.

2/ Revenues are defined inclusive of grants.

Table 1. Tajikistan: External Debt Sustainability Framework, Baseline Scenario, 2007–29 1/
(In percent of GDP, unless otherwise indicated)

	Actual			Historical Average	Standard Deviation	Projections									
	2007	2008	2009			2010	2011	2012	2013	2014	2010-2014 Average	2019	2029	2015-2029 Average	
External debt (nominal) 1/	41.2	46.1	49.9			51.5	55.7	58.4	61.0	62.6			57.2	44.8	
o/w public and publicly guaranteed (PPG)	34.0	29.0	32.2			31.9	36.3	39.2	41.0	42.2			39.8	36.1	
Change in external debt	-2.8	5.0	3.8			1.6	4.2	2.7	2.7	1.6			-2.5	-1.3	
Identified net debt-creating flows	-6.3	-9.6	5.0			4.6	4.2	3.3	2.3	1.8			-0.8	0.8	
Non-interest current account deficit	6.8	6.4	5.9	1.5	3.6	6.8	7.1	7.7	7.9	8.0			4.9	3.8	4.9
Deficit in balance of goods and services	48.2	55.3	40.3			41.0	40.2	40.5	40.4	40.9			33.7	28.6	
Exports	20.7	16.8	16.4			15.9	15.8	16.3	16.1	16.1			16.8	17.2	
Imports	68.8	72.1	56.7			56.9	56.0	56.8	56.6	56.9			50.5	45.8	
Net current transfers (negative = inflow)	-41.9	-48.7	-34.4	-24.0	15.4	-34.3	-32.9	-32.5	-32.2	-32.5			-28.3	-24.2	-27.3
o/w official	-1.8	-3.1	-1.8			-1.7	-1.1	-0.9	-0.7	-0.6			-0.1	0.0	
Other current account flows (negative = net inflow)	0.5	-0.2	0.0			0.2	-0.2	-0.3	-0.3	-0.4			-0.6	-0.5	
Net FDI (negative = inflow)	-4.3	-5.8	-0.7	-3.7	3.6	-1.6	-1.8	-3.2	-4.3	-4.7			-3.9	-2.0	-3.3
Endogenous debt dynamics 2/	-8.8	-10.2	-0.3			-0.6	-1.1	-1.2	-1.3	-1.4			-1.8	-1.1	
Contribution from nominal interest rate	1.8	1.2	1.3			1.2	1.2	1.3	1.3	1.3			1.3	0.9	
Contribution from real GDP growth	-2.6	-2.4	-1.6			-1.8	-2.3	-2.5	-2.6	-2.7			-3.0	-1.9	
Contribution from price and exchange rate changes	-8.1	-9.1	...			...	...	...	...	...			...	...
Residual (3-4) 3/	3.5	14.5	-1.2			-3.0	-0.1	-0.6	0.4	-0.2			-1.6	-2.1	
o/w exceptional financing	0.0	0.0	-0.3			0.0	0.0	0.0	0.0	0.0			0.0	0.0	
PV of external debt 4/	...	39.5	40.9			44.2	46.2	47.0	48.4	49.3			44.8	33.7	
In percent of exports	...	234.7	249.6			277.6	292.0	289.0	299.8	306.4			266.9	195.5	
PV of PPG external debt	...	22.4	23.3			24.6	26.9	27.8	28.4	28.8			27.5	24.9	
In percent of exports	...	133.0	141.9			154.3	169.6	170.9	175.9	179.2			163.5	144.8	
In percent of government revenues	...	109.3	116.6			122.0	130.1	133.6	136.4	138.6			132.0	119.9	
Debt service-to-exports ratio (in percent)	13.2	15.2	24.4			10.9	16.1	16.5	15.2	15.4			13.2	8.5	
PPG debt service-to-exports ratio (in percent)	8.8	14.2	20.0			6.5	11.4	12.0	10.5	10.6			9.1	6.5	
PPG debt service-to-revenue ratio (in percent)	8.9	11.7	16.5			5.1	8.8	9.4	8.2	8.2			7.3	5.4	
Total gross financing need (Billions of U.S. dollars)	0.2	0.2	0.5			0.4	0.5	0.5	0.4	0.5			0.4	0.9	
Non-interest current account deficit that stabilizes debt ratio	9.6	1.5	2.2			5.2	2.9	5.0	5.2	6.4			7.4	5.2	
Key macroeconomic assumptions															
Real GDP growth (in percent)	7.8	7.9	3.4	8.1	2.1	4.0	5.0	5.0	5.0	5.0	4.8	5.5	4.5	4.8	
GDP deflator in US dollar terms (change in percent)	22.5	28.2	-6.2	8.6	14.3	6.1	5.4	4.3	5.7	5.7	5.5	2.9	3.4	3.1	
Effective interest rate (percent) 5/	5.5	4.2	2.8	4.4	1.2	2.6	2.7	2.6	2.5	2.4	2.6	2.3	2.0	2.2	
Growth of exports of G&S (US dollar terms, in percent)	16.9	12.8	-5.5	4.3	22.5	7.2	10.0	12.5	10.2	10.7	10.1	9.7	7.9	8.5	
Growth of imports of G&S (US dollar terms, in percent)	57.9	45.0	-23.7	17.1	25.8	10.8	8.9	10.9	10.6	11.7	10.6	6.8	6.7	6.5	
Grant element of new public sector borrowing (in percent)	...	...	28.9	...	...	37.2	40.7	44.6	45.2	42.7	42.1	40.5	40.7	40.3	
Government revenues (excluding grants, in percent of GDP)	20.5	20.5	20.0			20.2	20.6	20.8	20.8	20.8			20.8	20.8	20.8
Aid flows (in Billions of US dollars) 7/	0.1	0.1	0.2			0.3	0.5	0.5	0.5	0.5			0.4	0.7	
o/w Grants	0.1	0.1	0.2			0.1	0.2	0.1	0.1	0.1			0.1	0.0	
o/w Concessional loans	0.0	0.0	0.0			0.2	0.3	0.4	0.4	0.4			0.3	0.7	
Grant-equivalent financing (in percent of GDP) 8/	...	...	3.6			4.8	6.1	5.5	4.8	4.2			2.1	1.4	2.0
Grant-equivalent financing (in percent of external financing) 8/	...	...	86.2			54.1	56.8	55.3	56.8	54.4			50.6	42.2	47.8
Memorandum items:															
Nominal GDP (Billions of US dollars)	3.7	5.1	5.0			5.5	6.1	6.7	7.4	8.2			12.5	26.1	
Nominal dollar GDP growth	32.0	38.3	-3.0			10.4	10.7	9.5	11.0	11.0	10.5		8.6	8.1	8.0
PV of PPG external debt (in Billions of US dollars)	...	1.1	1.1			1.3	1.6	1.8	2.0	2.3			3.4	6.4	
(PVt-PVt-1)/GDPt-1 (in percent)	...	...	-0.9			4.4	4.4	4.1	3.6	3.5	4.0		1.7	1.7	1.9
Gross remittances (Billions of US dollars)	1.5	2.3	1.6			1.8	1.9	2.1	2.3	2.6			3.5	6.3	
PV of PPG external debt (in percent of GDP + remittances)	...	15.4	17.6			18.5	20.4	21.1	21.6	21.9			21.4	20.1	
PV of PPG external debt (in percent of exports + remittances)	...	35.8	47.5			50.6	56.4	58.1	59.6	60.1			61.0	60.3	
Debt service of PPG external debt (in percent of exports + remittances)	...	3.8	6.7			2.1	3.8	4.1	3.6	3.6			3.4	2.7	

Sources: Country authorities; and staff estimates and projections.

1/ Includes both public and private sector external debt.

2/ Derived as $[r - g - \rho(1+g)] / (1+g+p+g)$ times previous period debt ratio, with r = nominal interest rate; g = real GDP growth rate, and ρ = growth rate of GDP deflator in U.S. dollar terms.

3/ Includes exceptional financing (i.e., changes in arrears and debt relief); changes in gross foreign assets; and valuation adjustments. For projections also includes contribution from price and exchange rate changes.

4/ Assumes that PV of private sector debt is equivalent to its face value.

5/ Current-year interest payments divided by previous period debt stock.

6/ Historical averages and standard deviations are generally derived over the past 10 years, subject to data availability.

7/ Defined as grants, concessional loans, and debt relief.

8/ Grant-equivalent financing includes grants provided directly to the government and through new borrowing (difference between the face value and the PV of new debt).

Table 2a. Tajikistan: Sensitivity Analysis for Key Indicators of Public and Publicly Guaranteed External Debt, 2009–29
(In percent)

	Act.	Projections						
	2009	2010	2011	2012	2013	2014	2019	2029
PV of debt-to GDP ratio								
Baseline	23	25	27	28	28	29	27	25
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2009-2029 1/	23	18	14	11	9	7	-2	-12
A2. New public sector loans on less favorable terms in 2009-2029 2	23	25	29	32	34	36	37	39
A3. Alternative Scenario : High investment-low growth	22	26	29	32	33	34	35	37
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2010-2011	23	23	25	26	27	27	26	24
B2. Export value growth at historical average minus one standard deviation in 2010-2011 3/	23	26	31	33	33	33	31	26
B3. US dollar GDP deflator at historical average minus one standard deviation in 2010-2011	23	28	35	37	38	38	37	33
B4. Net non-debt creating flows at historical average minus one standard deviation in 2010-2011 4/	23	43	61	61	59	58	49	32
B5. Combination of B1-B4 using one-half standard deviation shocks	23	40	59	59	57	56	48	33
B6. One-time 30 percent nominal depreciation relative to the baseline in 2010 5/	23	33	36	38	39	39	38	34
PV of debt-to-exports ratio								
Baseline	142	154	170	171	176	179	163	145
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2009-2029 1/	142	113	91	69	54	41	-11	-69
A2. New public sector loans on less favorable terms in 2009-2029 2	142	160	183	200	214	223	222	226
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2010-2011	142	150	162	166	171	175	160	143
B2. Export value growth at historical average minus one standard deviation in 2010-2011 3/	142	210	335	339	344	346	307	253
B3. US dollar GDP deflator at historical average minus one standard deviation in 2010-2011	142	150	162	166	171	175	160	143
B4. Net non-debt creating flows at historical average minus one standard deviation in 2010-2011 4/	142	267	385	373	367	358	290	185
B5. Combination of B1-B4 using one-half standard deviation shocks	142	271	447	435	430	422	346	232
B6. One-time 30 percent nominal depreciation relative to the baseline in 2010 5/	142	150	162	166	171	175	160	143
PV of debt-to-revenue ratio								
Baseline	117	122	130	134	136	139	132	120
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2009-2029 1/	117	89	70	54	42	32	-9	-57
A2. New public sector loans on less favorable terms in 2009-2029 2	117	126	140	156	166	173	179	187
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2010-2011	117	117	120	126	129	131	126	115
B2. Export value growth at historical average minus one standard deviation in 2010-2011 3/	117	129	152	157	158	159	147	124
B3. US dollar GDP deflator at historical average minus one standard deviation in 2010-2011	117	139	169	177	181	184	176	161
B4. Net non-debt creating flows at historical average minus one standard deviation in 2010-2011 4/	117	211	296	292	284	277	234	153
B5. Combination of B1-B4 using one-half standard deviation shocks	117	197	284	282	276	270	232	159
B6. One-time 30 percent nominal depreciation relative to the baseline in 2010 5/	117	166	173	181	185	188	181	165

Table 2a. Tajikistan: Sensitivity Analysis for Key Indicators of Public and Publicly Guaranteed External Debt, 2009–29 (continued)
(In percent)

	Act.	Projections						
	2009	2010	2011	2012	2013	2014	2019	2029
Debt service-to-exports ratio								
Baseline	20	6	11	12	11	11	9	6
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2009-2029 1/	20	6	9	9	7	6	3	-2
A2. New public sector loans on less favorable terms in 2009-2029 2	20	7	11	13	12	12	17	16
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2010-2011	20	7	11	11	10	10	10	9
B2. Export value growth at historical average minus one standard deviation in 2010-2011 3/	20	9	19	21	18	17	20	17
B3. US dollar GDP deflator at historical average minus one standard deviation in 2010-2011	20	7	11	11	10	10	10	9
B4. Net non-debt creating flows at historical average minus one standard deviation in 2010-2011 4/	20	7	14	16	15	14	21	14
B5. Combination of B1-B4 using one-half standard deviation shocks	20	8	17	20	18	17	25	18
B6. One-time 30 percent nominal depreciation relative to the baseline in 2010 5/	20	7	11	11	10	10	10	9
Debt service-to-revenue ratio								
Baseline	16	5	9	9	8	8	7	5
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2009-2029 1/	16	5	7	7	5	4	2	-2
A2. New public sector loans on less favorable terms in 2009-2029 2	16	5	9	10	9	9	13	13
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2010-2011	16	5	8	9	8	7	8	7
B2. Export value growth at historical average minus one standard deviation in 2010-2011 3/	16	5	9	10	8	8	10	8
B3. US dollar GDP deflator at historical average minus one standard deviation in 2010-2011	16	6	11	12	11	10	11	10
B4. Net non-debt creating flows at historical average minus one standard deviation in 2010-2011 4/	16	5	10	13	11	11	17	12
B5. Combination of B1-B4 using one-half standard deviation shocks	16	6	11	13	12	11	17	12
B6. One-time 30 percent nominal depreciation relative to the baseline in 2010 5/	16	7	12	12	11	10	12	11
<i>Memorandum item:</i>								
Grant element assumed on residual financing (i.e., financing required above baseline) 6/	40	40	40	40	40	40	40	40

Sources: Country authorities; and IMF staff estimates and projections.

1/ Variables include real GDP growth, growth of GDP deflator (in U.S. dollar terms), non-interest current account in percent of GDP, and non-debt creating flows.

2/ Assumes that the interest rate on new borrowing is by 2 percentage points higher than in the baseline., while grace and maturity periods are the same as in the baseline.

3/ Exports values are assumed to remain permanently at the lower level, but the current account as a share of GDP is assumed to return to its baseline level after the shock (implicitly assuming an offsetting adjustment in import levels).

4/ Includes official and private transfers and FDI.

5/ Depreciation is defined as percentage decline in dollar/local currency rate, such that it never exceeds 100 percent.

6/ Applies to all stress scenarios except for A2 (less favorable financing) in which the terms on all new financing are as specified in footnote 2.

Table 2b. Tajikistan: Sensitivity Analysis for Key Indicators of Public and Publicly Guaranteed External Debt, 2009-2029
(In percent)

	Act.	Projections							
	2009	2010	2011	2012	2013	2014	2018	2019	2029
PV of debt-to-GDP+remittances ratio									
Baseline	18	19	20	21	22	22	22	21	20
A. Alternative Scenarios									
A1. Key variables at their historical averages in 2009-2029 1/	18	14	11	9	7	5	0	-2	-11
A2. New public sector loans on less favorable terms in 2009-2029 2	18	19	22	25	26	27	29	29	31
A3. Alternative Scenario : High investment-low growth	1	26	29	32	33	34	35	35	37
B. Bound Tests									
B1. Real GDP growth at historical average minus one standard deviation in 2010-2011	18	18	19	20	21	21	21	21	19
B2. Export value growth at historical average minus one standard deviation in 2010-2011 3/	18	20	24	25	25	25	25	24	21
B3. US dollar GDP deflator at historical average minus one standard deviation in 2010-2011	18	20	24	26	26	27	27	27	25
B4. Net non-debt creating flows at historical average minus one standard deviation in 2010-2011 4/	18	41	58	46	45	44	40	38	26
B5. Combination of B1-B4 using one-half standard deviation shocks	18	35	52	43	42	41	38	36	26
B6. One-time 30 percent nominal depreciation relative to the baseline in 2010 5/	18	23	25	26	27	27	27	27	26
PV of debt-to-exports+remittances ratio									
Baseline	48	51	56	58	60	60	62	61	60
A. Alternative Scenarios									
A1. Key variables at their historical averages in 2009-2029 1/	48	38	32	26	21	16	0	-5	-50
A2. New public sector loans on less favorable terms in 2009-2029 2	48	52	61	68	72	75	83	83	94
A3. Alternative Scenario : High investment-low growth	34	34	33	32	32	32	29	28	24
B. Bound Tests									
B1. Real GDP growth at historical average minus one standard deviation in 2010-2011	48	49	54	57	58	58	61	60	59
B2. Export value growth at historical average minus one standard deviation in 2010-2011 3/	48	58	76	79	80	80	82	80	75
B3. US dollar GDP deflator at historical average minus one standard deviation in 2010-2011	48	49	54	57	58	58	61	60	59
B4. Net non-debt creating flows at historical average minus one standard deviation in 2010-2011 4/	48	209	300	127	124	120	113	108	77
B5. Combination of B1-B4 using one-half standard deviation shocks	48	145	221	115	114	110	106	102	77
B6. One-time 30 percent nominal depreciation relative to the baseline in 2010 5/	48	49	54	57	58	58	61	60	59
PV of debt-to-revenue ratio									
Baseline	117	122	130	134	136	139	135	132	120
A. Alternative Scenarios									
A1. Key variables at their historical averages in 2009-2029 1/	117	89	70	54	42	32	-1	-9	-57
A2. New public sector loans on less favorable terms in 2009-2029 2	117	126	140	156	166	173	181	179	187
A3. Alternative Scenario : High investment-low growth	110	129	141	152	157	161	170	169	180
B. Bound Tests									
B1. Real GDP growth at historical average minus one standard deviation in 2010-2011	117	117	120	126	129	131	129	126	115
B2. Export value growth at historical average minus one standard deviation in 2010-2011 3/	117	129	152	157	158	159	152	147	124
B3. US dollar GDP deflator at historical average minus one standard deviation in 2010-2011	117	139	169	177	181	184	180	176	161
B4. Net non-debt creating flows at historical average minus one standard deviation in 2010-2011 4/	117	211	296	292	284	277	248	234	153
B5. Combination of B1-B4 using one-half standard deviation shocks	117	197	284	282	276	270	245	232	159
B6. One-time 30 percent nominal depreciation relative to the baseline in 2010 5/	117	166	173	181	185	188	185	181	165

Table 2b. Tajikistan: Sensitivity Analysis for Key Indicators of Public and Publicly Guaranteed External Debt, 2009-2029
(In percent)

	Act.	Projections							
	2009	2010	2011	2012	2013	2014	2018	2019	2029
Debt service-to-exports+remittances ratio									
Baseline	7	2	4	4	4	4	4	3	3
A. Alternative Scenarios									
A1. Key variables at their historical averages in 2009-2029 1/	7	2	3	3	3	2	2	1	-1
A2. New public sector loans on less favorable terms in 2009-2029 2	7	2	4	4	4	4	6	6	6
A3. Alternative Scenario : High investment-low growth	0	0	0	0	0	0	0	0	0
B. Bound Tests									
B1. Real GDP growth at historical average minus one standard deviation in 2010-2011	7	2	4	4	3	3	4	4	4
B2. Export value growth at historical average minus one standard deviation in 2010-2011 3/	7	2	4	5	4	4	5	5	5
B3. US dollar GDP deflator at historical average minus one standard deviation in 2010-2011	7	2	4	4	3	3	4	4	4
B4. Net non-debt creating flows at historical average minus one standard deviation in 2010-2011 4/	7	5	11	6	5	5	6	8	6
B5. Combination of B1-B4 using one-half standard deviation shocks	7	4	8	5	5	4	6	7	6
B6. One-time 30 percent nominal depreciation relative to the baseline in 2010 5/	7	2	4	4	3	3	4	4	4
Debt service-to-revenue ratio									
Baseline	16	5	9	9	8	8	8	7	5
A. Alternative Scenarios									
A1. Key variables at their historical averages in 2009-2029 1/	16	5	7	7	5	4	3	2	-2
A2. New public sector loans on less favorable terms in 2009-2029 2	16	5	9	10	9	9	13	13	13
A3. Alternative Scenario : High investment-low growth	16	5	9	10	9	8	10	11	12
B. Bound Tests									
B1. Real GDP growth at historical average minus one standard deviation in 2010-2011	16	5	8	9	8	7	8	8	7
B2. Export value growth at historical average minus one standard deviation in 2010-2011 3/	16	5	9	10	8	8	9	10	8
B3. US dollar GDP deflator at historical average minus one standard deviation in 2010-2011	16	6	11	12	11	10	11	11	10
B4. Net non-debt creating flows at historical average minus one standard deviation in 2010-2011 4/	16	5	10	13	11	11	14	17	12
B5. Combination of B1-B4 using one-half standard deviation shocks	16	6	11	13	12	11	14	17	12
B6. One-time 30 percent nominal depreciation relative to the baseline in 2010 5/	16	7	12	12	11	10	11	12	11
<i>Memorandum item:</i>									
Grant element assumed on residual financing (i.e., financing required above baseline) 6/	40	40	40	40	40	40	40	40	40

Sources: Country authorities; and staff estimates and projections.

1/ Variables include real GDP growth, growth of GDP deflator (in U.S. dollar terms), non-interest current account in percent of GDP, and non-debt creating flows.

2/ Assumes that the interest rate on new borrowing is by 2 percentage points higher than in the baseline., while grace and maturity periods are the same as in the baseline.

3/ Exports values are assumed to remain permanently at the lower level, but the current account as a share of GDP is assumed to return to its baseline level after the shock (implicitly assuming an offsetting adjustment in import levels).

4/ Includes official and private transfers and FDI.

5/ Depreciation is defined as percentage decline in dollar/local currency rate, such that it never exceeds 100 percent.

6/ Applies to all stress scenarios except for A2 (less favorable financing) in which the terms on all new financing are as specified in footnote 2.

Table 3. Tajikistan: Public Sector Debt Sustainability Framework, Baseline Scenario, 2007–29
(In percent of GDP, unless otherwise indicated)

	Actual			Average	Standard Deviation	Projections							
	2007	2008	2009			2010	2011	2012	2013	2014	2010-14 Average	2019	2029	2015-29 Average
Public sector debt 1/	35.2	29.9	33.0			33.7	38.8	43.1	46.1	48.1		46.6	44.2
o/w foreign-currency denominated	34.0	29.0	32.2			31.9	36.3	39.2	41.0	42.2		39.8	36.1
Change in public sector debt	-0.7	-5.3	3.1			0.7	5.2	4.3	3.0	2.0		-1.0	-0.4
Identified debt-creating flows	-3.6	-4.5	7.6			1.9	1.4	0.0	-0.5	-0.3		-0.7	0.1
Primary deficit	5.0	4.4	4.7	1.2	2.8	5.4	3.6	3.7	3.3	3.7	3.9	2.4	2.8
Revenue and grants	22.5	22.1	23.3			22.6	23.5	22.7	22.6	22.4		21.5	20.9
of which: grants	2.0	1.6	3.4			2.4	2.9	1.9	1.8	1.6		0.7	0.1
Primary (noninterest) expenditure	27.5	26.5	28.1			28.0	27.1	26.4	25.9	26.0		23.9	23.7
Automatic debt dynamics	-8.5	-8.6	2.9			-3.5	-2.2	-3.6	-3.7	-4.0		-3.0	-2.7
Contribution from interest rate/growth differential	-2.3	-2.1	-1.0			-1.4	-1.8	-2.1	-2.4	-2.6		-2.7	-2.1
of which: contribution from average real interest rate	0.3	0.5	0.0			-0.2	-0.2	-0.3	-0.4	-0.4		-0.2	-0.1
of which: contribution from real GDP growth	-2.6	-2.6	-1.0			-1.3	-1.6	-1.8	-2.1	-2.2		-2.5	-1.9
Contribution from real exchange rate depreciation	-6.2	-6.6	3.9			-2.1	-0.3	-1.5	-1.3	-1.4		...	...
Other identified debt-creating flows	-0.1	-0.3	-0.1			-0.1	-0.1	0.0	0.0	0.0		0.0	0.0
Privatization receipts (negative)	-0.1	-0.3	-0.1			-0.1	-0.1	0.0	0.0	0.0		0.0	0.0
Recognition of implicit or contingent liabilities	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0		0.0	0.0
Debt relief (HIPC and other)	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0		0.0	0.0
Other (specify, e.g. bank recapitalization)	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0		0.0	0.0
Residual, including asset changes	2.9	-0.8	-4.5			-1.2	3.8	4.2	3.4	2.4		-0.3	-0.5
Other Sustainability Indicators													
PV of public sector debt	1.2	23.3	24.0			26.4	29.4	31.7	33.4	34.8		34.3	33.1
o/w foreign-currency denominated	0.0	22.4	23.3			24.6	26.9	27.8	28.4	28.8		27.5	24.9
o/w external	...	22.4	23.3			24.6	26.9	27.8	28.4	28.8		27.5	24.9
PV of contingent liabilities (not included in public sector debt)	...	...	...			...	...	...	...	...		...	...
Gross financing need 2/	6.1	5.5	5.4			5.9	4.2	4.3	4.0	4.5		3.3	3.8
PV of public sector debt-to-revenue and grants ratio (in percent)	5.4	105.2	102.9			117.1	124.9	139.7	147.9	155.5		159.4	158.3
PV of public sector debt-to-revenue ratio (in percent)	5.9	113.5	120.3			131.0	142.6	152.5	160.7	167.1		164.7	158.9
o/w external 3/	...	109.3	116.6			122.0	130.1	133.6	136.4	138.6		132.0	119.9
Debt service-to-revenue and grants ratio (in percent) 4/	4.8	4.9	2.9			2.2	2.4	2.8	3.2	3.4		4.1	4.6
Debt service-to-revenue ratio (in percent) 4/	5.2	5.3	3.4			2.5	2.8	3.0	3.4	3.7		4.3	4.6
Primary deficit that stabilizes the debt-to-GDP ratio	5.7	9.7	1.6			4.7	-1.6	-0.6	0.3	1.7		3.4	3.2
Key macroeconomic and fiscal assumptions													
Real GDP growth (in percent)	7.8	7.9	3.4	8.1	2.1	4.0	5.0	5.0	5.0	5.0	4.8	5.5	4.5
Average nominal interest rate on forex debt (in percent)	3.5	4.4	2.1	3.2	0.7	1.6	1.7	1.7	1.6	1.5	1.6	1.5	1.5
Average real interest rate on domestic debt (in percent)	-9.2	-20.9	-3.8	-10.3	7.4	-4.7	-6.8	-6.2	-5.2	-5.2	-5.6	-0.5	0.3
Real exchange rate depreciation (in percent, + indicates depreciation)	-19.3	-20.4	14.0	-4.9	15.5	...	...	...	...	...	...	...	...
Inflation rate (GDP deflator, in percent)	27.9	27.7	13.3	21.7	6.8	15.0	13.5	12.0	11.0	11.0	12.5	6.0	6.0
Growth of real primary spending (deflated by GDP deflator, in percent)	0.4	0.0	0.1	0.2	0.2	0.0	0.0	0.0	0.0	0.1	0.0	0.1	0.0
Grant element of new external borrowing (in percent)	...	...	28.9	...	...	37.2	40.7	44.6	45.2	42.7	42.1	40.5	40.7

Sources: Country authorities; and staff estimates and projections.

1/ [Indicate coverage of public sector, e.g., general government or nonfinancial public sector. Also whether net or gross debt is used.]

2/ Gross financing need is defined as the primary deficit plus debt service plus the stock of short-term debt at the end of the last period.

3/ Revenues excluding grants.

4/ Debt service is defined as the sum of interest and amortization of medium and long-term debt.

5/ Historical averages and standard deviations are generally derived over the past 10 years, subject to data availability.

Table 4. Tajikistan: Sensitivity Analysis for Key Indicators of Public Debt, 2009–29

	Act.	Projections						
	2009	2010	2011	2012	2013	2014	2019	2029
PV of Debt-to-GDP Ratio								
Baseline	24	26	29	32	33	35	34	33
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	24	21	21	20	18	17	7	-6
A2. primary balance is unchanged from 2009	24	26	30	33	36	39	49	74
A3. Permanently lower GDP growth 1/	24	27	30	33	35	37	41	59
A4. Alternative scenario: Cotton debt resolution	24	28	31	34	36	37	36	36
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviations in 2010-2011	24	25	28	29	30	31	27	18
B2. primary balance is at historical average minus one standard deviations in 2010-2011	24	25	28	30	32	33	32	31
B3. Combination of B1-B2 using one half standard deviation shocks	24	23	24	25	25	26	20	5
B4. One-time 30 percent real depreciation in 2010	24	36	38	38	39	40	39	39
PV of Debt-to-Revenue Ratio 2/								
Baseline	103	117	125	140	148	155	159	158
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	103	94	89	87	82	75	33	-28
A2. primary balance is unchanged from 2009	103	114	127	146	161	174	226	354
A3. Permanently lower GDP growth 1/	103	118	127	144	154	165	191	281
A4. Alternative scenario: Cotton debt resolution	103	126	134	149	157	165	170	171
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviations in 2010-2011	103	113	117	129	134	138	126	85
B2. primary balance is at historical average minus one standard deviations in 2010-2011	103	109	117	131	139	147	150	146
B3. Combination of B1-B2 using one half standard deviation shocks	103	100	102	110	113	115	92	22
B4. One-time 30 percent real depreciation in 2010	103	162	161	169	172	177	180	188
Debt Service-to-Revenue Ratio 2/								
Baseline	3	2	2	3	3	3	4	5
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	3	2	-1	-2	-3	-5	-6	-10
A2. primary balance is unchanged from 2009	3	2	2	3	4	6	11	26
A3. Permanently lower GDP growth 1/	3	2	2	3	4	4	7	16
A4. Alternative scenario: Cotton debt resolution	3	2	4	4	5	5	5	6
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviations in 2010-2011	3	2	2	2	2	2	1	-3
B2. primary balance is at historical average minus one standard deviations in 2010-2011	3	2	1	1	2	2	3	3
B3. Combination of B1-B2 using one half standard deviation shocks	3	2	0	0	-1	-1	-2	-10
B4. One-time 30 percent real depreciation in 2010	3	3	3	4	5	5	6	9

Sources: Country authorities; and IMF staff estimates and projections.

1/ Assumes that real GDP growth is at baseline minus one standard deviation divided by the square root of the length of the projection period.

2/ Revenues are defined inclusive of grants.

ATTACHMENT I. TAJIKISTAN: LETTER OF INTENT

May 20, 2010

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

Dear Mr. Strauss-Kahn:

It was a pleasure to welcome you in Tajikistan in June of last year and have an opportunity to personally express my gratitude to you and the International Monetary Fund (IMF) for your support of our economic reforms. As you have observed during your visit, the external environment is adversely affecting Tajikistan's economy. Nonetheless, I am glad to inform you that—in these challenging circumstances—we have broadly adhered to the targets and objectives set out in our program supported by an arrangement under the Extended Credit Facility (ECF), which replaced the Poverty Reduction and Growth Facility following the entry into force of the Executive Board's decision of July 2009. The program framework has helped us maintain macroeconomic stability and make progress on our structural reform agenda.

Under our program, we have met all but two quantitative performance criteria to date. In the monetary area, we limited net international reserves (NIR) losses as envisaged through June 2009, and were able to build NIR faster than targeted under the program in the second half of the year.

We were able to contain net domestic assets (NDA) of the National Bank of Tajikistan (NBT), including by abstaining from NBT lending to the private sector at end-June. However, liquidity shortages in the banking system required us to provide more liquidity than was anticipated under the program, leading to non-compliance with the performance criteria for NDA at end-December.

In the fiscal area, we achieved our fiscal balance target for end-June, despite revenue shortfalls compared to program projections. Revenue collection improved in the second half of the year, moderately exceeding projections for the year as a whole, and we also achieved our end-December overall fiscal balance target. At the same time, we broadly met our social spending targets, though we also saw an accumulation of pension arrears as social tax collection did not suffice to make pension payments at end-June, a noncompliance with a

continuous performance criterion. These arrears were settled in December 2009. There have also been some technical delays in paying a small amount of wages, which were settled in April 2010. We proceeded carefully with disbursements of concessional external financing, and did not accumulate external payment arrears.

With respect to structural reforms, we have taken steps to strengthen the NBT's liquidity management framework, closed down the cotton debt department at the NBT, established a working group to develop a strategy to recapitalize the NBT, and adopted a strategy to resolve the cotton debt problem. The external audit of the NBT's financial statements for the year ending April 2009 has been completed and the full audit report has been published on the NBT's website. There have been delays in setting up structures to conduct quarterly internal audits at the NBT, and, as such, we will select shortly through a tender process an external audit firm to assist us with the internal audit coverage of the activities of the international relations department, starting with the first quarter of 2010. State-owned enterprises have submitted their financial performance plans for 2010 and their statements of corporate intent to the monitoring unit at the ministry of finance for approval. The external audit of Tajikistan's aluminum smelter Talco for the years 2006–08 is nearing completion and we expect to soon publish the full reports on the company's website.

We request waivers for the non-observance of the two performance criteria, since the breaches were temporary and mostly minor, or necessitated by developments not fully anticipated at the time of setting our program targets. On the NBT side, we will step up monitoring of liquidity loans to the banking sector. In the fiscal area, we will increase the budget transfer to the pension system to cover its structural deficit, while developing a comprehensive reform of the system to ensure its financial sustainability. We will also step up monitoring of wage and pension payments, particularly at local levels, improving the cross checking of local governments' monthly reports to the Ministry of Finance on the status of their wage and pension obligations, and work on improving budget execution more generally with technical assistance from the World Bank.

Looking ahead, our country's external economic environment is improving only slowly, leaving us with difficult policy challenges. Most importantly, remittances inflows are likely to remain subdued, requiring further external adjustment. In addition, we need to address infrastructure bottlenecks, in particular in the energy sector, and the financial health of our banks has worsened on account of the impact of the global crisis and past practices of lending to the cotton sector. Against this background, maintaining external and macroeconomic stability will remain the overarching objective of economic policies. Within this constraint, fiscal policy is faced with the need to continue raising social and capital expenditures. An improvement of banks' financial situation is needed to rekindle credit extension and facilitate private-sector led growth.

With the level of international reserves still at a very critical level, we require further external assistance to help protect the economy from the impact of external shocks. In total, we believe that our need for IMF support was at least 200 percent of quota to strengthen our balance of payments position and build international reserves throughout the 2009–2012 program period. In this regard, the recent general SDR allocation of 94 percent of quota to Tajikistan helped improve reserve adequacy, albeit from a very low level. We used \$20 million of the allocation to repay early an expensive external loan that carried an interest rate of 12 percent with a remaining maturity of 3 years. We intend not to use the remainder for the time being, unless there is a further unexpected deterioration in the external environment.

We hereby request the completion by the Executive Board of the first and second review under the ECF, and an augmentation of access to 120 percent of quota for the remaining period of the program May 1, 2010 to March 31, 2012. We also request the disbursement of the second and third loans totaling SDR 26.12 million. In parallel, we are also seeking concessional support from other donors for the coming year. Together with our development partners we prepared the third Poverty Reduction Strategy (PRS) covering the period 2010-13. The PRS, which includes an assessment of the past progress in this area and set new development goals, was adopted by the Parliament in February. For the first and second ECF review we have set prior actions, and, for 2010, quantitative performance criteria, indicative targets, and structural benchmarks described in the attached Memorandum of Economic and Financial Policies, to enable us to monitor progress in implementing our reform agenda.

The Government believes that the policies set forth in the attached MEFP are adequate to achieve the objectives of its program, but it 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. 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

Attachments:

Table 1. Tajikistan: Quantitative Performance Criteria under the 2009–12 Extended Credit Facility for 2009

Table 2. Tajikistan: Structural Benchmarks for 2009

Table 3. Tajikistan: Quantitative Performance Criteria under the 2009–12 Extended Credit Facility for 2010

Table 4. Tajikistan: Prior Actions and Structural Benchmarks for 2010

Memorandum of Economic and Financial Policies

Technical Memorandum of Understanding

Table 1. Tajikistan: Quantitative Performance Criteria and Indicative Targets under the 2009 Extended Credit Facility (ECF)

(In millions of somoni, unless otherwise indicated)

	2008			2009										
	End-Dec.		End-March			End-June			End-Sept.			End-Dec.		
	Prog.	Act.	Proj.	Adjst. Proj.	Act.	Prog.	Adjst. Proj.	Act.	Prog.	Adjst. Proj.	Act.	Prog.	Adjst. Proj.	Act.
<i>Quantitative Performance Criteria (PC):</i>														
1. Ceiling on cumulative flow of net domestic assets of the NBT 1/ 2/	...	...	194	205	-118	244	274	37	304	303	322	313	486	571
2. Floor on cumulative flow of total net international reserves (in millions of U.S. dollars) 1/ 2/ 4/	...	...	-41	-44	-46	-51	-69	-67	-26	-52	72	-26	-85	122
3. Zero-ceiling on new lending from the NBT to private sector (continuous quantitative performance criterion) 2/	...	...	0	...	0	0	...	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/	...	...	-86	...	151	16	...	48	-86	...	155	-106	...	-106
5. Ceiling on general government wage and pension arrears (continuous quantitative performance criterion)	...	...	0	...	0	0	...	32	0	...	3	0	...	1
6. Ceiling on contracting or guaranteeing of any non-concessional external debt (continuous quantitative performance criterion; disbursement during the preceeding quarter)	...	...	0	...	10	0	...	15	0	...	1	0	...	0
7. Ceiling on disbursements of concessional external financing (in millions of U.S. dollars) 2/	...	...	70	...	41	147	...	94	258	...	153	349	...	241
8. New external payments arrears (continuous quantitative performance criterion)	...	...	0	...	0	0	...	0	0	...	0	0	...	0
<i>Indicative Targets (IT):</i>														
1. Floor on tax collection (cumulative from Jan 1, 2009)	...	...	854	...	812	1,719	...	1,639	2,632	...	2,547	3,627	...	3,635
2. Floor on social and poverty-related expenditure (cumulative from Jan 1, 2009)	...	...	386	...	352	801	...	794	1,307	...	1,247	1,866	...	1,847
<i>Memorandum items:</i>														
Program exchange rate	...	3.45												
NDA of the NBT (in millions of somoni) 1/ 3/ 5/	1,342	1,592	1,536	1,547	1,474	1,586	1,616	1,629	1,646	1,645	1,914	1,655	1,828	2,163
Net international reserves (in millions of U.S. dollars) 1/ 4/	181	150	140	137	103	130	112	82	155	129	222	155	96	272
Required reserve rate (in percent)														
Deposits in somoni	9	9	9	...	9	9	...	7	9	...	7	9	...	7
Deposits in foreign exchange	11	11	11	...	11	11	...	9	11	...	9	11	...	9
Settlement of external guarantees during the preceeding quarter (in millions of U.S. dollars)	...	...	6	...	9	5	...	20	5	...	13	5	...	38

1/ At program exchange rates of end-December 2008.

2/ For 2009, cumulative from January 1; performance criteria for end-June and end-December, and indicative target for end-September 2009.

3/ Includes adjustor for the repayment of guarantees.

4/ Targets for NIR do not include SDR allocation of U.S. dollar 128 million in Q3 2009.

5/ Includes adjustor for changes in required reserves.

Table 2. Tajikistan: Structural Benchmarks for 2009

	Date	Rationale	Status
National Bank of Tajikistan will issue a circular that defines the terms of liquidity provision, including a maximum maturity of three months and acceptable collateral.	End-June	Strengthen effectiveness of monetary policy implementation	Met on May 15, 2009
Close down the cotton debt department at the National Bank of Tajikistan.	End-June	Eliminate non-core functions	Met on June 22, 2009
Establish a working group between the government and the National Bank of Tajikistan to develop a strategy to recapitalize the National Bank of Tajikistan.	End-June	Strengthen central bank's ability to conduct monetary policy and independence	Met on August 31, 2009
Adopt a strategy to resolve the cotton debt problem.	End-June	Remove risk to macroeconomic stability, raise growth potential	Met on July 2, 2009
Publish semi-annual external debt reports on the website of the ministry of finance.	End-June	Transparency	Annual report for 2008 published July 14, 2009, semi-annual report for June 2009 published on November 24, 2009
Publish the audited financial statements together with the audit report for fiscal year 2009 of the National Bank of Tajikistan on the NBT's external website.	End-December	Transparency	Met on April 21, 2010, prior action for first and second reviews
Conduct quarterly internal audits of the National Bank of Tajikistan's financial statement to be discussed by the National Bank of Tajikistan's Board.	End-December	Enhance central bank governance	Not met due to capacity constraints. Instead, external audit firm is hired to assist with internal audits of international relations department

State-owned enterprises reporting to the monitoring unit at the ministry of finance to submit their financial performance plans for 2010 for approval together with a corporate intent statement.	End-December	Address contingent liability	Met on January 19, 2010
Talco's financial accounts for 2006 through 2008 will be audited by a reputable international audit firm (one of the big four), and the audit reports will be published on the company's website.	End-December	Transparency	On-site audit finished by Moore Stephens (not one of the big four), but financial statements yet to be delivered

Table 3. Tajikistan: Quantitative Performance Criteria and Indicative Targets under the 2010 Extended Credit Facility (ECF)

(In millions of somoni, unless otherwise indicated)

	2009	2010			
	End-Dec Act.	End-March Proj.	End-June Proj.	End-Sept. Proj.	End-Dec. Proj.
<i>Quantitative Performance Criteria (PC):</i>					
1. Ceiling on cumulative flow of net domestic assets of the NBT 1/ 2/	...	-430	-344	-108	226
2. Floor on cumulative flow of total net international reserves (in millions of U.S. dollars) 1/ 2/	...	3	12	33	48
3. Zero-ceiling on new lending from the NBT to private sector (continuous quantitative performance criterion) 2/	...	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/	...	-53	-135	-192	-247
5. Ceiling on general government wage and pension arrears (continuous quantitative performance criterion)	...	0	0	0	0
6. Ceiling on contracting or guaranteeing of any non-concessional external debt (continuous quantitative performance criterion)	...	0	0	0	0
7. Ceiling on disbursements of concessional external financing (in millions of U.S. dollars) 2/	...	122	173	229	272
8. New external payments arrears (continuous quantitative performance criterion)	...	0	0	0	0
<i>Indicative Targets (IT):</i>					
1. Floor on tax collection 2/	...	989	1,997	3,102	4,428
2. Floor on social and poverty-related expenditure 2/	...	559	1,118	1,680	2,351
3. Ceiling on gross equity sales and contributions for Roghun (in millions of somoni) 2/	...	800	850	870	880
4. Ceiling on loans to banks for liquidity purposes by the NBT (stock)	...	179	153	150	147
<i>Memorandum items:</i>					
Program exchange rate	4.37	...	...	...	...
NDA of the NBT (in millions of somoni) 1/	1,922	1,492	1,578	1,814	2,148
Net international reserves (in millions of U.S. dollars)	239	242	251	272	287

1/ At program exchange rates of end-December 2009.

2/ Cumulative from January 1 of the year.

Table 4. Tajikistan: Structural Benchmarks for 2010

	Date	Rationale	Status
<i>Prior Actions for First and Second Review</i>			
Complete and publish the external audits of the National Bank of Tajikistan's net international reserves position as of June 30, 2009 and December 31, 2009, and share the audit reports with Fund staff.	5 working days prior to Executive Board meeting	Transparency, reporting under the program	Done for end-June 2009 audit report on April 21, 2010
Complete and publish external audit of the National Bank of Tajikistan's financial statements for the year ending April 2009, and share the audit report with Fund staff.	5 working days prior to Executive Board meeting	Transparency	Met on April 21, 2010
Sign a contract with an external consulting firm to conduct 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.	5 working days prior to Executive Board meeting	Enhance central bank governance	
<i>Structural benchmarks for 2010</i>			
Issue a government order to require cotton investors to start paying principal (in equal installments) and interest on their outstanding debt to the NBT	End-June	Key element of NBT recapitalization strategy	
Issue a tender for an audit of the 2008 and 2009 financial statements of Roghun OJSC by a reputable international firm.	End-June	Transparency	
Issue a tender for an external audit of Talco Management's 2008 and 2009 financial statements by a reputable international audit firm.	End-June	Transparency	
Roghun supervisory board report on a quarterly basis to the public about the sources and uses of funds, including detailed information on the contractors hired by Roghun OJSC, their owners, and the bidding process used to award all contracts.	End-June and each quarter thereafter	Transparency and governance	
Publish the NBT's December 2009 audited financial statement together with the audit report on the NBT's website.	End-September	Transparency	
Publish the audited financial statements of Roghun OJSC for 2008 and 2009 with the audit reports on the ministry of finance's website.	End-December	Transparency	
Submit to parliament a bankruptcy law for credit institutions	End-December	Strengthen the banking system	
Issue an order of the ministry of finance requiring the	End-December	Improve public	

Table 4. Tajikistan: Structural Benchmarks for 2010

	Date	Rationale	Status
implementation of the full Treasury Single Account (TSA) system at the Republican level from January 1, 2011, including the closure of all non-donor general government sector bank accounts other than the TSA itself and zero-balance transit accounts.		financial management	
Submit to parliament a draft NBT law consistent with Fund staff advice.	End-December	Enhance central bank governance	

TAJIKISTAN: SUPPLEMENT TO THE LETTER OF INTENT

June 4, 2010

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

Dear Mr. Strauss-Kahn:

This letter supplements His Excellency President Rahmon's letter dated May 20, 2010 requesting the completion of the first and second review under Tajikistan's program supported by the Fund's Enhanced Credit Facility (hereafter "letter").

As part of our program, we had commissioned an external audit of net international reserves (NIR) for end-December 2009, a quantitative performance criterion. The final audit report became available only after President Rahmon sent his letter to you.

In the event, the auditors alerted us to some minor technical issues that had arisen with the NIR data we had reported to you. We have reviewed the auditors' recommendations and agree that we need to revise down the reported cumulative NIR flow for June, September, and December 2009 at program exchange rates. The main reason for this downward revision (\$1 million at end-December 2009) is that we used the current exchange rate instead of the program exchange rate to calculate the National Bank of Tajikistan's (NBT's) SDR holdings. However, we note that even with this downward revision, we have exceeded the programmed NIR accumulation for the year by a wide margin. For your convenience, we attached a revised table showing our performance under the program in 2009 that replaces Table 1 of President Rahmon's letter.

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

/s/

Sharif Rahimzoda
Chairman, National Bank of Tajikistan

Attachment:

Table 1. Tajikistan: Quantitative Performance Criteria under the 2009–12 Extended Credit Facility for 2009

Table 1. Tajikistan: Quantitative Performance Criteria and Indicative Targets under the 2009 Extended Credit Facility (ECF)

(In millions of somoni, unless otherwise indicated)

	2008			2009										
	End-Dec.		End-March			End-June			End-Sept.			End-Dec.		
	Prog.	Act.	Proj.	Adjst. Proj.	Act.	Prog.	Adjst. Proj.	Act.	Prog.	Adjst. Proj.	Act.	Prog.	Adjst. Proj.	Act.
<i>Quantitative Performance Criteria (PC):</i>														
1. Ceiling on cumulative flow of net domestic assets of the NBT 1/ 2/	...	...	194	205	-118	244	274	37	304	303	322	313	486	571
2. Floor on cumulative flow of total net international reserves (in millions of U.S. dollars) 1/ 2/ 4/	...	...	-41	-44	-46	-51	-69	-66	-26	-52	70	-26	-85	121
3. Zero-ceiling on new lending from the NBT to private sector (continuous quantitative performance criterion) 2/	...	...	0	...	0	0	...	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/	...	...	-86	...	151	16	...	48	-86	...	155	-106	...	-106
5. Ceiling on general government wage and pension arrears (continuous quantitative performance criterion)	...	...	0	...	0	0	...	32	0	...	3	0	...	1
6. Ceiling on contracting or guaranteeing of any non-concessional external debt (continuous quantitative performance criterion; disbursement during the preceeding quarter)	...	...	0	...	10	0	...	15	0	...	1	0	...	0
7. Ceiling on disbursements of concessional external financing (in millions of U.S. dollars) 2/	...	...	70	...	41	147	...	94	258	...	153	349	...	241
8. New external payments arrears (continuous quantitative performance criterion)	...	...	0	...	0	0	...	0	0	...	0	0	...	0
<i>Indicative Targets (IT):</i>														
1. Floor on tax collection (cumulative from Jan 1, 2009)	...	...	854	...	812	1,719	...	1,639	2,632	...	2,547	3,627	...	3,635
2. Floor on social and poverty-related expenditure (cumulative from Jan 1, 2009)	...	...	386	...	352	801	...	794	1,307	...	1,247	1,866	...	1,847
<i>Memorandum items:</i>														
Program exchange rate	...	3.45												
NDA of the NBT (in millions of somoni) 1/ 3/ 5/	1,342	1,592	1,536	1,547	1,474	1,586	1,616	1,629	1,646	1,645	1,914	1,655	1,828	2,163
Net international reserves (in millions of U.S. dollars) 1/ 4/	181	150	140	137	103	130	112	84	155	129	220	155	96	271
<i>Required reserve rate (in percent)</i>														
Deposits in somoni	9	9	9	...	9	9	...	7	9	...	7	9	...	7
Deposits in foreign exchange	11	11	11	...	11	11	...	9	11	...	9	11	...	9
Settlement of external guarantees during the preceeding quarter (in millions of U.S. dollars)	...	...	6	...	9	5	...	20	5	...	13	5	...	38

1/ At program exchange rates of end-December 2008.

2/ For 2009, cumulative from January 1; performance criteria for end-June and end-December, and indicative target for end-September 2009.

3/ Includes adjustor for the repayment of guarantees.

4/ Targets for NIR do not include SDR allocation of U.S. dollar 128 million in Q3 2009.

5/ Includes adjustor for changes in required reserves.

**ATTACHMENT II. TAJIKISTAN: MEMORANDUM OF ECONOMIC AND FINANCIAL POLICIES
(MEFP) FOR 2009–12**

May 20, 2010

I. INTRODUCTION

1. This memorandum outlines economic and financial policies of the Government of Tajikistan for 2010–12, and augments President Rahmon’s letter of intent and the memorandum of economic and financial policies dated March 31, 2009, focusing now on our policies for 2010. These policies are intended to serve as the basis for the ongoing IMF-supported program under the Extended Credit Facility (ECF)—which replaced the existing three-year Poverty Reduction and Growth Facility arrangement following the entry into force of the Executive Board’s decision of July 2009.
2. Tajikistan continues to be severely affected by the global crisis. In particular, remittances declined by 31 percent in 2009, and will likely show only modest growth in 2010. Real GDP growth was 3.4 percent in 2009, and we expect it to reach 4–5 percent in 2010. However, real per-capita disposable income contracted for the first time in many years in 2009, mainly on account of the decline in remittances, which negatively impacted the poverty situation. Inflation declined significantly in 2009 to 5 percent year-on-year in December 2009 due to a fall in international food prices, improved domestic supply of food items, and subdued demand but may pick up again in 2010, reflecting, inter alia, the turnaround in international commodity prices.
3. In this environment, our program focuses on safeguarding macroeconomic and balance of payments stability, supporting the poor and vulnerable segments of society, moving ahead with key infrastructure projects to address Tajikistan’s bottlenecks in the energy sector, and accelerating structural reforms, including by strengthening governance of public sector institutions and enhancing the role of the private sector.
4. We have reached understandings with IMF staff on a set of prior actions for the combined first and second ECF reviews, and on quantitative performance criteria, indicative targets, and structural benchmarks for 2010. Our policy framework continues to build on the measures that we have implemented during the Staff Monitored Program, and draw, in particular, on the findings and recommendations of the special audit of the National Bank of Tajikistan (NBT), the 2007–08 Financial Sector Assessment Program, the safeguards assessment, and ongoing technical assistance in the fiscal area.
5. Our macroeconomic policies are based on our Poverty Reduction Strategy (PRS, 2007–09), the government’s National Development Strategy for the period until 2015, and the new PRS (2010–12), which has been formally presented to donors and the IMF’s Executive Board in April 2010. Specifically, in the short term, our program aims to maintain macroeconomic stability which is the precondition for sustained high growth and poverty reduction. Structural reforms in the areas of financial sector, state-owned enterprises (SOEs),

and agriculture are designed to enhance the growth potential of our economy over the medium-term. In addition, we intend to move forward with key infrastructure projects in the energy sector. We believe that higher growth will be a key factor for further progress on poverty reduction. In particular, reforms in the agricultural sector should have a lasting effect on poverty, given that 70 percent of Tajikistan's population and most of low income households are concentrated in rural areas and depend on agriculture. In addition, the program's revenue collection and social spending floors, and public sector financial management work, will ensure that we can increase social spending as planned, while improving its targeting.

II. MACROECONOMIC POLICIES

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 through employment generation. Work on the project, which was initiated in the 1981, was restarted in 2008, and we now seek to accelerate construction, with a view to commissioning the first two turbines by 2014. This will be crucial to meet Tajikistan's growing energy needs, though additional generation capacity is likely to be needed.

7. Construction of Roghun and its financing will impact our macroeconomic objectives in 2010 and beyond. The total cost of the project's first phase is estimated at around SM6 billion (\$1.4 billion, or 24 percent of 2010 GDP) of which around \$600 million would be imports. We have set up a joint stock company Roghun OJSC with an authorized capital of SM 6 billion which will be owned 75 percent by the government. Beginning in January 2010, we have started to sell equity to the public of up to 25 percent of the shares (SM 1.5 billion). The campaign yielded SM 800 million in equity purchases and contributions through March 2010. These funds are held as deposits of Roghun OJSC with commercial banks and a special treasury subaccount at the NBT. As of mid-April, we have suspended the advertisement campaign asking the population to contribute to the Roghun project, and expect that inflows will be slow for the remainder of the year. Specifically, we project that gross inflows from equity purchases and contributions will fall below 0.03 percent of GDP on average per month during April–December 2010, and stay at similar levels in 2011. Once the results of a techno-economic, social and environmental impact assessment of the Roghun project will be available, we will revisit our financing strategy in close consultation with Fund and World Bank staff, and ask the World Bank to lead an international financing consortium.

8. In order to provide for full transparency and a strong governance structure for the Roghun project, we have set up a supervisory board, headed by the prime minister and consisting of government officials as well as representatives of private sector shareholders that will oversee all financial aspects of the Roghun OJSC, and on a quarterly basis report to the public about the sources and uses of funds, including detailed information on the contractors hired by Roghun OJSC, their owners, and the bidding process used to award all

contracts. The first report will be published on the ministry of finance's website at end-June 2010. We will also have regular annual audits by a reputable international auditing firm of the financial statements of Roghun OJSC which will also be published on the ministry of finance's website. We will tender the audit of the 2008 and 2009 financial statements by end-June 2010 (benchmark), and expect the audit to be finalized and published by December 2010 (benchmark). A first shareholder meeting will be convened in June 2010. In this context, we will abide by the principles set out in the OECD Guidelines on Corporate Governance of State-Owned Enterprises. In particular, we commit to equitable treatment of all shareholders and will register all minority shareholders and give them the opportunity to participate in major corporate decisions. For this purpose, the government will limit its use of the golden share. Once profits allow, Roghun OJSC will make dividend payments to all shareholders.

9. Against this background, we have reached an agreement with staff on macroeconomic policies for 2010. In the fiscal area, we believe that a deficit target (excluding the externally financed public investment program, PIP) of 1 percent of GDP is appropriate, given the need to safeguard macroeconomic stability. This will allow us to modestly increase social spending further, and we will protect social spending from expenditure cuts in case of unexpected revenue shortfalls. We submitted a 2010 budget to parliament that is consistent with our program targets. If additional donor grants are forthcoming, we intend to use them for raising social spending. Monetary policy will continue to target reserve money growth as the nominal anchor, while we will maintain our flexible exchange rate regime. We aim to raise reserve adequacy from its current low levels by further accumulating net international reserves (NIR), despite the projected external pressures. In this context, the NBT will limit its interventions in the foreign exchange market to smoothing excess volatility.

10. In the medium term, we hope that a more favorable international environment will pave the way toward higher growth and external balance. In these circumstances we hope to significantly strengthen our international reserves position, and target a reserves coverage of 2 months of imports by 2015. In the fiscal area, we will balance the pressing spending needs in the social and infrastructure areas, 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 strategy also addresses the fiscal impact of the cotton debt resolution which has left the NBT with a recapitalization need of around \$600 million (Paragraph 13).

III. STRUCTURAL REFORMS FOR 2010

A. Monetary and Financial Sector Reforms

11. A safeguards assessment update of the NBT is underway and should be completed soon. The preliminary findings indicate that initial steps have been taken to address the risks identified by the special audit on cotton sector financing. However, considerable safeguards risks at the NBT remain. Both the accounting and the organizational structure are still

fragmented. Due to the weak internal audit function and an absence of any oversight bodies, access to broad and complete information remains restricted. Consequently, there is a need to further enhance data systems and the transparency of operational integrity. Restoring the credibility of the central bank and building the required capacity in key functions, such as internal audit and financial reporting will require more time. We have started to implement the main recommendations of the special audit of the NBT, and have now included the recommendations of the safeguards assessment in our NBT action plan shown in Table 1. We will appoint a task force, chaired by a non-executive Board Director, to assess progress on these reforms on a semi-annual basis.

12. Recently passed amendments to the NBT Law addressed key shortcomings that needed to be tackled quickly. Going forward, we will review the law in its entirety in order to bring it in line with international practices, and we requested IMF technical assistance in this respect. With such assistance, we intend to submit to parliament a draft NBT law consistent with Fund staff advice by end-December 2010 (benchmark), with a view to adopting the law by June 2011.

13. We have developed a NBT recapitalization strategy that balances the NBT's needs (strong balance sheet, instruments for monetary policy) and the government's interests (minimize fiscal costs). The strategy was prepared with Fund assistance by a working group comprising the ministry of finance, the NBT, the ministry of justice, the ministry of economic development and trade, and the state committee for investment and state property management. As part of this strategy, the government has resumed servicing the recapitalization bonds held by the NBT, while the NBT has resumed paying interest on government deposits. In addition, the government will make annual capital injections into the NBT over the coming eight years, starting in 2010. We will also require cotton investors to start paying quarterly principal (in equal installments) and interest on their outstanding debt to the NBT starting June 2010 (benchmark). To contribute to its recapitalization, the NBT will adjust its portfolio composition toward a larger share of income-earning assets.

14. In its monetary policy operations, the NBT will continue to refrain from issuing new credits to the private sector, except for 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. In consultation with staff, by end-June we will adopt a regulation on establishing a remunerated deposit facility with the NBT to serve as the only deposit facility available to banks to increase the NBT's flexibility in managing its excess liquidity.

15. We seek to strengthen Tajikistan's financial sector with a view to reinvigorating private sector credit growth. Banks' asset quality has deteriorated, impeding their scope for credit extension. In addition, support from international financial institutions for the sector has declined, affecting funding. In this regard, the cotton debt resolution will help to strengthen banks' asset quality. The NBT monitors closely potential vulnerabilities in the banking system, paying close attention to banks' loan classification—including through

on-site visits—and the Uniform Bank Performance Reports. With a small number of banks consistently violating prudential rules (including on single party exposure limits and reserve requirements), we will ask them to develop time bound plans to become fully compliant with all standards. Furthermore, by end-December the NBT will submit to parliament a bankruptcy law for credit institutions (benchmark), in consultation with staff, thereby filling a gap in our commercial bank legislation. We are also working with the World Bank to establish an appropriate anti-money laundering and counterterrorism financing framework (AML/CFT), and will submit an AML/CFT law to parliament by end-December 2010.

B. Reforms in the Fiscal Area

16. With assistance from the World Bank, we continue strengthening the civil service, and the health, and education sectors. In the health sector, this involves allocating resources in an asymmetric fashion favoring primary health care. In education, we are moving ahead with a per capita funding pilot system. In this context, we are working toward a competitive and affordable civil service wage system, and plan to raise public sector wages effective October 2010. A new health insurance law has been passed that plans to introduce mandatory universal health insurance. We are also preparing a new pension law that seeks to reform the pay-as-you-go and the fully funded pillar, and generate an actuarially balanced system for migrant workers with pension entitlements. Implementation of these laws will be postponed until they have been fully costed, and integrated into our medium-term budget framework, and their poverty and social impact assessed.

17. We seek to moderately raise the revenue-to-GDP ratio over time to create space for pressing spending needs. In the tax policy area, work is ongoing to draft and ratify all remaining regulations for the 2005 Tax Code. With the support from the IMF and other donor organizations we will implement measures that will build capacity of the tax administration and contribute to the improvement of the quality of tax administration services and better collection of the budget revenue. Any changes and amendments to the Tax Code and the Customs Code will be prepared in consultation with IMF staff. To take stock of the fiscal impact of existing tax exemptions, the 2011 budget will include a report that assesses the costs of existing tax exemptions during 2010.

18. We are also pursuing steps to further enhance public financial management. In this context, we aim to issue an order of the ministry of finance requiring the implementation of the full Treasury Single Account (TSA) system at the Republican level from January 1, 2011, including the closure of all nondonor general government sector bank accounts other than the TSA itself and zero balance transit accounts (benchmark).

C. State-Owned Enterprises, Agriculture, and Data

State-Owned Enterprises

19. We are taking steps to address the problem of arrears in SOEs and put them on a sound financial footing. Some arrears reflect structural deficits in SOEs, others nonpayment

of dues from government entities. Arrears remain a serious problem that could potentially jeopardize macroeconomic stability, and we seek to address these problems urgently. We are currently studying the technical assistance report prepared by the Fund on improving tax administration and taking measures to reduce tax arrears and will identify specific reform measures in consultation with Fund staff. We have also ensured that the 2010 budget includes sufficient resources for all spending agencies to remain current on their obligations.

20. The SOE Supervision Unit is making progress to becoming fully operational, with the help of the European Commission and IMF technical assistance. The unit should be fully staffed by end-June 2010, despite problems with identifying qualified candidates. The immediate task for the unit is to assess the financial performance of SOEs and their 2010 financial plans, submitted by end-2009. We will also require all SOEs monitored by the Supervision Unit to have their financial statements externally audited and to publish these statements together with the audit report on the ministry of finance's website. In parallel, the SOE unit has started preparing reports on SOE performance that are also published on the ministry of finance's website.

21. Tajikistan Aluminum Company (Talco) has undergone an external audit of its 2006-08 financial statements, and the audit report and the financial statements will be published on the company's website soon. Talco Management Company, which is Talco's main provider of inputs and the exclusive purchaser of its output, by end-June 2010 will issue a tender for an external audit of Talco Management's 2008 and 2009 financial statements by a reputable international audit firm (benchmark). The relevant financial statements and the audit report will again be published on Talco's website. The second-largest SOE, Barki Tajik, will—with World Bank support—continue electricity tariff adjustments in order to achieve cost recovery by end-2010, while the government will continue to work with donors to improve the social mitigation mechanism to ensure that the most vulnerable segments of the population have access to a basic minimum of energy services. Following up on the external audit of its 2007 accounts, Barki Tajik will also work with the World Bank on improving its financial management, and we have published the 2007 audit report on the company's website by May 2010.

22. For the purpose of disclosure of beneficial ownership of all companies registered with the ministry's agency for securities, we finalized the database of beneficial ownership of all companies listed with the agency, and published it on the ministry of finance's website.

Agriculture

23. We have adopted an action plan to resolve the cotton debt problem in June 2009, and are working on its implementation. The plan envisages the write off all farm debt that was accumulated as of January 1, 2008, and all interest accrued on that stock since then. Certificates that legally discharge farmers from debt obligations to investors were distributed. As part of the action plan we will encourage all banks to apply the Tajikistan Agricultural Financing Facility methodology, developed by the European Bank for Reconstruction and Development, for the government financing scheme for the agriculture sector as of 2010. In

light of our fiscal constraints, resources available for lending to the agriculture sector in 2010 will be limited up to a maximum of SM 130 million. We intend to gradually phase out budget lending to agriculture and move toward a private financing mechanism. A precondition for having a private-sector led financing mechanism will be the ability to use land-use rights as collateral. We are working closely with the World Bank, Asian Development Bank, and other donors on the implementation of the action plan. We are also seeking donor financing for the agriculture sector to ensure that farmers have sufficient access to credit.

Data

24. We plan to strengthen our national accounts and price statistics, with technical assistance from the newly appointed regional IMF statistics advisor, who will coordinate closely with the STATCAP project led by the World Bank.

25. We will also continue to strengthen our debt data management framework, including by completing an inventory of government domestic debt and domestic government guaranteed debt of SOEs, and by publishing this report together with a report on government and government-guaranteed external debt in the 2011 budget documents. In addition, the NBT will finalize the monitoring system of private external debt, publish these data on the NBT website on a semi-annual basis starting from end-June 2010, and share them with the ministry of finance on a quarterly basis.

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 June 2010 and December 2010. 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. Further progress on governance reforms at the NBT and our medium-term fiscal strategy will be the main focus for discussion for the third review under the proposed arrangement. In this regard, the completion of the third review under the ECF arrangement—which is envisaged for September 2010—will require observance of the quantitative performance criteria for end-June 2010, and completion of the fourth review—which is envisaged for March 2011— will require observance of the quantitative performance criteria for end-December 2010. At the time of the third review, we will also set additional quantitative performance criteria and benchmarks for 2011.

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	
Establish NBT Board Committees, such as an audit committee, chaired by a non-executive member of the NBT Board.	June 2010	
Create and publish on the NBT's website a register of commercial interests of NBT Board members and top management	June 2010	
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	
<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	KPMG appointed and present at cash count. Audit field work planned for June 2010.
External audit of the April 2009 financial accounts to be completed.	Prior action for Board meeting	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 recommendations are being addressed.	End-June and end-December 2009 audit prior action for Board meeting.	End-June audit report posted on NBT website in April 2010; KPMG appointed to conduct NIR audit for end-December 2009. Field work

Reform	Timing	Status
		finalized in April 2010.
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.		In progress
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	
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.	Done in April 2010	
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	
<i>ACCOUNTING AND OPERATIONS</i>		
Create a new base of the NBT balance sheets and continuously monitor their conformity with analytical data	June 2009	Recommendations of special audit of the NBT and end-December 2008 NIR audit incorporated. Revised balance sheet presented as part of regular annual audit.
Keep full records of adjustments made with regard to audited financial reports, and keep full records to confirm	Continuously	

Reform	Timing	Status
the data that the IMF publishes in its reports		
Increase the number of sudden checks of cash available in the NBT's head office and regional branches.	Continuously	
Develop a mechanism to transfer and share information between departments on any reclassification of items in the NBT's accounting balance sheet for the purpose of compiling the monetary analysis.	Continuously	
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	
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	Requesting technical assistance
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		
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.		

ATTACHMENT III. TAJIKISTAN: TECHNICAL MEMORANDUM OF UNDERSTANDING**May 20, 2009****I. INTRODUCTION**

1. This memorandum defines the quantitative performance criteria and the indicative targets and relative adjustors, and establishes the content and frequency of the data to be provided to IMF staff for the program monitoring relating to the program supported by an arrangement under the Extended Credit Facility (ECF)—which replaced the existing three-year Poverty Reduction and Growth Facility (PRGF) arrangement following the entry into force of the Executive Board’s decision of July 2009—under the request in the authorities’ Letter of Intent dated May 20, 2010.

II. QUANTITATIVE PERFORMANCE CRITERIA**A. Definitions and Concepts**

2. **Test dates.** Quantitative performance criteria are set semi-annually starting June 30, 2009 through December 31, 2011, and are to be met at the end of each period unless otherwise specified.
3. **National Bank of Tajikistan (NBT).** The NBT is the central bank of the country responsible for the formulation and implementation of monetary policy. For the purpose of the program, NBT includes all its central and regional offices.
4. **General government.** For the purpose of the program, “general government” includes the republican government, local (including municipal) governments, and the agencies included in the administrative classification of the budget. It excludes all other agencies not specifically listed, including but not limited to Barki Tajik and Talco.
5. **Foreign-financed PIP and related grants.** The foreign financed PIP is a program of investments in infrastructure and social sectors agreed by the general government of Tajikistan and its donors (including but not limited to international financial organizations). The program is fully financed by related grants and loans, and does not involve any additional financing commitment from the general government of Tajikistan. Related grants are grants provided by the donors financing the PIP for financing of projects included in the PIP.
6. **Domestic arrears** are defined as the general government expenditure that have not been paid after coming due as determined in the State Budget of the Republic of Tajikistan and other government documents regulating the execution of the Budget for ten business days.

7. **External arrears** are defined as overdue payments (principal or interest) on external debt contracted, guaranteed, or converted into interstate debt by the general government of Tajikistan or the NBT.
8. **Concessional and nonconcessional debt.** 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. For debts of an original maturity of 15 years or more, the average CIRR over the last 10 years will be used (which will be taken as that for December 31, 2009 until revised in the program), 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 (which will be taken as that for August 14, 2009 until revised in the program). To the 10-year and 6-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, the 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 CIRR mentioned above. Nonconcessional debt is defined as debt without a grant element or with a grant element of less than 35 percent. The debt refers also to commitments contracted or guaranteed and for which value has not been received. The calculation is performed by the authorities and verified by the IMF based on the data provided by the authorities.
9. **Valuation changes (program exchange rates).** For program monitoring, U.S. dollar-denominated components of the general government's and the NBT's balance sheets will be valued at the program exchange rate (SM4.371= US\$1.00; official exchange rate as of December 31, 2009). Other foreign currency denominated items will be valued at the respective 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 as of December 31, 2009. The SDR components will be valued at the program SDR exchange rate SDR = \$1.56769 (December 31, 2009). Official gold holdings shall be valued at \$1,104 per troy ounce (December 31, 2009).

B. Quantitative Performance Criteria and Indicative Targets

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

10. **Definition.** For the purpose of the program, net domestic assets (NDA) of the NBT are defined as reserve money at program exchange rates minus net foreign assets at program exchange rates of the NBT. The cumulative flow of NDA for the year is defined as a difference between end-of-period balances for a period under evaluation and the preceding end-of-the year balance, unless otherwise specified. Reserve money (RM) at program exchange rates is composed of currency in circulation (CC), required reserves (RR), other bank reserves (OBR), and deposits of nongovernmental nonbanks with the NBT (DNGNB).

The value of the net foreign assets at program exchange rates of the NBT is calculated as the difference between NBT's claims on nonresidents and its liabilities to nonresidents. The NBT's NDA comprise the following assets and liabilities: net credit to the general government, net claims on banks, credit to the economy, and other items net (OIN). OIN includes the foreign exchange revaluation and capital accounts of the NBT.

11. **Adjustor for changes in reserve requirement ratio.** The ceiling on a cumulative flow of NDA of the NBT for the year will be adjusted upwards (downward) when the required reserve rates (rr) on deposits in local and/or foreign currency (DB) are increased (decreased), resulting in a corresponding increase (decrease) of reserve money (RM).

NDA before RR change: $NDA = RM - NFA$

$RM = CC + RR + OBR + DNGNB$ where:

$RR = rr * DB$

DB – deposit base

rr – required reserve rate

Define: drr – change of required reserve rate.

DB – deposit base used for calculation of required reserves

$drr * DB$ – amount of upward (if $drr > 0$) or downward (if $drr < 0$) adjustment in RM

NDA after RR change $NDA = RM (+/-)drr * DB - NFA$.

12. **Adjustor for ministry of finance gold holdings.** The cumulative NDA flow is adjusted downward (upward) for any deposit (withdrawal of deposit) of ministry of finance's gold holdings with the NBT during the program period.

13. **Adjustor for disbursement of a loan by the Anti Crisis Fund.** The cumulative NDA flow is adjusted downward for any disbursement of a concessional loan from the Anti Crisis Fund, given that such a loan would reduce the government's need to rely on NBT budget financing.

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

14. **Definition.** 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 (defined as gold of London good delivery quality), including monetary gold owned by the Ministry of Finance, SDRs, convertible currencies in cash or in nonresident

financial institutions that are readily available and any reserve position at the IMF. Also included are holdings of foreign currency-denominated securities issued by governments or central banks of OECD member states. Excluded are changes in the level of gross foreign reserves that arise from capital subscriptions in foreign financial institutions, non-liquid 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 liabilities outstanding to the IMF and liabilities of the NBT to nonresidents with an original maturity of up to and including one year. A cumulative flow for the year of total net international reserves (in millions of U.S. dollars) is defined as a difference between the end-of-period balances for the period under evaluation and the preceding end-of-the year balance, unless otherwise specified.

15. **Adjustor for repayment of loan from China Development Bank ahead of schedule.** The floor on the cumulative flow of NIR will be adjusted downwards in March and June of 2010 should repayment of up to \$20 million of a loan from China Development Bank that falls due in September 2010 take place ahead of schedule.

16. **Adjustor for conversion of non-monetary gold into monetary gold.** The flow on the cumulative NIR flow will be adjusted upward by the amount of nonmonetary gold held by the NBT or the ministry of finance converted to monetary gold.

17. **Adjustor for ministry of finance monetary gold holdings.** The cumulative NIR flow is adjusted upward for any gold accumulation by the ministry of finance.

18. **Adjustor for disbursement of a loan by the Anti Crisis Fund.** The cumulative NIR flow is adjusted upward for any disbursement of a concessional loan from the Anti Crisis Fund, given that the proceeds from this loan will not be used in 2010.

Quantitative Performance Criterion 3: Zero ceiling on new lending and guarantees from the NBT to private sector (continuous quantitative performance criterion).

19. **Definition.** New lending from the NBT to the private sector is defined as loans extended by the NBT to domestic commercial banks, credit unions, credit associations, and microfinance organizations with a maturity of more than three months, and loans extended by the NBT to other domestic nonbank financial institutions or any other domestic entity other than the general government. Short-term liquidity loans to domestic commercial banks, credit unions, credit associations, and microfinance organizations with a maturity of up to three months are not included under this definition. Guarantees are defined as any guarantee extended by the NBT of principal or debt service payment for debt issued or contracted by private sector entities.

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

20. **Definition.** The overall fiscal balance of the general government is defined from below the line on a cash basis as the negative sum of:

- a. *change in net claims on the general government of the NBT*: net claims on the general government of the NBT is defined as the net position of NBT loans and advances to the general government, NBT holdings of government securities, bank restructuring costs, and all deposits of the general government with the NBT—including the counterpart of the ministry of finance’s gold holdings—, counterpart deposits (which reflect balance of payments and/or general budget support from international financial institutions and other donors), and the privatization account (where proceeds from the privatization of state property are held);
- b. *the change in net claims on the general government of the rest of the domestic banking system*: net claims on the general government of the rest of the domestic banking system 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.);
- c. *the change in net claims on the general government of domestic nonbank institutions and households*: net claims on the general government of domestic nonbank institutions and households are defined as treasury bills, bonds or other government securities held by nonbank institutions and households (including nonresidents and nonresident financial institutions), plus any other liabilities of the general government to domestic nonbank institutions or households;
- d. *the change in net foreign liabilities of the general government*: net foreign liabilities of the general government are defined as government debt to foreign sovereigns, and foreign financial and nonfinancial institutions. For this purpose, net foreign liabilities exclude liabilities that arose in the context of the externally financed PIP;
- e. *gross proceeds from the privatization of state property*: gross proceeds from the privatization of state property are defined as all receipts originating from the sale of the general government property; and
- f. *the change in gross arrears of the general government*: gross arrears refer to domestic or external arrears.

All changes will be calculated as the difference between end-of-period stocks, net of any valuation changes resulting from currency movements.

21. **Adjustor for the issuance of t-bills to banks as part of cotton sector debt resolution.** The floor on the cumulative overall fiscal balance of the general government excluding foreign-financed PIP and related grants will be adjusted downwards by the amount of interest payments on government securities issued to banks as part of cotton debt resolution up to SM 50 million.

Quantitative Performance Criterion 5: Ceiling on general government wage and pension arrears (continuous quantitative performance criterion).

22. **Definition.** Arrears on general government and pensioners' pensions are defined 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 for ten business days thereafter. To allow monitoring of the above defined arrears the government will provide data on actual wage payments, including a breakdown by local governments, as part of the monthly budget execution statements submitted to the IMF staff. The Agency on Social Protection and Pensions will provide quarterly reports and statements of their operations.

Quantitative Performance Criterion 6: Ceiling on contracting or guaranteeing of any nonconcessional external debt (continuous quantitative performance criterion).

23. **Definition.** The definition of debt, for the purposes of the program, is set out in Executive Board Decision No. 12274, Point 9, as revised on August 31, 2009 (Decision No. 14416-(09/91); see below) and also includes commitments contracted or guaranteed and for which value has not been received. The debt limits apply to short-, medium-, and long-term debt contracted by 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.

24. **The definition of debt set forth in point No. 9 of the guidelines as revised on August 31, 2009 reads as follows:** "(a) For the purpose 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 point(s) in time; these payments will discharge the principal and/or interest liabilities incurred under the contract. Debts can take a number of forms, the primary ones being as follows: (i) loans, i.e., advances of money to the 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); (ii) 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 (iii) leases, i.e., arrangements under which property is provided which the lessee has the right to use for 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.”

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

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

27. **Valuation of debt denominated in currencies other than the U.S. dollar.** Debts 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.

28. **Guarantee of a debt.** For the purposes of the program, the guarantee of a debt arises from any explicit legal obligation of the general government or the NBT or any other agency acting on behalf of the general 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 general government or the NBT or any other agency acting on behalf of the general government to finance a shortfall incurred by the debtors.

Quantitative Performance Criterion 7: Ceiling on disbursements of concessional external financing.

29. **Definition:** Disbursements of concessional external financing are defined as disbursements of debt with a grant element equivalent of 35 percent or more.

30. **Adjustor for the ceiling on disbursements of concessional external financing.** The ceiling will be adjusted upwards to reflect any concessional borrowing from the Anti Crisis Fund of up to \$90 million.

Quantitative Performance Criterion 8: New external payments arrears (continuous quantitative performance criterion).

31. **Definition.** External payments arrears are defined as overdue payments (principal or interest) on external debt contracted, guaranteed, or converted into interstate debt by the general government of Tajikistan or the NBT.

Indicative Target 1: Floor on tax collections.

32. **Definition.** Tax collections are defined to include all taxes (and custom revenues) collected under the general government 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.

Indicative Target 2: Floor on social- and poverty-related expenditure.

33. **Definition.** Social- and poverty-related expenditure is defined as the sum of current and capital expenditures in the education, health, and social protection sectors as shown in the functional classification of the budget.

Indicative Target 3: Ceiling on gross equity sales and contributions for Roghun.

34. **Definitions.** “Gross equity sales” are defined as all sales of equity in the Roghun OJSC. “Contributions” are defined as all other transfers to Roghun OJSC, the government, or any other public entity for the construction of Roghun, *with the exception* of direct budget transfers. For purposes of the quarterly indicative target, gross equity sales and contributions will be measured as the difference between the end-of-period balance for the period under evaluation and the preceding end-of-the year balance in all accounts of Roghun OJSC with commercial banks and the NBT, and balances held by the government with commercial banks or the NBT on account of Roghun OJSC, plus the cumulative withdrawals from these accounts for expenditure purposes.

Indicative Target 4: Ceiling on the stock of NBT liquidity loans.

35. **Definition.** NBT liquidity loans are defined as short-term liquidity loans by the NBT to domestic commercial banks, credit unions, credit associations, and microfinance organizations with a maturity of up to three months.

III. REPORTING REQUIREMENTS UNDER THE PROGRAM

36. For program monitoring, the following data should be reported to the Middle East and Central Asia Department of the International Monetary Fund via the IMF Resident Representative's office in Dushanbe.

Table 1. Data reporting frequency for program monitoring

Data	Frequency	Lag
1. NBT analytical balance sheet	Weekly	3 working days
2. NBT balance sheet	Weekly	3 working days
3. Commercial banks' and Kredit Invest balance sheets	Monthly	4 weeks
4. Auction results for NBT certificates and treasury bills	Weekly	1 week
5. Fiscal revenues, expenditures and financing of budget execution, and extrabudgetary funds	Monthly	4 weeks
6. Reports and statements from the Agency on Social Protection and Pensions	Quarterly	6 weeks
7. Arrears of budget entities and state-owned enterprises	Quarterly	4 weeks
8. Wage and pension arrears by all levels of governments	Monthly	4 weeks
9. Stocks, disbursements, guarantees, new contracts of external debt including terms and disbursement profile, including non-guaranteed external debt of state-owned enterprises	Quarterly	4 weeks
10. External arrears arising in respect of obligations incurred directly, guaranteed, or converted into interstate debt by the general government of Tajikistan or the NBT, including penalties or interest charges	Monthly	4 weeks
11. Liquidity loans and loans stemming from fulfillment of the lender-of-last-resort function extended by the NBT to the economic agents in Tajikistan (financial sector, nonfinancial sector, enterprises, individuals, and any other) specifying date of issue, amount of original loan, interest, term, schedule of repayment, currency, and any grace period	Weekly	1 week
12. Net and gross international reserves, including ministry of finance gold holdings, daily sales and purchases of foreign currency, and daily sales and purchases of foreign currency executed with an intention of influencing the exchange rate of somoni	Daily	1 working day
13. Foreign exchange spending of Roghun OJSC, total expenditures of Roghun OJSC, government transfers to Roghun OJSC, equity subscriptions by the public to Roghun OJSC, any other receipt of Roghun OJSC. Balances in all accounts of Roghun OJSC with commercial banks and the NBT and balances held by the government with commercial banks or the NBT on account of Roghun OJSC. Cumulative number of shares sold by denomination.	Monthly	4 weeks

INTERNATIONAL MONETARY FUND

REPUBLIC OF TAJIKISTAN

**First and Second Review Under the
Three-Year Arrangement Under the Extended Credit Facility, Request for Waiver
of Performance Criteria, and Request for Augmentation of the
Arrangement—Informational Annex**

May 21, 2010

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ANNEX I. TAJIKISTAN: RELATIONS WITH THE FUND
(As of April 30, 2010)

I. Membership Status: Joined April 27, 1993; Article VIII

II. General Resources Account:

	<u>SDR million</u>	<u>% Quota</u>
Quota	87.00	100.00
Fund holdings of currency	87.00	100.00
Reserve position in Fund	0.00	0.00

III. SDR Department

	<u>SDR million</u>	<u>% Allocation</u>
Net cumulative allocation	82.08	100
Holdings	69.85	85.09

IV. Outstanding Purchases and Loans

	<u>SDR million</u>	<u>% Quota</u>
ECF Arrangements	26.10	30.00

V. Latest Financial Arrangements

Type	Approval Date	Expiration Date	Amount Approved (SDR million)	Amount Drawn (SDR million)
ECF ¹	Apr 21, 2009	Apr 20, 2012	78.30	26.10
PRGF	Dec 11, 2002	Feb 10, 2006	65.00	65.00
PRGF	Jun 24, 1998	Dec 24, 2001	100.30	78.28

VI. Projected Payments to Fund²

(SDR Million; based on existing use of resources and present holdings of SDRs):

	Forthcoming				
	2010	2011	2012	2013	2014
Principal					<u>2.61</u>
Charges/Interest	<u>0.03</u>	<u>0.03</u>	<u>0.10</u>	<u>0.10</u>	<u>0.10</u>
Total	<u>0.03</u>	<u>0.03</u>	<u>0.10</u>	<u>0.10</u>	<u>2.70</u>

¹ Formerly PRGF.

² When a member has overdue financial obligations outstanding for more than three months, the amount of such arrears will be shown in this section.

VII. Implementation of HIPC Initiative Not Applicable.**VIII. Implementation of Multilateral Debt Relief Initiative (MDRI):**

I. MDRI-eligible debt (SDR Million) ³	69.31
Financed by: MDRI Trust	69.31
Remaining HIPC resources	--

II. Debt Relief by Facility (SDR Million)

<u>Delivery Date</u>	<u>Eligible Debt</u>		
	<u>GRA</u>	<u>PRGT</u>	<u>Total</u>
January 2006	N/A	69.31	69.31

IX. Safeguards Assessment

An update safeguards assessment of the NBT (conducted in December 2009) noted that initial steps have been taken to address the risks identified by the special audit on cotton sector financing. However, considerable safeguards risks at the NBT remain. Both the accounting and the organizational structure are still fragmented, with no oversight over external and internal audits. Internal audit is weak and needs to increase coverage of core functions. To address these issues, the NBT has agreed to the following immediate steps: (i) finalizing and publishing the end-April 2009 audited financial statements; (ii) finalizing the appointment before end December of an external auditor to conduct the end-2009 statutory audit of the financial statement; (iii) continuing the NIR reviews at test dates and adopting these as necessary for emerging findings; (iv) adopting an appropriate external audit selection, multiyear appointment, and rotation policy; and (v) outsourcing to an external audit consulting firm the internal audit of the activities of the international relations department. Certain immediate steps have already been implemented.

X. Exchange Rate Arrangements

Since June 2009, the exchange rate regime is classified as stabilized. The official exchange rate is based on all interbank transactions in foreign exchange. It is calculated and announced daily.

With effect from December 9, 2004, the Republic of Tajikistan accepted the obligations of Article VIII, Sections 2, 3, and 4 of the Articles of Agreement. The Republic of Tajikistan maintains an exchange system that is free of restrictions on the making of payments and

³ The MDRI provides 100 percent debt relief to eligible member countries that qualified for the assistance. Grant assistance from the MDRI Trust and HIPC resources provide debt relief to cover the full stock of debt owed to the Fund as of end-2004 that remains outstanding at the time the member qualifies for such debt relief.

transfers for current international transactions, except for exchange restrictions maintained for security reasons that have been notified to the Fund pursuant to Executive Board decision No. 144-(52/51).

XI. FSAP Participation

Tajikistan participated in the Financial Sector Assessment Program during 2007–08, and the FSSA report has been published at <http://www.imf.org/external/country/TJK/index.htm>.

XII. Article IV Consultation

The 2009 Article IV consultation was completed on Apr 21, 2009.

XIII. Resident Representative

Mr. Moers, Resident Representative of the Fund, started his assignment in Dushanbe in June 2006.

XIV. Technical Assistance

The following list summarizes the technical assistance provided by the Fund to Tajikistan since 2004.

Fiscal Affairs:

July 2004	Revenue Administration Reform
December 2004	Poverty and Social Impact Analysis
June 2005	Public Financial Management
August 2005	Tax Policy and Administration
August 2006	Fiscal ROSC
May 2007	Public Financial Management (Budget Classification)
February 2010	Tax Policy and Administration
Ongoing	Public Financial Management (Regional Advisor)

Monetary and Financial Systems:

May 2006	Strengthening the Monetary Policy Framework and Liquidity Management
October/December 2009	NBT Recapitalization Strategy

Statistics:

April 2004	Data ROSC
October 2004	General Data Dissemination System (GDDS)
June 2006	Report on Monetary and Financial Statistics
Ongoing	National accounts and price statistics (Regional Advisor)

Finance:**Legal:**

January 2004	Tax Legislation
May 2004	Tax Legislation
2006	AML/CFT

ANNEX II. TAJIKISTAN: STATISTICAL ISSUES
As of May 11, 2010

Assessment of Data Adequacy for Surveillance

1. **General:** Data provision has some shortcomings (mainly in the areas of national accounts, price statistics, and monetary statistics), but is broadly adequate for surveillance
2. **National Accounts and Price Statistics:** There are significant deficiencies in the statistical techniques for national accounts and price statistics, most notably in procedures to estimate the informal economy, and the techniques for imputation, replacement, quality adjustment, and introduction of new products in the price indices. Technical assistance from the World Bank and the Fund have yielded some improvements, but there are remaining problems with the CPI compilation methodology and the GDP volume estimates, relating in parts to the period-to-period averages of price indices.
3. **Government finance statistics:** Government finance statistics (GFS) are based on cash transactions as recommended in the 1986 Manual on Government Finance Statistics. There are no plans to migrate the basis of compilation to the 2001 Government Finance Statistics Manual. In 2010, the authorities introduced an administrative classification of the budget. However, there are occasional budget classification issues within the economic classification of expenditures and the classification of above- and below-the-line transactions, which are being resolved with the help of a regional advisor.
4. **Monetary and financial statistics:** The special audit of the National Bank of Tajikistan that was completed in March 2009 found that there was no “reliable accounting baseline.” The accounting baseline has since been established, but the accounting function is still fragmented and needs to be strengthened. These risks are mitigated by the statutory audits of the financial statements and the ongoing semiannual NIR reviews by external audit firms. The authorities have yet not adopted the latest methodology for the compilation of monetary statistics and reporting of monetary data through the standardized report forms introduced to all IMF member countries in 2004. Thus, the monetary data published in International Financial Statistics are outdated with respect to the methodology and timeliness as well.
5. **Balance of payments:** There is a need for consistency in applying the residency concept in the balance of payments and the national accounts, and the scope of the foreign trade data needs to be improved to cover the shuttle trade.

Data Standards and Quality

6. Tajikistan began participating in the General Data Dissemination System (GDSS) on November 17, 2004. Metadata updated regularly. The authorities have indicated their interest in graduating from the GDSS to the Fund’s Special Data Dissemination Standard (SDDS).

They have appointed a national SDDS coordinator and requested technical assistance for this purpose.

7. Data ROSC was published on March 30, 2005.

Reporting to STA

8. Country page in the International Financial Statistics (IFS) has been published since February 2003.

Tajikistan: Table of Common Indicators Required for Surveillance
(As of May 11, 2010)

	Date of latest observation	Date received	Frequency of Data ⁶	Frequency of Reporting ⁶	Frequency of publication	Memo Items:	
						Data Quality – Methodological soundness ⁷	Data Quality – Accuracy and reliability ⁸
Exchange Rates	03/06/09	03/11/09	D	W	W		
International Reserve Assets and Reserve Liabilities of the Monetary Authorities ¹	03/06/09	03/10/09	D	W	W		
Reserve/Base Money	02/21/09	03/04/09	W	M	W	O, O, LO O	LO, O, O, O, NO
Broad Money	02/21/09	03/04/09	M	M	M		
Central Bank Balance Sheet	02/21/09	03/04/09	W	M	W		
Consolidated Balance Sheet of the Banking System	01/31/09	03/04/09	M	M	M		
Interest Rates ²	01/31/09	03/05/09	M	M	V		
Consumer Price Index	Feb./09	03/10/09	M	M	M	LO, LO, LNO, O	LO, LO, LO, O, O
Revenue, Expenditure, Balance and Composition of Financing ³ — General Government ⁴	Jan/09	03/08/08	M	M	M	LO, LO, O, O	O, O, O, LO, LO
Revenue, Expenditure, Balance and Composition of Financing ³ — Central Government	Jan/09	03/08/08	M	M	M		
Stocks of Central Government and Central Government-Guaranteed Debt	Q4/08	01/27/08	Q	Q	V		
External Current Account Balance	Q3/08	03/11/09	Q	Q	V	LNO, LNO, O, O	LO, O, O, O, O
Exports and Imports of Goods	Q4/08	02/06/09	Q	Q	V		
GDP/GNP	Jan./09	02/24/09	M/A	M	V	O, LNO, LNO, LNO	LO, LO, LNO, O, O
Gross External Debt ⁵	Q4/08	02/06/09	Q	Q	V		

¹Includes reserve assets pledged or otherwise encumbered, as well as net derivative positions.

²Both market-based and officially determined, including discount rates, money market rates, and rates on treasury bills, notes and bonds.

³Foreign, domestic bank, and domestic nonbank financing.

⁴The general government comprises central government (budgetary, extra budgetary, and social protection funds) and state and local governments.

⁵Including currency and maturity composition.

⁶Daily (D), Weekly (W), Monthly (M), Quarterly (Q), Annually (A); NA: Not Available.

⁷Reflects the assessment provided in the data ROSC published in April 2005 and based on the findings of the staff mission during April 2004 for the dataset corresponding to the variable in each row. The assessment indicates whether international standards concerning concepts and definitions, scope, classification/sectorization, and basis for recording are fully observed (O), largely observed (LO), largely not observed (LNO), or not observed (NO).

⁸Same as footnote 7, except referring to international standards concerning source data, statistical techniques, assessment and validation of source data, assessment and validation of intermediate data and statistical outputs, and revision studies.

ANNEX III. TAJIKISTAN: BANK-FUND RELATIONS

(As of April 27, 2010)

Country Director: Mr. Motoo Konishi Telephone: (202) 473 4278
Country Economist: Mr. Sudharshan Canagarajah Telephone: (202) 473 4458

The Fund's mission chief for Tajikistan, Mr. Schimmelpfennig, and resident representative, Mr. Moers, conducted consultations with the Bank's country manager for Tajikistan, Ms. Bronchi, and Lead Economist, Mr. Sudharshan Canagarajah, during the September 2009 mission, to identify macro critical structural reforms and coordinate the two teams' work for the period October 2009 - September 2010. The extensive discussion of the Bank-Fund division of labor provided in the Annex represents the summary of agreed macro-critical sectoral issues and the work program emanating from the consultation.

A. Partnership in Tajikistan's Development Strategy

1. The Bank's Country Partnership Strategy, to be discussed by the Bank's Board of Executive Directors on May 27, 2010, aims at reducing the negative impact of the crisis on poverty and vulnerability, and paving the way for sustained post-crisis recovery and sustained development. It supports the implementation of Tajikistan's Third Poverty Reduction Strategy for 2010–2012 that was formally approved by the Government of the Republic of Tajikistan in February 2010.
2. Tajikistan has been badly affected by the 2008/09 global economic crisis. The economy, which had been growing strongly during from 2000–08, grew by an estimated 3.4 percent in 2009, due to a sharp decline in remittances and a fall in exports of cotton and aluminum. Remittances, which accounted for nearly 47 percent of gross national product (GDP) in 2008, declined in 2009 by nearly 31 percent from US\$2.4 billion in 2008 to US\$1.6 billion in 2009 (see Figure 1). Exports of goods and services fell by 18.3 percent, due to lower international prices of cotton and aluminum. Revenues (excluding grants) diminished substantially from 2008 levels. At the same time, expenditures rose to provide essential services to the population and to returning migrants who have lost their jobs abroad rose. Budget support from development partners helped to make up the revenue shortfall, resulting in an overall fiscal deficit in 2009 of –0.5. While affected by the global economic downturn, Tajikistan's performance was better than that of any other country in the region, and significantly exceeded expectations at the start of 2009.
3. To restore growth to the previous robust levels, Tajikistan now needs to undertake much deeper structural reforms to improve the business climate, strengthen the financial sector, promote agricultural diversification, enhance transparency and governance of large state-owned enterprises, better public financial management, and strengthen regional trade. Growth in non-cotton agriculture and related agribusinesses following institutional reforms, a restoration of the inflow of remittances as the Russian economy recovers, increased trade with other countries in the region and the world, and carefully sequenced investments in hydropower infrastructure have the potential to support strong growth over the long term.

4. The IMF has taken the lead in assisting Tajikistan in enhancing macroeconomic stability. The Fund has encouraged the authorities to continue with fiscal consolidation, maintain a restrictive monetary policy, and manage debt prudently to enhance its sustainability.
5. The World Bank has taken the lead in the policy dialogue on structural issues, including reforms aimed at reducing poverty, promoting agricultural diversification and growth, encouraging private sector investment, building public sector capacity, creating transparent public financial management, and improving governance. The Bank has been supporting policy dialogue through policy based lending. Following the successful completion of the first series of Programmatic Development Policy Operations (PDPO) in 2009, the Bank is preparing a new series of three operations with the first expected to be presented to the Bank's Board for approval in June 2010. The development objectives of the programmatic series are to protect basic services within a sustainable fiscal framework, and to lay the foundation for post-crisis recovery and growth. The series is providing support for reforms to improve the investment climate and to improve public sector effectiveness.
6. The development policy operations complement support of investment projects and technical assistance in health, education, municipal infrastructure, energy, agriculture and rural development, public financial management, and public sector reform. The Bank in collaboration with other development partners also undertakes analytical work to provide the basis for policy dialogue and for investment operations. The November 2009 poverty assessment has deepened understanding of poverty and its dynamics, and has influenced the focus of the operation on protecting basic services and on reforming agricultural institutions. Findings of background studies for the forthcoming Country Economic Memorandum (expected to be finalized in 2010) and the private sector development strategy (2007) have identified the key constraints to growth and priority measures to address them, including reforms of the energy sector, of state-owned enterprises, of agriculture, and of the business regulatory environment.⁴ An assessment of implementation of inspections and licensing reforms (July 2009) recommended a regulatory guillotine to cleanup existing administrative procedures affecting business, such as permits. A joint 2009 IMF-Bank Financial Assessment Program has identified priority measures to strengthen the financial sector, and a grant from the Financial Sector Reform and Strengthening Trust Fund is financing technical assistance to further refine the next set of reforms. An aviation sector note has laid out reforms required to modernize Tajikistan's aviation sector, essential to foster provision of better quality, higher frequency, and lower cost aviation services. A fiscal policy analysis (June 2009), a 2008 public and civil service wage note, and a 2005 remittances note have informed the measures required for macroeconomic stability. A programmatic public expenditure review is supporting Tajikistan's first public expenditure and financial accountability (PEFA) review, analyzing the country's prospects for achieving the MDGs and long-term growth, and providing support for the introduction of the medium-term

⁴ Background papers for the country economic memorandum have been prepared on macroeconomic stability, agriculture, private sector, energy, migration, trade and connectivity, and growth diagnostics. These have already influenced the design of the forthcoming CAS and of new series of programmatic development policy operations.

expenditure framework. Two public expenditure tracking surveys, one for health and one for education, are promoting transparency and efficiency of expenditure in these sectors. Drawing on the results of the surveys, health and education sector fiduciary capacity assessments are identifying the measures required to improve the efficiency and effectiveness of public spending on these services. A country environmental analysis (2008) has specified policy and capacity reforms to improve environmental management.

B. World Bank Collaboration in Specific Areas

Areas in which the World Bank leads and there is little direct IMF involvement

7. Areas in which the Bank leads and there is little direct IMF involvement include the social sectors, infrastructure, and environmental management. In the social sphere, the Bank has carried out regular poverty assessments to monitor poverty and develop programs to alleviate poverty, the most recent of which was issued in November 2009. Under the Strengthening National Statistics System Project, data collection of a new living standards survey was completed in 2009; analysis of the results is underway.

8. **In education**, the Bank is providing policy advice and investment resources. The ongoing Education Modernization Project (fiscal 2003) aims to upgrade the basic education system by supporting reforms in education financing and management, curriculum and textbooks development; teacher training and student assessment improvement, and upgrading school facilities. Tajikistan has also received grant funding from the Education for All Fast Track Initiative catalytic fund, administered by the Bank. Key issues in education, apart from infrastructure rehabilitation and capacity building, are pay reform, and education financing reform, and implementation of measures to improve efficiency of resource use. Assistance to this sector will continue through the PDPO, a multi-donor education investment program, and the Public Sector Reform Program. The Bank is also helping with wage reform in education through the PDPO. Jointly with the UNICEF the Bank assists the government in the overall national education strategy formulation.

9. **In health**, the Bank is helping the government to improve the effectiveness and efficiency of delivery—both of which are aimed at ensuring the poor access to a basic level of services. Through the Community and Basic Health Project and the PDPO, the Bank is helping to strengthen the institutional capability (both at the center and district levels) to carry out health care reforms, to improve the system for budgeting and spending for basic health services, and pay reform. It is also supporting programs to prevent the spread of HIV/AIDS, malaria, and other communicable diseases. The Avian Fluenza Control and Human Pandemic Preparedness and Response is minimizing the threat of highly pathogenic avian influenza infection and other zoonoses posed to humans and poultry; and preparing for control and respond to influenza pandemics and other infectious disease emergencies in humans.

10. With regard to **infrastructure** development, the Bank is concentrating on upgrading basic utility services for the population as a whole and especially the poor. The Dushanbe Water Supply Project is helping the Dushanbe municipality and the local water company to address the most critical deficiencies of water supply services. The Pamir Private Power

Project is supporting improvements in reliability of electricity supply in the Gorno Badakshan region with participation of the private sector. The Energy Loss Reduction Project is helping to reduce commercial losses and improve the financial viability of the power and gas sectors. The Bank has also been leading policy dialogue (under the PDPO) on increasing efficiency/viability to ensure long-term growth prospects of the energy sector. The Municipal Infrastructure Project is providing support to improve urban infrastructure in big towns.

11. In **agriculture**, the Bank is concentrating on restructuring farmland, rehabilitating irrigation and drainage infrastructure, and reforming the cotton sector. The PDPO is leading the dialogue on farmland restructuring and cotton debt resolution. The Land Registration and Cadastre Project is assisting the government with the issuance of land certificates, and establishment of a modern cadastre system. The Ferghana Valley Project aims to increase water supply and efficiency of irrigation systems in the Ferghana Valley, and develop institutional capacity in land and water resources management. The Cotton Sector Recovery Project is helping to improve the livelihoods of cotton farmers and to create conditions for sustainable growth of cotton production in selected, low-income areas.

12. The Bank is supporting measures to improve **environmental management** and to deal with natural disasters through all its investment projects. A 2008 Country Environmental Analysis has highlighted the country's most severe environmental issues and proposed measures to strengthen the legal and institutional framework for addressing them.

13. The Bank also supported the government in coping with emergencies. The Energy Emergency Project assisted the government in implementing an Energy Emergency Mitigation Action Plan to address the energy crisis in 2008 due to the harshest winter in 25 years. Through the Global Food Price Crisis Response Trust Fund, the Emergency Food Security and Seed Imports Project and Community and Basic Health Project Additional Financing assisted the government in mitigating the impacts of food prices crisis in 2008.

Areas in which the World Bank leads and its analysis serves as input into the IMF program

14. The Bank leads the dialogue on structural reforms through the PDPO series. Institution building and technical assistance in support of PDPO structural reforms come from several sources, including the Public Sector Reform Program, the Education Modernization Project, the Fast Track Initiative Catalytic Grant, and the Community and Basic Health Project.

15. The Bank and the Fund both support **private sector development**, including in the areas of financial transparency and improvements in the regulatory framework. The Bank is preparing a Country Economic Memorandum to identify the key constraints to growth and propose solutions to overcome them. The Bank Group has also undertaken investment climate assessments, small and medium enterprise surveys, and agriculture sector reviews to deepen understanding of issues affecting performance in specific areas. Tajikistan has participated in Doing Business surveys and in Business Environment and Enterprise Performance surveys since the mid-2000s. These provide insight into trends within Tajikistan to improve the business environment and show how Tajikistan is performing relative to other countries of the region. The Bank has supported the preparation of the

government's private sector development strategy, which is now under implementation with support of an Institutional Development Fund grant.

16. **Regulatory reforms** include (a) changing role of anti-monopoly agency and further strengthening its capacity, (b) improving the inspection regime for businesses; and (c) streamlining the licensing and permitting systems. In addition, under the PDPO, the Bank is assisting with reforms aimed at fostering competitive, convenient, and safe aviation services. It has supported the preparation and adoption of the national aviation sector policy. Previously, it assisted with separating in aviation the functions of policymaking, technical regulation, and accident investigation, with the aim of increasing the transparency and performance of operations. It has also helped with the restructuring the Tajik Air Company aimed at creating separate entities to operate the airport, airline, and air traffic control system. This aviation sector reforms are expected to increase the competitiveness of Tajikistan's aviation sector, with benefits for economic growth and poverty reduction.

17. While the Bank has taken the lead in privatization and in structural reforms in the private sector, the IMF has also a strong interest in these areas, since many of these reforms are critical to achieving macroeconomic stabilization and enhancing growth. Accordingly, the two institutions maintain an active dialogue with each other on these matters to ensure good coordination of interventions.

Areas of shared responsibility

18. The Bank and the Fund are working jointly in the following four main areas (supported by the Bank's PDPO, grants, and several investment operations, and the Fund's Extended Credit Facility):

- **Public sector management.** The Bank has provided technical support to the government to develop a comprehensive public administration reform strategy. It includes policy actions in public administration reforms aimed at redefining the role of the state in line with the market economy needs, reorganizing key ministries, strengthening the internal control and audit function, and supporting the pay reform. The Bank is involved in civil service reform while the Fund is providing technical assistance in support of tax and customs administration and treasury management.
- **Public financial management.** Both institutions work on providing support for a treasury, adoption of new law on public finances introducing modern budgetary procedures and improved fiscal management, and switching from norm-based costing and allocation of expenditures to per capita based financing in education and health sectors. The Bank will continue to provide technical support and mobilize donor funds to implement the medium-term budget framework. The Bank will also continue to support reform of public financial management through the PDPO, Institutional Development Fund grants, and the Public Financial Management Modernization Program.
- **Financial sector reforms.** This area includes the acceleration of financial sector restructuring and closure of weak banks, a new regulatory framework for the establishment of non-bank intermediaries, and significant changes in the tax code making tax authorities' access to bank accounts conditional on a court authorization.

In terms of banking supervision, the IMF is monitoring the closure and merger of banks that do not satisfy prudential requirements. A Financial Sector Assessment Program (the country's first), carried out jointly by the Bank and the Fund, was discussed with the authorities in late 2007. The Bank is administering a grant from the FIRST trust fund to support implementation of the assessment's recommendations, especially reforms at the National Bank of Tajikistan.

- **Utilities reform.** The Fund included in its program supported under the Extended Term Facility a structural benchmark on preparing and releasing to the public external audits of the financial statements of Talco, the state-owned aluminum company, and Talco Management. The Bank under the PDPO is supporting tariff reform aimed at reducing the quasi-fiscal deficit. It also supported the preparation in 2008 of an external audits of the financial accounts of Barki Tajik. The Bank is providing financial assistance to help the government to repair the electricity and gas transmission system, to import the energy needed to meet periodic winter shortfalls, and to help implement the Energy Emergency Action Mitigation Plan. The Bank-supported Energy Loss Reduction Project is supporting implementation of reforms.
- **Debt sustainability analysis:** The Bank and the IMF have started carrying out joint debt sustainability analyses (DSA). The most recent update was prepared in March 2010.

Areas in which the IMF leads and its analysis serves as input into the World Bank program

19. The Fund leads the dialogue on fiscal matters, setting the overall envelope for public expenditures. The Bank's work in key sectors, such as health, education and infrastructure, necessitates close cooperation.

20. In the budgetary area, the Fund is taking the lead on tax reforms and budget preparation and execution. The IMF also leads the dialogue on policies to rationalize and contain expenditures in the public sector. These include policies regarding wage setting in both the public service, and defining the ceiling for public investment expenditures. In these areas, the Bank takes into account the policy recommendations of the IMF and ensures that its own policy advice is consistent with the Fund's.

Areas in which the IMF leads and there is no direct World Bank involvement

21. The Fund takes the lead in the formulation and execution of fiscal and monetary policies, tax policy, external trade policies, and issues involving economic and financial statistics. The Bank-financed Strengthening National Statistics System Project is improving Tajikistan's capacity to collect, analyze, and disseminate key information required for evidence-based decision-making.

C. IDA Funding

22. The indicative IDA15 allocation for Tajikistan is projected to be about US\$86.6 million (SDR 55.9 million), about 13 percent lower, in absolute terms, than under IDA14

(SDR 64.6 million). About US\$30 million of the IDA 15 envelope was allocated in fiscal 2009. The remaining allocation (about US\$57 million) will finance operations in fiscal 2010 and 2011. More than half the IDA 15 allocation will support the PDPO, and the remainder will be distributed across investment activities. Trust funds, which will nearly match the IDA allocation in fiscal 2010–11, will continue to play an important role in supporting the Bank’s program. In addition to these resources, Tajikistan will receive additional funding equivalent to US\$23.4 million (SDR 15.3 million) in fiscal 2010 from the IDA Crisis Window to address the impacts of the global crisis and it may be eligible to access IDA regional funds and IBRD enclave loans for infrastructure that promises to deliver high returns. The fiscal 2010 IDA allocation to Tajikistan will be 100 percent grant. Tajikistan’s eligibility for grants is determined based on the annual debt sustainability analyses.

Tajikistan: JMAP Implementation Table, October 2009 – September 2010

Title	Products and brief description (pillars)	Provisional Timing of Missions	Expected date of Delivery
A. Mutual information on relevant work programs			
Bank Work Program in next 12 months	<p><u>PDPG 4</u></p> <ul style="list-style-type: none"> • Protecting delivery of basic services within a sustainable fiscal framework • Improving the environment for private sector development and growth • Strengthening government effectiveness <p><u>CEM</u></p> <ul style="list-style-type: none"> • Growth Diagnostics 	<p>Identification/Pre-appraisal November 2009</p> <p>Appraisal March 2010</p> <p>Dissemination Mission January 2010</p>	<p>Board April 2010</p> <p>Disbursement May 2010</p>
	Private Sector Development	PSD TA support (Doing Business) November 2009 February 2010	
	Agriculture	Supervision of Land Registration and Cadastral System Project Oct 12-28, 2009 April 2010 September 2010	Project closing March 2012
	Expand farmland restructuring to enable more rural people to become independent farms		

	Build productive assets of rural communities in selected mountain watersheds.	Supervision of Community Agriculture and Watershed Management Project Oct 12-28, 2009 April 2010 September 2010	Project closing April 2011
	Increase domestic food production and reduce the loss of livestock to help at least 55,000 poorest households;	Supervision of Emergency Food Security and Seed Imports Project October 20-November 12 th , 2009	Project closing March 2013
	Improve the livelihood of cotton farmers and create the conditions for sustainable growth of cotton production	Supervision of Cotton Sector Recovery Project October 20-November 12 th , 2009	Project closing March 2013
	Energy	Energy Loss Reduction Project Regional Water and energy Development Strategy December 2009	
	Social safety nets	Social assistance and preparation of options for targeting. October 2009 February 2010.	May 2011
	Health health financing reforms including Mandatory health Insurance initiative and fee for services Feasibility study for the Results based financing in the health sector.	Oct 2009; May 2010. Feb 2010	Closing Dec 31, 2010
	Education	Fast Track Initiative November 2009 February 2010	
	Financial Sector	FIRST TA – (i) Deposit Insurance Law draft; (ii) amendments to Banking Law; (iii) banking regulations; (iv)	TA closing Jan 31, 2010 (might be extended)

		FSD strategy and action plan (v) payments system regulation Dec2009	
		TA and trust fund preparation Feb 2010	Approvals expected May 2010
	Country Assistance Strategy (CAS)	Board February2010	
Fund work program in next 12 months	- 1 st ECF review staff report - 2 nd ECF review staff report - 3 rd ECF review staff report NBT recapitalization	- September 2009: 1 st ECF review mission - February 2010: 2 nd ECF review mission - September 2010: 3 rd ECF review mission November 2009 - FAD Regional TA Advisor on budget classification/SOE monitoring - STA Regional TA Advisor on NA/inflation statistics - MCM Regional TA Advisor on securities market development	- January 2010: 1 st ECF review board meeting - April 2010: 2 nd ECF review board meeting - December 2010: 3 rd ECF review board meeting
B. Requests for work program inputs (as needed)			
Fund request to Bank	- Follow-up on Barki Tajik audit - Electricity tariff increases - Roghun feasibility study - Cotton/agriculture sector reforms - Any STATCAP work on NA and inflation statistics - PFM work - Social spending - Financial sector work - Work by DFID-financed macroeconomic advisor		
Bank request to Fund	-Provide BOP/fiscal data for updating macro data base annual meetings -Assessment Letter for PDPG 4 -Cotton Debt Resolution and NBT recap	March 2010 Sept 2010 March 2010 Feb 2010	

C. Agreement on joint products and missions (as needed)			
Joint products in next 12 months	DSA Feb 2010	3 st ECF review mission	3 st ECF review board meeting
	JSAN of PRS3 Feb 2010		

ANNEX IV. TAJIKISTAN: RELATIONS WITH THE ASIAN DEVELOPMENT BANK
(As of April 30, 2010)

Country Director: Mr. Makoto Ojira—Telephone: 992-372-210558/271895/ 271897

1. Tajikistan became a member of the Asian Development Bank (ADB) in 1998. The ADB has participated in the Consultative Group Meeting for Tajikistan since 1998. After conducting an initial mission in June 1998, ADB completed an Economic Report and Interim Operational Strategy that identified three areas: (a) agriculture; (b) infrastructure rehabilitation (especially energy and transport sectors); and (c) social sector, in which ADB assistance would have the greatest development impact. Based on the Interim Strategy, in October 1998, ADB's Board of Directors approved Tajikistan's country classification, which provides the basis for Tajikistan's full access to concessional resources (Asian Development Fund (ADF)). Under the new ADF grants framework, starting from 2008, Tajikistan is eligible for 100% grants of its entire ADF allocation up to 2012, subject to a 20% volume discount. Under the performance-based allocation of ADF for 2010, Tajikistan has been allocated \$150 million, which includes regional ADF allocation. As of end 2009, Tajikistan has received \$372.54 million in loans, \$33.89 million in technical assistance, and \$160.77 million in grants.

2. In view of Tajikistan's urgent need for assistance in 1998, in coordination with the IMF and the World Bank (WB), the ADB provided a **Post-conflict Infrastructure Program Loan** (\$20 million), which was designed to create a framework for developing market-based transport and energy sectors. The loan was for two years and was fully disbursed by end-2000. Based on the satisfactory progress of the Postconflict Infrastructure Program loan conditionality, the following loans were approved in these two sectors:

3. **Transport Sector:** the Road Rehabilitation Project loan (\$20 million in 2000), which rehabilitated the most deteriorated sections of the Dushanbe—Kulyab road in the southern part of Tajikistan, the most civil-war affected areas; Dushanbe—Kyrgyz Border Road Rehabilitation Project (completed first phase of \$15 million loan in 2003, second phase of \$30 million loan in 2005, \$20 million grant of supplementary financing in 2009); and the Regional Road Corridor Improvement Project (\$53.4 million loan/grant in 2007), which improves Tajikistan's transportation link toward north and east through Kyrgyz Republic, further to Kazakhstan and Russia, as well as to the People's Republic of China. These projects also improve rural roads in the project areas. Continued support in strengthening the government's institutional capacity for efficient management of national road network is provided under technical assistance grants associated with these loans and on stand-alone basis. In October 2007, ADB approved a \$2.0 million Japan Fund for Poverty Reduction (JFPR) grant to reconstruct key infrastructure in northeast Tajikistan to restore access to rural communities that were isolated after flooding in 2006 washed away a suspension bridge.

4. **Power Sector:** the completed Power Rehabilitation Project loan (\$34 million in 2000) aimed to improve people's quality of life and support poverty reduction by increasing the

availability of electricity, and assist in post-conflict recovery of Tajikistan's economy (the project rehabilitated and reinforced power transmission and distribution facilities in the war-damaged areas in Khatlon and Dushanbe regions, and rehabilitated the Nurek Hydro Power Plant and Central Hydro Power Plant). The Regional Power Transmission Modernization Project loan (\$20 million in 2002) was geared towards improving the reliability and the operation of the Central Asian power transmission system, enhancing power trade between Tajikistan and Uzbekistan, and laying the foundation for a future wholesale regional power market. However, the later loan had to be cancelled due to the inability of Tajikistan and Uzbekistan to agree on the terms and conditions of Power Trade Agreement. The \$21.5 million Tajikistan-Afghanistan Power Transmission Interconnection Project loan was approved in 2006. This project is aimed to construct a 220 kilovolt double circuit transmission line that will link the hydropower stations on Tajikistan's Vakhsh River to the border town of Sherkan Bandar, then to Kunduz, Baglad, Pul-e-Khumri and, ultimately, Kabul in Afghanistan. In November 2008, ADB approved a \$54.77 million grant for the Nurek 500 kV Switchyard Reconstruction Project to rehabilitate an ageing facility in Tajikistan's electricity supply network which is in danger of collapse. Various technical assistance projects were provided to accelerate market-oriented reforms in the power sector also in line with IMF and WB programs and for supporting the government in formulating a power sector development strategy.

5. In addition to the above, the ADB Board approved the following projects to Tajikistan in relevant sectors:

6. **Social Sector:** the Social Sector Rehabilitation Project loan (\$20 million in 1999) to address the serious deterioration in living standards and strengthen the delivery of essential social services; the Health Sector Reform Project loan (\$7.5 million in 2003) to improve health, especially of the poor, women, and children by providing pro-poor health service package, and by reforming the health service delivery and financing mechanism; and the Education Sector Reform Project loan (\$7.5 million in 2003), which focused on supporting the government's reform priorities in primary (grades 1–4) and general secondary education (grades 5–11) by improving the education system and its management. These two social sector reform loans were supported by respective JFPR grants: (a) the project for Community Participation and Public Information Campaign for Health Improvement (\$1 million in 2004); and (b) the School Improvement Project (\$2 million in 2004).

7. **Agriculture Sector:** based on the agriculture sector assessment prepared during 1999–2000, the Agriculture Rehabilitation Project loan (\$35 million in 2002) is being implemented to improve living conditions of the farming communities in the project area and to institute measures to sustain benefits of improvements for irrigation and drainage systems and water supply, as well as by providing farm production support services. In order to support the agriculture sector reforms, the TA for Farm Debt Resolution and Policy Reforms, which was associated with the loan, has been completed in consultation with the IMF, involving a wide range of stakeholders. Based on the findings of the TA, ADB supported the government in close cooperation with other donors and NGOs for formulating a National

Farm Debt Resolution Strategy. ADB, in collaboration with DFID, supported donor coordination for implementing the Strategy. On 5 March 2007, the Government approved the Roadmap for Implementation of the Farm Debt Resolution Strategy. The road map, which includes a comprehensive program of reforms for the sustainable and profitable farming of cotton and other crops, guides the preparation of a suitable intervention for ADB. Grant assistance for Rural Poverty Reduction Project (\$2.9 million in 2001) financed by JFPR supported implementation by pilot testing innovative poverty-oriented on- and off-farm supports. In 2004, Irrigation Rehabilitation Project loan was approved for \$22.7 million. In a major push supporting the agriculture sector and rural development, Sustainable Cotton Sub-Sector Project loan/grant and Rural Development Project loan/grant were approved in 2006 and 2007, respectively.

8. **Finance:** Microfinance Systems Development Program loan (\$4 million in 2003) aimed to support policy, legal, and regulatory reforms; and Microfinance Systems Development Project loan (\$4 million in 2003) helped to transform nongovernmental organizations' microfinance programs into independent licensed and regulated microfinance institutions. In 2009, ADB approved and disbursed a \$40 million program grant to help Tajikistan sustain social spending imperiled by the global economic crisis. The program helped the government manage a serious budget shortfall and maintain programs for critical social needs. It also supported public investments designed to preserve jobs and create new ones.

9. **Trade Facilitation:** the Regional Trade Facilitation and Customs Cooperation Program loan (\$10 million in 2002) supported trade and customs reform development across the East and Central Asia. Regional Customs Modernization and Infrastructure Development (\$10.7 million in 2004) co-financed by the US Government through a 1.6 million grant in 2009, is aimed to promote international trade and enabling environment for private sector development,

10. **Emergency Assistance:** in response to the government's urgent requests, three emergency loans including the Emergency Flood Rehabilitation Project loan (\$5 million in 1999), the Emergency Restoration of Yavan Water Conveyance System loan (\$3.6 million in 2001), and the Emergency Baipaza Landslide Stabilization Project loan (\$5.3 million in 2002) were approved. In 2007, ADB provided a \$22 million loan for the Khatlon Province Flood Risk Management Project to help to address recurring flood risks in four districts of the province through a comprehensive and coordinated approach. A major part of the project is the rehabilitation of 8.3 kilometers of flood protection embankment along Pyanj River, which borders Tajikistan and neighboring Afghanistan.

11. In end-2000, ADB started supporting the government in developing PRSP through participatory approach under a TA grant in close cooperation with the IMF, WB, and UNDP. Following the finalization of the Poverty Reduction Strategy Paper (PRSP) in June 2002, ADB concluded the Poverty Partnership Agreement (PPA) with the government in December 2002, and proceeded to prepare a new five-year Country Strategy and Program (CSP) for

2004–08 for Tajikistan, which was endorsed by the ADB Board in October 2003. The CSP was successfully completed in 2008, and its main objectives were (a) to strengthen rural development through institution building that will support policy implementation and the private sector; (b) to rehabilitate power and rural infrastructure; and (c) to strengthen regional cooperation through improved customs services and transport links, both within the country and neighboring ones.

12. ADB prepares and updates its three-year rolling programs for Tajikistan every year in consultation with the government based on the ADF resources availability, carefully examining the country's social and economic development status and in coordination with other donors, including IMF. ADB is currently preparing a new Country Partnership Strategy for 2010-2014 for Board consideration in May 2010. ADB's program in Tajikistan is expected to continue supporting regional cooperation, the energy and transport sectors, and provide policy support for improving the investment climate and private sector development. In addition, a joint country partnership strategy for Tajikistan for 2009-2012 was developed with the joint effort of twelve development partners working in the country, including ADB. ADB pays full attention to the progress of Tajikistan's MDG achievement. ADB is also paying significant attention to governance reforms through investment projects and technical assistance. In 2006, ADB approved a technical assistance project on Strengthening Results Management in Support of Poverty Reduction in Tajikistan, co-financed by the Swedish Government. The \$2.0 million grant package co-financed by the Government of the United Kingdom Department for International Development was approved in 2007 to help boost the Tajikistan government's capacity in promoting private sector development.

13. The proposed 2010 investment program comprises of two projects (regional power rehabilitation, and investment climate improvement program) worth a total of \$150 million. The actual assistance level will be determined by (a) availability of overall ADF resources; (b) country performance assessment vis-à-vis ADB's policy on performance based allocation of ADF resources; and (c) processing status of the projects in the pipeline.

Statement by the Staff Representative on the Republic of Tajikistan

June 3, 2010

1. This statement provides information on recent developments in Tajikistan that has become available since the staff report was circulated to the Board on May 24, 2010. This information does not change the thrust of the staff appraisal.

I. RECENT DEVELOPMENTS

2. **Economic developments in 2010 to date were favorable.** Real GDP growth in the first quarter reached 7 percent, mainly driven by buoyant construction and industry. Remittance inflows in January-April rose by 24 percent compared to the same period in 2009, partly reflecting the low base. CPI inflation stayed below 6 percent year-on-year at end-April.

3. **In the spring of 2010, a number of natural disasters hit Tajikistan.** Floods and mudslides claimed some casualties and left hundreds injured. Moreover, more than a hundred hospitals and schools were badly damaged, and roads and irrigation infrastructure have also been affected. The authorities intend to increase social spending in response to these events while maintaining the fiscal targets they have set under the program, including by asking for additional donor support.

4. **Based on preliminary data through end-March, the authorities appear to have achieved most indicative targets.**

- The overall fiscal deficit (excluding externally financed investment) at end-March is estimated to have come in lower than programmed, despite revenue shortfalls. These shortfalls mainly emanated from lower imports due to rail transit disruptions in neighboring countries, and in response, the authorities contained spending which also led to underspending on social and poverty related expenditures (except for social sector wages). Preliminary April data points to improving revenues, in particular from import taxes.
- The National Bank of Tajikistan (NBT) is estimated to have achieved its end-March 2010 targets on net international reserves and net domestic assets. Liquidity loans also remained within the program target, but appear to have increased again in April, pushing up net domestic assets.
- Gross equity sales and contributions for the Roghun hydropower project stood at SM 800 million at end-March 2010. Monthly inflows have slowed more than projected

under the program, with total contributions reaching SM 818 million as of May 20, 2010, compared to the end-June indicative target of SM 850 million.

II. PRIOR ACTIONS

5. **The authorities completed all three prior actions for the review.**

- On April 21, the external audit of the NBT's financial statement for the year ending April 2009 was completed and published on its website.¹⁶
- On April 21, the external audit of the NBT's net international reserves (NIR) position as of June 30, 2009 was completed. On May 27, 2010, the external audit of the NBT's NIR position as of December 31, 2009 was completed. Both reports were published on the NBT's website.
- On April 30, the NBT signed a contract with an external audit firm to conduct the internal audit of the activities of the international relations department, including foreign exchange lending and liquidity support, the domestic lending and liquidity support activities, and the management of foreign currency vault operations at the NBT headquarters. The external audit firm will also help the NBT's internal audit department build its capacity.

III. TECHNICAL REVISION TO NET INTERNATIONAL RESERVES DATA

6. The end-December 2009 NIR audit report—which became available only after the authorities signed the letter of intent (LOI)—proposed minor revisions to the end-December 2009 NIR stock reported in the authorities' LOI. The revisions relate mainly to the reported cumulative NIR flow at program exchange rates that resulted from using a current exchange rate instead of the program exchange rate for the NBT's SDR holdings, and also impact the reported NIR flows for end-June 2009 and end-September 2009. As a result, the revised NIR accumulation at program exchange rates during 2009 is \$1 million lower than reported in Table 1 attached to the authorities' LOI. This does not materially change the assessment of performance under the program, and also with the revised data, the authorities achieved their NIR targets (Table). The audit report also proposed minor revisions to NIR at current exchange rates which do not affect the reported numbers in the staff report.

¹⁶ Available on the NBT's website at <http://nbt.tj/?c=176&id=176&lang=en>.

Table. Tajikistan: Revision to Net International Reserves, Cumulative Flow
(Millions of U.S. dollars at program exchange rates)

	Adjusted Program	Revised Actual	Previously Reported
End-March	-44	-46	-46
End-June	-69	-66	-67
End-September	-52	70	72
End-December	-85	121	122

Source: Tajik authorities.

**INTERNATIONAL MONETARY FUND**EXTERNAL
RELATIONS
DEPARTMENT

Press Release No. 10/230
FOR IMMEDIATE RELEASE
June 7, 2010

International Monetary Fund
Washington, D.C. 20431 USA

IMF completes Reviews Under Extended Credit Facility Arrangement with Tajikistan, and Approves Request for Augmentation and Waivers

The Executive Board of the International Monetary Fund (IMF) today completed the first and second reviews under a three-year Extended Credit Facility arrangement with Tajikistan (see Press Releases No. 09/136 and No. 10/37). The completion of the reviews enables the immediate disbursement of an amount equivalent to SDR 26.12 million (about US\$38.2 million), bringing total disbursements under the arrangement to an amount equivalent to SDR 52.22 million (about US\$76.3 million).

Additionally, the Executive Board approved Tajikistan's request for the increase of access under the arrangement to SDR104.4 million (about US\$152.6 million) from SDR 78.3 million (about US\$114.5 million). The augmentation is justified in view of Tajikistan's low level of international reserves and domestic and external vulnerabilities. The increase will not materially affect debt sustainability.

Finally, the Executive Board also granted waivers of non observance for the end-December 2009 performance criterion on cumulative flow of net domestic assets of the National Bank of Tajikistan (NBT) and the continuous performance criterion on arrears and wages. These waivers were granted because of the authorities' corrective action.

Following the Executive Board's discussion on Tajikistan, Mr. John Lipsky, First Deputy Managing Director and Acting Chair, stated:

"Tajikistan has been severely affected by the global financial crisis mainly through a sharp decline in remittances which reduced the real income of the population. The external environment is expected to improve in 2010, but the level of international reserves remains low. In this context, the Tajik authorities have requested the completion of the first and second review under the three-year arrangement under the Extended Credit Facility and an augmentation of access of 30 percent of quota to a total of 120 percent of quota under the arrangement.

“The authorities’ 2010 program aims to continue making further progress in reducing poverty and raising economic growth. To this end, the authorities intend to increase social and poverty-related expenditures and push forward with infrastructure investments. The program also seeks to safeguard macroeconomic stability by containing the overall fiscal deficit and maintaining the flexible exchange rate regime. The fiscal strategy requires a careful balancing of social and capital spending needs.

“The authorities plan to address the structural energy deficit and achieve energy independence, including by accelerating the construction of the Roghun Hydropower Project. The recent campaign to finance this project through equity sales has curtailed disposable incomes and is estimated to weigh on the growth prospects for 2010. As such, the phasing out of the equity campaign is welcome. The authorities should continue to work closely with the World Bank on the ongoing feasibility study of the project and to form an international consortium to finance Roghun once the feasibility study is completed, taking into account Tajikistan’s debt constraints.

The authorities have made progress in enhancing the governance of the National Bank of Tajikistan (NBT), and should continue to press forward with their reform strategy, including, in particular, strengthening internal audit and controls and recapitalization of the NBT,” Mr. Lipsky said.

**Statement by Rene Weber, Executive Director for the Republic
of Tajikistan, and Darlena Tartari, Advisor to the Executive Director
June 7, 2010**

1. On behalf of our Tajik authorities, we thank the staff for the constructive program discussions, their cogent assessment, and candid staff report. The intensive dialogue with the mission provided the authorities with clear and welcome guidance as to the direction of policies and the priority to be given to their implementation. Our authorities concur with the staff's appraisal, including the need to further strengthen the governance of the National Bank of Tajikistan (NBT), step up financial sector reforms, and improve transparency in state owned enterprises (SOEs). In support of their strategy, the authorities ask the Board for approval of this first and second review under the Extended Credit Facility (ECF), and an augmentation of access to 120 percent of quota.

2. Tajikistan's economic situation remains fragile, while its development needs remain large. The country is also extremely vulnerable to external shocks. Following the adverse impact of food and fuel crisis, Tajikistan in 2009 was severely affected by the global downturn, through a decline of remittances and exports by roughly 30 percent each. In addition, regular disruptions in gas and electricity imports, energy shortages, and continued disruptions in cross-border railway transport with its main trading partner are holding back economic progress. Given frequent natural disasters (particularly flooding, earthquakes, avalanches, and landslides), our Tajik authorities intend to seek support in disaster management as well as financing from the international community. They are grateful to the Fund for providing concessional program financing and policy advice that is complementary to such assistance.

Program framework

3. The ECF arrangement serves Tajikistan well as a framework to strengthen macroeconomic stability and advance with structural reforms. The program has also an important catalytic role in mobilizing financing from other official sources, which is particularly critical as the country is facing a financing gap that is higher than previously assessed. Given Tajikistan's external vulnerabilities, the flexible exchange rate has served the country well as a shock absorber and it will allow for the necessary rebuilding of reserves. No direct budget financing is envisaged from the Fund's resources. The authorities remain committed to fiscal prudence, while safeguarding social and capital expenditures.

4. Despite the adverse economic environment, the authorities have persevered in successfully implementing the ECF and have adhered to all but two quantitative performance criteria for which waivers are sought. First, unanticipated liquidity shortages in the banking system lead to non-compliance with the performance criteria for net domestic assets (NDA) at end-December 2009. The authorities subsequently agreed with staff to introduce a ceiling

on loans by the NBT to better be able to monitor the liquidity provision to banks and meet the NDA target. Second, the accumulation of wage and pensions arrears in 2009 was temporary and regrettable, but these arrears have since been settled and the authorities firmly intend to prevent their recurrence.

5. The authorities have reached an agreement with staff on the main macroeconomic policies for 2010 as outlined in the MEFP. In the fiscal area, the authorities will continue to maintain discipline and target a fiscal deficit (excluding the externally financed public investment program) of 1 percent of GDP while protecting pro poor spending. Prudent debt management and keeping government debt below the ceiling of 40 percent of GDP remain the focus of their debt management strategy. In the monetary area, the authorities will continue to use reserve money growth as the nominal anchor and rely on a flexible exchange rate regime. An enhanced structural reform process, particularly through improved transparency and governance, will remain the core of the program.

Strengthening the NBT

6. The authorities seek to bolster the credibility, transparency, and governance of the NBT and to strengthen its capacities in internal audit and financial reporting.¹⁷ They acknowledge the remaining weaknesses in the operations of the NTB in the areas of data systems, transparency, and oversight and intend to address them promptly based on the comprehensive NBT action plan included in the MEFP. The Fund's updated safeguards assessment of the NBT, expected to be finalized shortly, should further support these efforts. Compliance with international practices will be reviewed by the Fund by end-December 2011.

7. The authorities, with the Fund's assistance, have developed—and will implement—a sensible recapitalization strategy for the NBT that balances the need to strengthen the NBT's operational instruments with the goal to limit the fiscal costs to the government. In this context, the government has resumed servicing the recapitalization bonds held by the NBT, while the NBT has resumed paying interest on government deposits. In addition, the government will make annual capital injections into the NBT over the coming eight years, starting in 2010. Finally, cotton investors will have to pay principal and interest on their outstanding debt to the NBT starting in June 2010. Regarding the operational instruments, the NBT will continue to fulfill its lender of last resort function in cases of bank distress, restrict its lending to commercial banks and nonbank financial institutions to the NBT's short-term liquidity facility, and refrain from issuing new credits to the private sector.

¹⁷ The audited financial statements by the NBT and the reports on the NIR position as of end-June and end-December 2009 have been published on the website of the NBT at <http://nbt.tj/?c=176&id=176&lang=en>.

Structural reforms

8. The weakened economic environment has found its expression in a deterioration of banks' asset quality, including on cotton related balance sheet assets, impeding their scope for credit extension. The authorities plan to issue treasury bills amounting to around US\$ 100 million to shore up banks' asset quality and to refine the regulatory framework including the submission to parliament of a bankruptcy law for credit institutions, which would enable an orderly restructuring and closure of financial institutions in distress. They also envisage submitting an anti-money laundering and counterterrorism financing framework (AML/CFT) law to parliament by end-December 2010. Furthermore, the authorities intend to address the problem of State Owned Enterprise (SOEs) arrears as a matter of priority. A new SOE Supervision Unit will be established and will be fully staffed by end-June 2010. The authorities will publish on the company's website the external audit of the Tajikistan Aluminum Company (Talco) 2006-08 financial statements.

9. Tajikistan has been facing electricity blackouts for 5-6 months a year during the cold seasons over the last 19 years, which are being exacerbated by disruptions in electricity transit. The authorities thus consider the completion of the Roghun hydropower plant a strategic priority to ensure energy security and promote sustainable development. They are committed to the Memorandum of Understanding signed with the World Bank in March that establishes key principles to achieve a sustainable development of Tajikistan's energy resources and outlines the scope of cooperation with the World Bank. One element in this cooperation is the feasibility study of the Roghun project initiated by the World Bank, which will include an assessment of its technical and financial dimensions as well as its environmental and social impacts. The authorities look forward to a swift completion of this comprehensive study. The scale of the construction of Roghun is such that financing by an international consortium will eventually have to be sought. The authorities hope that the WB would take the lead in a consortium of potential investors. While the government owns 75 percent of the joint stock company Roghun OJSC, the Tajik authorities have, as of mid-April, suspended the advertisement campaign for the domestic sale of the remaining 25 percent of equity to the public. They do not expect significant equity sales for the remainder of the year. The authorities commit to full transparency and a strong governance structure for the Roghun project, including quarterly financial reporting and annual audits by a reputable international auditing firm.