

## International Monetary Fund

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The following item is a Letter of Intent of the government of Republic of Tajikistan, which describes the policies that Republic of Tajikistan intends to implement in the context of its request for financial support from the IMF. The document, which is the property of Republic of Tajikistan, is being made available on the IMF website by agreement with the member as a service to users of the [IMF](#) website.

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**President  
of the Republic of Tajikistan**

February 17, 2005

Dushanbe  
Republic of Tajikistan

Dear Mr. de Rato:

I would like to take this opportunity to thank the International Monetary Fund for its constant support of our economic reforms and development programs.

In December 2004 the Government of Tajikistan held joint discussions with Fund staff for the fourth review under the Poverty Reduction and Growth Facility (PRGF). Based on these discussions, we have prepared a Memorandum of Economic and Financial Policies (MEFP) for the third year under the current PRGF arrangement. The MEFP discusses the impact of recent economic developments on the macroeconomic framework, as well as measures we will take to accelerate structural reforms. It also includes quantitative and structural performance criteria and benchmarks for the period October 1, 2004–September 30, 2005.

I am pleased to report that we have made further progress in strengthening macroeconomic stability. The Tajik economy expanded in 2004 at a rapid pace and inflation fell 2.5 times of its 2003 level. The fiscal outcome has been much stronger than expected and our position on the country's public external debt has improved too. We have observed all of the quantitative performance criteria for end-September 2004, as well as the indicative targets for end-December 2004, except that for the nonaccumulation of new arrears to utility companies. We have also implemented the structural conditionality envisaged under the second year program, albeit with some delay.

On the basis of performance during the period through end-September 2004 and the policies set out in the attached Memorandum, we request the completion of the fourth review under the PRGF arrangement. The Government believes that the policies set forth in the attached Memorandum are adequate to achieve its objectives, but it will take any further measures that may become appropriate for this purpose. Tajikistan will consult with the Fund on the adoption of these measures, and in advance of revisions of the policies contained in the MEFP, in accordance with the Fund's policies on such consultations. In addition, we will provide the staff with the information required for monitoring economic developments and progress in program implementation. Using this opportunity, we also request that the fifth review of the program take place on or after June 1 and the sixth review take place on or after December 1, 2005.

In line with our commitment to transparency, we hereby request that the staff report, this letter of intent, and the attached Memorandum of Economic and Financial Policies (including all annexes) be published on the IMF website.

Please accept the assurance of my highest consideration for you.

/s/  
Emomali Rakhmonov

To His Excellency  
Mr. Rodrigo de Rato  
Managing Director  
International Monetary Fund

## REPUBLIC OF TAJIKISTAN

### **Memorandum of Economic and Financial Policies for the Period October 1, 2004 to September 30, 2005 Under the Poverty Reduction and Growth Facility**

#### **I. INTRODUCTION**

1. Tajikistan has been pursuing an economic and financial reform program with support from the International Monetary Fund's Poverty Reduction and Growth Facility (PRGF) during the past two years, with very positive effects on the economy. This Memorandum of Economic and Financial Policies (MEFP) reviews recent progress and details our economic strategy for the third annual program under this facility.

#### **II. RECENT DEVELOPMENTS AND PERFORMANCE UNDER THE PROGRAM**

2. Real GDP expanded by 10 percent in 2004 supporting a rapid increase in real wages, household incomes, and consumption. This growth was fueled by economic activity in manufacturing and services, especially in trade. Inflation has slowed to 5.6 percent at end-2004, below the program target and well down from 13 percent at end-2003. The nominal exchange rate remained stable over the past year, contributing to the reduction in inflationary pressures.

3. External conditions, which were very favorable at the beginning of 2004, deteriorated through this year, especially with rising oil prices and falling cotton prices. As a result, we expect the trade deficit to widen slightly in 2004, to 15 percent of GDP. Significant growth in remittances, including from migrants, offset the decline in external aid and will limit the deterioration in the current account to about 2½ percentage point, resulting in a deficit of 3.9 percent of GDP in 2004. Gross international reserves at end-2004 rose to two months of imports. Recently concluded debt reduction agreements with Pakistan and Russia will substantially reduce the debt service burden over the medium term.

4. Macroeconomic policies have remained on track. The projected budget deficit (excluding the foreign-financed public investment program, PIP) for 2004 at the start of the second-year program was 0.4 percent of GDP; however, we now expect to realize an overall budget surplus of 0.3 percent of GDP. Higher-than-projected GDP growth boosted nominal tax collections to SM 934 million, above the revised program target of SM 880 million, resulting in tax revenue of 15.2 percent of GDP, slightly above the 2003 level. Social expenditures increased by 0.5 percent of GDP, to 7.1 percent of GDP.

5. The implementation of monetary policy improved in 2004, assisted by the tight fiscal policy, and the National Bank of Tajikistan (NBT) observed all of the monetary policy targets. Both the ceiling on net domestic assets of the NBT and net credit of the banking system to government for end-March and end-September 2004 were observed, the floor on

net international reserves was exceeded by a wide margin (all performance criteria), and the indicative target for reserve money was met. Net international reserves were \$70 million at end-September 2004, compared with an adjusted target of \$66 million, despite curtailing of foreign exchange purchases from large exporters. Preliminary indications suggest that all indicative targets for end-December 2004 were also met, except for some arrears of SOEs to utility companies (Annex III, Table 1).

6. We have completed almost all the structural benchmarks for the second annual program, although with some delays. As a result of the education reform strategy, we have reduced the number of funded positions by 15 percent in September, well in excess of the July 2004 benchmark. Tighter enforcement of prudential regulations has improved the financial position of all banks. As of October 1, only three of the 12 banks and branches of foreign banks failed to meet all key prudential requirements. The capital deficiency of the government-owned Amonat Bank will need to be increased but no agreement has yet been reached with the NBT to make up this deficiency because the future strategy for the bank is still being discussed. Agreements have been signed with the remaining two banks on measures to bring them into compliance before end-December 2005. After delays, partly due to lack of funding, the audit of Tajikgas was completed in February 2005. The process of completing an inventory of external debts contracted or guaranteed by the government and NBT and identifying their status has been completed. Notwithstanding the improvement in recording of debts in dispute, the comprehensive recording of all such claims incurred during the period of civil strife in the early 1990s has proven to be very difficult.

7. We have continued to implement energy sector reforms under the program. We have installed over 60,000 gas meters since October 2003 and increased collection rates in this sector. The energy compensation mechanism has been reviewed to improve the targeting of poor households and the application procedure streamlined.

### **III. ECONOMIC POLICIES FOR THE THIRD ANNUAL PROGRAM**

8. During the third year of the program, we will build on the recent progress and intensify structural reforms. In particular, we plan to achieve the following main objectives:

- Achieve real GDP growth of 8 percent and limit inflation to no more than 6 percent in 2005. The lower economic growth in 2005 is forecast due to the somewhat weaker external environment.
- Maintain the gross international reserve cover at 2.3 months of imports through end-2005.
- Limit the fiscal deficit in 2005 to SM 35 million (0.5 percent of GDP), continue to focus budget expenditure on social areas, and implement public sector reforms in the core civil service, education, and health care sectors.
- Improve the implementation of monetary policy.

- Continue to implement structural reforms in the energy, banking, and agricultural sectors.
- Improve the environment for private sector development.

#### **A. Fiscal Policy**

9. The budget for 2005 envisages an overall fiscal deficit (excluding the foreign-financed PIP) of ½ percent of GDP. In support of this goal, we will implement tax and customs administration measures to raise tax revenue collections to SM 1,115 million or 15.7 percent of GDP, and continue to strengthen expenditure management through improved prioritization of expenditures. Recognizing the low level of government wages and the recent decline in the wage bill in relation to GDP, we will increase the wage bill to 3.9 percent of GDP. Wage increases in the civil service will be differentiated by rank. The high rates of increase seek to address the problems of very low and unattractive wages, especially in the health sector. The wage increase will be given in two tranches, in parallel with government administration reforms, and will be financed by savings on interest from recent debt agreements, increased tax revenues, and economies in nonessential current expenditures.

10. In 2005, disbursements under the PIP will be limited to 4 percent of GDP to help protect debt sustainability. Also, we will continue to strengthen prioritization of the PIP to take into account our investment priorities as outlined in the PRSP, absorptive capacity, and the availability of domestic counterpart resources.

11. The 2005 budget is consistent with the medium-term fiscal framework that aims at strengthening macroeconomic stability while providing more resources for the social sectors. In particular, under this framework the budget deficit (excluding the PIP) is set at 0.5 percent of GDP for the period 2006–07. We will continue to exercise tight control over the size of the budget deficit and will keep it under review, particularly taking into account the availability of concessional external financing compared to the current projections. We will also aim to raise revenue in relation to GDP. Recognizing the uncertainties about commodity prices and the yield from tax reform measures, we are conservatively targeting tax revenue to GDP to increase gradually to slightly over 16 percent of GDP by 2007. This would allow for increases in wage expenditure in priority sectors. The large increase in the wage bill to 3.9 percent of GDP in 2005 is a one-off catch-up to prevent a further deterioration in public services and foster reforms. The increase will be offset in part by across the board cuts in nonwage expenditure, which grew rapidly in 2004. We expect further increases in the wage bill in terms of GDP from the projected level for 2005 to be limited and consistent with available revenue, further expenditure savings, and public administration reforms, in particular in education and health.

12. The implementation of the revised tax and customs codes on January 1, 2005 will allow us to improve our revenue mobilization. The revised codes simplify the tax and customs rules and reduce the number of nuisance taxes (i.e., fees, charges, and duties) to enhance compliance, and introduce two new taxes—the unified agricultural tax and the

minimum tax on business. The new tax and customs codes will be placed on the MSRD's website, together with information on tax and customs payers' rights and responsibilities. To strengthen tax administration, by June 30, 2005 we will expand the register of the Large Taxpayer Inspectorate (LTI) to cover at least 60 percent of total tax collections (structural benchmark). To establish an appropriate tax/governance environment for new large energy-related projects, we will vigorously pursue full tax payments from this sector. From the start of 2005, Tajik Aluminum Plant (TadAZ) and Barki Tajik will remain current on their tax payments (in the latter case allowing for technical losses), and Barki Tajik will put in place a mechanism by March 2005 to immediately transfer to the Treasury the tax share of TadAZ's payments (structural benchmark).

13. Recognizing the need to adapt institutions to the market economy and eliminate duplication and redundancy, we are embarking on a multiyear program to reform government administration. In parallel with the first tranche of the wage increase at the start of 2005, on February 4, 2005 we adopted a reform strategy that outlines the approach to government reform that will both address governmental structures and personnel information and management systems (prior action). This will include a start of reforms in the economic and the social blocs with the assistance of the World Bank and other agencies, including upfront actions to streamline functions and reduce positions by 3 percent. This strategy is summarized in Annex I. This plan includes finalizing the health financing reform strategy, which we expect to adopt in the first quarter 2005.

14. The second tranche of the wage increase (SM 16 million) would be released after June 2005, conditional on completing additional reforms, availability of revenue, and moderate inflation. For the civil service, this will entail the implementation of measures under the ministry-specific reform plans in the Presidential Order plus the submission of amendments to the Civil Service Law to parliament by July 2005 to rationalize the pay system, and to exclude the political appointments (ministers and above) from the civil service. In the education sector, allocation of the second tranche will be conditional on further progress in implementing Government Resolution 291 on the reform of general education in 2004–09, and extending these reforms to higher education. In health, allocation of the second tranche would be conditional on extending the treatment-based funding and the guaranteed benefits package that focuses on primary health care to three rayons, including Dushanbe, and reducing positions in health by a further 2 percent.

15. The expenditure and cash management functions of the treasury will be strengthened. Specifically, we will establish and make operational a cash management unit and improve administrative procedures and communication between headquarters and local branches of the central treasury to facilitate budget reporting and cash management by September 2005 (structural benchmark). Budget institutions will remain current on all utility payments and any settlements of 2004 arrears and tax liabilities will be made through the budget. In addition, to improve the quality and currentness of budget information, a new budget classification system with a more detailed functional classification will be introduced by March 2005. We will also increase the transparency of the central state investment plan (CSIP).

## **B. Monetary and Exchange Rate Policies**

16. The monetary program for 2005 focuses on improving the implementation of monetary policy and further reducing inflationary pressures. The program envisages an increase of 10 percent in reserve money mainly through the buildup of foreign reserves. An increase in the money multiplier associated with a reduction in the required reserve ratio is expected, with broad money growing by about 18 percent. This faster growth in broad money than in nominal GDP reflects the continued improvement in confidence in the banking system. Banking sector credit to the noncotton sector is expected to increase by 25 percent, while bank credit to the cotton sector is expected to remain flat following very strong growth in 2004, as some cotton sector debts are repaid in early 2005. Also, Kredit Invest will continue to resolve its outstanding cotton claims and debts to foreign lenders and discontinue intermediating foreign loans to the cotton sector. While the authorities expect the public sector wage increase to have a limited impact on prices, the NBT stands ready to tighten monetary policy if there is a significant inflationary effect.

17. In support of the 2005 monetary program, and to strengthen long-term monetary policy management, the authorities plan to expand the range of monetary policy instruments. To achieve this, the MOF will finance its projected deficit in 2005 partly by issuing and auctioning SM 3 million of short-term treasury securities, starting in the second quarter 2005. To strengthen the capital base of the NBT, the NBT, and MOF will review and revise the mechanism for settling interest on government securities and government deposits by March 2005, and will apply this new mechanism to settlements starting with first quarter 2005. Also, the NBT will not make expenditure that are not related to its core business activities nor pay dividends on profits to the ministry of finance while it has negative net worth (continuous structural performance criterion) and will not issue directed credits (continuous structural performance criterion). More generally, the only situation in which the NBT will provide credit is as lender of last resort to banks, and at punitive interest rates. The NBT will consult with Fund staff whenever circumstances requiring the granting of such credits arise. The NBT will actively pursue the repayment of its loan portfolio by aggressively pursuing its debtors and disposing of its holding of collateral seized in lieu of bad debts. Specifically, the NBT plans to reduce its claims on banks and the corporate sector by SM 10 million between October 2004 and June 2005 (structural benchmark).

18. The NBT will continue to maintain a managed floating exchange rate regime. Interventions in the foreign exchange market will be aimed at meeting the international reserves targets and smoothing excessive exchange rate volatility, in line with the recommendations of the Monetary Policy Committee (MPC).



### **C. External Policies and Debt Management**

19. The NBT and government will continue to prohibit all external nonconcessional borrowing contracted or guaranteed by the government or the NBT, and no drawings will be made on any outstanding nonconcessional credit facilities. In the area of external debt management, decisive steps will be taken to complete the inventory of public sector external debt (including SOEs even if not guaranteed by the government), by end-March 2005. The MOF will intensify efforts to start using the Debt Tracking System for debt management and forecasting, and enhance the training of staff responsible for maintaining the debt inventory.

20. The NBT will extend the monitoring of external debt to private sector debt. Starting with the cotton sector, by end-June 2005, the NBT will develop a database of all private sector external debt (structural benchmark). This database inventory will be continuously updated and monitored, and we will take measures to encourage private firms to service their debts.

21. We are committed to maintaining a liberal trade and investment environment and will ensure that the harmonization of our trade regime with that of the Eurasian Economic Community is consistent with this goal. We are also working toward joining the World Trade Organization (WTO). A working party of the WTO will hold its second meeting in February 2005 to discuss our accession.

22. We have completed the legislative changes to liberalize current account transactions and accepted with effect from December 9, 2004 the obligations under Article VIII, Sections 2, 3, and 4 of the Fund's Articles of Agreement.

### **D. Other Structural Policies**

23. We are continuing our efforts to strengthen the banking sector by strictly enforcing all prudential requirements. We will tighten loan classification rules and continue to revoke banking licenses of the weakest banks and strictly enforce all prudential requirements by imposing the maximum penalty for noncompliance. We have raised the minimum capital requirement to \$5 million on January 1, 2005 for the largest four banks (except Amonat Bank) and from January 1, 2006 for all other banks. We will gradually (quarterly) raise the minimum capital requirement for credit associations from \$150,000 on January 1, 2005 to \$300,000 on January 1, 2006. We will ensure that Kredit-Invest is subject to the same prudential requirements as other nonbank financial institutions, including in the area of provisioning for nonperforming loans, and that it is subject to annual audits by a reputable auditor. We will also consider setting up a credit bureau to facilitate higher quality lending.

24. In view of the prospects for major capital flows into Tajikistan, the authorities are committed to better integrate the banking system with international markets. Such integration can be best facilitated by opening the banking system to highly reputable foreign banks and will require the liberalization of some of the banking sector regulations. In particular, by end-June 2005, the regulatory limits on foreign capital in the banking system will be

eliminated, as well as the requirement that a Tajik citizen should head a commercial bank (structural benchmark).

25. Other structural policies will continue to include the energy and agriculture sectors. In the energy sector, the authorities will strive to increase collection rates for gas and electricity through more aggressive collections from major energy debtors, installing gas and electricity meters, and stronger enforcement of collections from households. Automatic quarterly adjustments of all utility tariffs will be continued to account for depreciation of the nominal exchange rate (structural performance criteria), but in view of the low bill collection rate, tariffs will not be reduced if the somoni appreciates against the dollar. In addition to imposing tighter constraints on Barki Tajik, steps will be taken to ensure that TadAZ remains current on its 2005 electricity bills and taxes, and that budget entities also remain current on their utility payments.

26. In the agricultural sector, the government is finalizing its cotton debt resolution strategy in consultation with donors and will implement it promptly. We estimate the total cotton sector debt at SM 647 million (\$214 million), of which SM 470 million is owed to foreign creditors. This will be resolved on a case-by-case basis and without government guarantees with the participation of an impartial expert committee. In addition, we will strengthen the sector by stopping interference by local authorities in farm production decisions, eliminating cotton production plans at below the national level, and accelerating land privatization.

27. The government recognizes the importance of significantly improving the business environment for private sector development. To this end we will make the ministry of economy and trade responsible for private sector development and will review business regulations in collaboration with the IFC. To improve the provision of services, in addition to opening up the banking sector, we will continue to restructure Tajik Air, with the assistance of donors, and ensure that reputable international airlines are given access to the major routes to Tajikistan.

### **E. Program Monitoring**

28. The third annual program covers the period October 1, 2004–September 30, 2005, and will be monitored through two reviews by the Fund's Executive Board based on semi-annual performance criteria for end-March 2005 and end-September 2005, indicative targets, and structural performance criteria and benchmarks. We request that the fifth review of the program take place on or after June 1, 2005, based on performance as of March 31, 2005, and that the sixth review take place on or after December 1, 2005, based on performance as of September 30, 2005.

29. Quantitative performance criteria and indicative targets are specified in Annex III. The quantitative performance criteria are: a floor on net international reserves of the NBT; a ceiling on net domestic assets of the NBT; a ceiling on net banking system credit to government; a ceiling on the cumulative fiscal deficit of the general government; a floor on

cumulative tax collections; zero ceilings on the accumulation of wage and nonworking pension arrears and external arrears; and zero ceilings on the net disbursement of medium- and long-term nonconcessional external debt contracted or guaranteed by the government or NBT. Detailed definitions and reporting requirements for these performance criteria are contained in the Technical Memorandum of Understanding attached to this memorandum (Annex V). The structural performance criteria and benchmarks are detailed in Annex IV.

- Annex I: Summary of Presidential Order on the Reform of Government Administration
- Annex II: Performance Under the Second Annual Program of the PRGF Arrangement July–September 2004
- Annex III: Quantitative Performance Criteria
- Annex IV: Proposed Structural Performance Criteria and Benchmarks
- Annex V: Technical Memorandum of Understanding

**Summary of Presidential Order on the Plan of Action for  
Reforming the System of Government Management  
(Starting stage)**

This annex is a summary of the Presidential Order signed on February 4, 2005. The specific actions envisaged in this strategy cover:

- the bloc of economics-related agencies, including parts of the President's office and ministries (ministries of finance, economy and trade, and state revenues and duties);
- the bloc of social sector-related agencies; and
- civil service management.

**Reform strategy and specific actions**

An underlying principle of the strategy would be that ministries/agencies focus on other core activities. As part of the reform effort, the number of funded civil service positions will be reduced by at least 3 percent, and technical personnel by 5 percent.

***Reform of economic sectors***

*President's office:* Organize the economic functions of the office to focus on general economic policy development and implementation oversight.

- in doing so, rationalize functions to appropriate ministries.

*The ministry of finance:* Approve a plan to reform the ministry of finance by June 2005. The underlying principle of this plan will be the ministry's reorganization on a functional basis. Specifically, the plan will include the following measures:

- operationalize in the central treasury a division to manage cash transactions by September 2005;
- enhance the ministry's interaction with other ministries/agencies to better prioritize expenditure and formalize its settlements with National Bank; and
- strengthen the analytical capacity of the ministry.

*The ministry of the economy and trade:* Approve a plan to reform the ministry by June 2005. Specifically the plan will include the following measures:

- limit the ministry's role in compiling indicative plans only at the national level and reinforce its role in strategic forecasting (to identify no more than key short- and long-term macroeconomic aggregates);

- strengthen the ministry's role in promoting more favorable conditions for private sector development and the investment climate, and transfer this function from the Anti-Monopoly Policy Agency to the ministry; and
- integrate the Plan for Social and Economic Development with the PRSP.

*Ministry of state revenue and duties:* A modernization plan reorganizing the ministry along functional lines was prepared recently and is presently being implemented. In line with this plan, the following specific measures will be implemented:

- prepare and adopt a plan to computerize registration of taxpayers (March 2005); and
- extend the current pilot project to streamline taxpayer registration, and receipt and review of tax declarations to Dushanbe, Khujand, Kurgantube, and to the Large Taxpayers Inspectorate by end-2005.

### ***Reform of the social sectors***

The reform of the social sector will be accelerated.

*The ministry of labor and social protection:* The ministry will be reformed as a pilot project in ministerial restructuring. A review is to be completed shortly and will, by the end of 2004 provide the basis for a plan for reforming the ministry by late March 2005. The reform will integrate the three component structures merged earlier to rationalize their policies, services, and other functions, as well streamline its relations with Social Protection Fund and Amonat Bank.

*Education:* Continue implementing Government Resolution 291 of June 2004 to comprehensively reform general education in 2004–09. This will be extended in mid-2005 to higher education under a comparable strategy.

*Health care:* Restructure the health care system in line with the strategy for the reform healthcare financing to be finalized by the end of the first quarter 2005. This plan will include a guaranteed benefits package, changing the funding system to a treatment basis, shifting resources to primary healthcare, and introducing co-payments and paid services.

### ***Improvements in civil service***

Specific measures in this area cover recruitment, rationalization of salaries, and establishing a register of civil service positions.

- *Civil service recruitment:* Recruitment will be through open competition following the Presidential Decree of August 2004. The new recruitment procedure will be reviewed in early 2005 and changed accordingly.

- *Rationalization of salaries:* Amend the Law on the Civil Service to set up a new salary system, which will include base salary, seniority factor, and rank coefficient. Include salary increments (e.g., for medical services, vacations, etc.) in the base salary. Implement the new pay system as of January 2006.
- Submit the revised Law on the Civil Service to Parliament by July 2005 and start its implementation from 2006. The revised law should separate political appointments (from the rank of minister and up) from professional staff.
- *Civil service register:* Complete the register of civil service positions by end 2004. Complete the register of civil service staff by end April 2005. This will help to eliminate vacant positions.

**Tajikistan: Performance Under the Second Annual Program of  
the PRGF Arrangement, July–September 2004**

Measure	Status
<b><i>Quantitative performance criteria (September 2004)</i></b>	
Ceiling on net domestic assets of the NBT.	Observed
Ceiling on net credit of the banking system to general government.	Observed
Ceiling on the cumulative overall fiscal balance of the general government.	Observed
Ceiling on general government wage and nonworking pensioners' pension arrears.	Observed
Floor on tax collection of the ministry of state revenues and duties.	Observed
Floor on total net international reserves.	Observed
Ceiling on the contracting or guaranteeing of short-, medium-, and long-term nonconcessional external debt.	Observed
New external payments arrears.	Observed
<b><i>Indicative targets (September 2004)</i></b>	
Ceiling on reserve money.	Observed
New arrears of budget entities and key state-owned enterprises to utility companies.	Not observed
<b><i>Continuous structural performance criteria</i></b>	
Prohibit the NBT from issuing directed credits.	Observed
Prohibit the NBT from making expenditures not related to its core business.	Observed
Implement quarterly adjustments of all utility tariffs, equivalent to the depreciation in the nominal exchange rate in the previous quarter.	Observed
<b><i>Structural benchmarks</i></b>	
Complete an external audit of Tajikgas by a reputable international audit agency (end-June 2004).	Observed in February 2005
Reduce the number of employees in the education sector by 5 percent (end-July 2004).	Observed in September 2004
Complete an inventory of external public debts (especially of state enterprises) and government or NBT guaranteed debts, identify their status, propose settlement, and initiate good-faith negotiations (end-September 2004).	Observed
Reach agreement with commercial banks not complying with prudential regulations on a time-bound plan to correct these deficiencies (end-September).	Observed, for all but the state-owned savings bank.

Table 1. Tajikistan: Quantitative Performance Criteria for the Second Annual Program

Under the PRGF Arrangement, June–December 2004

	2004							Prel.
	End-Jun.		End-Sep.			End-Dec.		
	Indicative Targets (EBS/04/98)	Actual	Performance Criteria (EBS/04/98)	Adjusted Criteria 1/	Actual	Indicative Targets (EBS/04/98)	Adjusted Criteria 1/	
<i>Performance Criteria:</i>								
(In millions of somoni)								
1. Ceiling on net domestic assets of the NBT	35	2	23	55	30	23	71	35
2. Ceiling on net credit of the banking system to general government 2/	-211	-247	-209	-177	-237	-215	-167	-227
3. Floor on the cumulative overall fiscal balance of the general government 3/ 4/ (excluding debt-financed public investment program)	28	54	-15	...	60	-4	...	15
4. Ceiling on general government wage, and nonworking pensioners' pension arrears 5/	0	...	0	...	0	0	...	0
5. Floor on tax collection of the ministry of state revenues and duties 3/	638	663	853	...	888	224	...	250
(In millions of U.S. dollars)								
6. Floor on total net international reserves	66	73	76	66	70	65	65	76
7a. Ceiling on the contracting or guaranteeing of short-term nonconcessional external debt with original maturity of up to and including one year 6/	0	...	0	...	0	0	...	0
7b. Ceiling on the contracting or guaranteeing of medium and long-term nonconcessional external debt with original maturity of more than one year 6/	0	...	0	...	0	0	...	0
8. New external payments arrears 5/	0	...	0	...	0	0	...	0
<i>Indicative targets:</i>								
(In millions of somoni)								
Ceiling on reserve money	247	236	265	...	255	278	...	279
New arrears of budget entities and key state-owned enterprises to Naftason, Barqui Tajik and Tajikgas	0	10	0	...	0	0	...	24
<i>Memorandum items:</i>								
Disbursement of program loans (in millions of U.S. dollars)	25	25	35	25	25	40	25	25

Sources: Tajik authorities; and Fund staff estimates.

1/ Adjusted for the delay in disbursements of program loans.

2/ Excludes deposits related to project financing.

3/ For June–September 2004, the targets are cumulative from October 1, 2003 (EBS/03/171). The definition of tax revenues for 2004 has been broadened in the Technical Memorandum of Understanding to include all tax receipts. The end-December 2004 targets are cumulative from October 1, 2004.

4/ On a cash basis, the ceiling will be adjusted downward by 100 percent for any rescheduled interest payments and for any accumulation of arrears.

5/ A continuous performance criterion.

6/ By the government, NBT or any other agency acting on behalf of the government as defined in the Technical Memorandum of Understanding.



Table 2. Tajikistan: Quantitative Performance Criteria for the Third Annual Program

Under the PRGF Arrangement, October 2004–December 2005

	2004		2005		
	End-Dec. Prel. 1/	End-Mar. Performance Criteria	End-Jun. Indicative Targets	End-Sept. Performance Criteria	End-Dec. Indicative Targets
<i>Performance Criteria:</i>					
	(In millions of somoni)				
1. Ceiling on net domestic assets of the NBT 2/	73	58	82	86	77
2. Ceiling on net credit of the banking system to general government 2/	-218	-231	-196	-186	-188
3. Floor on the cumulative overall fiscal balance of the general government 3/ (excluding foreign-financed public investment program)	15	43	5	-24	4
4. Ceiling on general government wage, and nonworking pensioners' pension arrears 4/	0	0	0	0	0
5. Floor on tax collection of the ministry of state revenues and duties 3/	248	526	798	1,070	296
	(In millions of U.S. dollars)				
6. Floor on total net international reserves 2/	67	64	58	63	75
7a. Ceiling on the contracting or guaranteeing of short-term non-concessional external debt with original maturity of up to and including one year 5/	0	0	0	0	0
7b. Ceiling on the contracting or guaranteeing of medium and long-term nonconcessional external debt with original maturity of more than one year 5/	0	0	0	0	0
8. New external payments arrears 4/	0	0	0	0	0
<i>Indicative targets:</i>					
	(In millions of somoni)				
Ceiling on reserve money	278	252	257	278	305
New arrears of budget entities and key state-owned enterprises to Nafrason, Barqui Tajik and Tajikgas	0	0	0	0	0
<i>Memorandum item:</i>					
Disbursement of program loans (in millions of U.S. dollars)	0	0	0	10	0

Sources: Tajik authorities; and Fund staff estimates.

1/ Calculated using the 2005 program exchange rates.

2/ On a cash basis, the ceiling will be adjusted for the deviation of actual program loan disbursements compared to the projections.

3/ For March–September 2005, the targets are cumulative from October 1, 2004.

4/ A continuous performance criterion.

5/ By the government, NBT or any other agency acting on behalf of the government as defined in the Technical Memorandum of Understanding.

**Tajikistan: Proposed Structural Performance Criteria and Benchmarks  
for the Third Annual Program Under the PRGF Arrangement,  
October 2004–September 2005**

Measures	Status
<b>Prior action</b>	
Adopt a presidential order for a plan of action restructuring and streamlining pilot ministries, with an upfront reduction in staff positions by 3–5 percent and specific steps in 2005.	Observed
<b>Continuous structural performance criteria</b>	
Prohibit the NBT from issuing directed credits.	Already applied
Prohibit the NBT from making expenditures not related to its core business activities or paying dividends while it has negative net worth.	Already applied
Implement quarterly adjustments of all utility tariffs, equivalent to the depreciation in the nominal exchange rate in the previous quarter.	Already applied
<b>Structural benchmarks</b>	
<b>For end-March 2005</b>	
Implement the mechanism to ensure the immediate transfer to the treasury by Barki Tajik of the tax portion of TadAZ’s payments to Barki Tajik.	
As part of streamlining economic ministries, cease publication of detailed production targets disaggregated below the national level. Integrate various bodies preparing strategic plans and coordinating aid.	
<b>For end-June 2005</b>	
Reduce NBT’s claims on the private sector by SM 10 million from October 2004 to June 2005 through collateral sales or other loan recoveries.	
Remove the regulatory limits on foreign capital in the banking system and the requirement for a Tajik citizen to head commercial banks in the Banking Law.	
Expand the register of the Large Taxpayer Inspectorate (LTI) to cover at least 60 percent of total tax collections.	
Develop and continuously update a database at the NBT for monitoring private sector external debt (starting with cotton sector debt).	
<b>For end-September 2005</b>	
Make fully operational a cash management unit in the ministry of finance and strengthen communication links between local branches of the central treasury with the headquarters to enhance fiscal management, cash control and forecasting.	

## REPUBLIC OF TAJIKISTAN

### Technical Memorandum of Understanding

1. Performance during third year of the PRGF-supported program will be assessed based on observance of quantitative performance criteria and structural benchmarks. This annex together with Annex III attached to the MEFP define the variables that constitute quantitative performance criteria and indicative targets under the program, and sets out the reporting requirements and frequency of data provision by the government and the National Bank of Tajikistan (NBT).

2. For the purpose of program monitoring, U.S. dollar-denominated components of the balance sheet will be valued at the program exchange rate, and other foreign currency denominated items will be valued at cross rates between the program exchange rate of the U.S. dollar and current official exchange rates of the U.S. dollar against those currencies. The program exchange rate for the U.S. dollar is SM 3.037 = US\$1 (the end-December 2004 level). The SDR components will be valued at the program SDR exchange rate (SDR 1 = US\$1.54). Official gold holdings shall be valued at US\$438 per troy ounce.

### I. QUANTITATIVE TARGETS

#### A. Fiscal Balance of the General Government

Table 1. Ceiling on the Cumulative Overall Balance of the General Government

(In millions of somoni)	
Cumulative balance from October 1, 2004 to:	
December 31, 2004 (indicative target)	15
March 31, 2005 (performance criterion)	43
June 30, 2005 (indicative target)	5
September 30, 2005 (performance criterion)	-24
Cumulative balance from October 1, 2005 to:	
December 31, 2005 (indicative target)	4

### Definitions

3. The **general government** budget is defined to include the republican budget, local (including municipal) budgets, and all extra-budgetary funds at all levels of general government, including the social protection fund (SPF) but excluding the externally financed public investment program. The **overall cash balance** of the general government is defined from the financing side as the sum of the following:

- (i) The change in stocks of the NBT on the general government which includes all deposits of the general government with the NBT, counterpart deposits (which reflect balance of payment and/or general budget support from IFIs and other donors), NBT loans and advances to the general government, NBT holdings of government securities, bank restructuring costs, and the privatization account (where proceeds from the privatization of state property are held);
- (ii) The change in net claims (transactions) on the general government of the rest of the domestic banking system which are defined to include the net position of the general government with respect to other domestic commercial bank assets (loans, overdrafts, cash advances, holdings of treasury bills or other securities) and liabilities (deposits, etc.);
- (iii) The change in net claims (transactions) on the general government of domestic nonbank institutions and households is defined to include net sales of treasury bills, bonds or other government securities to nonbank institutions and households (including nonresidents and nonresident financial institutions), plus any other increase in liabilities of the general government to domestic nonbank institutions or households. Included in this item are also compensation payments to Tajik Rail for its servicing of external debt to Uzbekistan;
- (iv) Gross proceeds from the privatization of state property, which are kept in a separate account with the NBT, are defined as all receipts originating from the sale of state property; and
- (v) Net foreign financing of the general government which is defined as the difference between gross disbursements of foreign financing excluding the externally-financed public investment program and amortization of government debt to foreign financial and nonfinancial institutions, plus principal arrears, debt rescheduling and the drawdown of Tajikistan's claim on the Central Bank of Russia.

## **B. Total Tax Collections under the Budget**

Table 2. Floor on Total Tax Collections Under the Budget

(In millions of somoni)	
Cumulative revenues from October 1, 2004 to:	
December 31, 2004 (indicative target)	248
March 31, 2005 (performance criterion)	526
June 30, 2005 (indicative target)	798
September 30, 2005 (performance criterion)	1,070
Cumulative revenues from October 1, 2005 to:	
December 31, 2005 (indicative target)	296

## Definitions

4. **Tax collections** include all taxes collected under the budget. Regarding internal taxation, the definition excludes any proceeds from loans, or other banking system credits, the issuance of securities, or from the sale of state assets. Custom revenues are defined to include import duties, export duties and taxes, customs duties, exchange taxes, and other taxes (including VAT) on international trade and transactions.

### C. Limits on the Stock of Net Domestic Assets of the NBT

Table 3. Ceiling on the Stock of Net Domestic Assets of the NBT

	(In millions of somoni)
December 31, 2004 (indicative target)	73
March 31, 2005 (performance criterion)	58
June 30, 2005 (indicative target)	82
September 30, 2005 (performance criterion)	86
December 31, 2005 (indicative target)	77

## Definitions

5. **Net domestic assets (NDA) of the NBT** are defined as: reserve money minus net foreign assets of the NBT. Reserve money is composed of currency in circulation, required reserves, other bank reserves, and deposits of nongovernment nonbanks with the NBT. The value of the net foreign assets of the NBT is calculated as the difference between NBT's claims on nonresidents and its liabilities to nonresidents. The NBT's net domestic assets comprises the following assets and liabilities: net credit to the general government, claims on banks, credit to the economy, and other items net (OIN). OIN includes, the foreign exchange revaluation and capital accounts of the NBT.

## Adjustors

6. The ceiling on net domestic assets of the NBT will be adjusted downward/upward by 100 percent for excesses/shortfalls of the disbursement of foreign program loans.

## D. Limits on Net Credit of the Banking System to General Government

Table 4. Ceiling on Net Credit of the Banking System to General Government 1/

	(In millions of somoni)
December 31, 2004 (indicative target)	-218
March 31, 2005 (performance criterion)	-231
June 30, 2005 (indicative target)	-196
September 30, 2005 (performance criterion)	-186
December 31, 2005 (indicative target)	-188

1/ Calculated at fixed program exchange rate.

### Adjustors

7. Net credit of the banking system to general government will be adjusted downward/upward by 100 percent for excesses/shortfalls of the disbursement of foreign program loans.

## E. Net International Reserves

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

	(In millions of U.S. dollars)
December 31, 2004 (indicative target)	67
March 31, 2005 (performance criterion)	64
June 30, 2005 (indicative target)	58
September 30, 2005 (performance criterion)	63
December 31, 2005 (indicative target)	75

### Definitions

8. Total **net international reserves of the NBT** are defined as the difference between total gross international reserves of the NBT and total reserve liabilities of the NBT. Total *gross international reserves* of the NBT are defined to include NBT's holdings of monetary gold, SDRs, convertible currencies in cash or in nonresident banks that are readily available and any reserve position in the IMF. Also included are holdings of foreign currency-denominated securities issued by governments or central banks of OECD member states. Capital subscriptions in foreign financial institutions, nonliquid assets of the NBT, convertible currency denominated claims on domestic banks and other residents, assets in nonconvertible currencies, foreign assets pledged as collateral or otherwise encumbered and

the net forward position, if any (defined as the difference between the face value of foreign currency denominated NBT off balance sheet claims on nonresidents and foreign currency obligations to both residents and nonresidents) are excluded. *Reserve liabilities* of the NBT are defined as the sum of outstanding IMF credit, and liabilities of the NBT to nonresidents with an original maturity of up to and including one year.

9. Fund staff will be informed of details of any gold sales, purchases, or swap operations during the program period, and any resulting changes in the level of gross foreign reserves that arise from revaluation of gold will be excluded from gross reserves (as defined above).

### Adjustors

10. The floor on net international reserves of the NBT will be adjusted upward/downward by 100 percent for excesses/shortfalls of the disbursement of foreign program loans.

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

Table 6. Cumulative Ceiling on the Contracting or Guaranteeing of Nonconcessional External Debt

	0-1 Year Maturity	Over 1 Year Maturity
During the period from end-September 2004 to:		
December 31, 2004 (indicative target)	0	0
March 31, 2005 (performance criterion)	0	0
June 30, 2005 (indicative target)	0	0
September 30, 2005 (performance criterion)	0	0
December 31, 2005 (indicative target)	0	0

### Definitions

11. The external debt limits (short-, medium- and long-term) apply to the government of Tajikistan, the National Bank of Tajikistan and any other agency acting on behalf of the government. For short, medium- and long-term external debt, the performance criterion applies not only to debt as defined in point No. 9 of the Guidelines on Performance Criteria with Respect to Foreign Debt (Decision No. 12274-(00/85), adopted August 24, 2000), but also to commitments contracted or guaranteed and for which value has not been received.

12. The definition of debt set forth in point No. 9 of the guidelines reads as follows: “(a) For the purposes of this guideline, the term “debt” will be understood to mean a current, i.e., not contingent, liability, created under a contractual arrangement through the provision of value in the form of assets (including currency) or services, and which requires the obligor to make one or more payments in the form of assets (including currency) or services, at some

future points in time; these payments will discharge the principal and/or interest liabilities under the contract. Debts can take a number of forms, the primary ones being as follows: (i) loans, i.e., advances of money to obligor by the lender made on the basis of an undertaking that the obligor will repay the funds in the future (including deposits, bonds, debentures, commercial loans, and buyers' credits) and temporary exchanges of assets that are equivalent to fully collateralized loans under which the obligor is required to repay the funds and usually pay interest, by repurchasing the collateral from the buyer in the future (such as repurchase agreements and official swap arrangements); (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 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."

13. 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).

14. Excluded from the external debt limits are loans contracted for the purpose of debt rescheduling or refinancing if the terms of the new loan are more favorable. IMF credit is excluded from the external debt limits. The 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 performance criterion on new short-term external debt.

15. Debt falling within the external debt limits that are denominated in currencies other than the U.S. dollar shall be valued in U.S. dollars at the exchange rate prevailing at the time the contracting or guaranteeing takes place or at the exchange rate stipulated in the contract.

16. For the purposes of the program, the guarantee of a debt arises from any explicit legal obligation of the government or the NBT or any other agency acting on behalf of the government to service such a debt in the event of nonpayment by the debtor (involving payments in cash or in kind), or indirectly through any other obligation of the government or the NBT or any other agency acting on behalf of the government to finance a shortfall incurred by the debtors.



17. A concessional debt is defined as one with a grant element equivalent to 35 percent or more. The grant element is calculated using the commercial interest reference rates (CIRRs) plus a margin, which will be taken as those for January 1, 2005 until this is revised in the program. For debts of an original maturity of 15 years or more, the average CIRR over the last 10 years will be used, while the average of CIRRs of the preceding six-month period will be used to assess the concessionality of debts with original maturities of less than 15 years. To the ten-year and six month averages of CIRRs, the following margins will be added: 0.75 percent for repayment periods of less than 15 years; 1 percent for 15–19 years; 1.15 percent for 20–29 years; and 1.25 percent for 30 and more years.

## **II. CONTINUOUS QUANTITATIVE TARGETS**

### **A. No Directed Credits by the NBT**

18. The NBT will not issue any directed credits. These involve credits that are issued in the absence of a competitive auction or on nonmarket terms and conditions. This requirement will be monitored on the basis of changes in the NBT's balance sheets supported by the NBT's regular reporting on credit related activities.

### **B. No Noncore Activities of the NBT and no Dividend Payments by the NBT**

19. The NBT will neither make any expenditures not related to its core business activities nor pay dividends while it has negative net worth.

### **C. No New External Payments Arrears**

20. No new external payments arrears shall be accumulated at any time under the PRGF arrangement, excluding those which are subject to negotiation among creditors. External payments arrears are defined as overdue debt service arising in respect of obligations incurred directly, guaranteed, or converted into interstate debt by the government of Tajikistan or the NBT, including penalties or interest charges.

### **D. Ceiling on General Government Wage and Nonworking Pensioners Pension Arrears**

21. For purposes of the performance criterion, arrears on general government and nonworking pensioner's pension shall be monitored as any shortfall in monthly disbursements of wages and pensions. The monthly disbursement plan will be a third of each quarter's budgeted wage and pension payments as in the general government budget and budget of the Social Protection Fund. These payments are defined as overdue if they have come due at the end of the month and remain unpaid thereafter for 30 days or more. The program ceilings on the stock of wage and pension arrears are presented in Table 7 below:

Table 7. Stock of Wage and Pension Arrears

	(In millions of somoni)
Cumulative from October 1, 2004 to:	
December 31, 2004 (indicative target)	0
March 31, 2005 (performance criterion)	0
June 30, 2005 (indicative target)	0
September 30, 2005 (performance criterion)	0
Cumulative from October 1, 2005 to:	
December 31, 2005 (indicative target)	0

22. To permit monitoring as defined above, the government will provide data on actual wage payments (as part of the monthly budget execution statements submitted to Fund staff). The Social Protection Fund will provide quarterly reports and statements of their operations.

### III. INDICATIVE QUANTITATIVE TARGETS

#### A. Reserve Money

Table 8. Indicative Ceiling on the Stock of Reserve Money

	(In millions of somoni)
December 31, 2004	278
March 31, 2005	252
June 30, 2005	257
September 30, 2005	278
December 31, 2005	305

#### Definition

23. The stock of reserve money is defined as the sum of: (i) domestic currency issued by the NBT; (ii) deposits of commercial banks and other financial institutions held with the NBT; and (iii) deposit liabilities of the NBT with respect to the public. NBT reserve money liabilities with respect to commercial banks and other financial institutions comprise all deposits held by these institutions at the NBT, including required reserves and excess reserves held in the correspondent accounts, but excluding NBT liabilities held by commercial banks and other financial institutions in the form of short term NBT notes. Deposit liabilities of the NBT to the public include all deposits placed at the NBT, in domestic or foreign currency, by the nonbank public.

**B. New Arrears of Budget Entities and State-Owned Enterprises to Naftrason, Barqui Tajik and Tajikgas**

Table 9. Indicative Ceiling on New Arrears of Budget-Entities and Key State-Owned Enterprises to Barqui Tajik, Naftrason and Tajikgas

	(In millions of somoni)
December 31, 2004	0
March 31, 2005	0
June 30, 2005	0
September 30, 2005	0
December 31, 2005	0

**Definition**

24. Budget entities include all entities that are included in the state budget law. Key state-owned enterprises are Tadaz, Nitrogen (Sarband city), and Tajikcement.

**IV. REPORTING REQUIREMENTS UNDER THE PROGRAM**

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

Table 10. Data reporting frequency for program monitoring

Data	Frequency	Lag
1. NBT analytical balance sheet	Weekly	3 working days
2. NBT balance sheet	Monthly	2 weeks
3. Commercial banks' and Kredit Invest balance sheets	Monthly	4 weeks
4. Auction results for NBT certificates and treasury bills	Weekly	1 week
5. Foreign exchange transactions	Weekly	1 week
6. Fiscal revenues, expenditures and financing of budget execution, and extrabudgetary funds	Monthly	4 weeks
7. Reports and statements from the Social Protection Fund	Quarterly	6 weeks
8. Arrears of budget entities and state owned enterprises	Quarterly	4 weeks
9. Tax arrears of the largest tax payers in arrears	Quarterly	4 weeks
10. Foreign public debt, debt service, commitments, and disbursements	Monthly	4 weeks