

**FOR
AGENDA**

EBS/10/95
Supplement 2

June 4, 2010

To: Members of the Executive Board

From: The Acting Secretary

Subject: **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—Supplementary Information, Revised Proposed Decision, and Supplement to the Letter of Intent**

The attached supplement to the paper on the first and second review under the three-year arrangement under the Extended Credit Facility for the Republic of Tajikistan, its request for a waiver of performance criteria, and request for augmentation of the arrangement (EBS/10/95, 5/24/10), which is tentatively scheduled for discussion on **Monday, June 7, 2010**, has been prepared on the basis of additional information. A revised proposed decision appears on pages 4–6. Unless an objection from the authorities of the Republic of Tajikistan is received prior to the conclusion of the Board's consideration, the document will be published. Any requests for modifications for publication are expected to be received two days before the Board concludes its consideration.

Questions may be referred to Mr. Schimmelpfennig (ext. 34663) and Mr. Abdychiev (ext. 35852) in MCD.

Unless the Documents Section (ext. 36760) is otherwise notified, the document will be transmitted, in accordance with the procedures approved by the Executive Board and with the appropriate deletions, to the Asian Development Bank, the European Bank for Reconstruction and Development, the European Commission, the Islamic Development Bank, and the Organisation for Economic Cooperation and Development, following its consideration by the Executive Board.

This document will shortly be posted on the extranet, a secure website for Executive Directors and member country authorities.

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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

Supplement, Revised Proposed Decision, and Supplement to the Letter of Intent

Prepared by the Middle East and Central Asia Department
in collaboration with other departments

Approved by Masood Ahmed and Alfred Kammer

June 4, 2010

1. This supplement 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.¹
- 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

¹ Available on the NBT's website at <http://nbt.tj/?c=176&id=176&lang=en>.

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.

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.

REVISED PROPOSED DECISION

The following revised decision, which may be adopted by a majority of the votes cast, is proposed for adoption by the Executive Board:

1. The Republic of Tajikistan has consulted with the Fund in accordance with paragraph 4.A(b) of the arrangement for the Republic of Tajikistan under the Extended Credit Facility of the Poverty Reduction and Growth Trust, as set forth in EBS/09/43, 3/31/2009 (the “Arrangement”), to review program implementation.
2. The letter from the President of the Republic of Tajikistan, dated May 20, 2010 (the “May 2010 Letter”), together with its attached Memorandum of Economic and Financial Policies (the “May 2010 MEFP”) and Technical Memorandum of Understanding (the “May 2010 TMU”) and the letter from the Chairman of the National Bank of the Republic of Tajikistan, dated June 4, 2010, shall be attached to the Arrangement, and the letter of the President of the Republic of Tajikistan dated March 31, 2009 shall be read as further supplemented and modified by the May 2010 Letter.
3. Accordingly, the Arrangement shall be amended as follows:
 - a. In paragraph 1(a) of the Arrangement, “SDR 78.3 million” shall be replaced by “SDR104.4 million”.

- b. In paragraph 1(b) of the Arrangement, “SDR 65.26 million” shall be replaced by “SDR 78.31 million”.
- c. New paragraphs 2(d) and 2(e) of the Arrangement shall be inserted to read as follows:
- “(d) the fourth disbursement, in an amount equivalent to SDR 13.045 million, will be available on or after September 15, 2010, at the request of the Republic of Tajikistan and subject to paragraphs 4 and 5 below;
- (e) the fifth disbursement, in an amount equivalent to SDR 13.045 million, will be available on or after March 15, 2011, at the request of the Republic of Tajikistan and subject to paragraphs 4 and 5 below.”
- d. A new paragraph 4.B of the Arrangement shall be inserted to read as follows:
- “B. the fourth and fifth disbursements under this arrangement specified in paragraphs 2(d) and 2(e) above:
- (a) if the Managing Director of the Trustee finds that with respect to the fourth disbursement, the data as of June 30, 2010, and with respect to the fifth disbursement, the data as of December 31, 2010 indicate that:
- (i) the ceiling on the cumulative flow of net domestic assets of the NBT, or
 - (ii) the floor on the cumulative flow of total net international reserves, or
 - (iii) the floor on cumulative overall fiscal balance of the general government excluding foreign-financed Public Investment Program and related grants, or
 - (iv) the ceiling on the disbursements of concessional external financing,

as set out in Table 3 of the May 2010 Letter and further specified in the May 2010 TMU, was not observed; or

(b) until the Trustee has determined that, with respect to the fourth disbursement, the third program review, and with respect to the fifth disbursement, the fourth program review, referred to in paragraph 26 of the May 2010 Letter, has been completed.”

e. In paragraph 5(a) through (d) of the Arrangement, “Table 1 of the Letter” shall be replaced by “Table 3 of the May 2010 Letter” and “TMU” shall be replaced by “May 2010 TMU”.

4. The Fund decides that the first and second reviews contemplated in paragraph 4.A(b) of the Arrangement are completed, and that the Republic of Tajikistan may request the disbursements of the second loan referred to in paragraph 2(b) of the Arrangement and the third loan referred to in paragraph 2(c) of the Arrangement, respectively, notwithstanding the nonobservance of (i) the end-December 2009 performance criterion on the ceiling on the cumulative flow of net domestic assets of the NBT, as set out in paragraph 4.A(a)(i) of the Arrangement, and (ii) the continuous performance criterion on arrears on wages and pensions of the general government, as set out in paragraph 5(b) of the Arrangement, on the condition that the information provided by the Republic of Tajikistan on the performance under these two criteria and on the implementation of the measures specified as prior actions in Table 4 of the May 2010 Letter is accurate.

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, and IMF Governor for 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. | |
| Quantitative Performance Criteria (PC): | | | | | | | | | | | | | | | |
| 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 | |
| Indicative Targets (IT): | | | | | | | | | | | | | | | |
| 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 | |
| Memorandum items: | | | | | | | | | | | | | | | |
| 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 | |
| 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. | | | | | | | | | | | | | | | |