

**Tajikistan: 2001 Article IV Consultation, First Review Under the Third Annual Arrangement Under the Poverty Reduction and Growth Facility, and Request for Waiver and Modification of Performance Criteria—Staff Report; Public Information Notice and News Brief; Statement on Behalf of the Authorities of Tajikistan**

Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. In the context of a combined discussion of the 2001 Article IV consultation with Tajikistan, First Review Under the Third Annual Arrangement Under the Poverty Reduction and Growth Facility, and Request for Waiver and Modification of Performance Criteria, the following documents have been released and are included in this package:

- the Staff Report for the 2001 Article IV Consultation, First Review Under the Third Annual Arrangement Under the Poverty Reduction and Growth Facility, and Request for Waiver and Modification of Performance Criteria, prepared by a staff team of the IMF, following discussions that ended on **February 15, 2001**, 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 March 28, 2001.** 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 Public Information Notice (PIN) and a News Brief, summarizing the **views of the Executive Board as expressed during its April 12, 2001 discussion** of the staff report on issues related to the Article IV consultation and the IMF arrangement, respectively.
- a statement on behalf of the authorities of Tajikistan.

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

Letter of Intent by the authorities of the member country\*  
Statistical Appendix  
Technical Memorandum of Understanding\*

\*May also be included in Staff Report.

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REPUBLIC OF TAJIKISTAN

**Staff Report for the 2001 Article IV Consultation, First Review Under the  
Third Annual Arrangement Under the Poverty Reduction and Growth  
Facility, and Request for Waiver and Modification of Performance Criteria**

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March 28, 2001

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## Executive Summary

### Recent Developments

- Macroeconomic performance was mixed in 2000. Growth of GDP was strong (8.3 percent), but inflation surged during the second half of the year with the result that end-period inflation was 60 percent. The current account worsened, mainly because of the impact of the drought and higher energy costs.
- Policy implementation under the program has also been mixed, reflecting continued institutional weaknesses. While fiscal performance was satisfactory, slippages in monetary policy led to the surge in inflation and a sizeable exchange rate depreciation. Most quantitative and structural performance criteria were met, except for the NDA of the National Bank of Tajikistan (NBT). The authorities, however, took corrective action in early 2001 to bring the program back on track.
- Implementation of structural reforms has been uneven and not all of the benchmarks under the program were met. The authorities continue to make satisfactory progress with enterprise privatization, development of the treasury system, and establishing an auditing agency. However, little progress has been made with respect to farm privatization and implementation of an agreement between the NBT and the Ministry of Finance.

### Key Policy Issues

- Controlling inflation while maintaining strong growth and reducing poverty are key issues facing the authorities. A sharp tightening of monetary policy is projected to limit inflation for 2001 to 13.6 percent, which is close to the original target. The fiscal deficit is broadly unchanged at 0.5 percent of GDP, while real GDP is expected to grow by 5 percent in 2001 as originally programmed.
- The need to improve governance and speed up structural reforms remains pressing. The establishment of an auditing agency in January 2001 is an important step. It still remains to make it operational and to develop additional measures to improve governance. Measures to strengthen banking sector reform and enterprise privatization, and to speed up agricultural reforms remain key to ensuring sustainable long-term growth.
- Tajikistan's external debt and balance of payments outlook is subject to significant uncertainties and raises concerns about fiscal sustainability. The baseline medium-term scenario assumes that the authorities will address the debt problem by maintaining macroeconomic stability, further adjustment, and fostering high quality growth through an intensification of structural reform. Additionally, the authorities will need to limit future borrowing to concessional terms. If, however, the risks stemming from possible external shocks and uncertainties about the domestic supply response materialize, it may become necessary to seek debt restructuring from the Paris Club and other official creditors on highly concessional terms.

## I. INTRODUCTION

1. **A staff team visited Dushanbe during January 30–February 15, 2001 to conduct the 2001 Article IV consultation discussions and to undertake the first review of the third annual arrangement under the Poverty Reduction and Growth Facility.<sup>1</sup>**

Tajikistan continues to avail itself of the transitional arrangements under Article XIV. Tajikistan has an exchange system free from restrictions on making payments and transfers for current international transactions.<sup>2</sup> The Fund has provided technical assistance to Tajikistan, including in the area of statistics. The quality and timeliness of Tajikistan's statistical data, although adequate for surveillance and program monitoring, continue to suffer from weaknesses, especially as regards the preparation of national income accounts (Box 1).

2. **The last Article IV consultation was completed on January 31, 2000 (EBS/00/2).** At that time, Executive Directors noted that the difficult external environment combined with slippages in policy implementation had weakened macroeconomic performance and contributed to the program having gone off track in the third quarter of 1999. Directors stressed the importance of continuing tight macroeconomic policies and structural reforms, in particular, bank restructuring, land reform, and privatization of enterprises.

3. **On June 24, 1998, the Executive Board approved a three-year arrangement under the Enhanced Structural Adjustment Facility (subsequently renamed the Poverty Reduction and Growth Facility) for Tajikistan.** The original amount of the arrangement, SDR 96 million or 110 percent of the current quota, was increased to SDR 100.3 million or 115 percent of quota in December 1998. The third year arrangement under the PRGF, amounting to SDR 40 million or 46 percent of quota, was approved on October 25, 2000 to support the authorities' economic program for the period October 2000–September 2001. To date, SDR 66.3 million has been disbursed under the ESAF/PRGF.

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<sup>1</sup> The staff team consisted of Messrs. Christiansen (head), Pastor, Jafarov, Grigorian (all EU2), Jung (FAD), and Ms. Koliadina (PDR). The resident representative, Mr. Lorie, assisted the mission. The mission overlapped with MAE mission that assisted four commercial banks with the implementation of bank restructuring agreements. The mission, in cooperation with a World Bank team preparing the second Structural Adjustment Credit, reviewed progress with preparation of the Poverty Reduction and Strategy Paper (PRSP). The mission met with President Rakhmonov, Prime Minister Akilov, State Economic Adviser, Babaev; Chairman of the National Bank of Tajikistan, Alimardonov; Minister of Finance, Najmiddinov; and other senior officials.

<sup>2</sup> Tajikistan's relations with the Fund, World Bank, and Asian Development Bank (AsDB) are summarized in Appendices I-III, while Appendix V describes statistical issues.

**Box 1. Tajikistan: Basic Data**

**Social and Demographic Indicators (2000)**

Area	143,100 km <sup>2</sup>
Population (thousand)	6,198
Population growth (percent)	1.2
Life expectancy at birth (1997)	68.4
Infant mortality (per 1,000 births, 1999)	2.2
Hospital beds (per 10,000 inhabitants, 1999)	67.8

**Economic Indicators**

(In percent of GDP; unless otherwise indicated)

	1997	1998	1999	2000	2001 (Proj.)
Real GDP (percent change)	1.7	5.3	3.7	8.3	5.0
End-year inflation (percent change)	163.6	2.7	31.3	60.6	13.6
External current account balance	-6.0	-9.2	-3.4	-6.4	-6.0
Gross official reserves (months of imports) 1/	0.6	1.5	1.7	2.4	2.1
<b>Government budget</b>					
Revenue	13.7	12.0	13.5	13.6	13.8
Expenditure	17.0	15.8	16.6	14.2	14.3
Balance	-3.3	-3.8	-3.1	-0.6	-0.5
Velocity of broad money 2/	18.9	21.1	22.4	22.3	23.1

1/ Goods and nonfactor services.

2/ Annual GDP divided by average somoni broad money for the past year.

4. As regards the performance under the third year arrangement, all performance criteria for end-December 2000 were met, with the exception of the NDA target for the National Bank of Tajikistan.<sup>3</sup> The end-December NDA target for the National Bank of Tajikistan (NBT) was, however, met by end-January 2001. Limited progress has been achieved with the implementation of structural reforms, especially with regard to farm privatization and bank restructuring. The mission reached understandings regarding prior actions for issuing the Board paper recommending completion of the first review. In the attached supplemental letter of intent to the Managing Director dated March 29, 2001 (Attachment I), the authorities report on the implementation of the program so far and outline

<sup>3</sup> One other performance criterion was missed, due to a technical error by the staff relating to the computation of the performance criterion on the collection of tax revenue. The authorities met the corrected target for tax revenue.

the measures they have taken as well as those proposed for the future to keep the program on track. The authorities are requesting waivers for the non-observance of the end-December performance criteria with respect to the NDA of the NBT and tax collection. The authorities are also requesting modifications of the end-March 2001 performance criteria with respect to tax collection and the composition of non-concessional debt.<sup>4</sup>

5. **For several years, Tajikistan has been implementing an economic reform program intended to foster growth and poverty reduction through the development of the private sector and market-oriented mechanisms.** The authorities have completed an Interim Poverty Reduction Strategy Paper and are currently preparing their full PRSP. The government's efforts have been supported by several IMF arrangements and some progress has been achieved. Although policy implementation has been uneven in the past, the culmination of the peace process has served to enhance political stability and prospects for improved economic management. Nonetheless, progress is still hindered by weak institutions, strong vested interests, and poor governance. In this environment, economic management has continued to be difficult.

## II. PERFORMANCE UNDER THE PROGRAM

### A. Recent Developments

6. **The Fund-supported program went off track in early 2000, when the NBT was unable to resist political pressure for new directed credits for state-owned enterprises and the cotton sector.** As a result, the second and third reviews under the second annual PRGF arrangement were not concluded. The authorities subsequently re-established a satisfactory track record of policy implementation though this faltered because of lower than anticipated cotton exports combined with the inability of the NBT to recover overdue loans issued earlier in the year. Implementation of remedial measures, however, led to satisfactory performance for the July-September period. This paved the way for a revised program supported by the third annual PRGF arrangement, which was approved by the Executive Board on October 25, 2000.

7. **Performance under the program has been mixed.** Fiscal performance was satisfactory, but slippages in monetary policy led to a surge in inflation and a sizeable currency depreciation. Further, the implementation of the structural reform measures was uneven and not all of the benchmarks were met. NDA of the NBT exceeded the target by 14 percent of end-2000 reserve money. However, the authorities took corrective action in January and met the end-December NDA target by end-January 2001 through a combination

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<sup>4</sup> The modification of the performance criterion on non-concessional debt will clarify the permissible sources of borrowing under this ceiling. The amount of lending permitted by the ceiling does not change.

of loan collection and accumulation of government deposits. All other performance criteria (except a technical breach of the criterion pertaining to tax collection) were met (Box 2).

**Box 2. Tajikistan: Compliance with Performance Criteria for End-December 2000**

Of the eight quantitative performance criteria for end-December, six were observed. The government did not incur wage, pension or external arrears. The budget deficit in the fourth quarter was Sm1.3 million instead of the Sm4.2 million programmed. Revenues were higher than expected, but the MOF limited expenditures to the levels projected in the program. This allowed the MOF to accumulate deposits with the NBT. The NBT's stock of NIR increased to negative US\$27.7 million, exceeding the end-December performance criterion by US\$2.1 million.

The NBT's NDA target, however, was breached by Sm16.3 million. Also, the authorities missed the performance criterion on tax collection, which was miscalculated by the staff. The performance criterion calculated in the staff report EBS/00/206 was Sm53.7 million and included non-tax revenue and grants. The correct value, excluding grants and non-tax revenues, should be Sm48.7 million. Tax collection exceeded the corrected target by Sm0.8 million.

8. **Economic growth was strong in 2000.** While the mission has general reservations about the quality of official national accounts data, it is clear that growth of agricultural and industrial production (especially aluminum) was strong.<sup>5</sup> A drought hurt production of electricity and non-irrigated crops (mostly grains), but for the agricultural sector these effects were more than offset by strong growth in the production of other commodities. Cotton production in 2000 increased by 7 percent, and production of vegetables and fruits seems to have increased significantly.<sup>6</sup>

9. **Inflation surged during August-November, with prices rising cumulatively by 38 percent, due to a combination of loose monetary policy and external factors.** In particular, (i) reserve money increased by 17.7 percent during June-August; (ii) prices for imported gasoline rose by 87 percent in August; (iii) the border with Uzbekistan was closed intermittently thereby disrupting trade; and (iv) there was uncertainty surrounding the currency conversion in late October (Box 3). The increase in reserve money was the result of unsterilized purchases of foreign exchange inflows from early cotton exports and better than expected aluminum exports. However, subsequent efforts by the NBT to control liquidity

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<sup>5</sup> Official statistics estimate growth of agricultural and industrial output in 2000 at 12.4 percent and 10.3 percent, respectively, compared with 1999. Excluding production of aluminum, the growth of industrial production was only about 1 percent.

<sup>6</sup> Data on the production of vegetables and fruit are imprecise because these crops are produced largely on small-scale farms which are not well covered by statistical agencies. Trade data, however, indicate that export volume for these commodities increased by 21 percent in 2000.



combined with a tighter fiscal stance reduced inflationary pressure. Average monthly inflation during December 2000-February 2001 was about 1 percent.

### Box 3. Tajikistan: Currency Conversion

The introduction of the new currency—the somoni—to replace the Tajik Ruble (TR) was announced on October 26, 2000 and began on October 30 at an exchange rate of Sm1=TR 1,000. Unlike the currency reform of 1995, the conversion was implemented without any confiscatory elements. The IMF publicly supported the currency reform and called upon the authorities to pursue tight macroeconomic policies to establish confidence in the new currency.

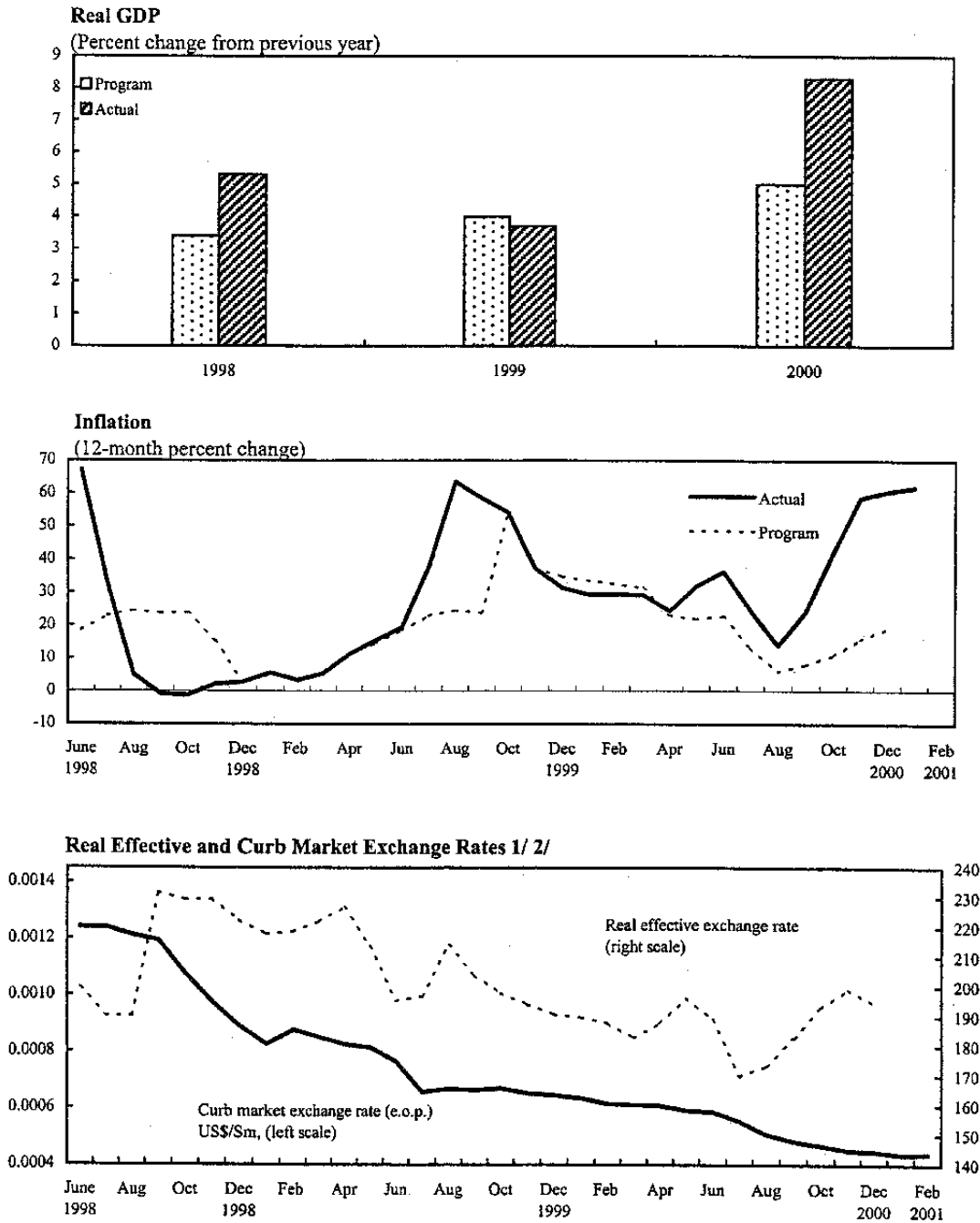
Despite public announcements about the non-confiscatory nature of the reform, considerable uncertainty characterized the early days of the conversion process. During the first week following the announcement, the nominal exchange rate depreciated by 25 percent and prices for many consumer staples such as bread increased sharply. The curb market exchange rate, however, quickly stabilized at Sm2.5=US\$1. Between end-November 2000 and end-February 2001, the nominal exchange rate in the curb market depreciated by 3.3 percent.

10. **Implementation of monetary policy in 2000 was hindered by institutional weaknesses.** In the last quarter of 2000, the NBT failed to recover most of the directed credits issued earlier in the year. In addition, the NBT did not have instruments (e.g., a mechanism for selling treasury bills or certificates of deposit) to control liquidity. With the NBT stopping the sale of foreign currency in connection with the introduction of the interbank foreign exchange market in July 2000, the exchange rate depreciated in the curb market by 26 percent in the second half of 2000. The pace of depreciation, however, has slowed significantly in recent months following the tightening of fiscal and monetary policies in late 2000 and early 2001 (Figure 1). While nominal interest rates increased slightly, real interest rates were negative for most of 2000, reflecting weaknesses in the operational and financial management of banks, and the underdeveloped financial markets.

11. **Fiscal performance was better than expected because of improved expenditure control.** As a result, the budget deficit in 2000 was less than projected. Expenditures on subsidies, goods and services, and public investment declined in real terms and more than offset the significant increase in social spending. Revenues as a percent of GDP remained low, amounting to only 13.6 percent, which was largely unchanged from 1999. The overall deficit amounted to 0.6 percent of GDP in 2000 compared to 3.1 percent in 1999. About 70 percent of the deficit was financed from external sources.

12. **The external current account position worsened in 2000 because of strong economic growth, the drought, and high energy prices.** The drought caused a shortfall in domestic hydroelectric production and necessitated net imports of electricity of about US\$21 million. The decline in wheat production as a result of the drought increased demand for imports, but a decline in the price of wheat combined with humanitarian assistance offset the impact of the increased volume of imports. The volume of gas and oil imports declined, but because of higher prices the value of energy imports increased by 26.5 percent compared

Figure 1. Tajikistan: GDP, Inflation, and Exchange Rates, 1998-2001



Sources: Tajik authorities; and Fund Staff estimates.

1/ Data for the real effective exchange rate are based on relative consumer price inflation, official exchange rate, and Tajikistan's trade weights (index 1995=100).

2/ A decline in the value represents a depreciation.

with 1999.<sup>7</sup> Because of increased capital inflows, largely due to advance payments to the cotton sector, the overall balance of payments improved compared with 1999.<sup>8</sup>

13. **Total external debt declined by US\$8 million during 2000 to US\$1,206 million.** Because of exchange rate depreciation, however, total debt in relation to GDP increased to 126 percent from 116 percent at end-1999. The indebtedness of the non-financial public sector increased because of net multilateral borrowing of US\$49 million. The stock of bilateral debt declined with the repayment of US\$11.6 million to Uzbekistan and the conversion of the US\$6.5 million loan from China into a grant. The balance of the government-guaranteed debt to Credit Swiss First Boston was reduced by US\$12.6 million during 2000 and by another US\$3 million during January 2001. In August 2000, the National Bank of Tajikistan signed for the extension of non-concessional export financing of up to US\$25 million by the government of the Islamic Republic of Iran.<sup>9</sup> The first disbursement of US\$0.8 million was made in late 2000.

## B. Structural Reforms

14. **The pace of structural reform has been uneven, particularly in the areas of farm privatization and governance.** Nonetheless, some progress has been achieved. A treasury law was approved by parliament and the coverage of the treasury system was extended to the remaining 6 rayons in early 2001. Additionally, the privatization of medium and large enterprises remains on track. Tax administration has improved, partly as a result of the technical assistance provided by FAD, and additional offices of the large taxpayer inspectorate were established under the Tax Committee in January 2001. As of end-December 2000, contracts for the sale of 268 medium and large enterprises had been signed with full payment having been received for 233 of these enterprises. The authorities have also established an auditing agency and have issued its interim charter, although a provision

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<sup>7</sup> The terms of trade showed a modest deterioration, as higher energy prices were nearly offset by increased prices for aluminum and cotton.

<sup>8</sup> During the second half of 2000, financing from Paul Reinhart, Inc. amounted to US\$32 million, of which US\$20 million was a prepayment for cotton exports from the 2000 crop, and US\$12 million was pre-financing of the 2001 crop.

<sup>9</sup> According to the agreement, the government of Iran undertakes to make available export financing facilities that could be utilized by concluding a separate letter of agreement for each supply contract. The obligation of the NBT under the agreement creates a contingent liability of the NBT and not a current one. The disbursement of US\$0.8 million is, however, interpreted as contracting new debt. This disbursement is within the limits on contracting new debt permitted under the program.

for reporting to parliament was not included in the charter.<sup>10</sup> In contrast, no state-owned farms were restructured during the second half of 2000 and hence the end-December benchmark was not met. The agreement to regularize financial relations between the NBT and the MOF, which was signed in October 2000 as a prior action for program approval, has not yet been fully implemented.<sup>11</sup> Similarly the agreement between the MOF and Tajik Rail (TRR) to compensate the latter for in-kind servicing of government debt to Uzbekistan has not been implemented fully.

15. **The authorities continue to improve the regulatory environment for banks.** The bank restructuring agreements, which were signed in May 2000 and cover the four largest banks, have resulted in some improvement in performance. The NBT has created a specialized unit to facilitate bank liquidation and continues to strengthen its bank supervision capacity. Of those banks not participating in the restructuring program, at least half have not yet met the minimum capital requirement for end-2000. The NBT has revoked the banking license of 2 banks and appointed temporary administrators for another 2 banks in 2000 (Box 4). The financial position and operational efficiency of banks, however, remain weak and will require additional structural reforms in the near term.

### III. POLICY DISCUSSIONS

#### A. Policy Objectives and Strategy

16. **The main constraints to sustainable stabilization and growth continue to be uneven policy implementation, weak governance, and the high level of external debt.** The program approved by the Board in October 2000 adopted a three-pronged approach to deal with these pressing problems. First, the program would enhance stabilization policies by prohibiting quasi-fiscal operations of the NBT and strengthening the governance of public

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<sup>10</sup> Presidential Decree No. 456 dated January 25, 2001, entitled "On the Establishment of the State Financial Control Agency Under the President of the Republic of Tajikistan."

<sup>11</sup> In the supplement to EBS/00/206 dated October 24, 2000, it was noted that the agreement that was signed by the NBT and the MOF differed from that outlined in Annex III of the Memorandum of Economic Policies (MEP) in terms of the size of the reduction applied to MOF's debt to NBT. In addition, the agreement signed by NBT and the MOF differs from that outlined in Annex III of the MEP in two other matters. First, the signed agreement stipulates that treasury bills of 91 day maturity be issued, whereas Annex III to the MEP proposed that the term of the treasury bills be 28 days. Second, the signed agreement stipulates that foreign exchange loans be valued at the exchange rate in effect on the date the agreement was signed, whereas Annex III to the MEP proposed that the relevant exchange rate should be that which was in effect when the loans were issued. Partial implementation of the agreement was achieved when the NBT wrote-off Sm23.2 million in October 2000 of MOF debt to the NBT. The remaining step is for the MOF to issue the securities to the NBT.

resources. Second, to address broader governance problems, the structural policy component of the program included measures to make government more accountable and transparent as well as to discourage government intervention in private sector activities. Third, the program included strong fiscal adjustment measures to deal with the large public debt burden. The authorities remain firmly committed to these objectives and pledged to place renewed emphasis on structural reforms. It is their belief that such an approach offers the greatest potential for making the debt burden sustainable and reducing poverty.

#### **Box 4. Tajikistan: Progress on Bank Restructuring**

The banking sector remains weak. At end-December 2000, there were 16 banks in the system, with total assets equivalent to about 17 percent to GDP. Four banks (Agroinvestbank, Amonatbank, Orionbank, and Tojiksoderotbank) account for 84 percent of total system assets. Agroinvestbank is by far the largest, with 63 percent of total assets, most of which are cotton sector loans financed by its principal shareholder, Paul Rheinart, Inc., an international cotton trading firm. Both Agroinvestbank and Amonatbank are financially weak. Of the remaining 14 banks, several are very small; four have total assets of less than US\$600,000, while two others each have total assets of approximately US\$1.5 million.

A major source of profit for banks is income from foreign exchange operations. For 2000, net income of the four largest banks was Sm1.7 million, while interest income was Sm4.6 million and non-interest income, comprised almost entirely from foreign exchange transactions, was Sm22 million.

Financial information from the banks is unreliable because the use of International Accounting Standards for day-to-day financial management and reporting is rare. Most banks have not adopted accrual based accounting, or do so selectively by accruing either income or expense but not both. Also, some banks do not yet recognize the full amount of required loan loss provisions. This precludes reliable measurement of actual profitability against total assets and total capital.

Credit administration is also problematic. More than 44 percent of total loans were nonperforming and those classified as losses comprise Sm19 million. Loan loss provisions totaled Sm18 million. Loans originated since 1998 are not sufficiently seasoned to determine if loan underwriting has improved. The legal environment remains challenging for lending based on collateral and for the recovery of problem loans.

Since 1997, the authorities have made progress in strengthening the bank regulatory environment. Minimum total capital requirements, which were the equivalent of US\$300,000 in 1997, currently stand at US\$1.0 million and are scheduled to increase to US\$2 million by end-2001. This will lead to a sharp reduction in the number of banks in the system. Of the eleven banks, including Amonatbank, that do not meet the current requirement, seven appear unlikely to generate sufficient earnings or sell sufficient shares to meet the end-2001 requirement. Total assets and total capital of these banks at end-December 2000 were approximately Sm33.3 million and Sm2.1 million, respectively.

Progress with restructuring agreements at the four largest banks has been mixed. Three of the four banks (excluding Amonatbank) have exceeded their targets for non-performing loan recoveries. All have improved risk management by establishing standard operating procedures, strengthening internal audit programs and conducting staff training programs. All have received independent audits by an international firm (PricewaterhouseCoopers). Much, however, remains to be done. None of the banks have adopted IAS in daily financial operations. No downsizing of staff or offices has begun.

17. **Discussions during the mission focused on revisions to the original program's macroeconomic framework in the light of recent economic developments and on measures to strengthen the structural reform components of the program.** The authorities recognize that monetary and fiscal policies need to be tight in order to control inflation and strengthen confidence in the currency. Additionally, they recognize that renewed emphasis needs to be given to structural reform, especially in the areas of farm privatization and bank restructuring, if potential efficiency gains are to be realized and serve

as a basis for sustainable growth. In recent speeches and during a meeting with the mission, the president stressed the need for accelerating structural reforms.

18. **The macroeconomic framework for 2001 was revised to take account of the higher than expected inflation in 2000.** A sharp tightening of monetary policy is expected to keep inflation close to the initial target, notwithstanding the overshooting in 2000. Real GDP growth in 2001 in the revised program remains unchanged at 5 percent. Major sources of growth are expected to be the continued expansion of cotton production and a further increase in aluminum production. The current account deficit is expected to narrow to 6 percent of GDP. The revisions to the macroeconomic program are detailed in Box 5.

**Box 5. Tajikistan: Main Elements of the Government's Revised Program, 1999-2001**

	1999	2000		2001	
	Actual	Program		Program	
		Original 1/	Actual	Original 1/	Revised
<b>Program objectives</b>					
Real GDP (percent change over the same period a year earlier)	3.7	5.0	8.3	5.0	5.0
Inflation (end-period)	31.3	19.0	60.6	12.4	13.6
Current account balance (in percent of GDP)	-3.4	-5.7	-6.4	-6.5	-6.0
<b>Program targets and assumptions</b>					
Average velocity 2/	22.4	22.1	22.3	20.8	23.1
Somoni broad money 3/	29.2	24.2	48.6	25.2	11.2
Reserve money 3/	20.0	20.3	45.4	19.0	5.2
NBT credit to the private sector 3/	37.6	-6.6	33.1	-21.5	-25.8
Net international reserves 4/	-40.8	-29.8	-27.7	-25.9	-29.4
Gross international reserves (in months of imports)	1.7	1.9	2.4	2.7	2.1
General government budget balance (in percent of GDP)	-3.1	-1.2	-0.6	-0.6	-0.5
Net external financing of the budget (in percent of GDP)	2.5	1.0	0.4	0.2	-0.3
Net credit to the government from NBT (in percent of GDP)	-0.2	0.1	0.0	0.1	0.6

Sources: Tajik authorities; and Fund staff estimates.

1/ Refers to the macroeconomic framework contained in EBS/00/206 as adjusted for the delayed payment to the EU and less-than-programmed disbursement from the World Bank and AsDB. Figures for 1999 and 2000 use the original accounting exchange rate of Sm1.9/US\$, while figures for 2001 use an accounting exchange rate of Sm2.4/US\$.

2/ Annual GDP divided by average somoni broad money for the past year.

3/ Percent change over 12 months.

4/ In millions of U.S. dollars.

19. **In view of the mixed performance in the fourth quarter of 2000, supplemental measures were needed to strengthen program implementation.** The mission reached understandings with the authorities designed to ensure that critical structural reforms were completed and that the reduction in reserve money achieved in January would be sustained. Thus, a number of prior actions were established as conditions for the issuance of the Board document recommending completion of the first review of the third year arrangement under the PRGF. These prior actions are detailed in Box 6. Additionally, the mission reached understandings with the authorities regarding additional structural benchmarks for end-June and end-September 2001 intended to strengthen the banking sector, governance, and the process of farm restructuring (Table 13).

**Box 6. Tajikistan: Prior Actions for Issuance of the Board Document**

The following measures were established as prior actions for issuance of the Board paper:

- Extend coverage of the treasury to include all central government payments outside Dushanbe.
- Begin implementing the agreement between the NBT and MOF concerning regularization of their financial relations as indicated in Annex III of the MEP of October 2000 by adjusting the accounts of the NBT to reflect the revised debt of the MOF.
- Limit the NDA of the NBT to Sm151 million for end-February 2001.
- Begin the process of revoking the banking licenses or of effecting mergers of 2 banks outside the restructuring program that have not met the minimum capital requirement of US\$1 million as of end-December 2000.
- Upgrade the status and responsibilities of the Land Committee to that of a state committee.
- Begin implementation of the agreement between the MOF and Tajik Rail (TRR) on the amount required to compensate TRR for in-kind services it will provide to the government of the Republic of Uzbekistan on behalf of the government of Tajikistan in 2001 by ensuring that the appropriate amount is in the budget for 2001.

20. **Problems with governance undermined policy implementation and strengthen the case for accelerating structural reforms.** The authorities acknowledge the challenge posed by the present situation and have proposed measures that will intensify the emphasis given to bank restructuring, improved governance and farm privatization.<sup>12</sup> In addition, there

<sup>12</sup> While reforms in the agricultural sector are not among the core areas for the Fund, the importance of the sector to export growth and poverty reduction cause the staff and the authorities to regard these measures as critical to achieving the macroeconomic objectives of the program.

has been some streamlining of the structural reform measures included in the program. Some measures which were previously covered under the program have been dropped because the World Bank will cover these topics as part of its second structural adjustment credit.<sup>13</sup>

## B. Fiscal Policy

21. **The fiscal stance in the revised program is largely unchanged from the original program.** The nominal value of the fiscal deficit is unchanged from the original program, but is projected to decline slightly as a share of GDP. Under the revised program, both expenditures and revenues for 2001 are projected to be lower as a share of GDP compared to the original program. This reflects the lower than expected revenue performance, as a share of GDP for 2000. A civil service wage increase, which is scheduled to take effect April 1, 2001, is targeted on critical employees in the social sectors who are expected to receive salary increases of about 40 percent.

22. **A modest improvement in revenue collection is expected in 2001 as a result of better tax administration.** Overall, net revenues are projected to increase by 0.2 percent of GDP between 2000 and 2001. Improved tax collection combined with a shift to the destination principle on the VAT and import duty collection, and strong export growth are projected to more than offset the impact of a further reduction in the sales tax rate applied to exports of cotton and aluminum planned for 2001.<sup>14</sup>

## C. Monetary and Exchange Rate Policy

23. **Under the revised program, the focus of monetary policy will continue to be on reducing inflation.** The revised program assumes that the velocity of somoni broad money will increase during 2001, but at a moderating rate as tighter policies begin to restore confidence in the currency. No new loans from the NBT to the government are programmed, although net lending will increase as government draws down its deposits with the NBT. Directed lending by the NBT will continue to be prohibited as a continuous performance criterion. New credits to the private sector, which would be supplied via a market-based credit auction, would be limited by the amount of the NBT's loan recovery in excess of programmed amounts. The targets for NIR and NDA of the NBT for end-June have been

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<sup>13</sup> The three benchmarks pertain to: (1) privatizing medium and large enterprises; (2) implementing judicial reform; and (3) establishing a black book mechanism. The World Bank's Board is scheduled to consider a second structural adjustment credit in June 2001. It is being designed as a two tranche operation with an expected disbursement of US\$20 million in the third quarter of 2001 and in the first quarter of 2002.

<sup>14</sup> The CIS customs union, which includes Belarus, Kazakhstan, the Kyrgyz Republic, Russia, and Tajikistan, was established in 1995, but has not yet become fully operational because of disagreements on the implementation of the common external tariff. The authorities expect gradual implementation during 2001.



revised to reflect the lower than anticipated disbursements from the World Bank and AsDB and larger than expected payment to the EU.

24. **The authorities' reliance on deposit accumulation by the MOF to meet the end-December 2000 performance criterion for NDA of the NBT raises concerns about the sustainability of the monetary tightening in early 2001.** The mission, therefore, urged the NBT to use a combination of loan collection and monetary instruments, including sales of treasury bills and certificates of deposit, to offset the effect on liquidity of the expected use by the MOF of its deposits in the coming months. In this regard, the authorities will need to allow interest rates to play a greater role and become positive in real terms. Additionally, to facilitate compliance with the end-March 2001 performance criterion for NDA, the authorities have begun implementing the agreement regularizing relations between the MOF and the NBT. The issuance of Sm3 million in treasury bills to the NBT will provide the latter with an additional monetary policy instrument.

25. **The average real effective exchange rate depreciated significantly in 2000,** as the nominal depreciation vis-à-vis both the U.S. dollar and the Russian ruble—42 percent and 33 percent, respectively—more than offset relative price growth. The competitiveness gains with respect to Russia might be reflected by an increase in the share of exports to Russia in total merchandise exports from 8 percent in 1988 to 30 percent in 2000. Given that dollar wages in Tajikistan are low compared with those of its competitors, the staff believes there is scope for the exchange rate to appreciate without damaging international competitiveness.

26. **The authorities plan to continue a flexible exchange rate policy as it best serves the country's interests given its vulnerability to external shocks.** The mission advised the authorities not to use sales of foreign currency to support the exchange rate in the event of persistent pressures. The authorities agreed that foreign currency intervention should be limited to the need to smooth temporary fluctuations in the exchange rate.

27. **The spread between the official and the interbank exchange rates was eliminated in January 2001.** Since the establishment of the interbank foreign exchange market in July 2000, the authorities have calculated the official exchange rate as a weighted average of actual transactions on the interbank market.<sup>15</sup> The discrepancies between the two rates, which developed in the second half of 2000, were the result of problems with commercial banks' reporting of transactions to the NBT. As a result, revisions to the official rate did not take place on a regular basis. Reporting by the commercial banks has improved and the official

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<sup>15</sup> Apart from the introduction of the interbank foreign exchange market, the exchange system was not amended in 2000. The government requires 100 percent advance payment on exports of cotton and aluminum and the repatriation of proceeds within 120 days. There are no government-mandated financing requirements on imports. Direct investment requires authorization by the National Bank, which also maintains control over credit operations regarding external trade exceeding 120-180 days.

exchange rate now more accurately reflects the behavior of the interbank market. The authorities acknowledge that the market is still in the early stages of development and that its operation will need to be carefully monitored. The elimination of the spread between the official and interbank exchange rates reduced the spread between the official rate and the curb market rate to about 9 percent, compared to 15 percent earlier. Fees of 1-2 percent that are charged by commercial banks for cash withdrawals partly explain the remaining discrepancy.

#### **D. External Sector Policies**

28. **The current account deficit is projected to decline slightly as a percent of GDP for 2001 due to strong export growth for cotton and aluminum.** The terms of trade, however, are projected to deteriorate somewhat because of an expected increase in wheat prices and a more gradual decline in energy prices than previously assumed.

29. **The surplus on the capital and financial accounts is projected to be smaller than originally anticipated.** This reflects the delay in repaying the European Union from late 2000 to the first quarter of 2001, a reduced estimate of foreign direct investment based on experience from 2000, and a projection of increased repayments of cotton sector loans. Partially offsetting these factors is a lower repayment obligation to Russia. The original program assumed a repayment to Russia of US\$16 million in 2001, but the revised program has been amended to reflect a grace period through 2002 as envisioned under the Primakov protocol.<sup>16</sup>

30. **The total external debt is projected to decline in 2001.** Agreement on rescheduling and amortization of commercial debt are expected to reduce total debt to 108 percent of GDP. Public sector debt is projected to decline to 78 percent of GDP provided that the debt restructuring negotiations with Russia are completed. Ongoing negotiations with Russia, Uzbekistan, Kazakhstan, and Turkmenistan pose uncertainties for the near term profile of external debt.<sup>17</sup> The authorities report that negotiations with Russia are progressing satisfactorily, that an agreement with Uzbekistan on the debt repayment has been reached for

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<sup>16</sup> When the original program was prepared, it was assumed that negotiations would result in a reduction of Tajikistan's debt to Russia, but the issue of whether the Primakov protocol, including the grace period, would be completely implemented was uncertain.

<sup>17</sup> A significant part of the bilateral debt has been rescheduled on concessional terms. However, rescheduling agreements with some of the CIS countries—Russia, Kazakhstan, and Uzbekistan—have not yet become effective. The staff has assumed that these agreements will be implemented on the following terms: 2.8 percent interest, maturities of 14 years for Russia, 19 years for Kazakhstan, and 15 years for Uzbekistan, and grace periods of 4, 9, and 5 years, respectively. The dispute with Turkmenistan remains unresolved and the stock of debt to Turkmenistan is not included in the baseline projection.

2001 and is reflected in the budget, and that negotiations on outstanding debt with Kazakhstan are ongoing.

31. **The authorities remain committed to further trade liberalization.** However, their membership in the CIS Customs Union adds uncertainty to future trade policy. Since the Customs Union is not fully effective, Tajikistan does not consider itself bound by the agreement, and tariffs continue to be levied on goods imported from its members. No changes to the tariff structure were made in 2000 and the minimum and maximum tariff rates remain at zero and 30 percent respectively. Tajikistan has an open trade system—scoring well (1 out of 10) on the IMF trade restrictiveness index—with a simple average tariff rate of 8.3 percent and no significant non-tariff barriers. The authorities plan to eliminate the sales tax charged on exports of aluminum and cotton in 2002. They expect this measure to be broadly revenue-neutral, as potential losses from eliminating the sales tax are expected to be offset by an increase in VAT revenues arising from the shift to the destination principle for this tax. The work on the accession to the WTO is still at the initial stage.

#### E. Structural Reforms

32. **The authorities acknowledge that implementation of the structural reform program has been uneven and as such undermines macroeconomic stability.** Consistent with the program objectives, the mission reached understandings with the authorities on additional structural reforms that would strengthen (i) the banking sector by improving the tax treatment of banks; (ii) governance by developing legislation that would ensure dissemination of the findings of the auditing agency to the parliament; and (iii) farm privatization by adopting legislation that would specify the necessary legal processes. In order to streamline policy conditionality, measures pertaining to the privatization of enterprises, judicial reform, and implementation of the black book mechanism would be dropped.<sup>18</sup> Each of these measures are, however, to be addressed in the context of the World Bank's upcoming adjustment operation.

33. **Intensification of banking sector reforms is expected to improve financial intermediation and monetary policy.** The authorities have continued the process of revoking the banking licenses or of effecting mergers of banks outside the restructuring program that did not meet the minimum capital requirement as of end-December 2000. As structural benchmarks for end-June 2001, the authorities will submit amendments to parliament that would (i) eliminate the obligation of commercial banks to advise the Tax Committee automatically of new deposits; (ii) eliminate the 30 percent tax on transfers from abroad; and (iii) change the present practice of assessing the property tax on the net worth instead of on the fixed assets of the commercial banks. Further, as a structural benchmark for end-June 2000, the authorities will amend legislation allowing average foreign equity

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<sup>18</sup> The use of a black book mechanism requires all visitors to enterprises to sign a log book and indicate the nature of the visit.

ownership of the banking system as a whole to increase from 35 percent at present to a maximum of 40 percent in 2001 and 50 percent in 2002. As a structural benchmark for end-September 2001, the authorities plan to complete an assessment of the banks participating in the restructuring program and develop a strategy for either privatizing, merging or closing these banks.

**34. The authorities plan to issue a government resolution specifying revised budget targets for 2001.** According to the budget law for 2001, parliament authorized the MOF to modify the budget in accordance with actual revenues without submitting a supplemental budget. The authorities plan, however, to submit the resolution to parliament for information.

**35. The authorities plan to enhance the effectiveness of the treasury system.** The draft treasury law was submitted to parliament and approved in March 2001. Beginning in March, treasury coverage was extended to all central government payments outside Dushanbe. The authorities also plan to complete implementation of a pilot project in four ministries designed to enhance expenditure commitment control and improve financial planning by end-June 2001. In addition, the authorities plan to abolish the treasury single extrabudgetary account, publish and distribute the treasury manual, and consolidate the bank accounts of individual ministries and transfer the funds to the treasury single account. As indicated in the supplemental letter of intent, the authorities plan a further strengthening of tax administration by enforcing the use of tax invoices by taxpayers and ensuring that funds are available for producing essential forms and pamphlets required by the Large Taxpayer Inspectorate.

**36. The responsibilities of the auditing agency would be refined to include provisions for advising parliament of the agency's findings.** Having established the agency and its interim charter, the authorities plan to prepare, in consultation with the staff of the IMF and consistent with Annex IV of the MEP of October 2000, a draft law specifying the responsibilities of the audit agency and submit it to parliament by end-June 2001. In accordance with a request from the authorities, Fund staff would provide technical assistance with the preparation of the draft legislation.

**37. The authorities attribute the delay in farm restructuring to weak institutions and opposition from vested interests.** A presidential decree was issued in January 2001 authorizing the restructuring and privatization of an additional 120 farms during 2001. In March 2001, the authorities upgraded the status and responsibilities of the land reform committee to the equivalent of a ministry. As structural benchmarks for end-June 2001, the authorities plan to (i) prepare, in consultation with the staff of the IMF, and approve a statute defining the responsibilities of the upgraded Land Reform Committee, and (ii) convert at least 60 state-owned farms into private farms by issuing marketable land use certificates and land share certificates.

## F. PRSP

38. **The authorities have made good progress with the preparation of the PRSP.** Several working groups were formed in order to identify sector priorities and draft appropriate sector strategies. Having completed these strategies, the authorities are in the process of integrating them into a single strategy and estimating the implementation cost. The authorities plan to ensure that the PRSP is fully consistent with the medium-term fiscal framework, which projects an increase as a share of GDP in expenditures on social services (Table 8), and the external debt strategy. The authorities hope to present an overview of the PRSP at the Consultative Group meeting scheduled for May 2001 and to complete the full version in October 2001.

## G. External Debt, Balance of Payments Outlook, and Capacity to Repay the Fund

39. **The medium-term balance of payments outlook discussed with the authorities include revisions to the original program assumptions.** The growth of total exports was revised downward to reflect uncertainties about the growth of cotton and aluminum exports.<sup>19</sup> Projections of unit export and import prices were left broadly unchanged, consistent with WEO projections. With disbursements of external assistance projected to level off around 2005, modest increases in foreign direct investment should provide a continued growth in the capital account.

40. **The net present value (NPV) of the external debt is not fiscally sustainable at present, partly because government revenue is low in relation to GDP.** The ratio of Tajikistan's public sector debt to GDP was 91 percent at end-2000, while the net present value of debt was equivalent to 419 percent of government revenue in 2000. The revised projections for the medium-term balance of payments suggest that fiscal sustainability (as defined by HIPC indicators) would still be achieved in the medium term, i.e., 2006 versus

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<sup>19</sup> The authorities advise that production at the smelter will be affected by a capacity constraint over the next few years. Further, the revised projections reflect uncertainties about the outcome of structural reforms in agriculture and the impact of efforts to strengthen tax administration on revenues. As a result, GDP growth is projected to average 4 percent instead of 5 percent, export growth slows, and average annual appreciation of the real exchange rate is reduced from 4.7 percent in the original baseline to 3 percent in the revised scenario. The revised medium-term projections assume that the current account deficit declines from about 6.5 percent of GDP in 2000 to 4.3 percent in 2010—a more modest improvement compared with the original program estimate of a current account deficit of 1.4 percent of GDP for 2010. Exports and imports are projected to grow at an annual average of 6 percent and 5.8 percent, respectively, compared with 9 percent and 8.2 percent in the original program. Finally, current baseline users a discount rate of 7.2 percent, whereas the earlier baseline used discount rate of 6.2 percent.

2005 in the original baseline.<sup>20</sup> These projections are, however, quite sensitive to assumptions regarding growth of GDP and fiscal revenues, and especially exchange rate behavior (Appendix IV). For example, if the real exchange rate remained constant, instead of appreciating as in the baseline, debt service costs would average 38 percent of fiscal revenues during the projection period compared with 30 percent in the baseline.

**41. The baseline projects that fiscal sustainability (as measured by HIPC benchmarks) would be achieved in 2006 mainly through a combination of growth, revenue enhancement, and bilateral debt rescheduling.** Additional measures, however, may be needed to achieve fiscal sustainability sooner, including (i) further policy adjustment, in particular intensification of efforts to increase revenue collection as a share of GDP from further reform of tax administration and restructuring of the state tax committee; (ii) earmarking of privatization proceeds for debt amortization; and (iii) additional bilateral debt restructuring and new concessional financing. The current baseline scenario assumes some concessional rescheduling with bilateral creditors, but does not propose seeking debt relief through the Paris Club and/or other official creditors.<sup>21</sup> In light of the Board discussion on external debt in the IDA/PRGF eligible CIS countries, the next mission to Tajikistan will pay particular attention to assisting the authorities to formulate a debt reduction strategy.

**42. The need to build international reserves with a less optimistic external environment results in larger financing gaps from 2002 onwards relative to the original program.** Potential concessional financing by bilateral donors could cover the projected financing gaps, equivalent to 2½–3 percent of GDP annually in 2002–10. The financing gap projected for the fourth quarter of 2001 (about 1 percent of GDP) is expected to be filled by bilateral donors on highly concessional terms, following the Consultative Group meeting scheduled for May 2001.

**43. Public debt service is projected to peak at 17 percent of exports in 2001, and to decline to 10 percent by 2005.** If the current Fund arrangement is followed by a second

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<sup>20</sup> External debt sustainability is assessed on the basis of HIPC benchmarks. Accordingly, external debt is considered to be unsustainable in terms of the balance of payments, if the ratio of the NPV of future debt service to exports of goods and services exceeds 150 percent. Fiscal sustainability problems are indicated when the ratio of NPV of debt to general government revenue is in excess of 250 percent. The latter ratio, however, cannot be formally applied to Tajikistan, since the eligibility benchmarks are not met. Although the ratio of exports of goods and services to GDP exceeds the 30 percent threshold, fiscal revenue is below the 15 percent of GDP benchmark, and is expected to reach that level only in 2005. Tajikistan's debt appears sustainable from the overall balance of payments point of view, with the NPV of debt to a three-year average in exports of goods in services below 150 percent. In fiscal terms, however, it is not sustainable at present.

<sup>21</sup> Illustrative examples of possible debt restructuring scenarios are provided in Appendix IV.

PRGF, debt service to the Fund would peak at 4.5 percent of exports in 2008. Thereafter, it would subside to 4.2 percent in 2010. With the envisaged accumulation of gross reserves, the debt service to the Fund would decline from almost 14 percent of reserves in 2001 to 3.4 percent in 2003. However, it would bounce back to 14 percent when the debt service obligations to the Fund peak in 2008. These indicators suggest that Tajikistan should be able to meet its debt obligations to the Fund in a timely manner under the baseline. As noted, however, these projections are sensitive to the specific assumptions.

#### IV. TECHNICAL ASSISTANCE

44. **Strengthening those institutions critical to improving macroeconomic policy requires continued technical assistance from the Fund.** During 2000, the Fund provided technical assistance, in part financed with outside resources, in areas that included establishing a large taxpayer inspectorate, improving VAT administration, developing a treasury system, improving the budgetary framework, monetary operations, and bank supervision (Appendix I). The authorities were appreciative of such support and have requested further technical assistance to continue strengthening their treasury and tax administration systems, formulating the responsibilities of the auditing agency, improving the compilation of the balance of payments, and strengthening the compilation of national accounts data.

#### V. STAFF APPRAISAL

45. The environment for effective policy implementation in Tajikistan continues to be difficult. While the culmination of the peace process in 2000 led to some improvement in this environment, the combination of numerous powerful vested interests (largely a legacy of the civil war) and weak legal and economic institutions continues to undermine the ability of the central government to implement consistent macroeconomic policies and structural reforms. The conduct of parliamentary elections in early 2000 in this environment, with the associated pressures for public spending, contributed to the Fund-supported program (under the second annual arrangement of the PRGF) going off track in early 2000.

46. While still uneven, macroeconomic management improved somewhat during the latter half of 2000. Targets were met during the track record period, but because of some slippages, performance continued to be mixed in the fourth quarter of 2000. While the breach of the performance criterion on NDA of the NBT at end-2000 is regrettable, the authorities are to be commended for responding quickly to reduce liquidity and bring the monetary program back on track. The staff also commends the authorities for the imposition of strong expenditure controls and the resulting strong fiscal performance in the fourth quarter of 2000.

47. Despite the uneven policy implementation, the difficult external environment, and a drought, economic growth remained strong in 2000. However, the uneven implementation of structural policies raises concerns about the medium-term growth prospects. Furthermore, the policy slippages, in combination with adverse external factors, led to a worrisome

increase in inflation in the second half of 2000. Thus, the current situation in Tajikistan continues to pose several risks and uncertainties for program implementation. The staff is encouraged that the authorities confirmed their commitment to the program objectives and commend them for having implemented strong measures since the beginning of the year to keep the program on track. The staff urges the authorities to avoid further slippages in program implementation in the period ahead and to adhere strictly to the program's targets and benchmarks.

48. Controlling inflation and strengthening the banking sector are among the most important issues facing the authorities during the next 12 months. The surge in inflation during late 2000 contributed to a further erosion of confidence in the currency. Stabilizing prices and keeping the program on track will, however, require strict adherence to program targets, a better mix of monetary policy instruments, and a greater commitment to achieving the target for inflation in order to reduce risks to program. Consequently, the staff urges the authorities to rely increasingly on sales of treasury bills and NBT notes to control liquidity. Further, the staff urges the authorities to use interest rates as instruments of monetary policy and ensure that interest rates are positive in real terms. It continues to be crucially important for the authorities to adhere to the obligation not to issue directed credits and make a determined effort to collect such credits issued previously.

49. While the measures advocated by the authorities for strengthening the banking sector augur well for improving financial intermediation, they should be regarded as preliminary steps. As with reforms in other parts of the economy, structural change in the banking sector has been hindered by vested interests and a reluctance to adopt a market-based paradigm. The staff urges the authorities to take strong measures to reform the banking sector, including (i) closing or merging those banks that do not make satisfactory progress toward meeting the minimum capital requirements, (ii) acting quickly to improve the regulatory framework for banks, and (iii) encouraging the entry of reputable foreign banks.

50. Although positive steps were taken in 2000 to develop a competitive foreign exchange market, the staff notes that reporting on transactions by banks in the interbank auction has been incomplete in the past. As a result, computation of the official exchange rate has not always been fully reflective of the interbank auction. The staff urges the authorities to continue their efforts to strengthen the timeliness and quality of reporting such transactions by banks. While the staff is not aware of any restrictions on the availability of foreign exchange, the authorities need to ensure that no restrictions are introduced either formally or informally. The continued large spread between the interbank and curb market exchange rates remains a cause for concern.

51. During late 2000 and early 2001, the budget shouldered much of the burden of macroeconomic adjustment, chiefly through expenditure restraint. While the staff commends this performance, it notes that pressure to increase expenditures will likely mount in the near term, especially as the PRSP is implemented. Consequently, improving the efficiency and equity of tax administration combined with further development of the treasury system are essential steps to increase revenue collection and ensure the necessary fiscal adjustment.



Particular emphasis needs to be given to improving the performance of the VAT and coverage of the newly emerging small-scale private sector enterprises. While the staff regards the use of a resolution for the purpose of enhancing transparency of the budget process as acceptable for 2001, it urges the authorities to submit a supplemental budget in future years.

52. The recent uneven performance regarding structural reforms is especially disappointing given their importance for generating growth. While the authorities have responded appropriately to improve the implementation of reforms, the staff perceives a need to intensify the efforts in those areas with the greatest growth potential, including agriculture, small- and medium-scale enterprises, and the general business environment. The agriculture sector offers the best prospects for broad based, sustainable growth and poverty reduction in the near term. The first step toward achieving this potential is farm restructuring and privatization. The staff commends the authorities for strengthening the land reform committee, but notes that the authorities need to show greater resolve to achieve successful reform of the agricultural sector.

53. The need to improve governance remains pressing. The establishment of the auditing agency will constitute an important, but only partial, step toward improved governance once it becomes operational. In order for the auditing agency to have a significant impact on governance, its operations must be transparent and its findings open to public scrutiny, especially by parliament. The staff urges development of a suitable legal framework for the auditing agency in order to address these issues and to make the agency operational as quickly as possible. Furthermore, the staff urges the authorities to develop additional measures to improve governance.

54. Tajikistan's external debt situation is serious and the prospects for achieving debt sustainability in the near term are uncertain. The staff commends the authorities for their recent efforts to resolve outstanding debt issues with Russia, Uzbekistan, Kazakhstan and the European Union. In the staff's view, the appropriate strategy for managing the external debt would be a combination of maintaining macroeconomic stability and fostering high-quality growth through an intensification of structural reforms. The staff urges that all future public sector borrowing be on highly concessional terms and that recent non-concessional loans should be renegotiated in order to obtain concessional terms.

55. The medium-term balance of payments projections are subject to significant risks. The financing gaps are large during the projection period, and while the staff assumes that the gaps will be filled on highly concessional terms, this is not certain. Should the downside risks emerge, it may be necessary for the authorities to seek debt restructuring from the Paris Club and other official creditors on highly concessional terms.

56. In the staff's view, the authorities continue to show strong commitment to the objectives of the PRGF and have taken the necessary steps to bring the program back on track. Accordingly, the staff recommends that the first review of the third annual arrangement under the PRGF be completed. Given the authorities' successful efforts to bring

the program back on track, the staff recommends that the requested waivers and modification of performance criteria for end-March 2001 under the arrangement be approved.

57. It is recommended that the next Article IV consultation with Tajikistan take place on the standard 12-month cycle.

Table 1. Tajikistan: Quantitative Performance Criteria and Indicative Targets, September 2000 - December 2001  
(In stocks; unless otherwise indicated)

	2000				2001						
	Sep.		Dec.		Feb.		Mar.	Jun.	Sep.	Dec.	
	Prior actions	Actual	Perf. criteria	Actual	Prior actions	Actual	Performance criteria		Revised indicative targets		
<b>1. Quantitative performance criteria</b>	(In millions of somoni)										
Ceiling on net domestic assets of the NBT 1/	203.3	203.5	154.2 2/	170.5	150.9	149.1	184.7	238.3	207.7	196.8	
Ceiling on NBT's net credit to general government 1/ 3/	137.9	138.1	125.2 2/	112.0 4/	101.5	99.4 4/	142.0	119.6	121.3	125.5	
Ceiling on cumulative overall fiscal balance 1/ 5/	-19.4	-12.9	-4.2	-1.3	...	...	-14.5	-4.5	-14.8	-13.7	
General government wage, and nonworking pensioners' pension arrears	0.0	0.0	0.0	0.0	...	...	0.0	0.0	0.0	0.0	
Tax collection of the STC and SCC 1/ 5/ 6/	67.4	90.7	53.7	49.5	...	...	94.7	146.5	197.2	255.5	
	(In millions of U.S. dollars)										
Floor on total net international reserves	-56.4	-50.2	-29.8 2/	-27.7	-26.7	-22.2	-45.9	-52.8	-37.3	-29.4	
Ceiling on cumulative amount of non-concessional loans contracted or guaranteed: 7/	10.0	0.0	10.0	0.8	10.0	0.8	10.0	10.0	10.0	10.0	
Sub-ceilings:											
With maturities of 1 to 5 years	10.0	0.0	10.0	0.8	10.0	0.8	10.0	10.0	10.0	10.0	
With maturities of less than 1 year	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
New external payments arrears (continuous)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
<b>2. Indicative targets</b>	(In millions of somoni)										
Reserve money	96.1	108.1	97.6	117.9	100.2	107.0	97.5	111.5	118.1	126.2	

Sources: Tajik authorities; and Fund staff estimates.

1/ The March 2001 performance criteria are based on EBS/00/206, while targets for end-June and end-September 2001 are based on actual data for the fourth quarter in 2000 and revised projections for 2001.

2/ The December 2000 targets for NIR, NDA, and net credit to government have been adjusted for the delay in the programmed repayment to the EU (of US\$8 million) and for the less than programmed disbursements from the AsDB (by US\$0.85 million) and the World Bank (by US\$0.5 million).

3/ Numbers are different from EBS/00/206 due to reclassification of some balance sheet items.

4/ In October, the NBT wrote off Sm23.2 million in credit to the government in line with the agreement between the MOF and NBT on regularization of financial relations between these two organizations.

5/ Cumulative since April 1, 2000 up to end-September 2000; and, cumulative from October 1, 2000 onwards.

6/ The performance criteria for end-December 2000 and end-March 2001 were mis-calculated due to a technical error and a waiver is being requested for end-December 2000 and a modification for end-March. The correct figure for end-December 2000 is Sm48.7 million and the correct figure for end-March 2001 is Sm80.2 million.

7/ These limits exclude the extension of two government guarantees to the cotton sector totaling US\$83 million. These guarantees remained effective until end-1999, at which time the guarantees were called but not enforced as agreed between the government and the creditor. As of end-December 2000, the total outstanding government guaranteed debt amounted to US\$18.5 million (including accrued interest). The room remaining under the guarantee will not be used for any additional external borrowing.

Table 2. Tajikistan: Selected Economic Indicators, 1999-2001

	1999	2000				Year	2001									
	Year	Q1	Q2	Q3	Q4		Q1		Q2		Q3		Q4		Year	
	Actual	Actual		Preliminary			Orig.	Rev.	Orig.	Rev.	Orig.	Rev.	Orig.	Rev.	Orig.	Rev.
						Projections										
<b>Production</b>																
Nominal GDP (million somoni)	1,345	243	306	556	702	1,807	279	406	380	476	588	768	761	820	2,008	2,470
Nominal GDP (million U.S. dollars)	1,048	156	185	291	323	955	147	169	200	198	310	320	401	342	1,057	1,030
Real GDP (percent change)	3.7	...	...	...	...	8.3	...	...	...	...	...	...	...	...	5.0	5.0
<b>Key prices</b>																
CPI (12 month change, e.o.p.)	31.3	29.2	36.3	24.1	60.6	60.6	...	62.4	...	48.9	...	31.9	...	13.6	12.4	13.6
CPI (year on year)	27.6	33.9	37.6	29.4	34.0	34.0	...	42.5	...	47.7	...	51.8	...	39.6	...	39.6
Treasury bill interest rate 1/	84.7	56.0	50.5	40.0	40.0	40.0	...	...	...	...	...	...	...	...	...	...
<b>Monetary indicators</b>																
Reserve money (12 month change, e.o.p.) 2/	20.0	17.1	21.6	32.6	45.4	45.4	19.4	19.6	18.8	19.6	19.4	7.2	19.0	5.2	19.0	5.2
Somoni broad money (12 month change, e.o.p.) 2/	29.2	24.9	25.5	43.8	48.6	48.6	29.0	41.1	29.5	41.2	25.8	27.6	25.2	11.2	25.2	11.2
Velocity 3/	22.4	22.8	21.9	22.4	22.3	22.3	21.9	23.0	21.4	23.1	20.9	23.3	20.8	23.1	20.8	23.1
							(In percent of GDP)									
<b>General government</b>																
Revenue (cash basis) 4/	13.5	18.0	17.1	10.9	12.6	13.6	18.6	18.4	19.0	17.5	11.3	9.9	13.3	13.0	14.5	13.8
Expenditure (cash basis)	16.6	15.8	19.5	12.4	12.8	14.2	22.3	19.7	21.0	17.0	10.9	11.2	12.8	12.9	15.1	14.3
Cash balance (deficit -)	-3.1	2.2	-2.4	-1.5	-0.2	-0.6	-3.7	-1.3	-1.9	0.5	0.4	-1.3	0.6	0.1	-0.6	-0.5
							(Somoni per U.S. dollar)									
<b>Exchange rate</b>																
Official (average)	1.24	1.56	1.65	1.91	2.16	1.83	...	...	...	...	...	...	...	...	...	...
Official (e.o.p.)	1.44	1.63	1.68	2.05	2.20	2.20	...	...	...	...	...	...	...	...	...	...
Curb market (e.o.p.)	1.68	1.78	1.79	2.32	2.52	2.52	...	...	...	...	...	...	...	...	...	...
							(In millions of U.S. dollars, unless otherwise indicated)									
<b>External sector</b>																
Exports of goods	666	186	203	193	209	792	183	193	198	203	225	218	216	251	822	865
Imports of goods	-693	-229	-196	-180	-234	-839	-182	-198	-212	-233	-236	-234	-229	-231	-859	-896
Current account balance 5/	-36	-38	5	7	-34	-61	-2	-3	-23	-41	-20	-18	-24	0	-69	-62
In percent of GDP	-3.4	...	...	...	...	-6.4	...	...	...	...	...	...	...	...	-6.5	-6.0
Net international reserves	-40.8	-52.8	-55.1	-50.2	-27.7	-27.7	-45.9	-49.4	-35.8	-52.8	-35.8	-37.3	-25.9	-29.4	-25.9	-29.4
Gross international reserves	58.1	61.6	56.8	59.1	87.2	87.2	73.7	61.8	88.5	62.6	98.2	83.5	121.3	101.3	121.3	101.3
In months of imports 6/	1.7	1.7	1.6	1.6	2.4	2.4	1.8	1.6	2.0	1.5	2.2	1.8	2.7	2.1	2.7	2.1

Sources: Tajik authorities; and Fund staff estimates.

1/ One month maturity; weighted average yield.

2/ Based on an accounting exchange rate of Sm1.9=US\$1 for original program targets and actual data in 1999 and 2000; and Sm2.4=US\$1 for all projections in 2001.

3/ Annual nominal GDP divided by average somoni broad money for the past year.

4/ Includes grants.

5/ Includes transfers.

6/ Imports of goods and services excluding alumina and electricity.

Table 3a. Tajikistan: General Government Operations, 1999-2001  
(In thousands of somoni)

	1999	2000					2001				
		Q1	Q2	Q3	Q4	Year	Q1	Q2	Q3	Q4	Year
					Prel.				Projection		
Overall revenues and grants	181,686	43,793	52,357	60,818	88,775	245,743	74,932	83,163	75,986	106,593	340,674
Tax revenues	171,627	41,979	49,379	55,197	85,795	232,350	72,639	80,057	70,763	97,189	320,648
Income and profit tax	31,569	5,781	9,121	8,558	9,804	33,263	9,806	12,103	10,077	11,032	43,018
Payroll taxes	13,383	6,117	5,271	7,351	10,132	28,871	7,232	8,274	8,226	9,047	32,779
Property taxes	9,803	1,772	2,980	3,298	3,444	11,494	2,440	4,898	4,571	4,815	16,723
Internal taxes on goods and services	47,941	12,355	14,291	18,287	25,470	70,404	23,581	24,665	25,928	28,267	102,441
Of which:											
VAT	30,561	7,704	7,591	11,056	18,115	44,466	15,849	12,335	13,370	15,175	56,729
Excises	8,002	1,245	2,572	2,710	2,483	9,010	2,927	6,349	6,873	4,611	20,760
International trade and operations tax	65,281	15,492	17,256	17,192	36,345	86,284	27,996	29,738	21,583	43,648	122,965
Of which:											
Total sales taxes	47,407	10,682	11,109	11,024	26,120	58,934	21,096	19,090	11,840	29,866	81,893
Import duties	17,873	4,810	6,147	6,168	10,226	27,351	6,900	10,648	9,743	13,782	41,073
Other taxes	3,651	462	460	512	599	2,033	1,584	379	379	379	2,722
Non-tax duties 1/	6,477	1,814	2,979	3,933	2,980	11,706	2,293	3,106	3,523	4,304	13,226
Capital revenue	0	0	0	0	0	0	0	0	0	0	0
Grants	3,582	0	0	1,688	0	1,688	0	0	1,700	5,100	6,800
Total expenditures and loans minus repayments	223,625	38,464	59,624	68,894	90,101	257,084	80,262	81,014	86,309	105,488	353,074
Current expenditures	177,328	31,979	51,042	55,420	69,442	207,883	73,982	75,401	80,783	98,373	328,540
Expenditures on goods and services	133,506	22,945	36,357	40,604	48,223	148,130	51,729	55,914	60,235	71,345	239,224
Of which:											
Wages and salaries	47,821	14,484	17,728	16,984	17,331	66,527	18,228	20,597	27,522	28,512	94,859
Other	85,685	8,461	18,629	23,620	30,892	81,603	33,501	35,318	32,713	42,832	144,365
Interest payments 2/	7,939	911	1,511	804	3,292	6,518	5,799	4,084	5,617	7,696	23,196
Transfers to households	25,438	7,336	9,420	10,243	12,978	39,977	14,573	14,139	14,137	18,369	61,218
Social Protection Fund Expenditures (total)	23,859	6,401	6,988	7,650	10,634	31,674	11,723	12,109	12,339	15,927	52,098
Other benefits incl. CCP	1,579	935	2,432	2,593	2,344	8,304	2,850	2,030	1,798	2,442	9,120
Subsidies and other current transfers	10,445	787	3,753	3,770	4,948	13,258	1,881	1,264	794	962	4,902
Capital expenditures	46,204	5,808	7,853	13,419	20,723	47,802	5,824	5,049	6,022	5,701	22,596
Of which: Foreign financed capital projects	0	0	0	0	0	0	0	0	0	0	0
Lending minus repayments	93	678	730	55	-63	1,399	456	564	-496	1,414	1,938
Overall balance (cash basis)	-41,939	5,329	-7,267	-8,076	-1,326	-11,340	-5,330	2,149	-10,323	1,105	-12,400
Overall balance, excluding grants	-45,522	5,329	-7,267	-9,764	-1,326	-13,028	-5,330	2,149	-12,023	-3,995	-19,200
Total financing	41,939	-5,330	7,267	8,076	1,326	11,340	5,330	-2,149	10,323	-1,105	12,400
Net external financing 3/	33,063	1,998	1,811	-6	3,667	7,470	4,945	-12,147	8,552	-8,665	-7,314
Of which:											
World Bank financing	24,248	3,077	2,024	133	3,356	8,590	34,112	2,253	7,832	1,895	46,092
EU financing	0	-437	0	0	1,689	1,252	3,789	0	0	0	3,789
AsDB financing	10,097	-14	0	0	0	-14	2,084	7,200	4,800	0	14,084
Other financing	0	0	0	0	0	0	0	0	6,480	0	6,480
Principal repayments	-1,282	-628	-213	-139	-1,378	-2,358	-35,040	-21,600	-10,560	-10,560	-77,760
Net credit to government 4/	-1,922	-4,113	2,072	189	-4,607	-6,459	-355	10,400	1,755	4,200	16,000
Of which: NBT	-2,055	-3,169	1,919	4,079	-2,893	-64	-355	10,400	1,755	4,200	16,000
Net domestic nonbank financing	-7	-5,178	-2,347	-369	-142	-8,036	500	-3,450	-2,800	1,250	-4,500
Of which:											
Treasury bills	-7	210	33	131	-142	233	500	550	1,200	1,250	3,500
Repayment to Tajik Rail	0	-5,388	-2,380	-500	0	-8,268	0	-4,000	-4,000	0	-8,000
Use of privatization proceeds	10,805	1,963	5,731	8,262	2,408	18,364	240	3,048	2,816	2,111	8,214
Augmented fiscal balance:	-41,939	5,329	-7,267	-8,076	-1,326	-11,340	-5,330	2,149	-10,323	-6,795	-20,300
Costs of bank restructuring	0	0	0	0	0	0	0	0	0	7,900	7,900
Memorandum item:											
GDP (In millions of somoni)	1,345	243	306	556	702	1,807	406	476	768	820	2,470

Sources: Ministry of Finance; and Fund staff estimates.

1/ The figure for 2001 does not include interest receipts or payments related to the regularization of financial relations between MOF and NBT. Under the program, it is expected that some interest revenue will be included in this category. Any NBT's profit transfers will also be included in this category.

2/ MOF interest payments to NBT related to the regularization of financial relations between MOF and NBT are not included. Under the program, it is expected that some interest payments will be included in this category.

3/ This figure may not be directly derived from monetary survey data, which is calculated at the program exchange rate, while this table excludes the foreign exchange revaluation effect from loans extended in foreign currency.

4/ Differences between these numbers and the net credit to government in the accounts of the NBT reflect the revaluation of foreign exchange loans extended by the NBT.

Table 3b. Tajikistan: General Government Operations, 1999-2001  
(In percent of GDP)

	1999	2000					2001				
		Q1	Q2	Q3	Q4	Year	Q1	Q2	Q3	Q4	Year
					Prel.						
Overall revenues and grants	13.5	18.0	17.1	10.9	12.6	13.6	18.4	17.5	9.9	13.0	13.8
Tax revenues	12.8	17.3	16.1	9.9	12.2	12.9	17.9	16.8	9.2	11.9	13.0
Income and profit tax	2.3	2.4	3.0	1.5	1.4	1.8	2.4	2.5	1.3	1.3	1.7
Payroll taxes	1.0	2.5	1.7	1.3	1.4	1.6	1.8	1.7	1.1	1.1	1.3
Property taxes	0.7	0.7	1.0	0.6	0.5	0.6	0.6	1.0	0.6	0.6	0.7
Internal taxes on goods and services	3.6	5.1	4.7	3.3	3.6	3.9	5.8	5.2	3.4	3.4	4.1
Of which:											
VAT	2.3	3.2	2.5	2.0	2.6	2.5	3.9	2.6	1.7	1.9	2.3
Excises	0.6	0.5	0.8	0.5	0.4	0.5	0.7	1.3	0.9	0.6	0.8
International trade and operations tax	4.9	6.4	5.6	3.1	5.2	4.8	6.9	6.3	2.8	5.3	5.0
Of which:											
Total sales taxes	3.5	4.4	3.6	2.0	3.7	3.3	5.2	4.0	1.5	3.6	3.3
Import duties	1.3	2.0	2.0	1.1	1.5	1.5	1.7	2.2	1.3	1.7	1.7
Other taxes	0.3	0.2	0.2	0.1	0.1	0.1	0.4	0.1	0.0	0.0	0.1
Non-tax duties 1/	0.5	0.7	1.0	0.7	0.4	0.6	0.6	0.7	0.5	0.5	0.5
Capital revenue	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Grants	0.3	0.0	0.0	0.3	0.0	0.1	0.0	0.0	0.2	0.6	0.3
Total expenditures and loans minus repayments	16.6	15.8	19.5	12.4	12.8	14.2	19.7	17.0	11.2	12.9	14.3
Current expenditures	13.2	13.2	16.7	10.0	9.9	11.5	18.2	15.9	10.5	12.0	13.3
Expenditures on goods and services	9.9	9.4	11.9	7.3	6.9	8.2	12.7	11.8	7.8	8.7	9.7
Of which:											
Wages and salaries	3.6	6.0	5.8	3.1	2.5	3.7	4.5	4.3	3.6	3.5	3.8
Other	6.4	3.5	6.1	4.2	4.4	4.5	8.2	7.4	4.3	5.2	5.8
Interest payments 2/	0.6	0.4	0.5	0.1	0.5	0.4	1.4	0.9	0.7	0.9	0.9
Transfers to households	1.9	3.0	3.1	1.8	1.8	2.2	3.6	3.0	1.8	2.2	2.5
Social Protection Fund Expenditures (total)	1.8	2.6	2.3	1.4	1.5	1.8	2.9	2.5	1.6	1.9	2.1
Other benefits incl. CCP	0.1	0.4	0.8	0.5	0.3	0.5	0.7	0.4	0.2	0.3	0.4
Subsidies and other current transfers	0.8	0.3	1.2	0.7	0.7	0.7	0.5	0.3	0.1	0.1	0.2
Capital expenditures *	3.4	2.4	2.6	2.4	3.0	2.6	1.4	1.1	0.8	0.7	0.9
Of which: Foreign financed capital projects	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Lending minus repayments	0.0	0.3	0.2	0.0	0.0	0.1	0.1	0.1	-0.1	0.2	0.1
Overall balance (cash basis)	-3.1	2.2	-2.4	-1.5	-0.2	-0.6	-1.3	0.5	-1.3	0.1	-0.5
Overall balance, excluding grants	-3.4	2.2	-2.4	-1.8	-0.2	-0.7	-1.3	0.5	-1.6	-0.5	-0.8
Total financing	3.1	-2.2	2.4	1.5	0.2	0.6	1.3	-0.5	1.3	-0.1	0.5
Net external financing 3/	2.5	0.8	0.6	0.0	0.5	0.4	1.2	-2.6	1.1	-1.1	-0.3
Of which:											
World Bank financing	1.8	1.3	0.7	0.0	0.5	0.5	8.4	0.5	1.0	0.2	1.9
EU financing	0.0	-0.2	0.0	0.0	0.2	0.1	0.9	0.0	0.0	0.0	0.2
AsDB financing	0.8	0.0	0.0	0.0	0.0	0.0	0.5	1.5	0.6	0.0	0.6
Other financing	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.8	0.0	0.3
Principal repayments	-0.1	-0.3	-0.1	0.0	-0.2	-0.1	-8.6	-4.5	-1.4	-1.3	-3.1
Net credit to government 4/	-0.1	-1.7	0.7	0.0	-0.7	-0.4	-0.1	2.2	0.2	0.5	0.6
Of which: NBT	-0.2	-1.3	0.6	0.7	-0.4	0.0	-0.1	2.2	0.2	0.5	0.6
Net domestic nonbank financing	0.0	-2.1	-0.8	-0.1	0.0	-0.4	0.1	-0.7	-0.4	0.2	-0.2
Of which:											
Treasury bills	0.0	0.1	0.0	0.0	0.0	0.0	0.1	0.1	0.2	0.2	0.1
Repayment to Tajik Rail	0.0	-2.2	-0.8	-0.1	0.0	-0.5	0.0	-0.8	-0.5	0.0	-0.3
Use of privatization proceeds	0.8	0.8	1.9	1.5	0.3	1.0	0.1	0.6	0.4	0.3	0.3
Augmented fiscal balance:	-3.1	2.2	-2.4	-1.5	-0.2	-0.6	-1.3	0.5	-1.3	-0.8	-0.8
Costs of bank restructuring	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	1.0	0.3
Memorandum item:											
GDP (In millions of somoni)	1,345	243	306	556	702	1,807	406	476	768	820	2,470

Sources: Ministry of Finance; and Fund staff estimates.

1/ The figure for 2001 does not include interest receipts or payments related to the regularization of financial relations between MOF and NBT. Under the program, it is expected that some interest revenue will be included in this category. Any NBT's profit transfers will also be included in this category.

2/ MOF interest payments to NBT related to the regularization of financial relations between MOF and NBT are not included. Under the program, it is expected that some interest payments will be included in this category.

3/ This figure may not be directly derived from monetary survey data, which is calculated at the program exchange rate, while this table excludes the foreign exchange revaluation effect from loans extended in foreign currency.

4/ Differences between these numbers and the net credit to government in the accounts of the NBT reflect the revaluation of foreign exchange loans extended by the NBT.

Table 4. Tajikistan: Accounts of the National Bank of Tajikistan, 1999-2001  
(In thousands of somoni; end-of-period stock unless otherwise specified)

	1999		2000				2001						
	Dec.	Mar.	Jun.	Sep.	Dec.	Jan.	Feb.	Mar.	Jun.	Sep.	Dec.		
	Actual		Actual		Actual	Program targets 1/	Actual	Program targets 2/	Program targets 3/	Program targets	Rev. proj.		
Net foreign assets	-77,561	-100,312	-104,626	-95,390	-52,580	-66,414	-56,637	-47,129	-42,108	-87,167	-126,801	-89,596	-70,677
Gross assets	110,480	117,048	107,913	112,323	165,704	209,310	161,329	171,155	171,366	139,945	150,206	200,431	243,072
Gross liabilities	188,041	217,359	212,540	207,712	218,284	275,724	217,966	218,284	213,474	227,112	277,007	290,027	313,749
Net domestic assets	158,668	182,037	194,194	203,461	170,527	186,349	154,200	151,919	149,145	184,706	238,305	207,651	196,846
Net credit to general government 4/	112,895	115,125	120,688	124,900	60,922	45,001	96,214	50,966	48,945	127,620	104,484	77,350	83,445
Net credit to general government 5/ 6/	134,499	131,288	134,001	138,080	111,989	109,507	125,233	101,460	99,439	141,989	119,552	121,307	125,507
Of which:													
Sm credits	28,601	29,058	29,058	29,058	128,933	128,933	27,046	130,906	130,906	31,146	126,933	126,933	126,933
FX credits	119,891	122,072	122,723	122,705	0	0	122,723	0	0	122,723	0	0	0
Treasury bills	0	39	13	63	167	167	2,000	2	0	2,000	3,167	3,167	3,167
Deposits	-13,993	-19,881	-17,793	-13,746	-17,111	-19,593	-26,535	-29,447	-31,467	-13,879	-10,548	-8,793	-4,593
Counterpart deposits	-21,604	-16,163	-13,313	-13,180	-51,067	-64,505	-29,019	-50,494	-50,494	-14,369	-15,068	-43,956	-42,062
Of which:													
EU counterpart fund (-)	-5,949	-5,949	-5,949	-5,949	-4,260	-5,381	-3,229	-4,260	-4,260	-2,229	-1,592	-1,592	-1,592
WB counterpart fund (-)	-15,526	-10,085	-7,235	-7,102	-29,283	-36,989	-10,590	-28,711	-28,711	-590	-625	-28,794	-26,899
AsDB counterpart fund (-)	-129	-129	-129	-129	-17,524	-22,135	-13,200	-17,524	-17,524	-11,550	-12,851	-8,051	-8,051
Switzerland	...	...	...	...	...	...	...	...	...	0	0	-5,520	-5,520
Privatization fund (-)	-8,324	-9,749	-12,376	-8,239	-7,438	-7,438	-10,563	-10,758	-10,950	-7,263	-5,998	-4,298	-4,098
Bank restructuring	2,819	2,819	2,819	2,819	2,819	2,819	2,819	2,819	2,819	2,819	2,819	2,819	2,819
Credit to the private sector	101,114	109,788	111,457	108,685	134,611	159,624	94,466	119,190	119,433	90,366	140,799	135,579	118,479
Of which:													
Claims on banks	52,407	63,818	64,948	61,799	133,648	158,661	52,598	118,234	116,673	52,598	139,835	134,615	117,515
Credit to the economy	48,707	45,969	46,509	46,886	963	963	41,868	957	2,760	37,768	963	963	963
Other items net	-49,836	-35,946	-28,396	-24,704	-20,387	-13,657	-28,736	-10,298	-11,102	-28,736	-3,798	-3,798	-3,798
Reserve money	81,107	81,725	89,568	108,071	117,947	119,936	97,563	104,790	107,037	97,539	111,504	118,055	126,169
Currency in circulation	63,996	61,917	65,953	81,846	96,211	96,211	...	90,738	93,659	77,272	85,342	91,018	97,903
Bank reserves	14,615	17,543	21,168	22,706	17,696	19,172	...	11,213	10,640	20,268	26,161	27,038	28,266
Required	3,454	4,237	6,149	6,748	9,550	10,055	...	9,589	8,949	11,674	12,331	14,156	15,642
Sm	2,665	3,195	4,811	4,891	7,632	7,632	...	7,636	6,996	10,525	11,160	12,913	14,270
FX	789	1,042	1,338	1,856	1,918	2,423	...	1,953	1,953	1,149	1,171	1,243	1,372
Other	11,161	13,306	15,020	15,958	8,146	9,117	...	1,623	1,692	8,593	13,830	12,882	12,624
Sm	4,341	3,253	4,230	12,210	4,433	4,453	...	666	681	...	...	...	...
FX	6,820	10,053	10,790	3,748	3,692	4,664	...	957	1,011	...	...	...	...
Other deposits	2,495	2,265	2,447	3,519	4,040	4,552	...	2,839	2,737	0	0	0	0
Sm	304	837	659	1,365	2,095	2,095	...	910	911	0	0	0	0
FX	2,191	1,428	1,788	2,154	1,946	2,458	...	1,930	1,826	0	0	0	0
Memorandum items:													
Net lending to government and credits to the priv. sec. (thousands of Sm)	238,432	243,894	248,278	249,583	249,419	271,950	237,718	223,469	221,691	232,355	263,169	259,704	246,804
NIR (million US dollars)	-40.8	-52.8	-55.1	-50.2	-27.7	-27.7	-29.8	-24.8	-22.2	-45.9	-52.8	-37.3	-29.4
Gross assets (GIR)	58.1	61.6	56.8	59.1	87.2	87.2	84.9	90.1	90.2	73.7	62.6	83.5	101.3
Gross liabilities	99.0	114.4	111.9	109.3	114.9	114.9	114.7	114.9	112.4	119.5	115.4	120.8	130.7
GIR in months of imports 7/	1.7	1.7	1.6	1.6	2.4	2.4	1.9	2.4	2.4	1.8	1.5	1.8	2.1
GIR/Reserve money (percent)	136	143	120	104	140	175	165	163	160	143	135	170	193
Accounting exchange rate (Sm/US\$)	1.900	1.900	1.900	1.900	1.900	2.400	1.900	1.900	1.900	1.900	2.400	2.400	2.400

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

1/ The end-December 2000 targets for NIR, NDA, and net credit to government are performance criteria. The targets have been adjusted for the delay in the programmed repayment to the EU (of US\$8 million) and for the less than programmed disbursements from the AsDB (by US\$0.85 million) and the World Bank (by US\$0.5 million).

2/ The end-March 2001 targets for NIR, NDA, and net credit to government (excluding counterpart deposits) are performance criteria.

3/ The end-June 2001 targets for NIR, NDA, and net credit to government (excluding counterpart deposits) are performance criteria.

4/ Includes counterpart deposits.

5/ Excludes counterpart deposits.

6/ In October 2000, the NBT wrote off Sm23.2 million in credit to the government in line with the agreement between the MOF and NBT.

7/ Imports of goods and services excluding alumina and electricity.

Table 5. Tajikistan: Monetary Survey, 1999-2001  
(In thousands of somoni; end-of-period stock unless otherwise specified)

	1999	2000						2001			
	Dec.	Mar.	Jun.	Sep.	Dec.	Dec. Program targets 1/	Dec. Actual	Mar. Revised program	Jun. Revised program	Sep. Revised program	Dec. Revised projection
Net foreign assets	-153,497	-168,254	-156,495	-161,638	-168,183	-106,853	-212,419	-232,204	-288,406	-246,401	-203,482
National Bank of Tajikistan	-77,561	-100,312	-104,626	-95,390	-52,580	-56,637	-66,414	-118,599	-126,801	-89,596	-70,677
Commercial banks	-75,936	-67,943	-51,869	-66,248	-115,603	-50,216	-146,005	-113,605	-161,605	-156,805	-132,805
Net domestic assets	253,213	264,972	259,886	286,646	317,049	232,351	372,357	363,705	430,039	400,157	367,970
Net credit to general government 2/	110,158	111,445	116,678	117,000	51,308	92,204	35,387	75,017	94,870	67,736	73,831
Net credit to general government 3/ 4/	131,763	127,608	129,991	130,180	102,375	121,223	99,893	99,538	109,938	111,693	115,893
Of which:											
Sm credits	28,601	30,144	30,033	30,000	129,736	30,082	129,736	129,736	127,736	127,736	127,736
FX credits	119,891	122,072	122,723	122,705	0	122,723	0	0	0	0	0
Treasury bills	1,073	482	433	526	656	423	656	3,656	3,656	3,656	3,656
Deposits	-17,803	-25,090	-23,199	-23,051	-28,017	-32,005	-30,499	-33,854	-21,454	-19,699	-15,499
Counterpart funds	-21,604	-16,163	-13,313	-13,180	-51,067	-29,019	-64,505	-24,521	-15,068	-43,956	-42,062
Of which:											
EU counterpart fund (-)	-5,949	-5,949	-5,949	-5,949	-4,260	-5,229	-5,381	-1,592	-1,592	-1,592	-1,592
IDA counterpart fund (-)	-15,526	-10,085	-7,235	-7,102	-29,283	-10,590	-36,989	-2,878	-625	-28,794	-26,899
AsDB counterpart fund (-)	-129	-129	-129	-129	-17,524	-13,200	-22,135	-20,051	-12,851	-8,051	-8,051
Switzerland	...	...	...	...	...	...	...	0	0	-5,520	-5,520
Privatization fund (-)	-8,324	-9,749	-12,376	-8,239	-7,438	-10,563	-7,438	-7,198	-5,998	-4,298	-4,098
Bank restructuring	2,819	2,819	2,819	2,819	2,819	2,819	2,819	2,819	2,819	2,819	2,819
Credit to the private sector	220,792	227,590	211,158	237,437	307,861	206,284	371,818	323,296	368,578	364,130	325,647
Other items net	-72,233	-67,133	-58,393	-62,370	-37,501	-58,393	-30,229	-30,229	-30,229	-30,229	-30,229
Broad money	99,716	96,718	103,391	125,009	148,866	125,498	159,939	131,501	141,633	153,757	164,488
Somoni broad money	71,826	66,756	72,649	88,018	106,762	89,199	106,762	94,164	102,616	112,340	118,751
Currency outside banks	62,032	57,877	61,832	77,063	86,773	68,812	86,773	76,979	79,979	82,979	86,279
Deposits	9,795	8,879	10,817	10,955	19,988	20,387	19,988	17,185	22,637	29,361	32,472
Foreign currency deposits	27,890	29,962	30,743	36,991	42,104	36,299	53,177	37,337	39,017	41,417	45,737
Memorandum items:											
Average velocity 5/	22.42	22.81	21.94	22.38	22.25	22.11	22.25	23.00	23.05	23.34	23.10
Forex deposits/broad money	0.28	0.31	0.30	0.30	0.28	0.29	0.33	0.28	0.28	0.27	0.28
Money multiplier 6/	0.89	0.82	0.81	0.81	0.91	0.80	0.89	0.95	0.92	0.95	0.94
Annual GDP (million somoni)	1,345	...	...	...	1,807	1,883	1,807	...	...	...	2,470
Somoni broad money (12-month percent change)	29.2	24.9	25.5	43.8	48.6	24.2	48.6	41.1	41.2	27.6	11.2
Accounting exchange rate (Sm/US\$)	1.900	1.900	1.900	1.900	1.900	1.900	2.400	2.400	2.400	2.400	2.400

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

1/ The end-2000 targets for NFA, NDA, and net credit to government have been adjusted for the delay in the programmed repayment to the EU (of US\$8 million) and for the less than programmed disbursements from the AsDB (by US\$0.85 million) and the World Bank (by US\$0.5 million).

2/ Includes counterpart deposits.

3/ Excludes counterpart deposits.

4/ In October 2000, the NBT wrote off Sm23.2 million in credit to the government in line with the agreement between the MOF and NBT.

5/ Annual GDP divided by average somoni broad money for the past year.

6/ Somoni broad money divided by reserve money.



Table 6. Tajikistan: Balance of Payments, 1999-2001  
(In millions of US dollars)

	1999	2000				Year	2001				2001 Year
	Year	Q1	Q2	Q3	Q4		Q1	Q2	Q3	Q4	
	Actual										
Current account	-36	-38	5	7	-34	-61	-3	-41	-18	0	-62
Balance on goods and services	-16	-42	14	14	-25	-39	1	-31	-17	15	-33
Balance on goods	-27	-43	7	13	-24	-47	-4	-31	-16	20	-31
Exports	666	186	203	193	209	792	193	203	218	251	865
<i>Of which</i>											
Aluminum	284	109	95	100	89	393	81	97	123	143	443
Cotton fiber	93	15	20	10	47	92	44	20	11	41	116
Imports	693	229	196	180	234	839	198	233	234	231	896
Balance on services	11	1	7	1	0	8	5	0	-1	-5	-2
Balance on income	-55	-14	-14	-14	-14	-55	-13	-14	-14	-14	-54
Balance on transfers	35	18	5	6	5	33	9	4	13	-1	25
Capital and financial account	9	23	-9	-4	33	44	-18	37	14	-4	28
Capital transfers	0	0	0	5	0	5	6	0	0	7	13
Public sector (net)	5	3	-2	-4	14	11	-13	11	10	-7	0
Disbursements	14	6	2	4	17	30	8	16	15	9	47
Amortization	-9	-4	-4	-8	-4	-19	-21	-5	-5	-16	-47
FDI	21	13	6	2	2	22	2	7	6	6	21
Commercial bank NFA (- increase)	-35	-4	-8	8	26	21	-14	20	-2	-10	-6
Electricity credit	4	26	1	-13	7	21	0	0	0	0	0
Other capital and errors and omissions	14	-15	-6	-1	-16	-38	0	0	0	0	0
Overall balance	-26	-16	-5	2	-2	-21	-22	-3	-5	-4	-34
Change in gross reserves (- increase)	7	-3	5	-2	-28	-29	25	-1	-21	-18	-14
Financing items	20	20	0	0	30	51	-4	4	25	10	36
IMF (net)	4	15	-2	-2	5	16	-4	4	5	10	16
Purchases/disbursements	9	18	0	0	8	26	0	8	8	12	28
Repurchases/repayments	5	3	2	2	2	10	4	4	2	2	12
Other reserve liabilities	0	2	0	0	0	3	0	0	0	0	0
World Bank	23	0	0	0	13	13	0	0	20	0	20
AsDB	10	0	0	0	9	9	0	0	0	0	0
Debt service account (- increase)	0	0	0	0	0	0	0	0	0	0	0
Arrears (+ increase)	-18	2	2	3	3	10 1/	-60	0	0	0	-60
Rescheduling and proposed rescheduling	1	0	0	0	0	0	60	0	0	0	60
Financing gap	0	0	0	0	0	0	0	0	0	12	12
Memorandum items:											
GDP (in millions of U.S. dollars)	1,048	156	185	291	323	955	156	186	321	368	1,030
Current account balance in percent of GDP	-3.4					-6.4					-6.0
(excluding transfers)	-(6.8)					-(9.9)					-(8.5)
Real GDP growth (percent change)	3.7					8.3					5.0
Terms of trade (percent change)	-3.9					-0.7					-0.9
Net international reserves	-41	-53	-55	-50	-28	-28	-49	-53	-37	-29	-29
Gross reserves	58	62	57	59	87	87	62	63	84	101	101
(in months of imports)	(1.7)	(1.7)	(1.6)	(1.6)	(2.4)	(2.4)	(1.6)	(1.5)	(1.8)	(2.1)	(2.1)
Total debt service due	48					61					90
(in percent of exports)	(11.9)					(15.1)					(16.1)
Total external debt	1,214					1,206					1,114
(in percent of GDP)	(116)					(126)					(108)

Sources: Tajik authorities; and Fund staff estimates.

1/ The increase in arrears includes debt service to Russia, Kazakhstan, Pakistan and India. The authorities advised that these debts have been under negotiation. The reduction of arrears in 2001 reflects the repayment of debt to the European Union.

Table 7. Tajikistan: Medium-Term Balance of Payments, 2000-2010  
(In millions of U.S. dollars)

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Current account	-61	-62	-73	-80	-85	-90	-89	-85	-97	-105	-113
Balance on goods and services	-39	-33	-45	-54	-58	-63	-58	-51	-59	-63	-66
Balance on goods	-47	-31	-37	-42	-46	-51	-46	-39	-44	-46	-46
Exports	792	865	937	999	1,050	1,099	1,154	1,212	1,270	1,330	1,392
<i>Of which:</i>											
Aluminum	393	443	471	495	514	533	552	572	592	611	629
Cotton fiber	92	116	136	154	169	182	197	214	230	247	265
Imports	839	896	975	1,041	1,096	1,150	1,200	1,251	1,314	1,376	1,439
Balance on services	8	-2	-7	-11	-12	-12	-12	-12	-15	-17	-20
Balance on income	-55	-54	-55	-54	-54	-56	-59	-62	-66	-70	-74
Balance on transfers	33	25	27	27	28	28	28	28	28	28	27
Capital and financial account	44	28	52	60	59	78	79	86	90	84	78
Capital transfers	5	13	7	7	7	0	0	0	0	0	0
Public sector (net)	11	0	18	22	21	39	36	38	35	34	25
Disbursements	30	47	67	73	73	84	84	84	84	84	84
Amortization	-19	-47	-49	-51	-51	-45	-48	-46	-49	-50	-59
FDI	22	22	27	31	31	39	43	47	55	51	53
Commercial bank NFA (- increase)	21	-6	0	0	0	0	0	0	0	0	0
Electricity credit	21	0	0	0	0	0	0	0	0	0	0
Other capital and errors and omissions	-38	0	0	0	0	0	0	0	0	0	0
Overall balance	-21	-34	-21	-20	-25	-13	-10	1	-7	-21	-35
Change in gross reserves (- increase)	-29	-14	-26	-27	-31	-30	-15	-15	-15	-15	-15
Financing items	51	36	10	-5	-11	-9	-25	-27	-35	-33	-37
IMF (net)	16	16	-10	-5	-11	-9	-25	-27	-35	-33	-37
Purchases/disbursements	26	28	0	0	0	0	0	0	0	0	0
Repurchases/repayments	10	12	10	5	11	9	25	27	35	33	37
Other reserve liabilities	3	0	0	0	0	0	0	0	0	0	0
World Bank	13	20	20	0	0	0	0	0	0	0	0
AsDB	9	0	0	0	0	0	0	0	0	0	0
Debt service account (- increase)	0	0	0	0	0	0	0	0	0	0	0
Arrears (+ increase) 1/	10	-60	0	0	0	0	0	0	0	0	0
Rescheduling and proposed rescheduling	0	60	0	0	0	0	0	0	0	0	0
Financing gap	0	12	37	52	67	52	51	43	59	72	90
Memorandum items:											
Current account balance (in percent of GDP, excluding transfers)	-6.4	-6.0	-6.0	-5.9	-5.6	-5.4	-4.8	-4.2	-4.4	-4.4	-4.3
Net international reserves	-28	-29	-18	-20	-14	4	38	74	124	172	218
Gross reserves	87	101	152	178	206	216	226	236	251	266	276
(in months of imports) 2/	(2.4)	(2.1)	(2.9)	(3.1)	(3.4)	(3.4)	(3.5)	(3.5)	(3.5)	(3.6)	(3.5)
Total debt service due	61	90	89	90	90	84	87	86	90	91	96
(in percent of exports) 3/	(15.1)	(16.1)	(15.2)	(14.3)	(13.6)	(12.2)	(12.0)	(11.3)	(11.4)	(10.9)	(11.1)
Total external debt	1,206	1,114	1,182	1,264	1,354	1,437	1,500	1,555	1,618	1,691	1,769
(in percent of GDP)	(126)	(108)	(96)	(93)	(89)	(85)	(81)	(77)	(74)	(71)	(68)

Sources: Tajik authorities; and Fund staff estimates.

1/ The increase in arrears includes debt service to Russia, Kazakhstan, Pakistan and India. The authorities advised that these debts have been under negotiation. The reduction of arrears in 2001 reflects the repayment of debt to the European Union.

2/ Imports of goods and services excluding alumina and electricity.

3/ Exports of goods and services excluding alumina and electricity.

Table 8. Tajikistan: Functional Classification of General Government Finances, 2000-2005  
(In thousands of somoni; unless otherwise indicated)

	2000		2001		2002		2003		2004		2005	
	Actual	Percent of GDP	Proj.	Percent of GDP	Proj.	Percent of GDP	Proj.	Percent of GDP	Proj.	Percent of GDP	Proj.	Percent of GDP
Overall revenue and grants	245,743	13.6	340,674	13.8	406,306	14.2	467,062	14.6	540,163	15.0	627,052	15.5
Total expenditures and loans minus repayments	257,084	14.2	353,074	14.3	421,839	14.8	481,102	15.0	549,953	15.3	640,261	15.8
General administrative services	44,391	2.5	56,874	2.3	63,530	2.2	69,416	2.2	76,273	2.1	83,809	2.1
Protection services	43,900	2.4	57,616	2.3	64,809	2.3	71,213	2.2	80,007	2.2	89,889	2.2
Social services	115,137	6.4	170,113	6.9	209,935	7.3	248,830	7.8	294,921	8.2	349,558	8.6
Education	41,354	2.3	61,115	2.5	75,422	2.6	89,395	2.8	104,850	2.9	124,274	3.1
Health	16,652	0.9	26,323	1.1	34,539	1.2	43,071	1.3	53,709	1.5	66,975	1.7
Social security (incl. Social Protection Fund)	31,674	1.8	45,820	1.9	55,831	2.0	65,485	2.0	76,806	2.1	90,087	2.2
Social welfare (incl. cash compensation payments)	8,304	0.5	13,340	0.5	17,504	0.6	21,828	0.7	26,950	0.7	33,274	0.8
Other social services	17,153	0.9	23,515	1.0	26,639	0.9	29,050	0.9	32,607	0.9	34,948	0.9
Economic services	36,408	2.0	38,957	1.6	44,410	1.6	50,628	1.6	57,716	1.6	65,796	1.6
Interest payments	6,518	0.4	23,196	0.9	28,241	1.0	30,338	0.9	32,369	0.9	34,585	0.9
Other services	10,730	0.6	6,319	0.3	10,912	0.4	10,678	0.3	8,667	0.2	16,624	0.4
Overall balance	-11,340	-0.6	-12,400	-0.5	-15,532	-0.5	-14,040	-0.4	-9,790	-0.3	-13,209	-0.3
Total financing	11,340	0.6	12,400	0.5	15,532	0.5	14,040	0.4	9,790	0.3	13,209	0.3
Domestic (net) 1/	3,870	0.2	19,715	0.8	-27,908	-1.0	-39,000	-1.2	-42,770	-1.2	-79,911	-2.0
Foreign (net)	7,470	0.4	-7,315	-0.3	43,440	1.5	53,040	1.7	52,560	1.5	93,120	2.3
- Principal repayment	-2,358	-0.1	-77,760	-3.1	-117,360	-4.1	-122,160	-3.8	-122,640	-3.4	-108,480	-2.7
Memorandum item:												
Nominal GDP (in millions of somoni)	1,807	...	2,470	...	2,856	...	3,209	...	3,606	...	4,051	...

Sources: Ministry of Finance of Tajikistan; and Fund staff projections.

1/ Includes repayments to Tajik Rail.

Table 9. Tajikistan: Debt Service Capacity, 1999-2010  
(In millions of US dollars)

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
I. Current account minus interest	-12	-7	-26	-35	-40	-45	-43	-38	-49	-55	-62
Trade balance	-47	-31	-37	-42	-46	-51	-46	-39	-44	-46	-46
Services	8	-2	-7	-11	-12	-12	-12	-12	-15	-17	-20
Income, excluding interest due	-6	0	-8	-8	-9	-11	-13	-15	-18	-20	-23
Transfers	33	26	27	27	28	28	28	28	28	28	27
II. Financial and capital account minus principal	62	76	101	110	110	123	126	131	137	132	133
Capital transfers	5	13	7	7	7	0	0	0	0	0	0
Public sector disbursements	30	47	67	73	73	84	84	84	84	84	84
FDI	22	22	27	31	31	39	42	47	53	48	49
Other net capital	6	-6	0	0	0	0	0	0	0	0	0
III. Financing items	48	48	47	47	56	43	26	15	24	38	53
IV. Total resources (I + II + III)	98	117	121	123	127	120	109	107	112	115	125
V. Change gross reserves (- increase)	-29	-14	-26	-27	-31	-30	-15	-15	-15	-15	-15
VI. Debt service payments	-68	-101	-96	-96	-96	-90	-94	-92	-97	-100	-110
Interest	-50	-54	-47	-45	-45	-45	-46	-47	-48	-49	-51
Non financial public sector	-13	-15	-14	-13	-13	-13	-14	-15	-16	-18	-19
Private sector	-35	-37	-31	-31	-31	-31	-31	-31	-31	-31	-31
National bank of Tajikistan (IMF)	-2	-2	-1	-1	-1	-1	-1	-1	-1	-1	0
Principal	-19	-47	-49	-51	-51	-45	-48	-46	-49	-50	-59
Non financial public sector	-19	-47	-49	-51	-51	-45	-48	-46	-49	-50	-59
VII. Total uses (V+VI)	-98	-116	-121	-123	-127	-120	-109	-107	-112	-115	-125
VIII. Financing gap	0	12	37	52	67	52	51	43	59	72	90

Source: Tajik authorities; and Fund staff estimates.

Table 10. Tajikistan: External Debt and Debt Service of the Public Sector, 2000-2010  
(In millions of US dollars; unless otherwise indicated)

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
<b>NPV of Debt</b>											
Total public sector and guaranteed	544	544	567	600	640	690	722	740	769	808	850
Non-financial public sector	438	439	434	442	462	509	555	599	654	719	791
IMF	84	105	134	158	178	181	167	141	115	89	59
Private, guaranteed	22	0	0	0	0	0	0	0	0	0	0
<b>NPV of debt</b>											
In percent of GDP	57	53	46	44	42	41	39	37	35	34	33
In percent of exports 1/	133	120	110	102	102	105	104	102	101	101	102
In percent of fiscal revenue	419	383	326	302	282	264	247	227	213	203	193
<b>Debt service due</b>											
In percent of exports 1/	11	17	14	12	12	10	13	12	13	13	13
In percent of fiscal revenue 2/	24	44	36	32	28	22	21	19	18	16	16
In percent of fiscal revenue, incl. IMF 3/	33	54	43	35	33	26	30	27	28	25	25
<b>Memorandum items:</b>											
GDP	955	1,030	1,226	1,363	1,516	1,685	1,848	2,026	2,199	2,388	2,593
Exports 1/	408	455	517	591	625	660	692	726	761	797	834
Fiscal revenue	130	142	174	199	227	261	292	326	361	399	441
Debt service due	43	77	74	70	76	68	88	89	101	100	108
<i>Of which:</i>											
Nonfinancial public sector	31	63	63	64	64	58	61	60	65	66	71

Sources: Tajik authorities; and Fund staff estimates.

1/ Exports of goods and services excluding alumina and electricity imports, which are traded on a barter basis with neighboring countries for imports of alumina and electricity.

2/ Nonfinancial public sector.

3/ Includes obligations to the IMF.

Table 11. Tajikistan: Stock of Non-Financial Public Sector External Debt, 1994-2000  
(In millions of US dollars)

	1994	1995	1996	1997	1998	1999	2000
Total Debt	612.4	667.5	726.2	747.0	821.6	848.1	873.7
Bilateral	540.1	586.5	593.6	581.3	543.1	532.2	508.8
Uzbekistan	178.7	199.8	199.8	171.3	152.6	141.9	130.3
Russia	280.6	292.0	287.7	291.3	287.7	287.7	287.7
United States	24.3	24.7	31.2	31.9	29.6	29.6	22.2
Turkey	20.0	23.0	23.2	25.7	25.7	25.7	25.7
Kazakhstan	18.5	19.0	19.0	18.5	18.3	18.3	18.8
Pakistan	0.0	6.0	12.0	14.2	14.4	14.4	15.5
China	5.3	5.4	5.3	6.1	6.4	6.4	0.0 <sup>1/</sup>
India	0.0	4.0	4.4	5.8	6.1	6.1	6.7
Kyrgyz Republic	0.0	0.0	0.0	0.0	2.3	2.3	2.0
Switzerland	1.7	1.6	0.0	0.0	0.0	0.0	0.0
Other bilaterals	11.0	11.0	11.0	16.5	0.0	0.0	0.0
Multilateral	72.3	81.0	132.6	165.7	278.6	315.9	364.9
IMF	0.0	0.0	21.6	30.4	95.9	100.5	113.4
European Union	72.3	81.0	81.0	82.9	89.4	76.3	71.9
World Bank	0.0	0.0	30.0	52.5	90.3	126.1	153.0
Islamic Development Bank	0.0	0.0	0.0	0.0	3.0	3.0	7.4
Asian Development Bank	0.0	0.0	0.0	0.0	0.0	10.0	19.2

Sources: Tajik authorities; and Fund staff estimates.

<sup>1/</sup> The debt to China was converted into a grant in the third quarter of 2000.

Table 12. Tajikistan: Capacity to Repay the Fund, 2000-2010  
(In units indicated)

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
<b>Existing and prospective Fund credit 1/</b>											
In millions of SDRs 2/	85.0	97.0	126.2	146.5	162.4	155.7	137.0	116.9	91.4	67.2	41.0
In millions of US dollars	113.4	129.4	168.2	196.5	219.0	211.2	186.8	160.3	125.9	93.1	57.0
In percent of exports 3/	28.0	23.1	28.7	31.3	33.2	30.6	25.8	21.1	15.8	11.2	6.5
In percent of external debt	9.4	11.6	14.2	15.5	16.2	14.7	12.5	10.3	7.8	5.5	3.2
In percent of gross reserves	130.0	127.7	110.7	110.4	106.3	97.8	82.6	67.9	50.2	35.0	20.7
In percent of quota	97.7	111.5	145.0	168.4	186.7	179.0	157.5	134.4	105.0	77.3	47.1
<b>Repurchases and charges due from existing and prospective drawings</b>											
In millions of SDRs	8.9	10.6	8.5	4.5	8.9	7.5	19.5	20.8	26.2	24.6	26.6
In millions of US dollars	11.8	14.0	11.3	6.0	12.0	10.2	26.6	28.4	36.0	34.0	37.0
In percent of exports 3/	2.9	2.5	1.9	1.0	1.8	1.5	3.7	3.7	4.5	4.1	4.2
In percent of external debt	1.0	1.3	1.0	0.5	0.9	0.7	1.8	1.8	2.2	2.0	2.1
In percent of gross reserves	13.5	13.8	7.4	3.4	5.8	4.7	11.7	12.0	14.3	12.8	13.4
In percent of quota	10.2	12.2	9.7	5.1	10.2	8.7	22.4	23.9	30.1	28.3	30.6
<b>Memorandum items:</b>											
Net reserves	-28	-29	-18	-20	-14	4	38	74	124	172	218
Quota (in SDRs)	87	87	87	87	87	87	87	87	87	87	87
Gross reserves (months of imports) 4/	2.4	2.1	2.9	3.1	3.4	3.4	3.5	3.5	3.5	3.6	3.5
Net reserves (months of imports) 4/	-0.7	-0.6	-0.3	-0.3	-0.2	0.1	0.6	1.1	1.7	2.3	2.8

Sources: Tajik authorities; and Fund staff estimates.

1/ End of period.

2/ This table assumes SDR 72 million Fund disbursements under a possible second three-year PRGF in 2002-2004.

3/ Exports of goods and services less alumina and electricity.

4/ Imports of goods and services less alumina and electricity.

Table 13. Tajikistan: Structural Performance Criteria and Benchmarks Under the Third Annual Arrangement of the PRGF	
Measures and Timing	Status
<p><b>Continuous Performance Criteria</b> 1. No directed credits will be issued by the NBT.</p>	Observed to date.
<p><b>Performance Criteria for End-June 2001</b></p> <p>2. Ensure that the agreement between the NBT and the MOF, including the issuance of long-term bonds and treasury bills and the payment of interest, is fully operational.</p> <p>3. Submit to parliament amendments to the existing law that will (1) eliminate the obligation of commercial banks to report automatically information on new deposits to the Tax Committee; (2) eliminate the 30 percent tax (specified in government resolution 583 dated November 29, 1993) on transfers from abroad; and (3) change the present practice such that the Tax Committee assesses the property tax on the fixed assets of the commercial banks instead of on the net worth of banks.</p>	
<p><b>Structural Benchmarks for end-December 2000</b></p> <p>4. Set-up regional treasuries in the remaining 6 rayons.</p> <p>5. Extend the treasury coverage of payments to all central and local government transactions.</p> <p>6. Sign contracts for the sale of at least 250 medium and large-scale enterprises and receive full payments for at least 220 of these enterprises (cumulative since January 1998).</p> <p>7. Convert at least 30 state-owned farms into private farms by issuing marketable land use certificates and land share certificates to private farmers during the fourth quarter of 2000.</p> <p>8. Introduce a "black book" mechanism to reduce inappropriate government intervention in private enterprises.</p>	
<p><b>Structural Benchmarks for end-March 2001</b></p> <p>9. Sign contracts for the sale of at least 280 medium- and large-scale enterprises, with full payments received for at least 250 of them (cumulative since January 1998).</p> <p>10. Convert at least 80 state and collective farms into private farms by issuing marketable land use and land share certificates to private farmers (cumulative since October 1, 2000).</p> <p>11. Establish an independent external audit institution to inspect public financial management systems.</p> <p>12. Prepare a draft Law on Public Finances for review by IMF staff.</p>	<p>Done.</p> <p>Completed with a delay.</p> <p>Done. Contracts have been signed for the sale of 268 enterprises and full payment has been received for 233 enterprises.</p> <p>Not done.</p> <p>Not done.</p>



**Structural Benchmarks for end-June 2001**

13. Convert at least 60 state-owned farms cumulative since October 2000 into private farms by issuing marketable land use certificates and land share certificates.

14. Amend Article 104 of the Tax Code to prevent the tax authorities from conducting reviews of customer accounts while conducting corporate tax examinations of commercial banks.

15. Complete implementation of the pilot project to enhance expenditure commitment control.

16. Prepare, in consultation with the staff of the IMF and in line with Annex IV of the MEP of October 2000, a draft law on the Independent Audit Agency and submit it to parliament.

17. Amend legislation to allow average foreign equity ownership of the banking system as a whole to increase to a maximum of 40 percent in 2001 and 50 percent in 2002.

18. Prepare, in consultation with the staff of the IMF, and approve a statute defining the responsibilities of the upgraded Land Reform Committee.

**Structural Benchmarks for end-September 2001**

19. Complete an assessment of the bank restructuring agreements with the four banks and develop a strategy for either privatizing, merging or closing those banks that fail to make satisfactory progress toward achieving the minimum capital requirement or fail to meet the loan recovery targets specified in their respective restructuring agreements.

20. Convert at least 90 state-owned farms cumulative since October 2000 into private farms by issuing marketable land use certificates and land share certificates.

21. Implement expenditure commitment control measures in all ministries based on the findings of the pilot project.

Table 14. Tajikistan: Review and Phasing of Disbursements  
Under the Third Year Arrangement of the PRGF

(In millions of SDRs)

Date of Disbursement	Conditions	Disbursement
October 25, 2000	Disbursed upon Board approval of the Third Year Arrangement under the PRGF.	6.00
After February 15, 2001	Completion of the first review by the Board; end-December 2000 performance criteria.	6.00
On or after May 15, 2001	Completion of the second quarterly review by the Board; end-March 2001 performance criteria.	6.00
On or after August 15, 2001	Completion of the third quarterly review by the Board; end-June 2001 performance criteria.	9.36
On or after November 15, 2001	Completion of the final review by the Board; end-September 2001 performance criteria.	12.66

**Tajikistan: Fund Relations  
(As of January 31, 2001)**

I. **Membership Status:** Joined 4/27/1993; Article XIV

II. <b>General Resources Account:</b>	<u>SDR Million</u>	<u>Percent of Quota</u>
Quota	87.00	100.0
Fund holdings of currency	105.75	121.6
Reserve position in Fund	0.00	0.0

III. <b>SDR Department:</b>	<u>SDR Million</u>	<u>Percent Allocation</u>
Holdings	6.02	N/A

IV. <b>Outstanding Purchases and Loans:</b>	<u>SDR Million</u>	<u>Percent of Quota</u>
Stand-by arrangements	3.75	4.3
ESAF/PRGF arrangements	66.28	76.2
First credit tranche	15.00	17.2

V. **Financial Arrangements:**

<u>Type</u>	<u>Approval Date</u>	<u>Expiration Date</u>	<u>Amount Approved (SDR Million)</u>	<u>Amount Drawn (SDR Million)</u>
ESAF/PRGF	06/24/1998	12/24/2001	100.30	66.28
Stand-by	05/08/1996	12/07/1996	15.00	15.00

VI. **Projected Obligations to Fund:**(SDR Million; based on existing use of resources and present holdings of SDRs):

	<u>Overdue</u>	<u>Forthcoming</u>				
	<u>01/31/2001</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>
Principal	0	9.4	7.5	3.7	8.1	10.7
Charges/Interest	0	1.1	0.7	0.4	0.3	0.3
Total	0	10.5	8.2	4.1	8.4	11.0

**VII. Exchange Rate Arrangements**

A currency conversion took place on October 30, 2000 replacing the Tajik ruble, which in turn was introduced in May 1995. Prior to July 1, 2000, the National Bank of Tajikistan quoted a twice weekly official representative exchange rate for the Tajik ruble, based on the selling rates for the Tajik ruble against the U.S. dollar in the Tajikistan Interbank Foreign Currency Exchange (TICEX). As of July 1, 2000 the TICEX was eliminated and the National Bank of Tajikistan began quoting a daily official exchange rate for the Tajik ruble (up to October 31, 2000) and Somoni (beginning November 1, 2000) based on a weighted average of exchange rates in the interbank market. The official exchange rate is used for valuation of the National Bank's foreign currency reserves, for the calculation of customs duties, and for the National Bank's foreign exchange transactions. On February 28, 2001, the official exchange rate was Somoni 2.35 per U.S. dollar.

**VIII. Article IV Consultation**

The 1999 Article IV consultation mission was held during October 22–November 5, 1999. The 1999 Article IV report, dated January 7, 2000, was considered by the Executive Board on January 27, 2000. Tajikistan is on the 12-month consultation cycle.

**IX. Resident Representative:** Mr. Lorie, Senior Resident Representative of the Fund, started his assignment in Dushanbe in September 1999. At the request of the authorities, his assignment was extended for one year, through September 2001.

**X. Resident Advisor:** A fiscal resident advisor in the area of fiscal management was appointed for 15 months beginning August 1998. His contract was renewed for a second year, during which time he will conduct four peripatetic visits, and will end on April 2001. A general policy adviser to the National Bank of Tajikistan started his one-year assignment in April 1999. A treasury advisor was re-assigned for another 12 months beginning in April 2000. As part of Swiss-Funded Tajikistan Tax Administration Reform Project, a general tax administration advisor, a VAT administration advisor, and a computer systems advisor started their peripatetic assignments in September 1999 and will continue their peripatetic visits through 2001.

**XI. Technical Assistance:** The following list summarizes the technical assistance provided by the Fund to Tajikistan since 1992.

**Fiscal Affairs:**

February 1992	Tax policy and tax administration social safety net, inter-governmental financial relationships, and public expenditure management
February 1994	Tax policy, social safety net, and public expenditure management

April/May 1995	Public expenditure management and treasury operations
July 1995	Tax policy and tax administration
Sept./Oct. 1995	Social safety net
January 1996	Modernization of the State Tax Inspectorate, implementation of a large taxpayer monitoring unit and collection of tax arrears
August 1996	Implementation of a large taxpayer unit
September 1997	Modernization of the State Tax Inspectorate; Implementation of a large taxpayer unit
April 1998	Tax policy and administration
June/July 1998	Implementation of Tax Identification Numbers
September 1999	Tax administration
October 1995	Macroeconomic and financial policy seminar
Sept./Nov. 1998	Tax Code drafting
September 1999	Law on Foreign Debt and Government Guarantees, Tax Code amendments

**Monetary and Exchange Affairs:**

November 1993	Monetary operations and money market development, banking supervision, foreign exchange operations and management, the payments system, and central bank legislation
Jan./Feb. 1995	Introduction of the national currency, monetary policy and banking supervision
April 1995	Foreign exchange operations and introduction of the national currency
September 1995	Central banking operations
November 1995	Central bank legislation, exchange market operations and banking supervision
November 1996	Multi-topic
February 1998	Multi-topic
April 1998	Treasury bill auctions, bank restructuring, and banking supervision
August 1998	Multi-topic
April 1999	Multi-topic
April 1999-July 2000	Monetary operations
March 2000	Multi-topic
August 2000	Bank restructuring
Jan./Feb. 2001	Bank Restructuring

**Statistics:**

Feb./March 1994	Government finance, money and banking, balance of payments, and national account and price statistics
Jan./Feb. 1995	Money and banking statistics
April/May 1995	National accounts and price statistics
July 1995	Money and banking statistics
Sept./Oct. 1995	Price statistics
Nov./Dec. 1995	Balance of payments statistics
September 1996	Money and banking statistics
November 1996	National accounts statistics
Oct./Nov. 1997	Balance of payments statistics
April 1998	Money and banking statistics
April 1999	Money and banking statistics

**Treasury:**

October 1995	Accounting of Fund transactions
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### **Tajikistan: Relations with the World Bank**

Tajikistan became a member of the IBRD and IDA in 1993 and of the IFC in 1994. To date, World Bank Group assistance has consisted of policy advice, increased field presence, institutional capacity building, financing of post-conflict needs through rehabilitation and reconstruction operations, and resource mobilization.

A World Bank mission in August 1992 initiated an assessment of the economic situation, prospects and progress in reforms. The first Country Economic Memorandum (CEM) was issued in August 1994. A new CEM has been prepared and discussed with the government, to be finalized shortly. A Poverty Assessment Report was prepared in May 2000. At the government's request, the World Bank organized the first Consultative Group (CG) meeting for Tajikistan in Tokyo on October 31, 1996, followed by a second CG meeting in Paris on May 20, 1998. The next CG meeting is expected to be held in Tokyo in May 2001. Two Country Assistance Strategies (CAS) were discussed by the Board of Directors of IDA in May 1996 and July 1998. The next CAS is expected to be presented to the Board during the first half of FY02.

The World Bank approved an Institutional Development Fund (IDF) grant in July 1993 to assist the government manage and make effective use of external assistance. In June 1996, the Bank provided another IDF grant for public procurement reform, and in April 1997, a third IDF grant to finance an external debt advisor to strengthen the Ministry of Finance's capacity for external debt management.

As of February 28, 2001, IDA had committed US\$211.3 million for the following 16 operations in Tajikistan: First Institutional Building Technical Assistance (US\$5 million, approved May 1996, fully disbursed and closed in December 2000); Agricultural Recovery and Social Protection (US\$50 million, approved September 1996, fully disbursed and closed in September 1997); Pilot Poverty Alleviation (US\$12 million, approved April 1997 and will close on April 30, 2001); Post-Conflict Rehabilitation Credit (US\$10 million, approved December 1997, fully disbursed and closed in December 1998); Post-Conflict Emergency Reconstruction (US\$10 million, approved January 1998, fully disbursed and closed in September 2000); First Structural Adjustment (US\$50 million, approved July 1998, fully disbursed and closed in December 2000); First Structural Adjustment Supplemental (US\$6.7 million, approved May 1999, fully disbursed and closed in December 2000); Emergency Flood Assistance (US\$5 million approved, August 1998); Emergency Flood Assistance Supplemental (US\$2 million, approved December 1999); Farm Privatization Support (US\$20 million, approved June 1999); Education LIL (US\$5 million, approved May 1999); Second Institution Building Technical Assistance (US\$6.7 million, approved June 1999); Primary Health Care (US\$5.4 million, approved March 2000); Rural Infrastructure Rehabilitation (US\$20 million, approved June 2000); Lake Sarez Mitigation (US\$0.5 million, approved June 2000); and Farm Privatization Support Supplemental (emergency drought assistance for US\$3 million, approved February 2001). As of February 28, 2001, disbursements for the 16 operations totaled approximately US\$150.2 million.

Projects under preparation are, for the current fiscal year, structural adjustment (Second Structural Adjustment); and for outer years: infrastructure (Dushanbe Water Supply); capacity building (Post-Privatization Support); social protection adjustment (Social Sector Rehabilitation); and poverty alleviation (Second Poverty Alleviation).

IFC investments include a large gold mining operation (Zeravshan Gold/Nelson Gold), a supermarket project and a marble/granite processing business. In addition, IFC has approved an investment in a Tajik/Italian auditing firm and an equity investment in Tajiksoderot Bank. IFC is in an advance stage of appraisal on the privatization and expansion of the Pamir Mini-Hydro power plant with AKFED as principal sponsor. Other projects in agri-processing and light manufacturing are currently under review. In addition, IFC consultants are about to complete a study of the TADAZ aluminum smelter to determine its economic viability and options for future management and ownership of the plant.



### **Tajikistan: Relations with the Asian Development Bank**

Tajikistan became a member of the AsDB on April 20, 1998. The AsDB participated in the second Consultative Group Meeting for Tajikistan (May 20, 1998). After conducting an initial Contact cum Economic Mission in June 1998, AsDB staff completed an Economic Report and Interim Operational Strategy that detailed the economic structure and recent economic developments in the country and identified areas in which AsDB assistance would have the greatest development impact. The report was endorsed by AsDB's Board of Directors in October 1998. The Board also approved Tajikistan's country classification, which provides the basis for Tajikistan's access to concessional resources.

In view of Tajikistan's urgent need for assistance in 1998, the AsDB Board approved a Postconflict Infrastructure Program Loan (US\$20 million) to support reforms in the transport and energy sectors. The loan was for two years and was successfully completed in the end of 2000 upon implementation of reforms acceptable to AsDB.

In 1999, the AsDB Board approved a Social Sector Rehabilitation Project Loan (US\$20 million) to address the serious deterioration in living standards and strengthen the delivery of essential social services, and an Emergency Flood Rehabilitation Project Loan (US\$5 million). In 2000, a Road Rehabilitation Project Loan (US\$20 million) and a Power Rehabilitation Project Loan (US\$34 million) were approved based on the satisfactory progress of the Postconflict Infrastructure Program Loan conditionalities.

Currently, a Rural Financial Systems Development Project Loan (US\$5 million) and an Agriculture Rehabilitation Project Loan (US\$35 million) are being processed and expected to be approved in May and October 2001, respectively.

### **Tajikistan: Illustrative Debt Restructuring Scenarios <sup>1</sup>**

1. The baseline for the staff's medium term balance of payments and external debt projections assumes average GDP growth of 4 percent per annum for 2001–10, driven largely by exports of agricultural commodities and aluminum. Successful implementation of the authorities' structural reform program is projected to result in a gradual expansion of the area planted to cotton, higher yields, and development of related downstream production. Additionally, a modest increase in aluminum production is assumed over the projection period. The baseline for 2002–10 also assumes:

- average annual real exchange rate appreciation of 3.0 percent;
- average annual export and import growth of 6 percent and 5.8 percent, respectively;
- average annual current account deficit of 5 percent of GDP financed largely by multilateral lending; and
- an increase in the ratio of fiscal revenue to GDP from 13.8 percent in 2001 to 17 percent in 2010 along with modest fiscal consolidation.

2. HIPC benchmarks are used to assess debt sustainability for illustrative purposes. Under the baseline, the NPV of debt declines to less than the HIPC benchmark for fiscal sustainability, 250 percent of fiscal revenue, in 2006 (Table 15). It is, however, sustainable in terms of the ratio of NPV of debt to exports, for which the HIPC benchmark is 150 percent. The baseline is, however, sensitive to assumptions, particularly as regards exchange rate behavior. For example, if the real exchange rate is assumed constant over the projection period, instead of appreciating by 3 percent as in the baseline, the HIPC benchmark for fiscal sustainability is achieved in 2009. Under these circumstances, it may be necessary to consider further measures in order to achieve fiscal sustainability, including debt restructuring through the Paris Club on concessional terms.

3. Rescheduling through the Paris Club during the consolidation period would change the NPV of debt and debt service costs to varying degrees depending on the negotiated terms. Two illustrative scenarios have been simulated using the baseline assumptions: (i) rescheduling on terms similar to those recently granted to Georgia, and (ii) standard

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<sup>1</sup> The baseline used for these projections differs from the one used in both the original program (EBS/00/206) and the Board paper on external debt in selected CIS countries (SM/01/36). The assumptions used in the current scenario reflect the discussions with the authorities during the most recent mission. The assumptions underpinning the two baseline scenarios are highlighted in footnote 19.

Naples terms for flow restructuring followed by a stock of debt operation (Table 16).<sup>2</sup> The current terms being negotiated for 2001 on a bilateral basis are concessional.

4. Under Georgia-like terms, there is no upfront reduction of either debt service or debt stock. No amortization occurs during either the consolidation or grace periods, but interest payments are made during both periods. For Tajikistan, the interest rate on debt that was not previously restructured is assumed to be higher than under the original (very concessional) terms. As a consequence, while debt restructuring would lower debt service costs during the consolidation period (2002–04), there would be a substantial increase in the NPV of debt and debt service costs as a share of fiscal revenues at the end of the consolidation period. Fiscal sustainability would be achieved in 2008 rather than in 2006.

5. Under the Naples terms, it is possible for flow restructuring to be followed by stock restructuring. Assuming that stock rescheduling occurs in 2004, debt service costs would remain broadly unchanged following the consolidation period. The NPV of debt would decline significantly in 2004 and the benchmark for fiscal sustainability would be reached in 2004.

6. On balance, debt restructuring on terms similar to those available to Georgia would provide temporary relief for Tajikistan. Once amortization payments resume, however, debt service costs double. The NPV of debt as a percent of fiscal revenue would be broadly constant during the consolidation period and then decline gradually. The combination of flow and stock restructuring under Naples terms avoid the surge in debt service costs at the end of the consolidation period. Fiscal sustainability is achieved comparatively quickly due to a combination of flow and stock restructuring, and growth. Because the debt restructuring scenarios are built on the baseline scenario, the need to maintain macroeconomic stability and implement the vigorous structural reform program underlying that scenario is critical.

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<sup>2</sup> The terms for restructuring Georgia's debt specify 20 year maturity including a three-year grace period; market interest on debt that was not previously restructured; and, for debt that was previously restructured, the interest rate is to be as favorable as on previous consolidation. The restructuring reduced the NPV of Georgia's debt by 22 percent.

Table 15. Tajikistan: Sensitivity Analysis, 2002-10									
	2002	2003	2004	2005	2006	2007	2008	2009	2010
<b>Baseline Scenario</b>									
NPV of debt									
(in percent of exports)	110	102	102	105	104	102	101	101	102
(in percent of fiscal revenue)	326	302	282	264	247	227	213	202	193
Debt service due									
(in percent of exports)	14	12	12	10	13	12	13	13	13
(in percent of fiscal revenue)	43	35	33	26	30	27	28	25	25
<b>Constant Real Exchange Rate</b>									
NPV of debt									
(in percent of exports)	110	102	103	104	102	98	95	93	91
(in percent of fiscal revenue)	361	348	339	331	297	277	261	246	235
Debt service due									
(in percent of exports)	14	12	12	10	13	12	13	12	12
(in percent of fiscal revenue)	47	40	40	33	36	34	35	32	32
Sources: Tajik authorities; and Fund staff estimates.									

Table 16. Tajikistan: Debt Sustainability Analysis <sup>1/</sup> , 2002-10									
	2002	2003	2004	2005	2006	2007	2008	2009	2010
<b>I. Restructuring Under Georgia-like Terms 2/</b>									
NPV of debt									
(in percent of exports)	109	111	119	121	119	116	114	113	112
(in percent of fiscal revenue)	324	329	328	306	283	257	239	225	212
Debt service									
(in percent of exports)	5	4	5	11	14	14	15	14	14
(in percent of fiscal revenue)	16	12	14	28	34	31	31	28	27
<b>II. Restructuring Under Naples Terms (flow and stock)</b>									
NPV of debt									
(in percent of exports)	98	100	90	97	102	104	107	111	115
(in percent of fiscal revenue)	290	297	247	246	242	232	226	221	217
Debt service									
(in percent of exports)	5	4	5	5	8	8	9	9	10
(in percent of fiscal revenue)	16	12	14	13	18	17	20	18	18
Sources: Tajik authorities; and Fund staff estimates.									
1/ The discount rate used in all of the scenarios is 7.2 percent. The results for the baseline scenario are consistent with Table 10, but differ somewhat from those in Tables 8 and 9 because the baseline scenario uses a three-year moving average for exports, while Tables 6 and 7 use projections for individual years.									
2/ Restructured non-ODA debt has a maturity of 20 years, including a three-year grace period. A market rate of interest, assumed to be 7.2 percent, is charged on debt which was not previously restructured. For previously restructured debt, the interest is assumed to be at least as favorable as that applied under previous consolidations.									

## **Tajikistan: Statistical Issues**

### **Data Weaknesses**

Efforts to improve the quality of economic statistics by authorities have been hampered by tight budgetary constraint and very limited international assistance. The latter has not been forthcoming despite improvements in the domestic security situation. Some weaknesses in coverage, quality, frequency, and timeliness of the data remain which continue to affect authorities' ability to formulate and implement macroeconomic policies.

### **National Accounts Statistics**

The compilation of national accounts remains at a preliminary stage. Annual GDP estimates are derived from the production side by supplementing net material product data with rough estimates for the nonmaterial sectors. Initial attempts were made to use expenditure approach to measuring GDP. The quality of data is undermined by coverage and valuation problems. The coverage is unbalanced mostly because of inability to measure the size of growing nonstate sector. The value of production is also distorted because enterprises often report accounting or wholesale prices instead of actual transaction prices, which tend to be higher.

Quarterly GDP at constant prices is compiled from estimated indices of sectoral output based on a limited sample of enterprises. This method provides reliable quarterly estimates if there is a strong correlation between output and value added. In Tajikistan this does not appear to be the case, however. The quarterly GDP figures display a marked seasonal pattern, with output increasing strongly at the time of harvest.

### **Price Statistics**

Since January 1994, Tajikistan's State Statistical Committee has compiled consumer price index (CPI) on monthly bases. However, despite the change in household expenditure pattern the CPI calculation has not been updated. The Statistical Committee acknowledges the need for methodological assistance in this area. The wholesale price index (WPI), which is also compiled on monthly bases, closely corresponds to a producer price index. At present, the WPI suffers from a number of shortcomings including inadequate coverage of private sector activities.

### **Government Finance Statistics**

From January 2000, the classification of fiscal accounts followed a new system in line with the Government Finance Statistics manual, which has been developed with FAD technical assistance. The 2000 budget has been prepared under the new GFS classification, and its execution is also reported with the new classification system. However, the weakness inherent in the accounting system and the poor quality of data limit the benefits from the new GFS system.

Statistics on state budget operations are available about two to three weeks after the end of the reference period. Data on the Social Protection Fund and Road Fund are also available, but detailed information is difficult to obtain, which are often inconsistent, making it difficult to compile data on the general government. Consolidated central government data were published for the first time in the 2000 GFS Yearbook.

### **Monetary and Banking Statistics**

Money and banking statistics reported to the Fund have improved and are broadly adequate for policy and analytical purposes following the introduction of new charts of accounts based on IAS standards for the NBT and commercial banks on January 1, 1999. A money and banking statistics mission in April-May 1999 found significant progress in execution of the new charts and timely reporting of recent monetary developments.

Received data, however, suffers from weaknesses in the quality stemming from the lack of a centralized coordination of work among several accounting departments of the NBT and full implementation of the IAS. The NBT daily balance sheets are sometimes incomplete. Further work is needed to improve the quality of data on commercial banks, especially with respect to full implementation of the IAS.

### **Balance of Payments Statistics**

In April 1997, the NBT established a division responsible for the preparation of balance of payments data. The authorities have invested a significant effort in the compilation of the balance of payments, but the quality of data remain inadequate owing mainly to poor response to surveys by commercial enterprises, inadequate information provided by the State Statistical Committee, and insufficient information on financial flows. The NBT experiences methodological difficulties in quantifying export and import price indices.

**Tajikistan: Core Statistical Indicators**  
(As of March 15, 2001)

	Exchange Rates	International Reserves	Central Bank Balance Sheet	Reserve Money	Broad Money	Interest Rates <sup>1/</sup>	Consumer Price Index	Exports/Imports	Current Account Balance	Overall Government Balance	GDP/GNP	External Debt/Debt Service
Date of Latest Observation	2/28/01	2/25/01	2/25/01	2/25/01	1/31/01	2/28/01	1/31/01	Q4/00	Q4/00	12/31/00	12/31/00	Q4/00
Date Received	2/28/01	2/28/01	2/28/01	2/28/01	2/01/01	2/28/01	2/14/01	1/31/01	1/31/01	1/31/01	1/31/01	1/31/01
Frequency of Data	D	D	D	D	M	M	M	Q	Q	M	Q	Q
Frequency of Reporting	D	D	D	D	M	M	M	Q	Q	M	M	Q
Source of Update	A	A	A	A	A	A	A	A	A	A	A	A
Mode of Reporting	RR	RR	RR	RR	RR	RR	RR	RR	RR	RR	RR	RR
Confidentiality	-	-	-	-	-	-	-	-	-	-	-	-
Frequency of Publication	W	W	W	W	M	V	M	V	V	M	V	V

<sup>1/</sup> Annual interest rate on treasury bills.

Notes:

Explanation of abbreviations:

Frequency of data, reporting and publication: D-daily, W-weekly, M-monthly, Q-quarterly, and V-varying.

Source of updating: A-Authorities.

Mode of reporting: RR-by fax or e-mail from Resident Representative.



March 29, 2001

Mr. Horst Köhler  
Managing Director  
International Monetary Fund  
Washington, D.C. 20431

Dear Mr. Köhler,

1. The Government of Tajikistan is implementing a program of economic reform with support from the IMF's Poverty Reduction and Growth Facility (PRGF). The Executive Board of the IMF approved a third annual arrangement under the PRGF on October 25, 2000. Together with an IMF mission that visited Dushanbe during January 30–February 15, 2001, we conducted a review of the implementation of the economic program supported by the third annual arrangement. In the following paragraphs, we assess the macroeconomic and financial performance of recent months and our efforts to implement the macroeconomic stabilization and structural reform policies specified in the program. Based on this assessment, we then describe the specific measures that we will take to keep the overall program on track and to further the economic reform process in Tajikistan.

2. Despite a drought that affected mainly rain-fed wheat production, economic growth increased to more than 8 percent during 2000. This strong performance was due to increased industrial production—led by the aluminum sector—and strong growth in the agricultural sector, especially cotton and fruit production. Inflation, however, was significantly higher than expected in the last quarter of 2000, with the consumer price index increasing cumulatively by about 21 percent during October–November. We attribute this rise of prices to uncertainties associated with our otherwise successful currency reform introducing the Somoni, the failure to control liquidity as well as external factors. In December, we began addressing this problem by pursuing a substantially tighter fiscal policy than called for under the program. During December and January, inflation moderated. Despite an improvement in the prices for our major exports during 2000, the balance of payments remained under pressure. This was largely due to the need to import large amounts of wheat and a significant increase in world energy prices.

3. All of the quantitative performance criteria for end-December 2000 under the program were met, with the exception of that for net domestic assets (NDA) of the National Bank of Tajikistan (NBT). Difficulties enforcing loan collections combined with the deterioration in the income position of the NBT contributed to the excess liquidity. Further, because progress with the implementation of key structural reforms envisaged under the program was slower than expected, particularly in the area of land reform, some of the structural benchmarks for end-December 2000 were not met.

4. During January 2001, the NBT substantially improved its efforts to collect loans from the cotton sector and Tajik Rail. Furthermore, execution of the 2001 budget proceeded cautiously on the expenditure side, while tax revenue collection was particularly strong thereby contributing to a significant build-up of government deposits at the NBT. As a result, we met

the NDA target set for end-December 2000 by end-January 2001. We intend to continue our macroeconomic adjustment efforts and to bring the pace of implementation of structural reforms back on track in order to enhance their positive impact on the economy. On this basis, we are requesting a waiver for the non-compliance with the performance criterion on NDA of the NBT (we are also requesting one additional waiver for non-compliance with a performance criterion and a modification of the end-March 2001 performance criterion as discussed below). This would allow completion of the first review under the current program and permit access to the scheduled quarterly loan disbursement based on the end-December 2000 outcome. A more detailed discussion of salient policy issues and measures to improve program performance is provided below.

5. **Fiscal policy.** Consistent with our revised stabilization targets, the overall nominal cash deficit in 2001 will be unchanged from that included in the budget law of December 8, 2000. Our estimates of tax revenue and expenditures have been revised to reflect the higher than expected inflation in the latter part of 2000 and the depreciation in the nominal value of the exchange rate. Accordingly, without any change in policies underlying the 2001 budget, we are now projecting total revenues (including grants) in 2001 of Sm340.7 million which excludes payments from the NBT under the regularization agreement. Total expenditures and loans (minus repayments) in 2001 are projected to be Sm353.1 million, which also excludes payments to the NBT under the regularization agreement. Strong revenue collections since the beginning of the year reduced our projected budget deficit for the first quarter of 2001 to Sm5.3 million.

6. With a view to sustaining the tax revenue effort of early 2001 and enhancing the transparency of our fiscal activities, we will issue a government resolution specifying the revised revenue and expenditure targets for the 2001 budget no later than June 30, 2001. Article 23 of the Budget Law for 2001 authorizes the Ministry of Finance to fund additional expenditures in the event of higher revenue collection (within an unchanged overall deficit). The proposed resolution will be submitted to Parliament for information.

7. In order to strengthen our fiscal performance and the quality of governance pertaining to budgetary matters, we plan to enhance the effectiveness of our treasury system. We have established regional treasuries in the remaining six rayons as indicated in the Memorandum of Economic Policies that we submitted in October 2000 to the Managing Director of the IMF. Further, the parliament approved the treasury law and we have extended the coverage of the treasury to all government payments outside Dushanbe. At the same time, we have begun implementation of a pilot project in four ministries designed to enhance expenditure commitment control. Additional measures we plan to take include abolishing the treasury single extrabudgetary account, publishing and distributing the treasury manual, and consolidating the bank accounts of individual ministries.

8. We have continued working on improving tax administration with the support of technical assistance from the Fiscal Affairs Department of the IMF. During 2001 we plan to (1) improve operation of the VAT by enforcing the use of tax invoices by taxpayers, for which return forms will be made available by the Tax Committee; (2) ensure that funds are available for producing essential forms and pamphlets required by the Large Taxpayer Inspectorate and to retain and

attract suitably qualified staff; and (3) give priority to recruiting and retaining the computer programmers necessary to complete the computerization project at the Tax Committee.

9. Our plans to begin implementing the agreement between the Ministry of Finance (MOF) and the NBT aimed at regularizing their financial relations along the lines spelled out in Annex III of the Government's Memorandum of Economic Policy of October 2000, were delayed because of the need to consider various technical issues and safeguards. The government approved the agreement on March 16 under which Sm3 million in NBT loans to the government are to be replaced by treasury bills carrying the market determined interest rate, and, the rest of loans, totalling to Sm89 million are to be converted into long-term government bonds. An additional US\$32 million of NBT loans to state entities, once clarified are to be converted into long-term bonds. In addition, the NBT started paying interest on government deposits. The implementation of the agreement is to begin immediately and issuance of these treasury bills and long-term bonds will be completed by end-June 2001.

10. **Monetary Policy.** We recognize that the implementation of a strict monetary policy remains a pre-condition for the stability of prices and the nominal exchange rate. We intend to sustain the substantial tightening of monetary conditions achieved in January and February as part of our strategy to restore price stability consistent with our commitments under the program. We also plan to intensify our use of interest rates as a tool of monetary policy. We have met NDA and NIR targets for end-February as discussed with the mission that visited Dushanbe in early February. We will continue our efforts to meet the performance criteria set for end-March under the program.

11. There is a major risk that liquidity will again increase in weeks ahead, as the MOF is expected to draw down its deposits with the NBT as part of the execution of the budget. Although the strong performance of the budget thus far in 2001 should limit the size of this draw down, the NBT will need to contain the expansion of reserve money and offset the impact on net domestic assets of the NBT. Necessary measures would include further loan collection, as well as the sale of NBT certificates of deposit and treasury bills.

12. Under our monetary program, the NBT's claims on the private sector are projected to decline by Sm24.7 million between end-January and end-March 2001. From end-March to end-June 2001, the NBT's claims on the private sector will remain unchanged. This means that credit collected by the NBT would be available for lending to the private sector during the second quarter of 2001 and this credit would only be extended through transparent credit auctions.

13. **Financial sector reform.** The bank restructuring agreements between the NBT and the four largest commercial banks that were signed in May 2000 are under implementation. Each of the four banks has prepared a business plan for achieving improved financial and operational effectiveness. The banks have shown various degrees of progress in the areas of profitability, transparency, and recovery of non-performing loans. The banks' planning expertise continues to evolve, but still needs improvement. Following a review of progress midway through the restructuring period (July 2000-June 2001), we have amended the business plans in accordance with the recommendations of Fund staff and in consultation with the banks. We plan to

withhold judgment on the next steps regarding these four banks until the restructuring agreements expire, but we realize that two of these banks, the Amonat Bank and the Agro-Invest Bank may require more fundamental restructuring as part of an overall strategy to develop a banking system that is responsive to the needs of the economy. The strategy will be prepared in consultation with Fund staff and will be completed by end-September 2001 (Annex II). Regarding the other banks outside the restructuring program, we have already begun the process of revoking the banking licenses or effecting mergers of 2 banks that had not met the minimum capital requirement of US\$1 million as of end-December 2000.

14. In order to improve the regulatory environment for commercial banks, we plan to submit to parliament, no later than April 30, 2001, amendments to the existing legislation that will (1) eliminate the obligation of commercial banks to report automatically information on new deposits to the Tax Committee; (2) eliminate the 30 percent tax (specified in Government Resolution 583 dated November 29, 1993) on transfers from abroad; and (3) change the present practice such that the Tax Committee assesses the property tax on the fixed assets of the commercial banks instead of on the net worth of banks. By end-June 2001, we will adopt a government resolution or will pass an amendment to the existing laws allowing average foreign equity ownership of the banking system as a whole to increase to a maximum of 40 percent in 2001 and 50 percent in 2002. Finally, by end-June we will amend Article 104 of the tax code to prevent the tax authorities from reviewing customer accounts when conducting corporate reviews of the commercial banks.

15. **Management of the foreign exchange market.** We have recently taken steps to improve the efficiency of the interbank foreign exchange market. As a result, the gap between the interbank and official exchange rates has been eliminated and the gap between the official and the street (cash) exchange rates has been reduced. We are taking steps to strengthen the operations of the interbank foreign exchange market by improving the flow of information, including the reporting requirements of banks. We will now set the official exchange rate as a weighted average of exchange rates at which actual interbank transactions take place. Information on each day's transactions in the interbank market will be made available to all commercial banks and the office of the IMF Resident Representative by the close of business the same day.

16. **Governance reform and other structural reforms.** In order to enhance the quality of governance, a Presidential Decree establishing an audit agency was issued on January 25, 2001. A decree specifying the charter for the audit agency was issued on February 7, 2001. We intend to draft in consultation with the staff of the IMF and submit to parliament and seek adoption, no later than end-June, 2001 a law on the audit agency. The charter that was recently issued will be amended so that it is consistent with the law. We intend this law to include provisions for transmitting reports of the audit agency to parliament and to be consistent with Annex IV of the Memorandum of Economic Policy of October 2000.

17. Although we did not meet the structural benchmark for introducing a "black book" mechanism, we are now working with the World Bank to finalize arrangements for a "black book." The "black book" mechanism would be introduced as part of the policy conditionality in the World Bank's second structural adjustment credit.

18. The progress of our farm-restructuring program has slowed because of the limited capacity of the Land Reform Committee and because of increased interference from local officials, especially the managers of those state farms being restructured. In order to accelerate the farm restructuring process, we have issued a Presidential Decree (#470) on February 2, 2001 announcing the restructuring of an additional 120 state-owned farms into non-state owned and privately operated farms by end-December 2001. This is consistent with the overall objectives for land reform described in our MEP of October 2000, although we realize that the benchmark regarding land reform that was set for end-December 2000 in this regard was not met. We agree to an upward adjustment in remaining quarterly benchmarks under the program and are strongly committed to deepening the reforms in this area by dividing existing state farms into individual units reflecting the farmer's land access rights as represented by a "land share certificate." For state-owned farms already restructured into large dekhan farms, the right of individual farm households to exit in order to form other dekhan farms will be fully respected.

19. In order to improve the land reform process, we have upgraded the status and enhanced the responsibility of the Land Reform Committee. In order to provide the upgraded committee with an operating mandate, we will prepare in consultation with the IMF a draft statute outlining the enhanced responsibilities of the upgraded Land Reform Committee. The government will approve this statute no later than end-June 2001. Finally our objective is to eliminate the backlog of undistributed land share certificates no later than end-July 2001.

20. In October 2000, the MOF and Tajik Rail (TRR) reached an agreement in principle to compensate TRR for the cost of in-kind debt servicing provided on behalf of the Government of Tajikistan. A provision of Sm8 million was made for this purpose in the 2001 budget. Having reached agreement with Uzbekistan on the arrangements for debt servicing during 2001, the MOF started compensating TRR for the services provided as in-kind debt servicing. As part of this agreement, TRR has also committed itself to cash payment for all its tax obligations.

21. While we recognize that our performance in some areas has been disappointing, as indicated herein we remain fully committed to successful implementation of our reform program. Accordingly, we have completed several actions in order to ensure that our program remains fully on track, including (i) extending coverage of the treasury to include all central government payments outside Dushanbe; (ii) beginning implementation of the agreement between the NBT and MOF concerning regularization of their financial relations as indicated in Annex III of the MEP of October 2000; (iii) limiting the NDA of the NBT to Sm151 million for end-February 2001; (iv) begin the process of revoking the banking licenses or of effecting mergers of 2 banks outside the restructuring program that have not met the minimum capital requirement of US\$1 million as of end-December 2000; (v) upgrading the status and responsibilities of the Land Committee to that of a state committee; and (vi) beginning implementation of the agreement between the MOF and Tajik Rail (TRR) of the agreement to compensate TRR for in-kind services that it will provide to the Government of the Republic of Uzbekistan on behalf of the Government of Tajikistan in 2001 and ensure the appropriate amount is included in the budget for 2001.

22. **Program monitoring.** In order to monitor the implementation of our economic reform program, our MEP of October 2000 established quarterly performance criteria, quarterly reviews, and quarterly disbursements. Annex I presents the quantitative performance criteria for end-June 2001 and the indicative targets for end-September 2001, which incorporates the revised macroeconomic and financial program. Annex II updates the structural performance criteria and benchmarks listed in Annex V of the MEP of October 2000 and establishes structural performance criterion and benchmarks for end-June 2001. The performance criteria and structural benchmarks for end-June 2001 are further specified in the revised Technical Memorandum of Understanding ("TMU") attached to this Letter. The next program review will center on, in addition to the achievement of macroeconomic objectives, progress with our structural reforms, with a particular focus on governance, development of financial markets, bank restructuring, as well as land and agriculture reform. In aid of transparency, we hereby request that this letter of intent and the staff report for the first review of the third annual arrangement under the PRGF be published on the IMF web site.

23. Due to a technical error in the computation of the performance criteria for the collection of tax revenue by end-December 2000 and end-March 2001, we are requesting that a waiver be granted for the non-compliance with the end-December 2000 performance criterion and that a modification be made of the end-March 2001 performance criterion. Tax collection for end-December was Sm49,543 million, which is lower than the minimum level of Sm53,701 million set out in Annex VII to the Memorandum of October 11, 2000 which mistakenly included grants and non-tax revenues, but is still higher than Sm48,724 million, which was the level on which the Government and IMF staff had originally reached understandings. We propose that the performance criterion (which also mistakenly included grants and non-tax revenues) for end-March 2001 be modified from Sm94,726 million to Sm80,158 million. Additionally, we proposed that the end-March performance criteria for the non-concessional debt be modified to clarify the sources of such borrowing.

24. The Government believes that the policies described above will sustain our macroeconomic stabilization efforts and strengthen our structural market reforms, and that they are adequate to achieve the objectives of our economic program for 2001. We intend to remain in close consultation with the IMF in accordance with IMF policies on such consultation and will provide the IMF with any information it requests for monitoring economic developments and implementation of policies under the program. The Government stands ready to take any further measures, in consultation with the IMF staff, which might be necessary to ensure that the overall objectives of the program can be achieved.

Very truly yours,

//s//

Emomali Rakhmonov  
President of the Republic of Tajikistan

Attachments

Tajikistan: Quantitative Performance Criteria and Indicative Targets, September 2000 - December 2001  
(In stocks; unless otherwise indicated)

	2000				2001					
	Sep.		Dec.		Feb.		Mar.	Jun.	Sep.	Dec.
	Prior actions	Actual	Perf. criteria	Actual	Prior actions	Actual	Performance criteria		Revised indicative targets	
1. Quantitative performance criteria										
	(In millions of somoni)									
Ceiling on net domestic assets of the NBT 1/	203.3	203.5	154.2 2/	170.5	150.9	149.1	184.7	238.3	207.7	196.8
Ceiling on NBT's net credit to general government 1/ 3/	137.9	138.1	125.2 2/	112.0 4/	101.5	99.4 4/	142.0	119.6	121.3	125.5
Ceiling on cumulative overall fiscal balance 1/ 5/	-19.4	-12.9	-4.2	-1.3	...	...	-14.5	-4.5	-14.8	-13.7
General government wage, and nonworking pensioners' pension arrears	0.0	0.0	0.0	0.0	...	...	0.0	0.0	0.0	0.0
Tax collection of the STC and SCC 1/ 5/ 6/	67.4	90.7	53.7	49.5	...	...	94.7	146.5	197.2	255.5
	(In millions of U.S. dollars)									
Floor on total net international reserves	-56.4	-50.2	-29.8 2/	-27.7	-26.7	-22.2	-45.9	-52.8	-37.3	-29.4
Ceiling on cumulative amount of non-concessional loans contracted or guaranteed: 7/	10.0	0.0	10.0	0.8	10.0	0.8	10.0	10.0	10.0	10.0
Sub-ceilings:										
With maturities of 1 to 5 years	10.0	0.0	10.0	0.8	10.0	0.8	10.0	10.0	10.0	10.0
With maturities of less than 1 year	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
New external payments arrears (continuous)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
2. Indicative targets										
	(In millions of somoni)									
Reserve money	96.1	108.1	97.6	117.9	100.2	107.0	97.5	111.5	118.1	126.2
Memorandum item:										
Accounting exchange rate (Sm/US\$)	1.900	1.900	1.900	1.900	1.900	1.900	1.900	2.400	2.400	2.400

Sources: Tajik authorities; and Fund staff estimates.

1/ The March 2001 performance criterion is as in EBS/00/206 while targets for end-June and end-September 2001 are based on actual data for the fourth quarter in 2000 and revised projections for 2001.

2/ The December 2000 targets for NIR, NDA, and net credit to government have been adjusted for the delay in the programmed repayment to the EU (of US\$8 million) and for the less than programmed disbursements from the AsDB (by US\$0.85 million) and the World Bank (by US\$0.5 million).

3/ Numbers are different from EBS/00/206 numbers due to reclassification of some balance sheet items.

4/ In October, the NBT wrote off Sm23.2 million in credit to the government in line with the agreement between the MOF and NBT on regularization of financial relations between these two organizations.

5/ Cumulative since April 1, 2000 up to end-September 2000; and, cumulative from October 1, 2000 afterwards.

6/ The performance criteria for end-December 2000 and end-March 2001 were mis-calculated due to a technical error and a waiver is being requested for end-December and a modification for end-March. The correct figure for end December 2000 is Sm48.7 million and the correct figure for end-March 2001 is Sm80.2 million.

7/ These limits exclude the extension of two government guarantees to the cotton sector totaling US\$83 million. These guarantees remained effective until end-1999, at which time the guarantees were called but not enforced as agreed between the government and the creditor. As of end-December 2000, the total outstanding government guaranteed debt amounted to US\$18.5 million (including accrued interest). The room remaining under the guarantee will not be used for any additional external borrowing.

## **Tajikistan: Structural Performance Criteria and Benchmarks for End-June and End-September 2001**

### **Continuous Performance Criteria**

The National Bank of Tajikistan will issue no directed credits.

### **Performance Criteria for end-June 2001**

Ensure that the agreement between the NBT and the MOF, including the issuance of long-term bonds and treasury bills and the payment of interest, is fully operational.

Submit to Parliament amendments to the existing law that will (1) eliminate the obligation of commercial banks to report automatically information on new deposits to the Tax Committee; (2) eliminate the 30 percent tax (specified in Government Resolution 583 dated November 29, 1993) on transfers from abroad; and (3) change the present practice such that the Tax Committee assesses the property tax on the fixed assets of the commercial banks instead of on the net worth of banks.

### **Structural Benchmarks**

#### **By end-June 2001**

Convert at least 60 state-owned farms cumulative since October 2000 into private farms by issuing marketable land use certificates and land share certificates.

Amend Article 104 of the Tax Code to prevent the tax authorities from conducting reviews of customer accounts while conducting corporate tax examinations of commercial banks.

Complete implementation of the pilot project to enhance expenditure commitment control.

Prepare, in consultation with the staff of the IMF and in line with Annex IV of the MEP of October 2000, a draft law on the Independent Audit Agency and submit it to Parliament.

Amend legislation to allow average foreign equity ownership of the banking system as a whole to increase to a maximum of 40 percent in 2001 and 50 percent in 2002.

Prepare, in consultation with the staff of the IMF, and approve a statute defining the responsibilities of the upgraded Land Reform Committee.



**By End-September 2001**

Complete an assessment of the bank restructuring agreements with the four banks and develop a strategy for either privatizing, merging or closing those banks that fail to make satisfactory progress toward achieving the minimum capital requirement or fail to meet the loan recovery targets specified in their respective restructuring agreements.

Convert at least 90 state-owned farms cumulative since October 2000 into private farms by issuing marketable land use certificates and land share certificates.

Implement expenditure commitment control measures in all ministries based on the findings of the pilot project.

## TAJIKISTAN: PERFORMANCE CRITERIA AND INDICATIVE TARGETS <sup>1</sup>

### I. QUARTERLY PERFORMANCE CRITERIA

#### 1. Fiscal deficit

Table 1. Floor on the Cumulative Overall Deficit of the General Government 1/

(In thousands of somoni)	
Cumulative deficit from end-September 2000 to:	
March 31, 2001 (performance criterion)	14,480
June 30, 2001 (performance criterion)	4,508
September 30, 2001 (indicative target)	14,830

1/ The March 2001 performance criterion is based on an accounting exchange rate of Sm1.9=US\$1 as in EBS/00/206 while targets for end-June and end-September 2001 are revised to reflect actual data for the fourth quarter of 2000 and revised projections for 2001.

#### Adjustors

Should the actual financing component of the Public Investment Program (PIP) exceed the programmed levels, these limits will be adjusted upwards by the corresponding amount up to a limit of Sm10 million. Thus far such financing is programmed at zero.

#### Definitions

The **general government** budget is defined to include the republican budget, local (including municipal) budgets, and all extrabudgetary funds at all levels of general government, including the social protection fund (SPF). The **overall cash deficit** of the general government is defined from the financing side as the sum of the following: (i) the increase in net claims on the general government from the NBT; (ii) the increase in net claims on the general government of the rest of the domestic banking system; (iii) the increase in net claims on the general government of domestic non-bank institutions and households, including payments to the Tajik Rail for its servicing the government's external debt; (iv) the use of proceeds from the privatization of state property; and (v) net foreign financing of the general government.

<sup>1</sup> Performance criteria and indicative targets are based on an accounting exchange rate of Sm2.4 = US\$1 unless otherwise indicated.

(i) Net claims of the NBT on the general government are defined as all claims of the NBT on the general government (including holdings of government securities), less claims on the government as regard bank restructuring, and all deposits of the general government with the NBT, excluding counterpart deposits of loans received from the World Bank and from other official creditors, and privatization account where proceeds from the privatization state property is held.

(ii) Net claims on the general government of the rest of the domestic banking system are defined to comprise (i) the net asset position arising from operating balances and current accounts of the general government with domestic commercial banks; and (ii) the net position of the general government in regard with 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 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 external debt to Uzbekistan.

(iv) Proceeds from the privatization of state property, which are kept in a separate account with the NBT, are defined as all net receipts originating from the sale of state property.

(v) Net foreign financing of the general government is defined as the difference between gross disbursements of foreign financing and amortization of government debt to foreign financial and nonfinancial institutions, plus the change in the stock of government counterpart deposits with the NBT during the period. Foreign financing of the general government is defined as the increase in claims on the general government of foreign financial and nonfinancial institutions, excluding the IMF, and including but not limited to loans received for balance of payments support from the World Bank's Structural Adjustment Credit and the Asian Development Bank's Post-Conflict Infrastructure Program Loan.

The augmented deficit of the general government is defined from the financing side as the sum of the same items as in the definition of the overall cash deficit of the general government plus the counterparts (-) to increases in net credits or net claims on the general government from the NBT or commercial banks as a result of the resolution of the bad loans problem under the bank restructuring program. These counterparts consist of the full value of the loans taken over by the government.

Monthly data on net claims of the domestic banking system on the general government are taken from the balance sheets of the NBT and commercial banks. The Ministry of Finance shall provide information on, and confirm the amounts of general government deposits held

abroad, disbursements of foreign loans to the general government, net sales of treasury bills and other securities, borrowing from the nonbank sector, as well as gross receipts and expenditures of the central government privatization account. It shall furthermore provide detailed monthly data on (i) revenues, expenditures and lending operations of the state and local budgets, as well as all budgetary and extrabudgetary funds; (ii) quasi-fiscal operations; (iii) estimates of the outstanding stock of wage and pension and all other domestic expenditure arrears; and (iv) estimates of the outstanding stock of tax and other revenue arrears to the general government.

The cumulative net foreign financing projected for the program period is as follows:

Table 2. Projected Net Foreign Financing of the Budget 1/

	(In thousands of somoni)
Cumulative from end-September 2000 to:	
March 31, 2001	10,641
June 30, 2001	-3,535
September 30, 2001	5,017

1/ The end-March 2001 target is based on an accounting exchange rate of Sm1.9=US\$1 as in EBS/00/206 while targets for end-June and end-September 2001 are revised to reflect actual data for the fourth quarter of 2000 and revised projections for 2001.

**2. Minimum Levels of Tax Collection of the State Tax and State Customs Committees 1/**

Table 3. Floors on the Tax Collection of the STC and SCC

	(In thousands of somoni)
Cumulative revenues from end-September 2000 to:	
March 31, 2001 (performance criterion)	80,158
June 30, 2001 (performance criterion)	146,547
September 30, 2001 (indicative target)	197,244

1/ The end-March 2001 performance criterion is based on an accounting exchange rate of Sm1.9=US\$1 as in EBS/00/206. The target has been modified to correct the mistake in the calculation of the target in EBS/00/206. The end-June and end-September 2001 targets are based on actual data for the fourth quarter of 2000 and revised projections for 2001.

**Definitions**

Tax collection of the State Tax Committee (STC) and State Customs Committee (SCC) include all taxes collected by the STC and SCC. Excluded from the definition of tax collection of STC and SCC are the following: any tax offsets, in-kind payments, sales taxes on cotton and aluminum exports, taxes, charges, and fees collected by the Social Protection Fund, 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.

**II. Targets for Monetary Aggregates**

**1. Limits on the Stock of Net Domestic Assets of the NBT**

Table 4. Ceilings on the Stock of Net Domestic Assets of the NBT

	(In millions of somoni)
March 31, 2001 (performance criterion) 1/	184.7
June 30, 2001 (performance criterion)	238.3
September 30, 2001 (indicative target)	207.7

1/ The March 2001 performance criterion is based on an accounting exchange rate of Sm1.9=US\$1 as in ESB/00/206 while end-June and end-September numbers are revised to reflect actual data for the fourth quarter of 2000 and revised projections for 2001 based on an accounting exchange rate of Sm2.4=US\$1.

**Adjustors**

The limits will be adjusted downward by 100 percent of the amount by which actual net foreign financing of the budget exceeds the amount programmed for (i) debt repayments and (ii) disbursement of external loans for balance of payments support, including but not limited to the World Bank’s Structural Adjustment Credit and the Asian Development Bank’s Post-Conflict Infrastructure Program Loan. In the event of a shortfall of net foreign financing, the limits will be adjusted upward, but by no more than the Somoni equivalent value of US\$10 million.

**Definitions**

**Net domestic assets 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 non-government non-banks with the NBT. Net foreign assets of

the NBT comprise net international reserves in convertible currencies. The NBT's net domestic assets comprises the following assets and liabilities: net credit to the general government (excluding counterpart funds), counterpart deposits of the World Bank, AsDB, EU and other official creditors (-), privatization account (-), claims on the government with regard to bank restructuring, claims on banks, credit to the economy, and *other items net* (OIN). OIN includes, *inter alia*, the foreign exchange re-valuation and capital accounts of the NBT.

## 2. Limits on the NBT's Net Credit to General Government<sup>2</sup>

Table 5. Ceiling on the NBT's Net Credit to General Government

	(In millions of somoni)
March 31, 2001 (performance criterion) 1/	142.0
June 30, 2001 (performance criterion)	119.6
September 30, 2001 (indicative target)	121.3

1/ The performance criterion for end-March 2001 is based on an accounting exchange rate of Sm1.9=US\$1. Targets for end-June and end-September 2001 are revised to reflect actual data for the fourth quarter of 2000 and revised projection for 2001.

### Adjustors

The limits will be adjusted upward by 100 percent of the amount by which actual net foreign financing of the budget falls short of the amount programmed for (i) debt repayments and (ii) disbursements of external loans for balance of payments support, including but not limited to the World Bank's Structural Adjustment credit and the Asian Development Bank's Post-Conflict Infrastructure Program Loan, up to an amount the lower of (i) the programmed use of net external financing for the budget as listed in section I.1, or (ii) the equivalent value of US\$10 million. The limits will be adjusted downward for any write-off of government debt to the NBT.

### Definitions

Net credit from the NBT to the general government is defined in section I.1 above.

<sup>2</sup> The change in net credit to general government in the NBT balance sheet may differ from the amount of NBT credit to the general government shown in the fiscal accounts as the NBT balance sheet revalues the stocks of the net general government according to the program exchange rate.

### 3. Net international reserves

Table 6. Floors Under the Stocks of Net Official International Reserves of the NBT in Convertible Currencies 1/

	(In millions of U.S. dollars)
March 31, 2001 (performance criterion)	-45.9
June 30, 2001 (performance criterion)	-52.8
September 30, 2001 (indicative target)	-37.3

1/ The March 2001 performance criterion is as in EBS/00/206 while targets for end-June and end-September are revised to reflect actual data in the fourth quarter of 2000 and revised projections for 2001.

#### *Adjustors*

The limits will be adjusted upward by 100 percent of the amount by which actual net foreign financing of the budget exceeds the amount programmed for (i) debt repayments and (ii) disbursements of external loans for balance of payments support, including but not limited to the World Bank's Structural Adjustment Credit and the Asian Development Bank's Post-Conflict Infrastructure Program Loan. In the event of a shortfall of net foreign financing, the limits will be adjusted downward, but by no more than US\$10 million.

#### *Definitions*

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 as the NBT's holdings of monetary gold, holdings of SDRs, any reserve position in the IMF, holdings of convertible currencies in cash or in nonresident banks that are readily available. Also included are holdings of foreign currency-denominated securities issued by governments or central banks of OECD member states. Excluded are capital subscriptions in foreign financial institutions, non-liquid assets of the NBT (with maturity beyond one year), convertible currency denominated claims on domestic banks and other residents (if the NBT does not have control over use of these resources), assets in non-convertible currencies, and foreign assets pledged as collateral or otherwise encumbered. *Reserve liabilities* of the NBT are defined as outstanding IMF credit, and liabilities of the NBT to nonresidents with an original maturity of up to and including one year, that are public or publicly guaranteed.

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. Official gold holdings shall be valued at US\$265 per troy ounce.

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 measured herein).

### III. Limits on External Debt and Arrears

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

Table 7. Limits on Public and Publicly Guaranteed External Debt

	Cumulative net disbursements	Cumulative contracting and guaranteeing of external debt	
	(In millions of U.S. dollars)		
	0-1 year Maturity	1-5 year Maturity	Total
During the period from end-September 2000 to:			
March 31, 2001	0	10	10
June 30, 2001	0	10	10
September 30, 2001	0	10	10

#### *Definitions*

The ceilings specified in Table 7 shall apply exclusively to external debt to the EBRD in the amount of US\$9.2 million and to other creditors in the amount of US\$0.8 million. No other non-concessional external debt is permitted. The contracting or guaranteeing of external debt by the government of Tajikistan, the NBT, or any other agency acting on behalf of the government, is understood to mean a current, i.e., not contingent, liability, created under a contractual arrangement 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. Included are also commitments contracted or guaranteed for which value has not been received. 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 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., under which property is provided the lessee has the right to use one or more specified periods 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 program, 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.

Under the definition of debt 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 will not give rise to debt. Excluded from this performance criterion are two government guarantees extended to the cotton sector totaling US\$83 million which remained effective until end-1999, when the guarantees were called but not enforced as agreed between the government and CSFB. As of end-2000, the total outstanding government guaranteed debt amounted to US\$18.5 million. The room remaining under extended guarantee will not be used for any additional external borrowing.

External debt limits apply to the **net disbursement of short term external debt** (with an original maturity of up to and including one year); **and contracting or guaranteeing of nonconcessional medium- and long-term external debt** (with original maturities of more than one year) with sublimits on the contracting and/or guaranteeing of such debt with maturities of up to and including five years.

Short-term debt includes all short-term obligations excluding the reserve liabilities of the NBT, as defined in section II.3 above and import credits. Debt denominated in currencies other than the U.S. dollar shall be valued in U.S. dollars at the exchange rate prevailing at the time of disbursement. Net disbursements of short-term external debt are defined as net changes in the stock of such debt, i.e., disbursements of new short-term obligations minus any amortization of existing obligations.

The medium- and long-term debt includes all loans with maturities more than one year. Debt falling within these 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 of contracting or guaranteeing takes place or at the exchange rate stipulated in the contract.

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 loan in the event of nonpayment by the recipient (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 loan recipient.

Concessionality will be based on currency-specific discount rates based on the OECD commercial interest reference rates (CIRRs). For loans of a maturity of an original maturity of at least 15 years, the average of CIRRs over the last 10 years will be used as the discount rate

for assessing the concessionality of these loans, while the average of CIRRs of the preceding six-month period will be used to assess the concessionality of loans 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 20-30 years; and 1.25 percent for over 30 years. Under this definition of concessionality, only loans with grant element equivalent to 35 percent or more will be excluded from the borrowing limits. The debt limits will not apply to loans classified as international reserve liabilities of the NBT, or to loans contracted for debt rescheduling or refinancing.

#### **IV. CONTINUOUS PERFORMANCE CRITERIA**

##### **1. Continuous performance criterion on new directed credits by the NBT**

The NBT will not issue any directed credits. This performance criterion will be monitored on the basis of changes in the NBT's balance sheets supported by the NBT's regular reporting on the results of its credit auctions, including interest rates, and amounts bid and received.

##### **2. Continuous performance criterion relating to external arrears**

No new external arrears shall be accumulated at any time under the arrangement. External 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.

##### **3. Continuous performance criterion relating to exchange and payments arrangements**

For the duration of the arrangement, the Republic of Tajikistan will not: (i) impose or intensify restrictions on the making of payments and transfers for current international transactions; (ii) introduce or modify multiple currency practices; (iii) conclude bilateral payments agreements which are inconsistent with Article VIII of the IMF's Articles of Agreement; or (iv) impose or intensify import restrictions for balance of payments reasons.

##### **4. Continuous performance criterion relating to expenditure arrears of the republican (central) budget and of the Social Protection Fund**

No new arrears of the republican budget on wages and of the Social Protection Fund on transfer payments to its regional offices shall be accumulated at any time under the arrangement.

For purposes of the performance criterion, expenditure arrears shall be defined as any shortfall in monthly disbursements on wages and in transfers from the Social Protection Fund to its regional offices related to the planned payments. A monthly disbursement plan will be

presented to the Fund staff by the 15<sup>th</sup> day of the month preceding the month of actual wage and pension payments.

To permit monitoring as defined above, the government will provide data on actual wage payments and on transfers from the Social Protection Fund to its regional offices to the IMF staff in the form of treasury reports and statements from the Social Protection Fund on a monthly basis no later than 14 days after the end of each month.

## V. QUARTERLY INDICATIVE TARGETS

### 1. Reserve money

Table 8. Indicative Limits on the Stock of Reserve Money of the NBT

	(In millions of somoni )
March 31, 2001 (indicative target) 1/	97.5
June 30, 2001 (indicative target)	111.5
September 30, 2001 (indicative target)	118.1

1/ The end-March 2001 target is based on an accounting exchange rate of Sm1.9=US\$1 as in EBS/00/206 while targets for end-June and end-September are revised to reflect actual data in the fourth quarter of 2000 and revised projections for 2001 based on an accounting exchange rate of Sm2.4=US\$1.

### *Definition*

Somoni reserve money of the NBT 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. Deposits of the general government are excluded from reserve money, but are included under NDA. 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.



INTERNATIONAL MONETARY FUND

*Public Information Notice*

EXTERNAL  
RELATIONS  
DEPARTMENT

Public Information Notice (PIN) No. 01/39  
FOR IMMEDIATE RELEASE  
April 24, 2001

International Monetary Fund  
700 19<sup>th</sup> Street, NW  
Washington, D. C. 20431 USA

**IMF Concludes Article IV Consultation with  
the Republic of Tajikistan**

On April 12, 2001, the Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation with the Republic of Tajikistan.<sup>1</sup>

**Background**

Tajikistan's real GDP growth accelerated to 8.3 percent during 2000, compared with 3.7 percent in 1999. This growth was based largely on strong agricultural and industrial production, and occurred despite a drought that hampered both electricity generation and the output of non-irrigated crops (mainly grain), and disruptions in regional trade. Efforts to stabilize the macroeconomic situation were hindered by a surge in inflation in the latter part of the year, due to slippages in monetary policy, external factors, and the uncertainty surrounding the introduction of the new currency, the somoni.<sup>2</sup> The current account deteriorated during 2000, largely because of strong domestic demand, the drought, and higher petroleum prices.

More recently, there have been signs that efforts to stabilize the economy are paying off. Inflation moderated, with consumer prices rising by 5 percent during the first quarter of this year, compared with 17 percent in the last three months of 2000. At the same time,

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<sup>1</sup> Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. A staff team visits the country, collects economic and financial information, and discusses with officials the country's economic developments and policies. On return to headquarters, the staff prepares a report, which forms the basis for discussion by the Executive Board. At the conclusion of the discussion, the Managing Director, as Chairman of the Board, summarizes the views of Executive Directors, and this summary is transmitted to the country's authorities. This PIN summarizes the views of the Executive Board as expressed during the April 12, 2001 Executive Board discussion based on the staff report.

<sup>2</sup> On October 30, 2000, the Somoni (Sm) replaced the Tajik Ruble (TR) at an exchange rate of SM1= TR 1,000.

the nominal exchange rate has remained broadly stable since last November and the spread between the official and curb market levels have decreased slightly.

With regard to structural reform, progress was uneven during the past year. On the one hand, progress was achieved in improving tax administration and with extending the coverage of the treasury system; both important measures, given the need for fiscal consolidation. On the other hand, the privatization and restructuring of agricultural enterprises slowed significantly in the second half of 2000. Moreover, while there was some progress in dealing with the problems in the banking sector, however, the banking sector remains weak, especially as regard compliance with minimum capital requirements.

Recently, the authorities established an auditing agency, issued its interim charter, and appointed an Auditor General. The authorities are currently preparing draft legislation that will define the responsibilities and authority of the auditing agency, including a provision to disseminate the agency's findings to the public and parliament.

Tajikistan became a member of the Fund in 1993, and since then has had a number of Fund-supported programs. A three-year Poverty Reduction and Growth Facility (PRGF) arrangement was approved on June 24, 1998, in support of the authorities macroeconomic and structural adjustment program. In October 2000 the second year of the PRGF was approved by the Fund's Executive Board, and on April 12, 2000, the first (quarterly) review of that program was completed.

### **Executive Board Assessment**

Directors welcomed the strong GDP growth in 2000, despite the drought and an increase in world petroleum prices. However, they noted that significant policy slippages had moved the Fund-supported program off track, and led to inflation being significantly higher than expected in 2000. Directors, however, were encouraged by the authorities corrective efforts which brought the program back on track. Directors were especially concerned about Tajikistan's heavy external debt and its difficult economic and financial outlook. They stressed the urgent need for consistent implementation of prudent fiscal and monetary policies, as well as for an acceleration of structural reforms so as to promote macroeconomic stability and sustainable economic growth, and to reduce poverty.

Directors commended the authorities for their expenditure restraint and the resulting strong fiscal performance in the fourth quarter of 2000 and urged them to continue this restraint without accumulating expenditure arrears. They also stressed that the efficiency and equity of tax administration needs to be improved to increase revenue collection as a share of GDP. Further development of the treasury would also strengthen expenditure control, and promote accountability.

Directors noted the importance of enhancing the transparency of the budget process and welcomed the establishment of the auditing agency and encouraged the authorities to make the agency fully operational as soon as possible.

Directors encouraged the authorities to maintain a prudent monetary stance, to stabilize prices, and restore confidence in the currency. To this end, they urged the authorities to adhere strictly to program targets and to employ a broader mix of monetary policy instruments to control inflation, including, in particular greater, reliance on sales of Treasury bills and NBT notes. They urged the National Bank of Tajikistan (NBT) to ensure that interest rates are positive in real terms. In commending the authorities for not having recourse to directed credits, Directors called for strengthening the independence of the Central Bank in order to minimize such pressures on the NBT.

Directors commended the authorities for their progress with privatization and urged them to begin privatizing the remaining large public enterprises. However, they regretted the uneven implementation of structural reforms. While noting progress with restructuring the four largest commercial banks, improving bank supervision, and removing distortions that compromised the operating environment for banks, they stressed that these measures constituted preliminary steps and should be extended and intensified. Directors also urged the authorities to intensify agricultural reforms, improve the general business environment, and strengthen governance.

Directors noted with concern the severity of Tajikistan's external debt problems and the challenges it poses for macroeconomic policies. They encouraged the authorities to intensify their efforts to resolve outstanding bilateral debt issues, and to develop an appropriate strategy for managing the external debt. To warrant international support, the main tenets should be consistent implementation of an ambitious stabilization and structural reform program over the next several years aimed at promoting sustainable economic growth while alleviating poverty. Directors pointed out that fiscal consolidation, the use of privatization proceeds to reduce debt, and renegotiation of nonconcessional bilateral loans should be key elements of this strategy. They look forward also to the May meeting of the Consultative Group. Directors noted that the authorities' adjustment efforts might need to be supported by debt restructuring, and grants or loans on highly concessional terms from the international community. In this respect, all future public sector borrowing should be on concessional terms and the authorities should seek to reschedule all recent nonconcessional loans on more favorable terms.

**Public Information Notices (PINs)** are issued, (i) at the request of a member country, following the conclusion of the Article IV consultation for countries seeking to make known the views of the IMF to the public. This action is intended to strengthen IMF surveillance over the economic policies of member countries by increasing the transparency of the IMF's assessment of these policies; and (ii) following policy discussions in the Executive Board at the decision of the Board.

### Tajikistan: Selected Economic Indicators

	1997	1998	1999	2000
(Annual percentage change)				
<b>Production and prices</b>				
Real GDP	1.7	5.3	3.7	8.3
CPI (e.o.p.)	163.6	2.7	31.3	60.6
<b>Monetary indicators</b>				
Reserve money	193.5	4.9	20.0	45.4
Somoni broad money	117.2	14.8	29.2	48.6
Velocity 1/	18.9	21.1	22.4	22.3
(In percent of GDP)				
<b>General government</b>				
Revenue	13.7	12.0	13.5	13.6
Expenditure	17.0	15.8	16.6	14.2
Cash balance 2/	-3.3	-3.8	-3.1	-0.6
(Somoni per U.S. dollar, e.o.p.)				
<b>Exchange rate</b>				
Official	0.75	0.98	1.44	2.20
Curb market	0.82	1.19	1.67	2.52
(In millions of U.S. dollars, unless otherwise specified)				
<b>External sector</b>				
Exports of goods	746	586	666	792
Imports of goods	-806	-725	-693	-839
Current account	-61	-120	-36	-61
In percent of GDP	-6.0	-9.2	-3.4	-6.4
Gross international reserves	30	65	58	87
In months of imports 3/	0.6	1.5	1.7	2.4

Sources: Tajik authorities; and Fund staff estimates.

1/ Nominal GDP divided by average somoni broad money.

2/ Includes grants.

3/ Imports of goods and services excluding alumina and electricity.

**NEWS  BRIEF**

**FOR IMMEDIATE RELEASE**

News Brief No. 01/35  
FOR IMMEDIATE RELEASE  
April 12, 2001

International Monetary Fund  
700 19th Street, NW  
Washington, D. C. 20431 USA

**IMF Concludes First Review of Tajikistan's  
Third Annual PRGF Program**

The Executive Board of the International Monetary Fund (IMF) today concluded the first review for Tajikistan under the third annual arrangement of the Poverty Reduction and Growth Facility (PRGF). Following today's review, Tajikistan will be able to draw an amount equivalent to SDR 6.0 million (about US\$8 million) from the program.

Tajikistan's three-year program, originally supported under ESAF, was first approved on June 24, 1998 (see Press Release No. 98/25), in an amount equivalent to SDR 96 million (about US\$122 million), which was increased in December 1998 to an amount equivalent to SDR 100.3 million (about US\$127 million), of which an amount equivalent to SDR 66.28 million (about US\$84 million) has been disbursed.

In commenting on the Executive Board's discussion, Eduardo Aninat, Deputy Managing Director, said:

"Strong GDP growth was recorded in 2000, but inflation spiked during the latter part of the year. While significant policy slippages had caused the Fund-supported program to go off track, the authorities were able to effect the necessary corrective measures to bring the program back on track. Looking ahead, emphasis will need to be placed on achieving greater efficiency and equity of tax administration to strengthen fiscal institutions, and revenue collections. In addition, expenditure restraint will have to continue to avoid Tajikistan from accumulating further arrears. In this connection, a fully operational treasury to strengthen expenditure control, and to promote accountability, would be important.



“Progress has been achieved with structural reforms, but effective and extensive structural reforms in the areas of agriculture, the general business environment, and governance will be crucial to the success of the stabilization and growth efforts moving forward.

“Tajikistan’s external debt problems and the uncertain prospects for achieving debt sustainability in the near term remain substantial. To attract international support in tackling the external debt problem, Tajikistan should rely on consistent implementation of an ambitious stabilization and structural reform program combined with fiscal consolidation, the use of privatization proceeds to reduce debt, and renegotiation of non-concessional bilateral loans.

“The completion of the Interim Poverty Reduction Strategy Paper (I-PRSP) and the progress to date on the full PRSP are welcome. The authorities are encouraged to ensure that the proposals in the PRSP are realistic and consistent with the medium-term fiscal framework, as well as with efforts to achieve a sustainable external debt burden,” Mr. Aninat said.

**Statement by Roberto F. Cippà, Executive Director and Svetlana Sharipova, Assistant  
for the Republic of Tajikistan  
April 12, 2001**

Tajikistan has continued to face a challenging environment for the implementation of its economic reform program. On the one hand, external factors have negatively impacted economic performance. Adverse climatic conditions have severely effected the rain-fed wheat production and the electricity sector. Also, high prices for imported petroleum products have exerted significant pressure on the inflation rate. On the other hand, like in most countries, the authorities are facing various degrees of resistance regarding the ambitious structural reform program.

The very candid staff report underscores that, notwithstanding these challenges, the macroeconomic performance and program implementation has been quite satisfactory. Thanks to increased industrial production, led by the aluminum sector, and strong growth in the agricultural sector not affected by the draught, economic growth increased to more than 8 percent during 2000. The authorities achieved nearly complete compliance with the quantitative performance criteria set for end-December 2000. With only one target missed and over performance in the crucial tax revenue area, my Tajik authorities have shown their commitment to implementing the Fund-supported program. This commitment was further underscored by the rapid reaction to the slippage in monetary policy, which has allowed the missed net domestic assets (NDA) target of end-December 2000 to be met by end-January 2001.

### **Monetary Policy**

Our Tajik authorities recognize that the implementation of a strict monetary policy remains a precondition for the stability of prices and the nominal exchange rate. They share the staff's concern regarding the significantly higher-than-expected inflation in the last quarter of 2000, with the consumer price index increasing cumulatively by about 21 percent during October-November. They attribute this rise in prices to uncertainties associated with their otherwise successful currency reform introducing the Somoni, external factors such as significant increase in world energy prices, as well as the regrettable setback in controlling liquidity. Regarding the latter point, as pointed out by staff, the National Bank of Tajikistan (NBT) is constrained by institutional weaknesses in its implementation of monetary policy. The limited range of instruments to control liquidity and the difficulties to recover directed credits significantly complicates the task of the NBT.

As already noted, the authorities reacted rapidly to correct the slippage that occurred during the last quarter of 2000. The NBT substantially improved its efforts to collect loans from the cotton sector and Tajik rail. Furthermore, a significant build-up of government deposits at the NBT was achieved by a cautious stance in the execution of the 2001 budget and strong tax revenue collection.

Looking forward, our Tajik authorities intend to sustain the substantial tightening of monetary conditions achieved in January and February as part of their strategy to restore price stability consistent with their commitments under the program. They also plan to make a better use of interest rates as a tool of monetary policy. Our authorities are also conscious of the major risks of the liquidity increase in the months ahead, as the MOF is expected to draw on its deposits with the NBT as part of the execution of the budget. Although they believe that the strong performance of the budget thus far in 2001 should limit the size of this draw down, they think that the NBT will need to contain the expansion of reserve money and offset the impact on net domestic assets of the NBT. Necessary measures would include further loan collection, as well as the sale of NBT certificates of deposits and treasury bills.

### **Fiscal Policy**

Strict adherence to expenditure targets and strong tax revenue performance resulted in a lower-than-targeted deficit in the last quarter of 2000. Our authorities note that the continuing strong revenue collection since the beginning of the year is also expected to allow an over performance as regards the programmed budget deficit for the first quarter of 2001. However, the authorities are well aware of the necessity to further increase revenue performance in order not to compromise the ability to allocate sufficient resources for future investment and social spending. Efforts to increase the coverage of VAT and generally improving the efficiency of tax administration will continue.

Consistent with the revised stabilization targets, our authorities will not change the overall nominal cash deficit in 2001 from the one included in the budget law of December 8, 2000. Estimates of tax revenue and expenditures have been revised to reflect the higher than expected inflation in the latter part of 2000 and the nominal depreciation of the exchange rate.

### **Financial Sector Reform**

The bank restructuring agreements between the NBT and the four largest commercial banks signed in May 2000 are under implementation. The banks have shown various degrees of progress in the areas of profitability, transparency, and recovery of non-performing loans. Our authorities consider that although the banks' planning expertise continues to evolve, it still needs improvement. With regard to overcoming weaknesses in the operational and financial management of banks, the heads of two major banks, namely Orienbank and Agroinvestbank have recently been replaced. Our authorities believe that reforms in the financial sector will not be efficient without an appropriate regulatory framework. With this in mind, they intend to improve the regulatory environment for commercial banks through amendments to the existing banking legislation and the tax code. Our authorities have recently taken steps to improve the efficiency of the interbank foreign exchange market, which resulted in the elimination of the gap between the interbank and official exchange rates. Furthermore, the gap between the official and street exchange rates has been reduced. Steps are also being taken to strengthen the operations of the interbank

foreign exchange market by improving the flow of information, including the reporting requirements of banks.

### **Governance Reform and Other Structural Reforms**

Our Tajik authorities understand that effective reforms will not be achieved without improvement in the quality of governance. An important step has been taken with the Presidential decree issued in January 2001, which establishes an audit agency. In consultation with the staff of the IMF, our authorities intend to draft a law on the audit agency. In this regard, they count on the Fund's technical assistance. Once drafted, this law would be submitted to parliament and our authorities will seek its adoption no later than end-June 2001. They also intend this law to include provisions for transmitting reports of the audit agency to parliament and to be consistent with Annex IV of MEP of October 2000.

The authorities recognize the delays that have occurred in implementing structural reforms. They remain fully committed to continue their economic adjustment efforts and to bring the pace of implementation of structural reforms back on track in order to enhance their positive impact on the economy. An important element of this effort is progress in farm restructuring. Implementation has slowed because of the limited capacity of the Land Reform Committee and the increased interference from the local officials. This is particularly true for the managers of the state farms that are being restructured. Our Tajik authorities have announced the restructuring of an additional 120 state-owned and privately operated farms by end-December 2001. Although this benchmark was missed in December, the authorities agreed to an upward adjustment in the remaining quarterly benchmarks under the program. They are strongly committed to deepening the reforms in this area by dividing existing state farms into individual units reflecting the farmers land access rights as represented by a "land share certificate". Further steps taken by the authorities to improve the land reform include the upgrading of the status and enhancing the responsibility of the Land Reform Committee. In consultation with the IMF, the authorities intend to prepare a draft statute outlining the enhanced responsibilities of the upgraded agency. This statute should be approved no later than end-June 2001. They also aim at eliminating the backlog of undistributed land share certificates no later than end-July 2001.

### **External Debt**

Our Tajik authorities fully recognize the seriousness of their external debt situation. Although in the staff paper on low-income CIS countries discussed early March Tajikistan in many respects compared favorably with the situation in the other countries, fiscal sustainability is the crucial problem. With NPV of debt to fiscal revenues presently at close to 400 percent, i.e. well above the threshold of 250 percent considered sustainable under the HIPC Initiative, and decreasing only slowly with time, debt service is unduly constraining fiscal policy. This year debt service due is projected to absorb 54 percent of fiscal revenues. This is clearly unsustainable. Although staff projections indicate that fiscal sustainability could be achieved in the medium term, they also point out the large uncertainties surrounding these projections. One of the main conclusions of the Board discussion on low-income CIS

countries was that the macroeconomic assumptions underlying the programs have been too optimistic. My authorities are convinced that the current assumptions used in the baseline scenario are achievable, however, exogenous shocks cannot be ruled out. In this vein, while mindful that maintaining macroeconomic stability and fostering high-quality growth through intensification of structural reforms as the central element of reducing the future debt burden, our authorities will continue their efforts to secure debt relief through debt restructuring with their major creditors on internationally accepted terms. Our authorities look forward to having an in-depth discussion on a sustainable debt reduction strategy with staff at the time of the next mission. An important aspect of this strategy will be to find a way to ensure that Tajikistan is treated equitably by all creditors.

In conclusion, our Tajik authorities would like to thank the Fund's staff and management for their continued assistance of Tajikistan's economic reform program.