

Republic of Tajikistan: First Review Under the Three-Year Arrangement Under the Poverty Reduction and Growth Facility and Request for Modification and Waivers of Performance Criteria—Staff Report; Staff Statement; Press Release on the Executive Board Discussion; and Statement by the Executive Director for the Republic of Tajikistan

In the context of the first review under the three-year arrangement under the Poverty Reduction and Growth Facility and request for modification and waivers of performance criteria, the following documents have been released and are included in this package:

- the staff report for the first review under the three-year arrangement under the Poverty Reduction and Growth Facility and request for modification and waivers of performance Criteria, prepared by a staff team of the IMF, following discussions that ended on **May 9, 2003**, with the officials of the Republic of Tajikistan on economic developments and policies. **Based on information available at the time of these discussions, the staff report was completed on June 30, 2003.** The views expressed in the staff report are those of the staff team and do not necessarily reflect the views of the Executive Board of the IMF.
- a staff statement of **July 16, 2003** updating information on recent developments.
- a Press Release summarizing the **views of the Executive Board as expressed during its July 18, 2003 discussion** of the staff report that completed the review.
- a statement by the Executive Director for the Republic of Tajikistan.

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

Letter of Intent sent to the IMF by the authorities of the Republic of Tajikistan*
Memorandum of Economic and Financial Policies by the authorities of the Republic of Tajikistan*
Technical Memorandum of Understanding

*May also be included in Staff Report

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

To assist the IMF in evaluating the publication policy, reader comments are invited and may be sent by e-mail to publicationpolicy@imf.org.

Copies of this report are available to the public from

International Monetary Fund • Publication Services
700 19th Street, N.W. • Washington, D.C. 20431
Telephone: (202) 623-7430 • Telefax: (202) 623-7201
E-mail: publications@imf.org Internet: <http://www.imf.org>

Price: \$15.00 a copy

**International Monetary Fund
Washington, D.C.**

INTERNATIONAL MONETARY FUND

REPUBLIC OF TAJIKISTAN

**First Review Under the Three-Year Arrangement
Under the Poverty Reduction and Growth Facility, and Request for Modification
and Waivers of Performance Criteria**

Prepared by the European II and Policy Development and Review Departments

Approved by Jose Fajgenbaum and Michael Hadjimichael

June 30, 2003

Contents	Page
Basic Data	3
Executive Summary	4
I. Introduction.....	5
II. Recent Economic Developments and Performance under the Program.....	6
III. Policy Discussions.....	11
A. Macroeconomic Outlook.....	11
B. Fiscal Policy	11
C. Monetary and Exchange Rate Policies	13
D. External Policies and Debt Management	14
E. Structural Reform	15
F. Program Monitoring	16
IV. Staff Appraisal	18
Text Boxes	
1. Growth and Inflation Performance in the CIS-7 Countries, 1998–2002	6
2. Recent Inflation Developments.....	6
3. Revised Structural Performance Criteria and Benchmarks for the period April-September 2003	17
Tables	
1a. Selected Economic Indicators, 2000–2003	20
1b. Basic Social Indicators, 1970–2001	21

2a.	General Government Operations, 2001–2003 (In million of somoni).....	22
2b.	General Government Operations, 2001–2003 (In percent of GDP).....	23
3.	Functional Classification of General Government Finances, 2000–2006	24
4.	Accounts of the National Bank of Tajikistan, 2001–2003.....	25
5.	Monetary Survey, 2001–2003.....	26
6.	Balance of Payments, 2001–2003.....	27
7.	Balance of Payments, 2001–2010.....	28
8.	Medium-Term Projections, 2000–2006.....	29
9.	Fund Position During the Period of the PRGF Arrangement, October 2002–September 2005.....	30

Figures

1.	Broad Money Growth, Quarterly Velocity and Money Multiplier, 1999–2003	7
2.	Macroeconomic Adjustment in CIS-7 countries from 1998/99 to 2001/02.....	8
3.	Indicators of International Competitiveness, 1999–2003	8
4.	Overall Fiscal Balance, Expenditures, and Tax Revenue, 1998–2003	9

Appendices

I.	Fund Relations	31
II.	Relations with the World Bank.....	36
III.	Relations with the Asian Development Bank.....	43
IV.	Statistical Issues.....	44

Attachments

I.	Letter of Intent.....	48
II.	Supplemental Memorandum of Economic and Financial Policies for the Period April 1 to September 30, 2002 Supported Under the Poverty Reduction and Growth Facility.....	50

Annexes

I.	Quantitative Performance Criteria for the First Annual Program Under the PRGF Arrangement, October 2002–March 2003	55
II.	Structural Performance Criteria and Benchmarks for the First Annual Program Under the PRGF Arrangement, December 2002–March 2003	56
III.	Quantitative Performance Criteria for the Second Review of the First Annual Program Under the PRGF Arrangement, April–September 2003	57
IV.	Prior Action, Structural Performance Criteria and Benchmarks for the Second Review of the First Annual Program Under the PRGF Arrangement, April–September 2003	58
V.	Technical Memorandum of Understanding for the PRGF Arrangement 2003–2005.....	59

Tajikistan: Basic Data, 1996–2002

Physical and social indicators (2000)								
Area	143,100 km ²							
Arable land	7,155 km ²							
Population (in thousand)	6,376							
Rate of population growth (in percent)	2.0							
Life expectancy at birth (in years)	69							
Infant mortality (per thousand live births)	21							
Birth rate, crude (per thousand people)	19							
Death rate, crude (per thousand people)	5							
Fertility rate (in births per woman)	3.1							
Age dependency ratio (in percent)	0.8							
Rural population (in percent of population)	72.0							
Urban population (in percent of population)	28.0							
		1996	1997	1998	1999	2000	2001	2002
Nominal GDP (in millions of somoni)	309	632	1,025	1,345	1,807	2,512	3,345	
Real GDP growth (in percent)	-4.4	1.7	5.3	3.7	8.3	10.2	9.1	
Inflation (in percent, end of period)	40.5	163.6	2.7	30.1	60.6	12.5	14.5	
Inflation (in percent, average)	418.3	88.0	43.2	27.5	32.9	38.6	12.2	
		(In percent of GDP; unless otherwise specified)						
Sectoral distribution of GDP								
Agriculture	36.0	27.1	24.9	25.4	27.0	26.7	22.0	
Industry	25.7	19.7	20.1	21.7	23.9	22.6	18.7	
Trade	14.6	10.2	22.1	19.7	18.3	19.3	19.4	
Construction	2.6	2.1	3.9	5.4	3.4	4.1	2.6	
Other	21.1	40.9	29.0	27.8	27.5	27.4	37.3	
Balance of payments								
Current account balance	-7.3	-5.2	-8.3	-3.4	-6.5	-7.1	-2.8	
Gross official reserves (in months of imports) 1/	0.3	0.6	1.5	1.7	2.1	1.9	1.8	
Consolidated government finances								
Revenue	13.2	13.7	12.0	13.5	13.6	15.2	16.7	
Expenditure 2/	19.0	17.0	15.8	16.6	14.2	15.3	16.8	
Overall balance 2/	-5.8	-3.3	-3.8	-3.1	-0.6	-0.1	-0.1	
		(Percent change from previous period)						
Money and credit								
Somoni broad money	142.6	117.2	18.8	29.3	48.4	31.5	38.8	
Credit to private sector 3/	...	...	...	-6.0	90.2	54.3	20.2
Interest rate (in percent) 4/	116.0	85.0	49.7	30.6	34.4	18.5	...	

Sources: World Development Indicators 2001 and 2002; Tajik authorities; and Fund staff estimates.

1/ Goods and nonfactor services.

2/ On a cash basis. Excludes externally-financed public investment program.

3/ Corrected for reclassifications due to regularization of relations between the NBT and the government.

4/ Lending rate for domestic currency denominated 3–6 months loans; end of year.

EXECUTIVE SUMMARY

On December 11, 2002, the Executive Board completed the Article IV consultation with Tajikistan and approved the authorities' request for a three-year arrangement under the Poverty Reduction and Growth Facility (PRGF), in the amount of SDR 65 million (75 percent of quota). In the attached letter of intent and supplemental Memorandum of Economic and Financial Policies, the authorities request the completion of the first review of the program, waivers for the non-observance of two continuous performance criteria and one structural performance criterion, and modification of performance criteria for end-September 2003. The staff supports the authorities' requests in light of Tajikistan's performance under the program, corrective steps already adopted, and the authorities' commitment to the program.

During 2002, real GDP growth in Tajikistan was 9 percent; while in the first quarter of this year it increased to 12 percent. Exports of cotton and aluminum account for much of this performance as production of both commodities continues to recover from post-conflict lows. This favorable growth performance has taken place despite persistently high inflation that reflects exogenous factors as well as lapses in monetary policy. The external current account deficit declined sharply to 2.8 percent of GDP last year from 7 percent in 2001 because of strong export growth, increased humanitarian assistance and higher worker's remittances.

All of the quantitative performance criteria were observed for the period under review (October 1, 2002 through March 31, 2003). The end-March target for the overall fiscal balance was met by a wide margin, which helped the National Bank of Tajikistan (NBT) to meet the program's monetary targets. The continuous structural performance criteria prohibiting directed credits by the central bank and prohibiting the accumulation of external payment arrears were not observed during the period. Further, there was a delay in implementing the structural performance criterion on unifying natural gas tariffs. As remedial actions have been taken, the staff supports the authorities' request for waivers of these performance criteria.

The authorities recognize the numerous challenges facing their program and remain committed to its successful implementation. Given continued strong fiscal performance and the expectation of improved monetary policy implementation, the authorities are confident that they can meet all the program's targets. In light of higher-than-projected growth of GDP in 2002, and inflation in 2003, the authorities propose modifications to the performance criteria and indicative targets for end-September 2003.

While the staff commends the authorities for adhering to the program's quantitative targets, there are concerns about the erratic policy implementation in key areas, particularly monetary policy and structural reform including debt management. Discussions with the authorities centered on strengthening the NBT by restructuring its operations and strengthening the authorities' capacity to implement structural reform.

I. INTRODUCTION

1. On December 11, 2002 the Executive Board completed the Article IV consultation for Tajikistan and approved a three-year arrangement under the Poverty Reduction and Growth Facility (PRGF) in the amount of SDR 65 million, or 75 percent of quota (EBM/02/121).¹ On that occasion, Directors welcomed Tajikistan's strong real GDP growth, but cautioned that it would be difficult to sustain without accelerated structural reform, especially in the banking, energy and agriculture sectors. While Directors welcomed the reduction in inflation from 60 percent in 2000, they urged the authorities to strengthen macroeconomic policies to reduce inflation further as envisioned in the program. Tajikistan's debt rescheduling agreement with Russia was welcomed, but Directors stressed that additional rescheduling would be needed to achieve debt sustainability in the medium term.

2. Discussions on the first review under the PRGF arrangement took place in Dushanbe during April 24–May 9, 2003.² In the attached letter of intent and supplemental Memorandum of Economic and Financial Policies (MEFP) (Attachments I and II), the authorities request completion of the first review under the PRGF arrangement, waivers for the nonobservance of a structural performance criterion, two continuous performance criteria and modification of quantitative and structural performance criteria for end-September 2003. In support of these requests, the MEFP reviews progress made during the first six months under the PRGF arrangement and describes further measures to be taken through end-September 2003. Tajikistan continues to be supported by other international institutions, including the World Bank (Appendix II) and the Asian Development Bank (AsDB) (Appendix III). Statistical data provided to the Fund are weak, but adequate for program monitoring (Appendix IV).

¹ As of end-April 2003, Tajikistan's outstanding use of Fund resources was SDR 61.9 million, or 71.2 percent of quota (Appendix I). Tajikistan received several noncomplying disbursements from the PRGF Trust (EBS/99/107; EBS/01/95; EBS/02/14; and EBS/02/192) related to the accumulation of external payments arrears. Tajikistan has repaid all noncomplying disbursements.

² The staff team comprised R. Christiansen (head), R. Abdoun, F. Kumah, F. Ohnsorge, M. Sommer (all EU2), and N. Kojo (FAD). The Fund's Resident Representative in Dushanbe, S. Khawaja, assisted the mission. Mr. Aninat and Mr. Fajgenbaum (EU2) joined the mission during May 7–9, 2003. Mr. Zurbrugg (OEDSZ) participated in the policy discussions.

II. RECENT ECONOMIC DEVELOPMENTS AND PERFORMANCE UNDER THE PROGRAM

3. **Real GDP growth was strong in 2002 comparing favorably with that of other CIS countries (Box 1).** Much of it is accounted for by the recovery of traditional exports—cotton and aluminum—from their post-conflict lows. Moreover, the strong growth of GDP in the first quarter of 2003—12 percent—was due largely to processing of the large 2002 harvests. This performance, however, has

Box 1: Growth and Inflation Performance in the CIS-7 Countries, 1998-2002
(in percent)

	Real GDP Growth		Inflation	
	Annual average (1998-2001)	2002	Annual average (1998-2001)	2002
Armenia	6.6	12.9	2.9	1.1
Azerbaijan	9.6	10.6	-1.5	2.8
Georgia	3.1	5.3	7.9	5.6
Kyrgyz Republic	4.1	-0.5	18.0	2.1
Moldova	-0.4	7.2	27.4	5.3
Tajikistan	6.9	9.1	35.5	12.2
Uzbekistan	3.2	3.2	40.2	38.7
CIS-7 Average	4.7	6.8	18.6	9.7

Source: Tajik authorities; and Fund staff estimates.

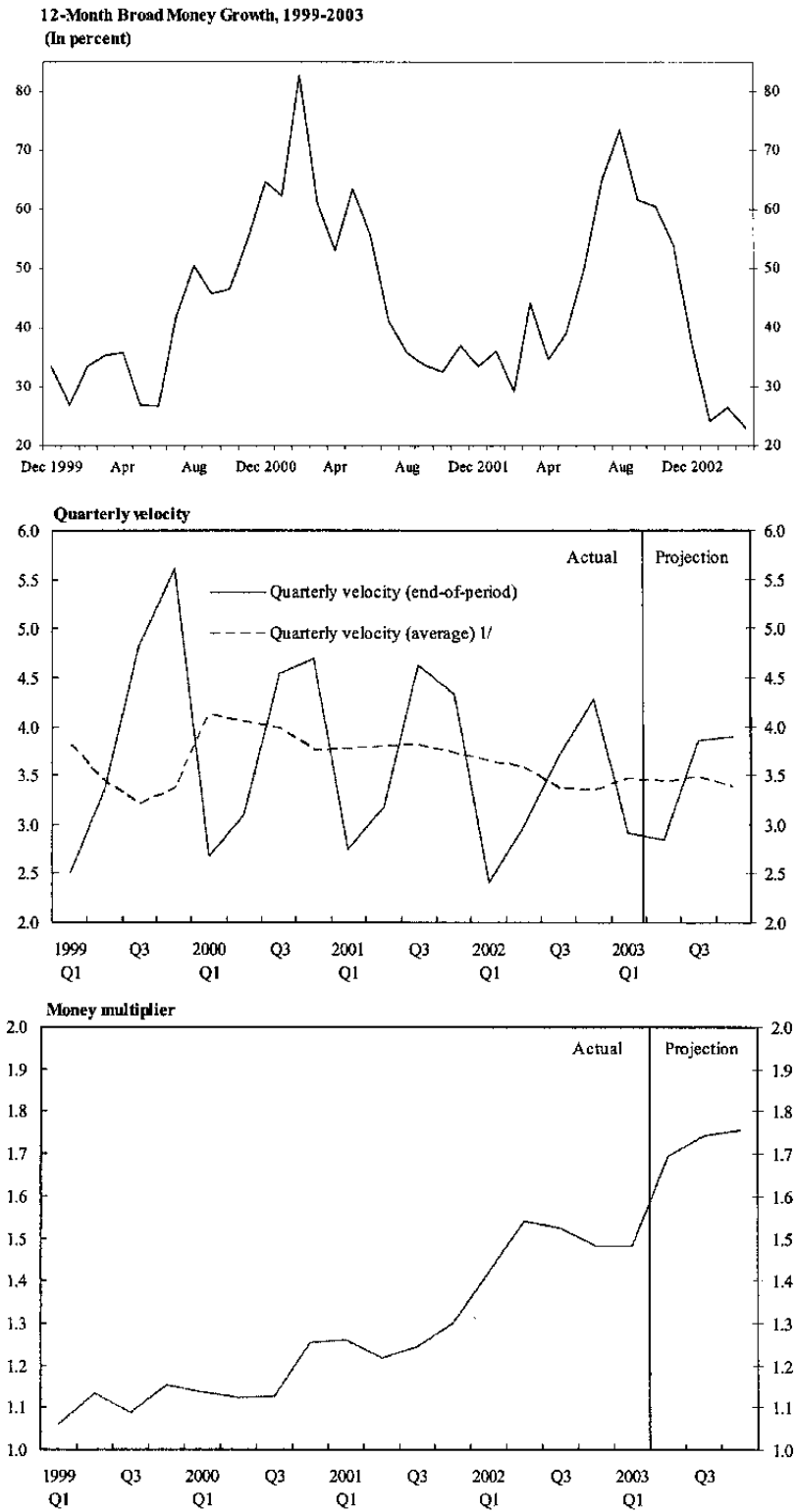
been marred by persistently high inflation. At 12.2 percent in 2002, Tajikistan's inflation was the second highest among CIS countries in 2002. Efforts to reduce inflation have been hindered by weaknesses in the conduct of monetary policy; severe winter weather; and regional trade factors. These same factors contributed to the inflationary spike—7.9 percent—in the first quarter of 2003 (Box 2). Renewed inflation appears to be undermining confidence in the local currency. While velocity declined modestly (3 percent) during 2002, it increased significantly in the first quarter of 2003 compared to a year earlier (Figure 1).

Box 2: Recent Inflation Developments

The inflationary spike in early 2003 was due to sharp price increases for a few food items. In particular, prices for vegetables, potatoes and fruit rose by 65 percent, 30 percent, and 41 percent. These three commodities account for 10 percent of the CPI and contributed 4.6 percentage points to the 7.9 percent overall increase in the first quarter. Two exogenous factors helped drive these prices higher: i) an unusually severe winter that destroyed stocks of these commodities and ii) the effect on local food supplies from increased (smuggled) exports to Uzbekistan in response to higher prices there.

In order to assess the impact of these exogenous influences, the staff developed two measures of core inflation. The first, which uses the weighted-median price change as a measure of core inflation, suggests that average quarterly core inflation was 2.3 percent during the first quarter of 2003. The second measure, which excludes the most volatile food items (vegetables, fruit and potatoes) from the CPI, suggests that core inflation was about 3.6 percent in the first quarter. These estimates are above those in the program for the first quarter of 2003 and suggest that monetary policy was not sufficiently tight.

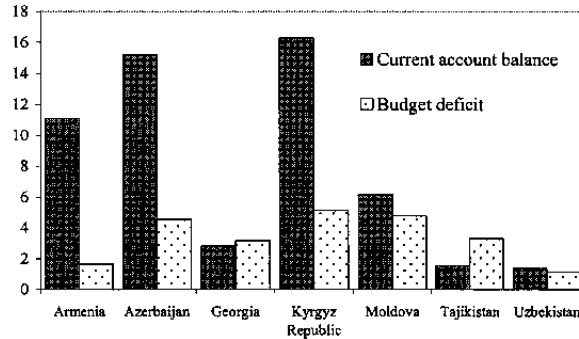
Figure 1. Tajikistan: Broad Money Growth, Quarterly Velocity and Money Multiplier, 1999–2003



Sources: National Bank of Tajikistan; and Fund staff estimates.
1/ Four-quarter average.

4. **The external current account deficit declined markedly in 2002 to 2.8 percent of GDP from 7 percent in 2001.** Better harvests, increased humanitarian assistance, and more remittances were the main reasons for the decline. A recovery in cotton and aluminum prices and continued increases in remittances contributed to further improvements during the first quarter of 2003. Since 1998, Tajikistan's external adjustment has been weaker than other CIS-7 countries (Figures 2 and 4).

Figure 2: Macroeconomic Adjustment in CIS-7 Countries from 1998/99 to 2001/02 (In percent of GDP) 1/

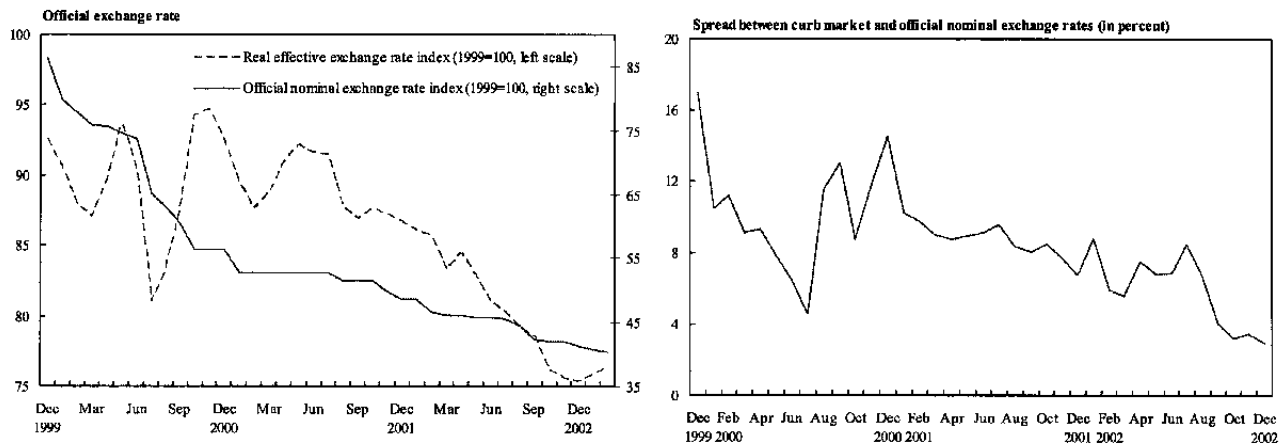


1/ The data for this chart reflect the differences between average performance in 1998-1999 and 2001-2002. A positive figure denotes an improvement in performance during the period.

Between end-September 2002 and end-March 2003, large export receipts helped to limit the nominal depreciation in the curb market exchange rate to 3 percent. Over the same period, the somoni depreciated by 1 percent in real effective terms (Figure 3). As of end-March 2003, gross international reserves remained broadly the same as a year earlier at US\$100 million (1.8 months of imports).

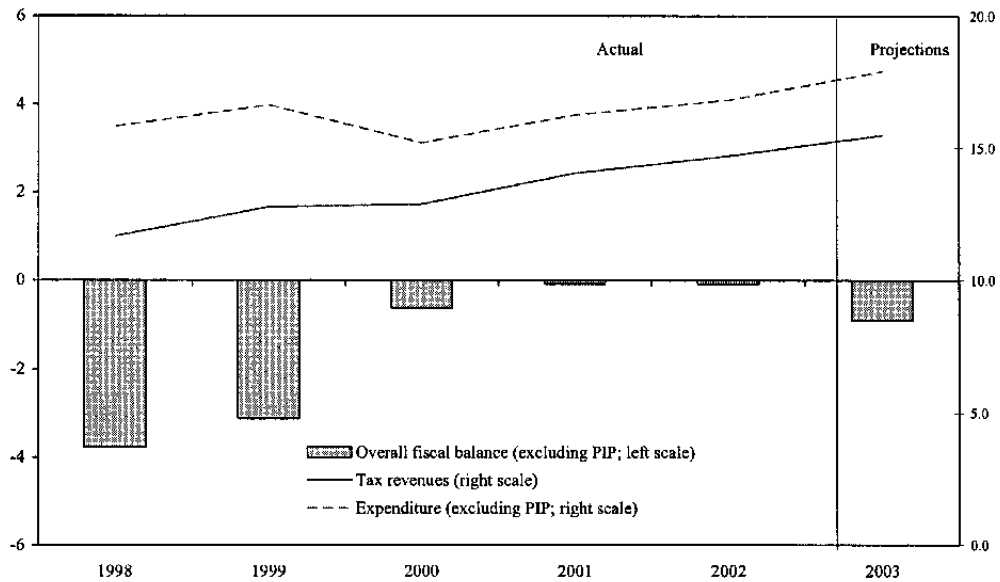
5. **Improved revenue collections contributed to a nearly balanced budget in 2002.** In this context, Tajikistan's performance is comparable to other non-oil producing CIS countries (Figure 2). The strong revenue performance of 2002 continued in the first quarter of 2003, reflecting buoyant economic growth and improvements in tax and customs administration. Ongoing reforms at the Ministry of State Revenues and Duties (MSRD)—including establishing a coordinating unit for overseeing the ministry's restructuring process and strengthening the Large Taxpayer Inspectorate—suggest that this performance can be sustained.

Figure 3. Tajikistan: Indicators of International Competitiveness, 1999–2003 1/



Sources: National Bank of Tajikistan; and Fund staff estimates.
1/ A decline in the exchange rate indices reflects a depreciation.

Figure 4. Tajikistan: Overall Fiscal Balance, Expenditures, and Tax Revenue, 1998–2003
(In percent of GDP)



Sources: Tajik authorities; and Fund staff estimates.

6. **Expenditure discipline remains one of the strengths of fiscal policy.** While the 2002 budget law authorized the government to spend any revenue over-performance, the authorities increased expenditures by less than this over-performance and applied the balance to deficit reduction. During the first quarter of 2003, expenditures continued to be less than projected mainly because of expenditure delays thereby resulting in a fiscal surplus (excluding the public investment program). The wage bill last year exceeded the target by a small amount because expected vacancies did not materialize. To achieve salary savings, the authorities reduced civil service employment by 5 percent during the first quarter of 2003. This reduction, however, was not part of a broader civil service reform program. As a result, the structural benchmark requiring completion of a timetable for downsizing the civil service was not met.³

7. **Implementation of monetary policy was uneven during late 2002 and the first quarter of 2003.** Although the performance criteria for end-March 2003 were met, the indicative target for reserve money was missed. Compliance with the target for net domestic assets of the National Bank of Tajikistan (NBT) was chiefly the result of a greater-than-projected accumulation of government deposits at the NBT. During the second half of 2002 and early 2003, however, the NBT intervened in the foreign exchange market, which resulted

³ This delay will allow time for the authorities to develop a civil service reform program in collaboration with the World Bank, which is preparing a Public Expenditure and Institutional Review.

in an overshooting of program targets for net international reserves at end-December 2002 and end-March 2003. Because of institutional weaknesses, policy coordination was inadequate and the NBT did not sterilize its foreign exchange interventions. As a result, reserve money was 12 percent higher than the indicative target for end-December and 5 percent higher for end-March 2003. During 2002, broad money expanded by 37 percent, but recently has declined as cotton exporters withdrew foreign currency deposits to finance cotton related expenses.

8. **The NBT issued directed credits in late 2002 and early 2003 thereby violating a continuous performance criterion.** These credits, which were relatively small, were issued by NBT branch managers to cotton sector enterprises through mid-February 2003. The authorities cite institutional weakness, including poor administrative control, as the cause. To address the problem, the NBT issued a decree in February 2003 withdrawing lending authority from all branch managers, department heads, and deputy chairpersons. Further, the NBT is implementing a restructuring plan in an effort to strengthen its operations.

9. **While gradual progress with structural reform has been made, it is often hindered by capacity constraints.** For example, energy sector reform has not proceeded as expected even though the authorities increased gas tariffs to their estimate of cost recovery, because several measures were implemented with delays or were not implemented. The structural performance criterion to unify tariffs across users (e.g., budget entities, agricultural enterprises and industries) was implemented in May 2003 instead of end-December 2002. Tariffs were increased to SM 149 per thousand cubic meters in June 2002 and to SM 180 as of April 1, 2003. The authorities plan to raise tariffs to SM 200 as of July 1, 2003. The latter two increases in tariffs include adjustments for nominal exchange rate changes. There were also delays in developing mechanisms for adjusting energy tariffs for changes in the nominal exchange rate and compensating low-income households for higher energy tariffs. Both measures were structural benchmarks for end-December 2002, but were only introduced through government resolution on March 31, 2003. The authorities have further refined the compensation mechanism for low-income households to ensure that the process for identifying vulnerable households is equitable and that payment discipline is enhanced.

10. **Commercial bank restructuring has made satisfactory progress.** The restructuring of the remaining state-owned bank (Amonatbank) is nearly completed. The bank has been returned to profitability and its compliance with prudential requirements has improved significantly. Local authorities have begun paying Amonatbank fees for banking services, and the government made scheduled capital injections in 2002 and in the first half of 2003. The Agroinvestbank (AIB)—which is the largest bank—has completed an inventory of its non-performing loans with technical assistance from MFD. As many of these non-performing loans are the result of past directed credits, the authorities are finalizing a plan that will include compensation of AIB for these loans by issuing long-term government bonds. AIB intends to complete the process of separating its cotton financing operations and banking activities into two independent corporate entities by end-June 2003. The cotton financing

entity will be privately owned, regulated as a non-bank financial institution and will not have access to government resources.

11. **Restructuring of state-owned farms is being delayed by the lack of progress in resolving their external debts.** Many state-owned farms that have not been restructured have debts that are too large for the successor farms to absorb. Although the authorities hoped to address this problem last year, the issue has proved to be more complicated than anticipated. As a first step, the authorities are preparing a comprehensive farm-by-farm debt inventory with technical assistance from the AsDB. They intend to complete this inventory and finalize a plan for resolving the debts by end-October 2003.

III. POLICY DISCUSSIONS

12. **Discussions took place in the context of the program's broad objectives.** The program concentrates on improving macroeconomic stability and implementing structural reform in the key areas of banking, energy and agriculture. The discussions focused on enhancing capacity and improving program implementation.

A. Macroeconomic Outlook

13. **GDP growth is likely to moderate during the remainder of 2003 consistent with program projections (Table 1a).** Despite strong growth in the first quarter, the authorities stressed that another favorable year would require a strong performance from both agriculture and aluminum. While growth in agriculture will likely continue, the authorities expect the pace to slow given the unfavorable weather early in 2003. They also project modest (4 percent) growth of aluminum production and accordingly, real GDP growth of 6 percent for the year as a whole.

14. **The authorities consider the inflationary spike of the first few months of 2003 to be temporary and mainly the result of exogenous factors.** Preliminary evidence suggests that as the spring harvests reached markets, food prices stabilized. Consequently, the authorities expect food prices to decline over the summer, allowing the projected end-period inflation for 2003 to be raised only slightly relative to the original program target. The authorities recognize, however, that monetary discipline needs to improve.

B. Fiscal Policy

15. **Fiscal performance in 2003 is projected to remain strong (Tables 2 and 3).** The budget deficit for 2003—excluding the public investment program (PIP)—is projected to be slightly higher than envisaged under the program, owing to higher interest payments (equivalent to 0.5 percent of GDP). The incremental interest payments are the result of the debt rescheduling agreement with Russia, which included a higher interest rate than assumed in the program. While the fiscal parameters of the program are broadly unchanged, the staff stressed the need to strengthen the quality of expenditures.

16. **Overall revenue collections for 2003 are projected to increase by 0.3 percent of GDP reflecting better tax administration.** To achieve this target—and consistent with advice provided by FAD—the authorities are strengthening the VAT system, improving the collection of tax arrears, and simplifying the tax code. The projected increase in VAT revenues will be partially offset by lower interest payments by the NBT (which are included in non-tax revenues). The authorities recognized the need to establish a transparent inventory of charges, fees and duties by individual ministries, but argued that the decentralized nature of such nuisance taxes prevented a completion of the survey before end-2003. To improve transparency and payment discipline further, the authorities agreed to publish an inventory of the 50 taxpayers with the largest tax arrears.

17. **There was a lengthy discussion on the key areas for increasing social sector spending.** The authorities recognized the pressing social needs confronting the government and noted that over the past three years they have gradually increased social sector spending as a share of GDP. Initially, the authorities preferred to increase civil service wages as a means of addressing social needs and reducing poverty. The staff stressed that such increases in wages would be unsustainable unless combined with civil service reform. Further, such increases have proved to be an ineffective mechanism for reducing poverty. The authorities, however, agreed to adhere to the program target for the civil service wage bill and to commit a portion of the revenue over-performance in the first quarter of 2003 to increase non-wage social sector (health and education) spending.

18. **There was also a discussion on the timing of increased social expenditures.** The authorities favored delaying expenditure commitments until further evidence on the sustainability of revenue performance is available and to submit a supplemental budget to parliament only in October 2003. Staff stressed the importance of raising social expenditures without delay given the material shortages in the health and education sectors. Staff suggested that the increase in such spending be tied to projected revenue performance for the remainder of the year. The authorities shared the staff's concern and in view of the link to revenue performance, they agreed to raise non-wage social spending without delay. To monitor implementation, the authorities agreed to introduce an indicative target on education and health spending. In addition, to enhance the transparency of the budget, they plan to publish quarterly a detailed classification of education and health expenditures in local newspapers beginning end-June 2003.

19. **Discussions with the authorities also included the size of the PIP and the allocation between social and infrastructure spending.** The PIP gives heavy emphasis to road rehabilitation and the energy sector in the belief that they are essential for growth. Approximately two-thirds of proposed investments over the period 2004–06 are devoted to energy, road rehabilitation and agricultural infrastructure. In light of deteriorating social indicators, the staff urged the authorities to increase the share of education and health expenditures in the PIP by reducing the share for infrastructure projects. The authorities plan to revise their PIP for 2004 when they prepare their update of the PRSP later this year. The authorities plan to consult with the relevant donors on these changes to ensure support.

C. Monetary and Exchange Rate Policies

20. **The authorities intend to bring the monetary program back on track by mid-year, which should alleviate inflationary pressures (Table 4).** Whereas velocity—estimates of which need to be treated with caution because of data weaknesses—was originally projected to decrease slightly during 2003, recent inflation performance suggests the need to tighten monetary policy. Thus, although the current projection allows for the same expansion in money supply as envisaged in the original program, it assumes an increase in velocity for 2003 (Table 5).

21. **The NBT intends to restrict its intervention in the foreign exchange market.** Between end-October 2002 and end-March 2003, the NBT's foreign exchange interventions accounted for 90 percent of all interbank foreign exchange transactions, which were largely unsterilized. The authorities believe that these interventions were necessary to prevent the large monthly foreign exchange sales by the aluminum enterprise from destabilizing the market. They agreed, however, to adopt a neutral stance with respect to such lumpy purchases by returning them to the market in small increments over the month. The NBT plans to maintain a managed floating exchange rate with no predetermined path.

22. **The NBT plans to improve monetary policy implementation through a comprehensive restructuring of its operations.** The restructuring will focus on: (a) limiting the responsibilities of branches to cash and settlement operations; (b) improving administrative control by reducing the number of organizational units; (c) centralizing all accounting functions; and (d) reducing staff levels by 20 percent. The authorities plan to complete the restructuring by end-September 2003. In addition, the authorities assigned the monetary policy committee sole responsibility for designing and overseeing the implementation of monetary policy. Its members include representatives from the Ministry of Finance, the MSRD and the NBT. As well as enhancing the effectiveness of monetary policy by improving the coordination of foreign exchange and open market operations, these measures should contribute to safeguarding Fund resources.

23. **The preliminary findings of a follow-up safeguards assessment show that the NBT has strengthened its financial and supervisory framework.** As a result, the risk ratings from the previous assessment (November 2001) will likely be upgraded in several areas of the safeguards framework.⁴ Vulnerabilities remain, however, especially in the areas of financial accounting and reporting, and auditing. These vulnerabilities relate, in part, to the timeliness of external audits, the publication of the NBT's financial statements, and the use of international accounting standards (IAS) in financial statements. Recommendations for

⁴ The draft safeguards assessment report has been sent to the authorities for their comments and is expected to be finalized shortly.

addressing these problems will be presented in the forthcoming Safeguards update. The authorities have indicated that they agree with the preliminary findings.

D. External Policies and Debt Management

24. **The current account deficit is projected to widen to 5 percent of GDP in 2003 as humanitarian assistance is expected to decline (Tables 6 and 7).**⁵ Pressures on the current account would likely be mitigated by the recovery of cotton prices and the good 2002 cotton harvest, which will contribute to projected export growth of 10 percent. The capital account is projected to improve with a World Bank disbursement and an increase in disbursements under the PIP. Foreign direct investment, however, is projected to revert to its pre-2001 levels. The overall balance of payments surplus will likely allow a buildup of reserves to 2.1 months of imports.

25. **The authorities intend to revise the tariff structure to make it more consistent with the Eurasian Economic Community (EAEC).** During a recent EAEC summit, it was agreed that Tajikistan will better align its tariff structure with that of other members. Presently, Tajikistan's tariff structure is 40 percent harmonized with the tariff structure adopted by the EAEC. To achieve greater harmonization, the authorities plan to introduce a tariff regime that would have five tariff bands with a maximum rate of 15 percent. The majority of consumer goods will remain in the 5 percent bracket.

26. **Debt management capacity remains weak, but is improving.** The authorities regularly update their debt inventory and have begun making quarterly debt reports to parliament. In addition, a debt management advisor, under the supervision of MFD, began work in May 2003. Reflecting improvements in debt management, the staff has learned about three further incidents of misreporting—due to the accumulation of external payments arrears—and noncomplying disbursements in April and July 2001 as well as December 2002.⁶ A debt payment due in November 2002 was late and incomplete, which resulted in the nonobservance of a prior action for Board consideration of the PRGF arrangement on December 11, 2002. The delay in payment was due to technical problems with the creditor. The staff understands that the creditor does not regard this delay as causing external payments arrears. The failure to make full payment was due to incomplete information

⁵ Following the advice of STA, the authorities introduced several technical adjustments that are expected to contribute to a higher current account deficit in 2003. Specifically, the imports of services (specifically insurance and freight) were raised to reflect higher prices, and estimates of profit remittances were increased because of higher foreign direct investment in 2002.

⁶ See the Managing Director's report and recommendations regarding these noncomplying disbursements (to be issued).

regarding the stock of arrears as of November 2002. As the arrears (which totaled US\$10,405 as of end-March 2003) were not fully cleared until June 2003, the continuous performance criterion on the non-accumulation of external payments arrears was not observed. The authorities stress that they were unaware of the arrears outstanding in November 2002 because of persistent communication problems with the creditor. The staff understands that these problems have been resolved.

E. Structural Reform

27. **The authorities plan to increase the gas tariff to cost recovery levels.** In April 2003, they raised the gas tariff to SM 180 from SM 149 per thousand cubic meters. As the new tariff was still below cost recovery, the authorities plan to increase gas tariffs again to SM 200 as of July 1, 2003. Both increases include the adjustment needed to cover exchange rate depreciation. The new tariff is deemed close to cost recovery levels and therefore tariff adjustments to cover further exchange rate depreciation would be implemented beginning October 2003. In view of the somewhat divergent estimates of cost recovery tariffs, the mission urged the authorities to work with World Bank staff and other technical experts to arrive at a common estimate so that the quasi-fiscal deficit can be eliminated.⁷

28. **The authorities have introduced a compensation mechanism to protect low-income households from energy price increases.** The introduction of the mechanism was delayed until March 2003 because of the complexity of designing an appropriate scheme. The mechanism was further refined in June 2003.⁸ According to the guidelines for participation, eligibility for compensation would be based on estimates of household income provided by local authorities and household participation in other targeted assistance schemes. Participating households would be required to have a gas meter installed and then would be eligible for a reduced tariff on a fixed quantity of gas. Payment discipline would be ensured by shutting off gas supplies to non-paying households. The authorities anticipate that 22,000 households will be assisted in the first year of the mechanism's operation.

29. **The authorities recognize that debt is hindering the farm restructuring and privatization process.** In 2002, 40 large-scale, state-owned farms were restructured that resulted in the creation of only 65 still large farms, rather than more smaller-scale

⁷ The World Bank is preparing a report on energy issues that will provide a more precise estimate of costs.

⁸ The compensation mechanism was a structural benchmark for end-December 2002. The development and implementation of a refined version, which is intended to improve targeting, eliminate the inclusion of privileged categories of consumers and strengthen payment discipline, was a prior action for Executive Board consideration of the first review.

independent farms. The authorities believe that many of the remaining state-owned farms are reluctant to participate in the restructuring process because of the large debt each newly created farm would be obliged to accept. As a first step to addressing the problem, the authorities are preparing a detailed inventory of the domestic and external debts of each state-owned farm. They intend to write-off the farms' debt to the government and state-owned enterprises and implement a scheme for restructuring the external obligations of individual farms.

30. **The authorities are increasingly aware that weak governance is hindering economic reform.** During the recent Consultative Group meeting, several participants stressed that corruption was a serious problem. The authorities acknowledge the problem, but few solutions have been proposed. As a first step toward enhancing transparency, the authorities intend to publish the details of budget allocations to individual schools and clinics. They also believe that the State Auditing Agency serves as a deterrent to malfeasance despite the low prosecution rate of those individuals accused of corruption in audit reports. It is anticipated that once parliament begins reviewing the Agency's audit reports (in mid-2003), more attention and follow-up will be given to the results and possibly in other areas of public finances.

F. Program Monitoring

31. **Program implementation for the second review under the PRGF arrangement will be monitored with quantitative and structural performance criteria through end-September 2003.** A set of indicative targets and structural benchmarks has also been established for end-June, end-September, and end-December 2003. Although macroeconomic policy objectives remain unchanged, the quantitative performance criteria have been revised compared with the program (EBS/02/188). The floor on tax revenue collections was revised upward to account for stronger-than-anticipated growth and higher inflation last year. The ceiling on the cumulative overall fiscal deficit of the general government was raised to account for higher debt service resulting from the debt rescheduling agreement with Russia in December 2002. To clarify the impact of the debt restructuring agreement, the definition of the overall fiscal balance was adjusted to include principal arrears, debt rescheduling, and the drawdown of Tajikistan's claim on the Central Bank of Russia. A floor on education and health expenditures is proposed as an indicative target to ensure that social spending is maintained. A zero ceiling on new energy sector arrears of key state-owned enterprises is also proposed to reduce quasi-fiscal deficits by enforcing payment discipline. With regard to the monetary program, an adjustor has been added for net domestic assets and net international reserves to allow for the withdrawal of (project) grant disbursements that are now included as a separate government account with the NBT.⁹ The monetary targets have also been modified

⁹ The use of these project grants will affect net domestic assets and net international reserves, hence the adjustor, but not net credit to government and hence the overall fiscal deficit as defined in the technical memorandum of understanding.

to reflect revised assumptions about U.S. dollar-SDR exchange rate and disbursement schedules as well as the fact that Tajikistan's claim on the Central Bank of Russia is the government's asset rather than NBT's.

32. **The structural performance criteria and benchmarks have been modified.** Program measures requiring: (a) Tajikgas to raise collection rates and (b) the closure or merger of all banks not meeting prudential requirements have been dropped (Box 3). In the first instance, this would allow more time to install gas meters which are necessary for assessing collection rates. Two structural performance criteria regarding energy sector reform have been added to better address the immediate problems in this sector. While the authorities still plan to close or merge banks that do not meet all prudential requirements, they prefer to focus their efforts on restructuring the NBT and resolving issues regarding AIB (structural benchmarks added).

**Box 3: Revised Structural Performance Criteria and Benchmarks
for the period April–September 2003**

Deleted measures	Timing
By end-June 2003, increase the collection rates of Tajikgas so that on average 60 percent of all households pay for the gas they receive (structural performance criterion).	End-June 2003
By end-September 2003, close or merge all banks that are not being restructured and do not fulfill the prudential requirements as of end-March 2003 (structural benchmark).	End-September 2003
New measures	
Raise gas tariffs to at least SM 200 per thousand cubic meters (structural performance criterion).	July 1, 2003
Eliminate all privileged categories of consumers of gas and electricity (Structural performance criterion).	End-September 2003
Complete the restructuring of the NBT in accordance with the plan agreed with Fund staff (structural benchmark).	End-September 2003
Finalize the division of Agroinvestbank into two independent corporate entities, one that operates as a non-bank cotton financing institution and one that is a commercial bank (structural benchmark).	End-June 2003

33. **Performance criteria, indicative targets, and structural benchmarks for the second review under the PRGF arrangement (April 1, 2003–September 30, 2003) are detailed in Annexes III and IV of the supplemental MEFP.** A Technical Memorandum of Understanding (Annex V) defines the quantitative targets of the program and specifies the

reporting requirements. The second review of the program is scheduled to take place by November 15, 2003.

IV. STAFF APPRAISAL

34. **The continued strong growth of real GDP is welcomed.** Progress with reducing inflation, however, has been disappointing. Output growth in recent years has been based largely on the recovery of the country's two key export sectors from the lows following the civil war. The increasing reliance of the population on remittances suggests that employment prospects remain limited. Sustaining growth and reducing inflation requires determined efforts to intensify structural reform and pursue prudent monetary policy.

35. **The fiscal stance for 2003 is generally appropriate.** The staff welcomes the authorities' decision to increase the deficit to cover higher-than-projected interest payments associated with the restructuring of debt to Russia, as the underlying fiscal position is somewhat stronger than programmed as a share of GDP. Efforts to reform both the process of revenue collection and the tax code are yielding positive results, and are welcomed. The authorities' commitment to maintaining expenditure discipline is commendable. The staff welcomes the authorities' decision to allocate a share of revenue over-performance in the first quarter of this year to non-wage outlays in the social sectors. Nonetheless, the staff urges the authorities to increase further the share of public investment devoted to the social sectors consistent with the goals of the authorities' PRSP. Moreover, additional efforts are needed to improve the quality of both current and capital expenditures. Transparency would be enhanced by completing a detailed functional expenditure classification system.

36. **The implementation of monetary policy has been weak and has contributed to inflationary pressures.** The repeated overshooting of the NBT's target for net international reserves, the inability to control liquidity, and the lack of coordination in its use of monetary policy tools have all raised serious concern. While the proposed monetary program for 2003 is consistent with the goal of reducing inflation this year as targeted, more determined and consistent policy implementation is required. The authorities have recognized these problems and have taken steps to restructure the NBT, strengthen the monetary policy committee and prevent issuance of directed credits. The staff welcomes these efforts, but strongly urges the authorities to ensure that the new operational structure and guidelines are adhered to strictly. Further, the staff supports the authorities' intention to maintain a managed floating exchange rate regime with no predetermined path.

37. **Progress with structural reform remains mixed.** Strengthening of the banking sector has, however, made satisfactory progress. The staff commends the authorities for the improvement in the operations of some commercial banks and their commitment to ensure that banks' operations are strengthened. Resolving the problems of the Agroinvestbank has proved to be more difficult and time consuming than expected because of the complexity of developing compensation for nonperforming directed credits. The separation of the AIB into

two independent commercial entities is a step in the right direction, but the authorities need to ensure that the newly created commercial bank is financially viable.

38. **The staff welcomes the authorities' decision to increase gas tariffs to cost recovery levels, particularly taking into account its politically sensitive nature.** In this regard, the authorities' commitment to compensating vulnerable households for higher energy tariffs is appropriate. Moreover, the staff commends the authorities for the revised compensation mechanism, which has improved targeting and coverage of the scheme so as to ensure that all vulnerable households are covered.

39. **Restructuring and privatization of state-owned farms has again slowed.** The staff recognizes that farm indebtedness poses a genuine constraint. Nonetheless, because the need to improve agricultural management and yields is critical to future growth and poverty reduction, the delays are disappointing. The staff urges the authorities to work closely with technical experts to address farm debt and thereby help accelerate farm privatization.

40. **In view of the pressing need to improve governance, the staff urges the authorities to take a more proactive stance to reducing corruption.** While efforts to enhance the transparency of the budget allocations are welcome, this is only a first step. The staff urges the authorities to ensure that the findings of the State Auditing Agency are widely disseminated and that allegations of malfeasance are vigorously prosecuted.

41. **Given Tajikistan's satisfactory performance and the authorities' commitment to the program, the staff recommends completing the first review under the PRGF arrangement.** Further, given that appropriate remedial actions have been implemented by the authorities, the staff also supports the authorities' request for waivers for the non-observance of two continuous performance criteria and a structural performance criterion. Finally, given the recent changes in the macroeconomic situation, particularly the higher-than-projected growth of GDP in 2002, the staff supports the authorities' request for a modification of the end-September performance criteria.

Table 1a. Tajikistan: Selected Economic Indicators, 2000-2003

	2000	2001	2002		Q1 Actual	2003	
			Preliminary Estimate	EBS/02/188		Revised Program	EBS/02/188
National income and prices							
Nominal GDP (in millions of somoni)	1,807	2,512	3,345	3,045	755	4,050	3,600
Nominal GDP (in millions of U.S. dollars) 1/	991	1,033	1,197	1,089	248	1,346	1,200
Real GDP (percent change)	8.3	10.2	9.1	7.5	12.1	6.0	6.0
GDP per capita (in U.S. dollars)	155.4	165.8	184.3	167.6	...	203.3	181.2
GDP deflator (percent change)	24.8	29.3	21.9	12.8	32.5	14.2	11.5
Consumer prices (12-month change, e.o.p.)	60.6	12.5	14.5	13.0	20.0	9.0	7.0
Consumer prices (year-on-year)	32.9	38.6	12.2	12.2	14.0	14.5	9.5
(In percent of GDP)							
General government finances							
Total revenue and grants	13.6	15.2	16.7	16.9	23.2	17.0	17.7
<i>Of which:</i>							
Tax revenue	12.9	14.1	14.7	15.4	21.7	15.5	15.8
Total expenditure	19.2	18.4	19.2	20.0	22.3	20.9	21.2
<i>Of which:</i>							
Current expenditure	12.5	13.2	13.7	14.3	15.6	14.7	14.7
Overall fiscal balance (excluding PIP)	-0.6	-0.1	-0.1	-0.3	5.0	-0.9	-0.5
Primary balance	-0.3	0.5	1.8	1.9	8.0	1.3	1.2
Non-interest current expenditure	11.1	11.7	11.8	12.1	12.6	12.5	13.0
(12-month percentage change; unless otherwise specified)							
Money and credit							
Reserve money (e.o.p.) 2/	51.4	28.9	20.5	5.3	17.8	-0.3	11.8
Broad money (e.o.p.) 2/	64.5	33.4	37.4	31.8	23.0	18.3	17.2
Net domestic assets of the financial system 2/	61.4	31.8	20.1	-9.6	2.0	-5.1	-5.1
<i>Of which:</i>							
Net credit to government	-9.0	-6.6	-58.8	-31.6	-66.9	-28.0	-17.4
Credit to the private sector 2/	90.2	54.3	20.2	4.0	14.9	9.2	0.9
Velocity (broad money) 3/	12.1	12.6	12.2	11.0	13.8	12.5	11.1
Treasury bill rate (annualized, e.o.p.)	40.0	18.1	16.6	...	16.6	...	...
External sector							
Growth of exports of goods (percent change)	18.5	-17.3	7.3	11.0	6.4	9.5	11.3
Growth of imports of goods (percent change)	20.6	-7.3	6.5	6.0	3.3	5.0	2.9
Current account balance (in percent of GDP)	-6.5	-7.1	-2.8	-4.2	-10.6	-5.0	-4.0
Gross international reserves (in months of imports)	2.1	1.9	1.8	2.3	1.8	2.1	2.8
Total external debt outstanding/GDP (percent)	128.9	98.4	81.5	93.0	...	77.9	89.7
NPV-of-external debt/exports (percent) 4/ 5/	176	171	123	156	...	118	129
NPV-of-external debt/fiscal revenues (percent) 5/	579	476	290	411	...	276	324
Debt service ratio (in percent of exports) 5/	17.5	25.6	23.5	31.3	31.1	17.1	22.6
Official exchange rate (average, in somoni per U.S. dollar)	1.8	2.4	2.8	...	3.0	...	...
External financing gap (in millions of U.S. dollars)	...	...	...	0	0	0	0

Sources: Tajik authorities; and Fund staff estimates.

1/ Figures are converted at weighted average official exchange rates.

2/ Average program exchange rates are Sm3.0=US\$1 and SDR1=US\$1.37 for 2003.

3/ Defined as four-quarter GDP divided by end-period broad money.

4/ Computed as a three-year moving average of exports of goods and services, less alumina and electricity which are traded on a barter basis.

5/ Non-financial public sector debt.

Table 1b. Tajikistan: Basic Social Indicators, 1970–2001

	Tajikistan				Europe & Central Asia 3/	Low-income countries 3/
	1970–75	1980–85	1990–99	2000-01		
Population 1/						
Life expectancy at birth (in years)	64	66	69	69	69	59
Infant mortality (per thousand live births)	...	58	20	21	20	76
Birth rate, crude (per thousand people)	...	...	22	19	12	29
Death rate, crude (per thousand people)	...	...	5	5	11	11
Fertility rate (in births per woman)	6.3	5.6	3.3	3.1	1.6	3.6
Age dependency ratio (in percent)	...	0.9	0.8	0.8	0.5	0.7
Rural population (in percent of population)	64.5	66.0	72.5	72.0	35.0	68.0
Urban population (in percent of population)	35.5	34.0	27.5	28.0	65.0	32.0
Health indicators						
Child immunization: Measles (in percent of children under 12 months)	...	...	79	...	93	57
Child immunization: DPT (in percent of children under 12 months) 2/	...	...	81	...	93	57
Physicians (per thousand people)	...	2.4	2.0	...	3.1	0.5
Hospital beds (per thousand people)	...	10.0	8.8	...	8.8	1.3
Education 1/						
Gross primary school enrollment rate (in percent of age group)	...	...	95	...	99	96
Gross secondary school enrollment rate (in percent of age group)	...	...	78	...	86	42

Source: World Development Indicators 2001 and 2002, World Bank.

1/ Data in the column labelled 1990-99 is the period average for 1993–1999.

2/ Data in the column labelled 1990-99 is the period average for 1995–1999.

3/ Latest data available.

Table 2a. Tajikistan: General Government Operations, 2001-2003
(In millions of somoni)

	2001		2002					2003															
	Year	Q1		Q2		Q3		Q4		Year		Q1		Q2		Q3		Q4		Year			
	Act.	Act. 1/	Act. 1/	Act. 1/	Act. 1/	Act. 1/	Prog.	Act. 1/	EBS/02/188	Act. 1/	EBS/02/188	Rev.	EBS/02/188	Rev.	EBS/02/188	Rev.	EBS/02/188	Rev.	EBS/02/188	Rev.	EBS/02/188		
Overall revenues and grants	381.9	113.4	134.8	133.8	177.9	559.8	513.4	175.6	142.8	157.0	166.3	172.4	141.3	184.2	186.6	689.2	637.1						
Tax revenues	353.1	106.8	120.8	115.7	148.3	491.6	470.4	164.2	129.5	146.3	148.5	144.3	125.0	172.8	165.4	627.6	568.4						
Income and profit tax	47.1	14.6	15.4	14.8	15.1	59.9	58.5	17.5	15.7	18.7	18.8	18.1	16.4	18.2	19.9	72.5	70.7						
Payroll taxes	44.8	12.7	15.4	15.7	19.1	62.9	58.2	16.6	13.7	18.7	19.0	19.3	17.3	21.6	21.0	76.2	70.9						
Property taxes	14.8	3.6	4.3	4.4	6.4	18.8	17.9	6.7	3.8	5.3	5.2	5.5	4.8	5.4	7.4	22.8	21.2						
Internal taxes on goods and services	128.5	45.8	58.5	52.9	70.7	227.9	210.3	73.7	58.9	74.8	68.3	72.9	58.9	89.4	72.7	310.7	258.8						
VAT	86.0	31.3	41.2	35.4	49.7	157.7	145.4	49.7	43.3	53.8	47.6	51.5	39.8	70.7	50.7	225.7	181.4						
International trade and operations tax	114.4	29.1	26.2	26.8	35.7	117.8	121.3	47.8	36.3	27.7	36.1	27.3	26.5	37.3	42.8	140.1	141.8						
Total sales taxes	62.8	15.0	12.1	12.8	23.3	63.2	59.9	25.7	17.8	13.5	18.2	13.1	9.3	27.7	22.6	80.0	67.9						
Import duties	51.6	14.1	14.1	14.0	12.3	54.6	61.3	22.1	18.5	14.3	17.9	14.1	17.3	9.6	20.2	60.1	73.9						
Other taxes	3.5	1.0	1.0	1.0	1.4	4.4	4.2	1.9	1.0	1.2	1.2	1.3	1.1	0.9	1.7	5.3	5.0						
Non-tax duties	28.8	6.5	13.9	18.1	21.6	60.1	31.4	10.9	6.5	3.9	11.1	18.3	9.6	-3.6	14.5	29.6	41.6						
Grants	0.0	0.0	0.1	0.0	7.9	8.0	11.5	0.5	6.8	6.8	6.8	9.8	6.8	15.0	6.8	32.0	27.0						
Total expenditures and lending minus repayments	462.0	112.3	153.6	148.4	227.1	641.4	607.6	168.7	165.5	208.1	200.5	236.3	175.0	233.9	221.7	847.0	762.7						
Current expenditures	332.4	86.8	116.6	96.0	159.6	459.1	434.1	118.0	110.7	147.6	149.7	160.9	122.0	167.6	146.5	594.1	528.9						
Expenditures on goods and services	222.0	63.4	82.9	56.0	87.9	290.1	275.8	70.8	69.0	81.1	93.9	94.7	78.3	105.9	93.6	352.5	334.7						
Wages and salaries	82.4	24.9	29.8	25.6	27.5	107.9	105.1	25.2	24.9	35.8	35.8	30.7	34.1	29.1	26.0	120.8	120.8						
Others	139.6	38.5	53.0	30.4	60.3	182.3	170.8	45.6	44.1	45.3	58.1	64.0	44.2	76.8	67.6	231.7	213.9						
Interest payments (due) 2/	38.3	6.1	8.8	11.9	36.2	63.0	66.0	22.8	14.4	27.5	17.7	26.8	11.4	11.1	16.1	88.3	59.7						
Transfers to households	59.9	14.4	20.8	23.4	30.6	89.2	77.5	20.8	20.2	27.3	27.6	26.9	25.6	37.3	27.7	112.4	101.1						
Subsidies and other current transfers	12.2	2.9	4.2	4.8	5.0	16.8	14.7	3.6	7.1	11.6	10.5	12.5	6.8	13.3	9.1	41.0	33.4						
Capital expenditures	127.1	25.2	36.5	52.4	66.9	181.0	171.9	50.3	54.3	60.0	50.3	74.9	52.5	66.0	74.7	251.2	231.9						
External financed PIP	53.5	11.5	18.1	20.5	28.6	78.8	86.5	30.5	24.3	30.3	27.3	30.3	27.3	30.3	29.1	121.4	108.0						
Lending minus repayments	2.5	0.3	0.5	0.0	0.6	1.4	1.6	0.3	0.5	0.5	0.5	0.5	0.5	0.3	0.4	1.7	1.9						
Overall balance (incl. externally financed PIP)	-80.1	1.0	-18.8	-14.6	-49.3	-81.6	-94.2	6.9	-22.7	-51.1	-34.2	-63.9	-33.7	-49.7	-35.0	-157.8	-125.6						
Net arrears (- decrease)	24.5	1.8	-0.4	0.0	-1.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0						
Rescheduling of interest	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0						
Overall balance (incl. externally financed PIP, cash basis)	-55.6	2.8	-19.3	-14.6	-50.6	-81.6	-94.2	6.9	-22.7	-51.1	-34.2	-63.9	-33.7	-49.7	-35.0	-157.8	-125.6						
Overall balance (excl. externally financed PIP, cash basis)	-2.1	14.3	-1.1	5.9	-22.0	-2.9	-7.7	37.4	1.6	-20.9	-6.9	-33.6	-6.4	-19.4	-6.0	-36.4	-17.6						
Total financing	55.6	-2.8	19.3	14.6	50.6	81.6	94.2	-6.9	22.7	51.1	34.2	63.9	33.6	49.7	35.0	157.8	125.6						
Net external	74.5	8.9	15.4	17.5	44.6	86.4	83.7	35.4	6.0	101.6	27.4	37.8	46.8	20.8	23.6	195.6	103.9						
Disbursements	113.0	11.5	18.1	20.5	43.6	93.8	160.6	30.5	24.3	104.6	27.3	30.3	64.8	30.3	29.1	195.7	145.5						
Amortization	-49.2	-2.7	-2.7	-3.0	-9.5	-17.8	-103.3	-5.7	-27.2	-3.0	-27.2	-3.0	-27.2	-9.5	-32.7	-21.2	-114.2						
Arrears (+ increase)	-119.5	0.0	0.0	0.0	-69.0	-69.0	-69.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0						
Debt rescheduling	130.2	0.0	0.0	0.0	0.0	0.0	95.5	0.0	8.9	0.0	27.3	0.0	9.1	0.0	27.3	0.0	72.5						
Drawdown of Tajikistan's claim on Central Bank of Russia	...	...	...	...	79.5	79.5	...	10.5	...	0.0	...	10.5	...	0.0	...	21.1	72.5						
Net domestic	-19.0	-11.7	3.8	-2.9	6.0	-4.8	10.5	-42.3	16.7	-50.5	6.8	26.0	-13.2	28.9	11.4	-37.8	21.7						
NBT 3/	-22.1	-8.1	-2.5	-6.5	-7.6	-24.7	-6.4	-45.2	11.7	-54.5	1.8	21.0	-19.2	23.9	5.4	-54.8	-0.3						
Commercial banks	3.8	-6.7	3.9	-0.2	1.7	-1.3	9.4	-5.4	1.0	1.0	1.0	2.0	2.0	2.0	2.0	-0.4	6.0						
Tajik Rail repayment	-8.0	-2.2	-2.6	-2.7	-2.6	-10.0	-10.0	2.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0	2.5	0.0						
Gross proceeds from privatization	7.4	5.3	5.1	6.4	14.5	31.3	17.5	5.9	4.0	3.0	4.0	3.0	4.0	3.0	4.0	14.9	16.0						
Other nonbank	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0						
Financing gap	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0						
<i>Memorandum items:</i>																							
GDP (In millions of somoni)	2,512	508	686	979	1,171	3,345	3,045	755	542	833	820	1,199	965	1,262	1,272	4,050	3,600						

Sources: Tajik authorities; and Fund staff estimates.

1/ Includes interest and amortization due according to the 2002 restructuring agreement with Russia.

2/ Excludes payments to Uzbekistan which are paid in kind by Tajik Rail.

3/ Differences between these figures and those in the accounts of NBT reflect the revaluation of foreign exchange deposits.

Table 2b. Tajikistan: General Government Operations, 2001-2003
(In percent of GDP)

	2001		2002					2003					
	Year	Q1	Q2	Q3	Q4	Year		Q1	Q2	Q3	Q4	Year	
	Act.	Act.	Act.	Act.	Act.	Act.	Prog. EBS/02/188	Act.	Rev. Prog.	Rev. Prog.	Rev. Prog.	Rev. Prog.	Prog. EBS/02/188
Overall revenues and grants	15.2	22.3	19.6	13.7	15.2	16.7	16.9	23.2	18.8	14.4	14.6	17.0	17.7
Tax revenues	14.1	21.0	17.6	11.8	12.7	14.7	15.4	21.7	17.6	12.0	13.7	15.5	15.8
Income and profit tax	1.9	2.9	2.2	1.5	1.3	1.8	1.9	2.3	2.2	1.5	1.4	1.8	2.0
Payroll taxes	1.8	2.5	2.2	1.6	1.6	1.9	1.9	2.2	2.2	1.6	1.7	1.9	2.0
Property taxes	0.6	0.7	0.6	0.5	0.6	0.6	0.6	0.9	0.6	0.5	0.4	0.6	0.6
Internal taxes on goods and services	5.1	9.0	8.5	5.4	6.0	6.8	6.9	9.8	9.0	6.1	7.1	7.7	7.2
VAT	3.4	6.2	6.0	3.6	4.2	4.7	4.8	6.6	6.5	4.3	5.6	5.6	5.0
International trade and operations tax	4.6	5.7	3.8	2.7	3.0	3.5	4.0	6.3	3.3	2.3	3.0	3.5	3.9
Total sales taxes	2.5	2.9	1.8	1.3	2.0	1.9	2.0	3.4	1.6	1.1	2.2	2.0	1.9
Import duties	2.1	2.8	2.1	1.4	1.1	1.6	2.0	2.9	1.7	1.2	0.8	1.5	2.1
Other taxes	0.1	0.2	0.1	0.1	0.1	0.1	0.1	0.3	0.1	0.1	0.1	0.1	0.1
Non-tax duties	1.1	1.3	2.0	1.8	1.8	1.8	1.0	1.4	0.5	1.5	-0.3	0.7	1.2
Grants	0.0	0.0	0.0	0.0	0.7	0.2	0.4	0.1	0.8	0.8	1.1	0.8	0.8
Total expenditures and lending minus repayments	18.4	22.1	22.4	15.2	19.4	19.2	20.0	22.3	25.0	19.7	18.5	20.9	21.2
Current expenditures	13.2	17.1	17.0	9.8	13.6	13.7	14.3	15.6	17.7	13.4	13.3	14.7	14.7
Expenditures on goods and services	8.8	12.5	12.1	5.7	7.5	8.7	9.1	9.4	9.7	7.9	8.4	8.7	9.3
Wages and salaries	3.3	4.9	4.3	2.6	2.3	3.2	3.5	3.3	4.3	2.6	2.3	3.0	3.4
Others	5.6	7.6	7.7	3.1	5.2	5.4	5.6	6.0	5.4	5.3	6.1	5.7	5.9
Interest payments (due) 1/	1.5	1.2	1.3	1.2	3.1	1.9	2.2	3.0	3.3	2.2	0.9	2.2	1.7
Transfers to households	2.4	2.8	3.0	2.4	2.6	2.7	2.5	2.8	3.3	2.2	3.0	2.8	2.8
Subsidies and other current transfers	0.5	0.6	0.6	0.5	0.4	0.5	0.5	0.5	1.4	1.0	1.1	1.0	0.9
Capital expenditures	5.1	5.0	5.3	5.4	5.7	5.4	5.6	6.7	7.2	6.2	5.2	6.2	6.4
External financed PIP	2.1	2.3	2.6	2.1	2.4	2.4	2.8	4.0	3.6	2.5	2.4	3.0	3.0
Lending minus repayments	0.1	0.1	0.1	0.0	0.1	0.0	0.1	0.0	0.1	0.0	0.0	0.0	0.1
Overall balance (incl. externally financed PIP)	-3.2	0.2	-2.7	-1.5	-4.2	-2.4	-3.1	0.9	-6.1	-5.3	-3.9	-3.9	-3.5
Net arrears (- decrease)	1.0	0.4	-0.1	0.0	-0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Rescheduling of interest	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Overall balance (incl. externally financed PIP, cash basis)	-2.2	0.6	-2.8	-1.5	-4.3	-2.4	-3.1	0.9	-6.1	-5.3	-3.9	-3.9	-3.5
Overall balance (excl. externally financed PIP, cash basis)	-0.1	2.8	-0.2	0.6	-1.9	-0.1	-0.3	5.0	-2.5	-2.8	-1.5	-0.9	-0.5
Total financing	2.2	-0.6	2.8	1.5	4.3	2.4	3.1	-0.9	6.1	5.3	3.9	3.9	3.5
Net external	3.0	1.7	2.2	1.8	3.8	2.6	2.8	4.7	12.2	3.2	1.6	4.8	2.9
Disbursements	4.5	2.3	2.6	2.1	3.7	2.8	5.3	4.0	12.6	2.5	2.4	4.8	4.0
Amortization	-2.0	-0.5	-0.4	-0.3	-0.8	-0.5	-3.4	-0.8	-0.4	-0.2	-0.8	-0.5	-3.2
Arrears (+ increase)	-4.8	0.0	0.0	0.0	-5.9	-2.1	-2.3	0.0	0.0	0.0	0.0	0.0	0.0
Debt rescheduling	5.2	0.0	0.0	0.0	0.0	0.0	3.1	0.0	0.0	0.0	0.0	0.0	2.0
Drawdown of Tajikistan's claim on CBR	0.0	0.0	0.0	0.0	6.8	2.4	3.1	1.4	0.0	0.9	0.0	0.5	2.0
Net domestic	-0.8	-2.3	0.6	-0.3	0.5	-0.1	0.3	-5.6	-6.1	2.2	2.3	-0.9	0.6
NBT 2/	-0.9	-1.6	-0.4	-0.7	-0.6	-0.7	-0.2	-6.0	-6.5	1.8	1.9	-1.4	0.0
Commercial banks	0.1	-1.3	0.6	0.0	0.1	0.0	0.3	-0.7	0.1	0.2	0.2	0.0	0.2
Tajik Rail repayment	-0.3	-0.4	-0.4	-0.3	-0.2	-0.3	-0.3	0.3	0.0	0.0	0.0	0.1	0.0
Gross proceeds from privatization	0.3	1.0	0.7	0.7	1.2	0.9	0.6	0.8	0.4	0.3	0.2	0.4	0.4
Other nonbank	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
<i>Memorandum items:</i>													
GDP (In millions of somoni)	2,512	508	686	979	1,171	3,345	3,045	755	833	1,199	1,262	4,050	3,600

Sources: Tajik authorities; and Fund staff estimates.

1/ Excludes payments to Uzbekistan which are paid in kind by Tajik Rail.

2/ Differences between these figures and those in the accounts of NBT reflect the revaluation of foreign exchange deposits.

Table 3. Tajikistan: Functional Classification of General Government Finances, 2000-2006
(In millions of somoni, unless otherwise indicated)

	2000		2001		2002		2003		2004		2005		2006	
	Act.	Percent of GDP	Act.	Percent of GDP	Act.	Percent of GDP	Rev. Prog. 1/	Percent of GDP	Proi. 1/	Percent of GDP	Proi. 1/	Percent of GDP	Proi. 1/	Percent of GDP
Overall revenue and grants	246	13.6	382	15.2	560	16.7	689	17.0	779	17.6	872	18.1	969	18.4
Tax revenues	232	12.9	353	14.1	492	14.7	628	15.5	712	16.1	793	16.4	897	17.0
Total expenditures and lending minus repayments	346	19.2	462	18.4	641	19.2	847	20.9	912	20.6	1,017	21.1	1,127	21.4
General administrative services	49	2.7	66	2.6	91	2.7	115	2.9	108	2.4	116	2.4	131	2.5
Protection services	43	2.4	57	2.3	71	2.1	85	2.1	93	2.1	100	2.1	109	2.1
Social services	119	6.6	172	6.9	233	7.0	294	7.3	343	7.7	395	8.2	462	8.8
Education	36	2.0	63	2.5	87	2.6	112	2.8	118	2.7	133	2.8	152	2.9
Health	16	0.9	24	1.0	30	0.9	40	1.0	52	1.2	71	1.5	82	1.6
Social security and welfare	42	2.3	47	1.9	67	2.0	101	2.5	109	2.5	122	2.5	150	2.8
Other social services	25	1.4	38	1.5	49	1.5	42	1.0	63	1.4	68	1.4	79	1.5
Economic services	37	2.1	58	2.3	64	1.9	93	2.3	104	2.4	126	2.6	135	2.6
Interest payments	24	1.3	38	1.5	63	1.9	88	2.2	92	2.1	93	1.9	95	1.8
Other services	2	0.1	17	0.7	41	1.2	49	1.2	39	0.9	42	0.9	37	0.7
External financed PIP	72	4.0	54	2.1	79	2.4	121	3.0	133	3.0	145	3.0	158	3.0
Overall balance (incl. externally financed PIP)	-100	-5.6	-80	-3.2	-82	-2.4	-158	-3.9	-133	-3.0	-145	-3.0	-158	-3.0
Net arrears/rescheduling of interest	17	1.0	25	1.0	0	0.0	0	0.0	0	0.0	0	0.0	0	0.0
Overall balance (incl. externally financed PIP, cash basis)	-83	-4.6	-56	-2.2	-82	-2.4	-158	-3.9	-133	-3.0	-145	-3.0	-158	-3.0
Overall balance (excl. externally financed PIP, cash basis)	-11	-0.6	-2	-0.1	-3	-0.1	-36	-0.9	0	0.0	0	0.0	0	0.0
Primary balance (excl. externally financed PIP, cash basis)	-5	-0.3	12	0.5	60	1.8	52	1.3	92	2.1	93	1.9	95	1.8
Total financing	83	4.6	56	2.2	82	2.4	158	3.9	133	3.0	145	3.0	158	3.0
Net external	118	6.5	75	3.0	86	2.6	196	4.8	183	4.1	96	2.0	81	1.5
Net domestic	-35	-2.0	-19	-0.8	-5	-0.1	-38	-0.9	-65	-1.5	-22	-0.5	-109	-2.1
Financing gap	0	0.0	0	0.0	0	0.0	0.0	0.0	15	0.3	71	1.5	186	3.5
<i>Memorandum item:</i>														
Nominal GDP (in million somoni)	1,807		2,512		3,345		4,050		4,423		4,830		5,274	

Sources: Tajik authorities; and Fund staff estimates.

1/ Includes interest and amortization due according to the 2002 restructuring agreement with Russia.

Table 4. Tajikistan: Accounts of the National Bank of Tajikistan, 2001-2003
(End-of-period stock; unless otherwise specified)

	2001		2002			2003						
	Dec.	Dec.		Mar.		Apr.	Jun.		Sep.		Dec.	
	Act.	Act.	Act. 1/	Act.	Act. 1/	Act. 1/	Rev. Prog. 1/	EBS/02 /188	Rev. Prog. 1/	EBS/02 /188	Rev. Prog. 1/	EBS/02 /188
(In millions of U.S. dollars; unless otherwise specified)												
Net international reserves	-14.5	2.7	1.3	15.3	14.9	17.8	35.1	21.6	28.7	34.2	22.4	33.1
Gross assets	95.7	96.2	96.1	99.7	99.7	101.3	118.6	113.8	123.2	126.4	127.6	135.9
Gross liabilities	110.2	93.5	94.8	84.4	84.8	83.5	83.6	92.2	94.5	92.2	105.2	102.9
Official exchange rate (SM/US\$)	2.55	3.00	3.00	3.08	3.08	3.09	...	...	...	...	...	...
Program exchange rate (SM/US\$)	...	...	3.00	...	3.00	3.00	3.00	3.00	3.00	3.00	3.00	3.00
(In millions of somoni)												
Net foreign assets	-37.0	8.2	4.0	47.2	44.7	53.4	105.2	64.9	86.0	102.7	67.3	99.2
Gross assets	244.0	288.5	288.3	307.3	299.2	303.8	355.8	341.4	369.5	379.3	382.8	407.8
Gross liabilities	281.0	280.4	284.4	260.1	254.5	250.4	250.7	276.6	283.4	276.6	315.5	308.6
Net domestic assets	190.5	176.9	181.1	127.7	129.6	123.2	67.9	108.3	92.5	79.9	117.3	85.4
Net credit to general government	-31.1	-9.3	-9.3	-65.0	-61.6	-63.7	-114.6	22.9	-90.5	3.7	-63.9	9.1
<i>Of which:</i>												
Somoni credits	89.7	89.4	89.4	89.4	89.4	89.4	89.4	179.7	89.4	190.2	89.4	190.2
Longterm bonds 2/	...	64.3	64.3	64.3	64.3	64.3	64.3	64.3	64.3	64.3	64.3	64.3
Treasury bills	3.0	3.0	3.0	3.0	3.0	3.0	3.0	3.0	3.0	3.0	3.0	3.0
Deposits (-)	-38.0	-65.1	-65.1	-113.1	-112.6	-114.1	-102.6	-75.9	-94.8	-72.6	-88.3	-82.6
<i>Of which: Privatization fund (-)</i>	-7.1	-26.7	-26.7	-34.3	-34.3	-36.6	-37.3	...	-40.3	...	-43.3	...
Counterpart deposits	-85.8	-101.0	-101.0	-108.7	-105.8	-106.4	-168.7	-148.3	-152.5	-181.3	-132.4	-165.9
EU	-21.4	-18.3	-18.3	-23.1	-22.5	-23.1	-18.6	-36.1	-18.6	-39.1	-14.7	-42.1
World Bank	-47.2	-47.4	-47.4	-41.9	-40.8	-40.8	-109.2	-92.1	-95.9	-122.1	-82.4	-103.7
AsDB	-17.1	-35.2	-35.2	-36.2	-35.2	-35.2	-35.2	-20.1	-35.2	-20.1	-35.2	-20.1
Credit to the private sector	253.3	205.2	205.2	206.5	204.8	204.2	204.8	205.9	204.8	205.9	204.8	205.9
<i>Of which:</i>												
Claims on banks	37.6	34.1	34.1	33.7	33.6	33.0	33.6	38.1	33.6	38.1	33.6	38.1
Claims on private sector	12.4	85.1	85.1	85.4	85.4	85.5	85.4	3.6	85.4	3.6	85.4	3.6
ALCO 2/	203.3	86.0	86.0	87.4	85.7	85.7	85.7	164.2	85.7	164.2	85.7	164.2
Other items, net	-31.7	-19.0	-14.8	-13.8	-13.6	-17.3	-22.3	-120.4	-21.7	-129.7	-23.6	-129.6
<i>Of which:</i>												
NBT bills	-0.2	-9.0	-9.0	-10.2	-10.2	-10.6	-9.2	-0.5	-8.2	-1.2	-13.5	-4.2
Reserve money	153.5	185.0	185.0	174.8	174.3	176.6	173.1	173.2	178.6	182.6	184.6	184.6
Currency in circulation	110.8	140.8	140.8	131.9	131.9	124.6	142.1	142.5	151.7	152.0	154.3	153.9
Bank reserves	32.5	35.8	35.8	29.6	29.3	39.6	23.3	22.8	20.4	23.0	23.4	23.8
<i>Of which:</i>												
Required reserves	8.8	11.9	11.9	12.9	12.7	14.3	16.0	16.3	17.3	17.8	18.0	17.6
Somoni	7.0	5.5	5.5	5.9	5.9	7.0	7.1	12.1	7.8	13.6	9.2	13.4
Foreign exchange	1.8	6.3	6.3	7.0	6.9	7.3	9.0	4.2	9.5	4.1	8.8	4.2
Other deposits	10.2	8.4	8.4	13.4	13.1	12.4	7.7	7.9	6.5	7.6	6.9	7.0
Somoni	1.5	1.3	1.3	1.5	1.5	1.3	0.8	0.8	0.8	0.8	1.0	1.0
Foreign exchange	8.7	7.1	7.1	11.9	11.6	11.1	6.9	7.0	5.7	6.8	5.8	6.0
(Cumulative change as a percent of reserve money over the previous 12 months)												
Memorandum items:												
Net international reserves	12.9	29.4	37.7	47.1	54.9	65.1	88.0	72.5	52.9	76.6	34.2	34.1
Net domestic assets	15.9	-8.9	-19.7	-29.3	-38.3	-40.6	-73.4	-57.9	-50.1	-71.4	-34.5	-22.3
Reserve money	28.9	20.5	18.0	17.8	16.7	24.4	14.6	14.6	2.8	5.1	-0.3	11.8

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

1/ Data are based on end-period program exchange rate of SM 3.0 = US\$1 and SDR 1 = US\$1.366; from December 2003 SDR 1 = US\$1.363 in line with the World Economic Outlook, April 2003, assumptions.

2/ On February 11, 2002, SM 64.348 million were transferred out of ALCO into long term government bonds as agreed in the agreement signed by the NBT and the government

Table 5. Tajikistan: Monetary Survey, 2001–2003
(In millions of somoni; end-of-period stock unless otherwise specified)

	2001	2002		2003							
	Dec.	Dec		Mar.		Jun.		Sep.		Dec.	
	Act.	Act.	Act. 1/	Act. 1/	EBS/02	Rev.	EBS/02	Rev.	EBS/02	Rev.	EBS/02
				/188	/188	Prog. 1/	/188	Prog. 1/	/188	Prog. 1/	/188
Net foreign assets	-251.0	-267.2	-271.4	-286.8	-239.3	-238.3	-261.1	-239.4	-220.3	-193.7	-142.8
National Bank of Tajikistan	-37.0	8.2	4.0	44.7	61.2	105.2	64.9	86.0	102.7	67.3	99.2
Commercial banks	-214.0	-275.4	-275.4	-331.4	-300.5	-343.4	-326.0	-325.4	-323.0	-260.9	-242.0
Net domestic assets	450.4	541.1	545.4	545.1	520.3	531.7	554.7	550.8	531.7	517.7	466.8
Net credit to general government	-36.9	-16.5	-16.5	-74.2	25.6	-126.2	28.4	-100.1	11.2	-71.5	18.6
<i>Of which:</i>											
Somoni credits	90.4	89.9	89.9	89.5	180.4	89.5	180.4	89.9	190.9	89.9	190.9
Longterm bonds 2/	...	64.3	64.3	64.3	64.3	64.3	64.3	64.3	64.3	64.3	64.3
Treasury bills	5.5	3.3	3.3	3.3	4.3	3.3	4.4	3.3	4.4	3.3	4.4
Deposits (-)	-46.9	-73.0	-73.0	-125.6	-67.3	-114.6	-72.4	-105.1	-67.1	-96.6	-75.1
Counterpart deposits	-85.8	-101.0	-101.0	-105.8	-156.2	-168.7	-148.3	-152.5	-181.3	-132.4	-165.9
Credit to the private sector 2/	575.2	627.2	627.2	708.2	665.9	756.5	698.9	750.0	701.6	684.9	626.3
Other items net	-87.9	-69.5	-65.3	-88.9	-171.2	-98.6	-172.6	-99.1	-181.1	-95.6	-178.0
Broad money	199.4	274.0	274.0	258.3	281.0	293.4	293.6	311.4	311.4	324.1	324.0
Somoni broad money	140.5	195.0	195.0	180.2	176.9	208.9	190.6	222.6	206.3	239.9	218.9
Currency outside banks	103.6	135.6	135.6	120.2	136.2	134.5	139.4	143.6	145.2	145.8	149.7
Deposits	36.8	59.4	59.4	60.0	40.7	74.4	51.2	79.0	61.1	94.2	69.2
Foreign currency deposits	58.9	78.9	78.9	78.1	104.1	84.5	103.0	88.9	105.1	84.2	105.2
<i>Memorandum items:</i>											
Year-to-year average of quarterly velocity 3/	3.7	3.5	3.3	3.5	2.9	3.4	2.8	3.5	2.8	3.4	2.9
Money multiplier 4/	1.3	1.5	1.5	1.5	1.7	1.7	1.7	1.7	1.7	1.8	1.8
Broad money (12-month percent change)	33.4	37.4	30.6	18.4	28.9	23.0	23.1	17.0	16.9	18.3	17.2

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

1/ Data are based on program exchange rate of SM 3.0 = US\$1 and SDR 1 = US\$1.366; from December 2003 SDR 1 = US\$1.363 in line with the World Economic Outlook, April 2003, assumptions.

2/ On February 11, 2002, SM 64.348 million were transferred out of ALCO into long term government bonds as agreed in the agreement signed by the NBT and the government.

3/ Quarterly GDP divided by end-quarter broad money.

4/ Total broad money divided by reserve money.

Table 6. Tajikistan: Balance of Payments, 2001-2003
(In millions of US dollars)

	2001	2002				2002	2003				2003
		Q1	Q2	Q3	Q4		Q1	Q2	Q3	Q4	
Current account	-74	-38	-14	13	5	-33	-26	-22	-19	1	-67
Balance on goods and services	-129	-69	-37	-29	-24	-160	-72	-39	-30	-12	-154
Balance on goods	-121	-59	-28	-21	-15	-124	-56	-22	-21	0	-99
Exports	652	160	166	171	202	699	170	184	181	230	766
Of which: aluminum	398	93	99	102	105	399	94	102	111	113	421
cotton fiber	71	29	26	20	53	128	41	34	21	70	166
Imports	773	219	195	192	217	823	226	206	202	229	864
Balance on services 1/	-7	-10	-9	-8	-9	-36	-16	-17	-9	-13	-55
Balance on income	-77	-10	-10	-9	-29	-58	-23	-18	-23	-18	-82
Balance on transfers	131	41	33	51	59	184	68	36	34	31	169
Of which: Migrants' remittances, net 2/	48	2	7	22	34	65	26	21	19	19	87
Capital and financial account	65	43	17	-6	0	54	36	42	9	-7	81
Capital transfers	12	0	2	2	2	5	11	1	1	1	15
Public sector (net)	-18	-7	3	3	3	2	1	9	9	7	26
Disbursements	22	4	7	7	10	28	10	10	10	10	41
Amortization	-40	-11	-4	-4	-6	-25	-10	-1	-1	-3	-15
World Bank	25	0	0	0	0	0	0	25	0	0	25
AsDB	0	0	0	0	5	5	0	0	0	0	0
FDI	9	2	11	8	14	36	4	3	5	6	18
Commercial bank NFA (- increase)	20	31	-6	-29	12	8	19	4	-6	-22	-5
Electricity credit	20	1	1	-2	3	4	3	0	0	0	3
Other capital and errors and omissions	-3	16	6	12	-40	-6	-1	0	0	0	-1
Overall balance	-9	6	3	7	5	21	10	20	-10	-6	14
Use of international reserves (- increase)	-8	-4	8	3	-8	-1	-4	-19	-5	-4	-31
Financing items	18	-2	-10	-11	3	-21	-6	-1	14	11	18
IMF (net)	3	-2	-10	-11	0	-24	-10	-1	11	11	11
Purchases/disbursements	15	0	0	0	11	11	0	0	11	13	24
Repurchases/repayments	12	2	10	11	11	35	10	1	0	2	14
Other reserve liabilities	0	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) 3/	-41	0	0	0	-23	-23	0	0	0	0	0
Drawdown of Tajikistan's deposits with the CBR	...	...	...	...	27	27	4	0	4	0	7
Rescheduling 4/	55	0	0	0	0	0	0	0	0	0	0
Financing gap	0	0	0	0	0	0	0	0	0	0	0
As a share of GDP	...	...	...	...	...	0.0	...	...	...	...	0.0
<i>Memorandum items:</i>											
Current account balance in percent of GDP	-7.1	...	...	...	...	-2.8	...	...	...	...	-5.0
(excluding transfers)	-19.9	...	...	...	...	-18.2	...	...	...	...	-17.5
Terms of trade	-1.7	...	...	...	...	-8.5	...	...	...	...	9.3
Net international reserves	-14.5	-8.5	-8.8	-3.3	2.7	2.7	15.3	35.1	28.7	22.4	22.4
Gross reserves	95.7	99.3	91.7	88.4	96.2	96.2	99.7	118.6	123.2	127.6	127.6
(in months of imports)	1.9	2.6	2.2	1.9	1.8	1.8	1.8	2.1	2.1	2.1	2.1
Total debt service due	118	...	...	...	...	117	...	...	...	...	97
(in percent of exports) 5/	25.6	...	...	...	...	23.5	...	...	...	...	17.1
Total external debt	1,017	...	...	...	...	976	...	...	...	...	1,049
(in percent of GDP)	98.4	...	...	...	...	81.5	...	...	...	...	77.9

Sources: Tajik authorities; and Fund staff estimates.

1/ Beginning in 2003, transportation and insurance costs have been revised upward to reflect international prices.

2/ Workers' remittances have been reclassified from current income to current transfers following the guidelines of the 5th manual of the balance of payments.

3/ Repayment of arrears in 2002 pertains to the Russian rescheduling agreement (December 2002).

4/ The rescheduling in 2001 reflects restructuring of Tajikistan's debt to the European Union.

5/ Excluding alumina and electricity imports, which are traded on a barter basis.

Table 7. Tajikistan: Balance of Payments, 2001-2010
(In millions of US dollars)

	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
	Revised projections									
Current account	-74	-33	-67	-68	-71	-72	-70	-65	-63	-58
Balance on goods and services	-129	-160	-154	-156	-149	-153	-153	-149	-141	-136
Balance on goods	-121	-124	-99	-91	-84	-88	-86	-81	-73	-68
Exports	652	699	766	826	870	896	924	950	975	1,001
<i>Of which:</i> aluminium	398	399	421	448	468	477	485	494	499	504
cotton fiber	71	128	166	180	192	199	206	213	222	231
Imports	773	823	864	917	953	984	1,010	1,032	1,049	1,070
Balance on services 1/	-7	-36	-55	-65	-65	-65	-66	-68	-67	-68
Balance on income	-77	-58	-82	-79	-83	-85	-90	-93	-101	-105
Balance on transfers	131	184	169	166	161	166	172	176	179	183
<i>Of which:</i> Migrants' remittances 2/	48	65	87	94	101	109	118	127	135	146
Capital and financial account	65	54	81	75	54	43	39	42	50	56
Capital transfers	12	5	15	7	0	0	0	0	0	0
Public sector (net)	-18	2	26	25	11	11	4	6	10	13
Disbursements	22	28	41	43	45	48	52	54	57	61
Amortization	-40	-25	-15	-18	-35	-37	-48	-48	-47	-48
World Bank	25	0	25	13	13	0	0	0	0	0
AsDB	0	5	0	7	0	0	0	0	0	0
FDI	9	36	18	24	30	32	34	36	40	43
Commercial bank NFA (- increase)	20	8	-5	0	0	0	0	0	0	0
Electricity credit	20	4	3	0	0	0	0	0	0	0
Other capital and errors and omissions	-3	-6	-1	0	0	0	0	0	0	0
Overall balance	-9	21	14	7	-17	-29	-32	-23	-13	-2
Use of international reserves (- increase)	-8	-1	-31	-34	-26	-14	0	0	0	0
Financing items	18	-21	18	23	21	-13	-14	-14	-12	-15
IMF (net)	3	-24	11	16	14	-14	-14	-14	-12	-15
Purchases/disbursements	15	11	24	27	27	0	0	0	0	0
Repurchases/repayments	12	35	14	11	13	14	14	14	12	15
Other reserve liabilities	0	0	0	0	0	0	0	0	0	0
Debt service account (- increase)	0	0	0	0	0	0	0	0	0	0
Arrears (+ increase) 3/	-41	-23	0	0	0	0	0	0	0	0
Drawdown of Tajikistan's deposit with the CBR	...	27	7	7	7	2	0	0	0	0
Rescheduling 4/	55	0	0	0	0	0	0	0	0	0
Financing gap	0	0	0	5	22	56	46	37	25	17
As a share of GDP	...	0.0	0.0	0.3	1.5	3.5	2.7	2.1	1.3	0.8
<i>Memorandum items:</i>										
Current account balance in percent of GDP	-7.1	-2.8	-5.0	-4.8	-4.7	-4.5	-4.1	-3.6	-3.3	-2.8
(excluding transfers)	-19.9	-18.2	-17.5	-16.4	-15.3	-14.8	-14.2	-13.3	-12.6	-11.8
Net international reserves	-14.5	2.7	22.4	41.2	55.0	87.5	117.2	144.5	163.4	178.6
Gross reserves	95.7	96.2	127.6	161.9	187.9	202.0	202.0	202.0	202.0	202.0
(in months of imports)	1.9	1.8	2.1	2.5	2.8	3.0	2.9	2.8	2.8	2.7
Total debt service due	118	117	97	81	102	105	116	119	115	117
(in percent of exports) 5/	25.2	23.4	17.1	13.2	15.8	15.7	16.8	16.7	15.7	15.6
Total external debt	1,017	976	1,049	1,124	1,185	1,240	1,274	1,304	1,328	1,342
(in percent of GDP)	98.4	81.5	77.9	78.7	78.2	77.1	74.7	72.1	69.2	66.0

Sources: Tajik authorities; and Fund staff estimates.

1/ Beginning in 2003, transportation and insurance costs have been revised upward to reflect international prices.

2/ Workers' remittances have been reclassified from the current income to current transfers following the guidelines of the 5th manual of the balance of payments.

3/ Repayments of arrears in 2002 pertains to the Russian rescheduling agreement (December 2002).

4/ The rescheduling in 2001 reflects restructuring of Tajikistan's debt to the European Union.

5/ Excluding alumina and electricity imports, which are traded on a barter basis.

Table 8. Tajikistan: Medium-Term Projections, 2000-2006

	2000	2001	2002	2003	2004	2005	2006
	Projections						
National income and prices							
Nominal GDP (in millions of somoni)	1,807	2,512	3,345	4,050	4,423	4,830	5,274
Nominal GDP (in millions of U.S. dollars)	991	1,033	1,197	1,346	1,313	1,392	1,477
Real GDP (annual percent change)	8.3	10.2	9.1	6.0	4.0	4.0	4.0
GDP per capita (in U.S. dollars)	155.4	165.8	184.3	203.3	194.7	202.7	212.0
GDP deflator (annual percent change)	24.8	29.3	21.9	14.2	5.0	5.0	5.0
Consumer prices (12-month percent change, e.o.p.)	60.6	12.5	14.5	9.0	5.0	5.0	5.0
Consumer prices (year-on-year percent change, average)	32.9	38.6	12.2	14.5	5.0	5.0	5.0
(In percent of GDP)							
General government finances							
Total revenue and grants	13.6	15.2	16.7	17.0	17.6	18.1	18.4
<i>Of which:</i>							
Tax revenue	12.9	14.1	14.7	15.5	16.1	16.4	17.0
Total expenditure	19.2	18.4	19.2	20.9	20.6	21.1	21.4
<i>Of which:</i>							
Current expenditure	12.5	13.2	13.7	14.7	13.8	13.9	14.2
Fiscal balance (excluding PIP, cash basis)	-0.6	-0.1	-0.1	-0.9	0.0	0.0	0.0
Primary balance	-0.3	0.5	1.8	1.3	2.1	1.9	1.8
Public investment projects (PIP)	4.0	2.1	2.4	3.0	3.0	3.0	3.0
Savings/investment balances							
Current account balance	-6.5	-7.1	-2.8	-5.0	-4.8	-4.7	-4.5
Overall fiscal balance (including PIP, cash basis)	-4.6	-2.2	-2.4	-3.9	-3.0	-3.0	-3.0
Fiscal balance (excluding PIP, cash basis)	-0.6	-0.1	-0.1	-0.9	0.0	0.0	0.0
PIP	4.0	2.1	2.4	3.0	3.0	3.0	3.0
Net savings (S-I) of the private sector ^{1/}	-1.9	-4.9	-0.3	-1.1	-1.8	-1.7	-1.5
(In millions of U.S. dollars; unless otherwise specified)							
External sector							
Exports of goods	788	652	699	766	826	870	896
Imports of goods	834	773	823	864	917	953	984
Current account balance	-62	-74	-33	-67	-68	-71	-72
Gross international reserves	87	96	96	128	162	188	202
Gross international reserves (in months of imports)	2.1	1.9	1.8	2.1	2.5	2.8	3.0

Sources: Tajik authorities; and Fund staff estimates.

^{1/} Defined as the current account balance less the overall fiscal balance (including PIP).

Table 9. Tajikistan: Fund Position During the Period of the PRGF Arrangement, October 2002-September 2005
(In millions of SDR; unless otherwise specified)

	Outstanding on 30-Sep-02	2002	2003				2004				2005		
		Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3
Disbursements													
PRGF	...	8.00	0.00	0.00	8.00	9.80	0.00	9.80	0.00	9.80	0.00	9.80	0.00
Repurchases/repayments	...	8.21	7.27	0.94	0.00	1.80	0.00	4.03	0.00	4.03	0.67	4.03	0.67
Ordinary resources	...	1.88	0.94	0.94	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
PRGF	...	6.33	6.33	0.00	0.00	1.80	0.00	4.03	0.00	4.03	0.67	4.03	0.67
Charges and interests	...	0.20	0.00	0.16	0.00	0.18	0.00	0.20	0.00	0.21	0.00	0.22	0.00
Ordinary resources	...	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
PRGF	...	0.20	0.00	0.16	0.00	0.18	0.00	0.20	0.00	0.21	0.00	0.22	0.00
SDR charges	...	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Total Fund credit outstanding (e.o.p.)	69.37	69.17	61.90	60.96	68.96	76.96	76.96	82.73	82.73	88.50	87.83	93.60	92.94
Ordinary resources	3.75	1.88	0.94	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
PRGF	65.62	67.29	60.96	60.96	68.96	76.96	76.96	82.73	82.73	88.50	87.83	93.60	92.94
			(In percent of quota)										
Total Fund credit outstanding (e.o.p.)	79.74	79.50	71.15	70.07	79.26	88.46	88.46	95.09	95.09	101.72	100.96	107.59	106.83
PRGF disbursements	...	9.20	0.00	0.00	9.20	11.26	0.00	11.26	0.00	11.26	0.00	11.26	0.00
Repurchases/repayments	...	9.43	8.35	1.08	0.00	2.07	0.00	4.63	0.00	4.63	0.77	4.63	0.77
Charges and interests	...	0.23	0.00	0.19	0.00	0.21	0.00	0.23	0.00	0.25	0.00	0.26	0.00

Sources: International Monetary Fund.

TAJIKISTAN: FUND RELATIONS
(As of April 30, 2003)

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

II. General Resources Account:	<u>SDR Million</u>	<u>%Quota</u>
Quota	87.00	100.00
Fund holdings of currency	87.00	100.00
Reserve position in Fund	0.00	0.00

III. SDR Department:	<u>SDR Million</u>	<u>%Allocation</u>
Holdings	0.19	N/A

IV. Outstanding Purchases and Loans:	<u>SDR Million</u>	<u>%Quota</u>
PRGF arrangements	60.96	70.07
Credit Tranche	0.94	1.08

V. **Latest 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>
PRGF	Dec 11, 2002	Dec 10, 2005	65.00	8.00
ESAF/PRGF	Jun 24, 1998	Dec 24, 2001	100.30	78.28
Stand-by	May 08, 1996	Dec 07, 1996	15.00	15.00

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

	<u>Forthcoming</u>				
	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>
Principal	1.80	8.06	9.39	10.59	10.59
Charges/Interest	0.32	0.29	0.24	0.19	0.14
Total	2.12	8.35	9.63	10.78	10.73

VII. **Implementation of HIPC Initiative:**

Not Applicable.

VIII. Safeguards Assessments:

An on-site safeguards assessment of the National Bank of Tajikistan (NBT) was completed on November 27, 2001 under the original safeguards policy and concluded that high risks existed in the financial reporting framework, the internal audit mechanism, and the system of internal controls. Staff's findings and recommendations were reported to the Board for information in April 2002 (EBS/02/58). Under the Fund's safeguards assessment policy, the NBT is subject to a full safeguards assessment with respect to the PRGF arrangement which was approved on December 11, 2002. A follow-up safeguards mission visited Tajikistan during May 19-30, 2003, and its initial findings are reflected in this staff report.

IX. Exchange Rate Arrangements:

A currency conversion took place on October 30, 2000 replacing the Tajik ruble, which had been 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). Beginning in November 2001, the authorities began setting the official exchange rate once a week based on a weighted average of exchange rates in the official interbank market. On August 12, 2002, the NBT revised the calculation of the official exchange rate to include all inter- and intra-bank transactions in foreign exchange. 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 June 6, 2003, the official exchange rate was somoni 3.09 per U.S. dollar.

X. Article IV Consultation:

The 2002 Article IV consultation missions were held during April 25-May 4, 2002, July 9-18, 2002, and October 3-10, 2002. The 2002 Article IV report, dated November 13, 2002, was considered by the Executive Board on December 11, 2002. Tajikistan is on the 24-month consultation cycle, subject to the provisions of the decision on consultation cycles approved on July 15, 2002.

XI. Resident Representative:

Mr. Khawaja, Resident Representative of the Fund, started his assignment in Dushanbe in March 2003. Mr. Lorie, Senior Resident Representative of the Fund, held this position during September 1999-February 2003.

XII. Resident Advisors:

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 conducted four peripatetic visits, and ended on April 2001. A general policy advisor to the National Bank of Tajikistan started his one-year assignment in April 1999, and the assignment was extended for three months to July 1999. A treasury advisor was re-assigned for another 12 months beginning in April 2000. As part of a Swiss-Funded Tajikistan Tax Administration Reform Project, a general tax administration advisor, a VAT administration advisor, and a computer systems advisor participated in peripatetic assignments from September 1999 onwards. A bank restructuring expert conducted peripatetic visits during 2002. A resident debt management expert, financed by the Swiss Secretariat for Economic Affairs, began his assignment in May 2003.

XIII. 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
September/October 1995	Social safety net
October 1995	Macroeconomic and financial policy seminar
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/November 1998	Tax Code Assessment
September 1999	Tax administration

September 1999	Law on Foreign Debt and Government Guarantees, Tax Code amendments
July 2001	Tax Administration
August 2002	Tax Policy and Administration

Monetary and Financial Systems:

November 1993	Monetary operations and money market development, banking supervision, foreign exchange operations and management, the payments system, and central bank legislation
January/February 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
January/February 2001	Bank restructuring
August 2001	Multi-topic
July 2002	Multi-topic

Statistics:

February/March 1994	Government finance, money and banking, balance of payments, and national account and price statistics
January/February 1995	Money and banking statistics
April/May 1995	National accounts and price statistics

July 1995	Money and banking statistics
September/October 1995	Price statistics
November/December 1995	Balance of payments statistics
September 1996	Money and banking statistics
November 1996	National accounts statistics
October/November 1997	Balance of payments statistics
April 1998	Money and banking statistics
April 1999	Money and banking statistics
March 2002	Balance of payments statistics
October/November 2002	Money and banking statistics
January 2003	Balance of payments statistics
February 2003	Money and banking statistics
May 2003	Balance of payments statistics
Finance:	
October 1995	Accounting of Fund transactions
July 2001	Safeguards assessment stage two
May 2003	Safeguards assessment follow-up
Legal:	
April/May 2001	Legislation on State Audit Agency, the Budget System and Taxation
March 2003	Tax Legislation

TAJIKISTAN: RELATIONS WITH THE WORLD BANK
(As of May 31, 2003)

Country Director: Mr. Dennis N. de Tray

Telephone: (202) 473 3544

A. Partnership in Tajikistan's Development Strategy

1. The government's poverty reduction strategy, embodied in its first full PRSP, was endorsed by the IDA and IMF Boards in December 2002. The strategy comprises four elements: sustainable growth, improved governance, better provision of basic social services, and targeted support for the poor. While the PRSP's overall direction was considered appropriate by the IMF and IDA Boards, lack of prioritization was identified as a major weakness. The Country Assistance Strategy, approved by the Bank's Board of Executive Directors on February 27, 2003, recognizes this concern by emphasizing selectivity.
2. Macroeconomic management aims at establishing a stable economic environment through appropriate fiscal, monetary, exchange rate, and sustainable debt policies. In support of these policies, the authorities are tightening payment discipline, especially in the energy sector, hardening budget constraints for state-owned enterprises, and pursuing enterprise and banking privatization and restructuring. Recent improvements in macroeconomic management have supported the current economic recovery, although maintaining strong growth will depend importantly on accelerating structural reform to enhance private sector development, and to encourage foreign and domestic investment.
3. The IMF has taken the lead in assisting Tajikistan in enhancing macroeconomic stability. In this regard, the Fund has encouraged the authorities to continue with fiscal consolidation, to maintain a restrictive monetary policy stance, and to restructure external debt to reduce the heavy burden and to enhance debt sustainability. The Fund has supported Tajikistan's economic reform program since 1996. During January-June 2002, the authorities successfully implemented a Staff Monitored Program, which formed the basis of a new Fund-supported program under the Poverty Reduction and Growth Facility (PRGF), approved by the Executive Board in December 2002. The program covers the period October 1, 2002-September 30, 2005 with the first review scheduled for July 2003.
4. The World Bank has taken the lead in the policy dialogue on structural issues, including poverty reduction measures, agriculture sector reforms, private sector development, institution building and governance. A range of instruments is used to conduct the dialogue. The Second Structural Adjustment Credit (SAC 2) is supporting a multi-sectoral structural reform agenda with the Second Institutional Building and Technical Assistance Credit (IBTA 2) financing institutional capacity building of government budget preparation and execution, public administration reform, and privatization. This broad-based approach is combined with sector projects in rural infrastructure and power, agriculture, environment, health, education, and poverty alleviation. A Country Economic Memorandum (CEM) was completed in 2001. A combined Public Expenditure and Investment Review (PEIR), Country Procurement Assessment Review (CPAR), Country Financial Accountability Assessment

(CFAA) are currently under preparation. In addition, a Living Standards Survey and a Poverty Assessment are currently underway.

5. The next section describes the Bank program and the division of responsibility between the two institutions. In a number of areas—social sectors, environment, and infrastructure—the Bank takes the lead in the dialogue and there is no cross conditionality with the IMF-supported program. The Bank is also leading the dialogue on private sector and agriculture sector reform and Bank analysis serves as input into the Fund program. In other areas—energy, financial sector, public expenditure management, public sector—both institutions work together and share cross conditionality. Finally, in areas like monetary policy, tax policy, and customs the IMF takes the lead with little Bank involvement.

Tajikistan: Collaboration of the World Bank and the IMF

Area	Specialized Advice from Fund	Specialized Advice from Bank	Key Instruments
Economic Framework/Management	Monetary policy, exchange rate, fiscal, and trade policies, economic statistics	Economic growth, economic statistics	<i>IMF</i> : PRGF performance criteria and benchmarks on monetary and fiscal targets. <i>Bank</i> : SAC2 conditionality on directed credits.
Budget	Medium-term budget framework, tax policy and administration, customs, debt management, extra budgetary funds	Budget management, debt management and statistics, Public Expenditure Review, Country Procurement Assessment	<i>IMF</i> : PRGF performance criteria on overall fiscal balance, including PIP. <i>Bank</i> : SAC 2 conditions on customs reform, medium term budget framework, and PIP.
Public Sector Reform	Support to State Audit Agency	Civil service reform, anti-corruption agenda, decentralization	<i>IMF</i> : PRGF <i>Bank</i> : SAC 2 conditions on State Audit Agency.
Social/Poverty		Poverty analysis; reforms in education, health, social protection; support to community driven development	<i>IMF</i> : PRGF <i>Bank</i> : SAC 2 conditions on norm based-budgeting in the social sectors.
Private Sector Development	Bank supervision	Pricing policies, developing and implementing the privatization strategy, farm privatization, bank closure and restructuring	<i>IMF</i> : PRGF conditions on farm privatization, bank closures. <i>Bank</i> : SAC 2 conditions on control of utility arrears by the public sector, amendments to the collateral law and courts access fees, banking confidentiality, lower taxation in the agricultural sector, farm and enterprise privatization.
Other sectors		Reforms in agriculture, energy sector, water and sanitation, environment, infrastructure.	<i>Bank</i> : SAC 2 conditions on farm privatization. Investment loans in agriculture, water, power, environment.

B. IMF-World Bank Collaboration in Specific Areas

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

6. Areas in which the Bank leads and there is no direct IMF involvement are social sectors, infrastructure and environment. In the **social sphere**, the Bank has carried out regular *Poverty Assessments* to monitor poverty and develop programs to alleviate poverty. Currently, a *Living Standards Assessment (FY04)* is underway to update the poverty data since the 1999 Poverty Assessment and carry out a poverty impact assessment for the SAC III. Two *Poverty Alleviation* Projects have supported capacity development at the national and local level to implement participatory approaches to poverty alleviation and improve the access of the poor to essential economic and social services. In addition, the second *Poverty Alleviation* Project has provided support to vulnerable people through micro-projects, micro-finance services, and community empowerment.

7. **In education**, the Bank focuses on both addressing policy issues and utilizing IDA credit funds for solid investments. The ongoing *Education Reform LIL* and the *Education Modernization Project (FY03)* (under preparation), aim to upgrade the basic education system through: (a) building capacity for change by involving continued support for strategic changes in curriculum and textbook production and supporting improved management and finance at the national level; and (b) supporting local initiatives for infrastructure and quality improvement, support for textbook rental schemes and book printing, and provision of equipment at the local level.

8. **In health**, the Bank is focusing on: (a) rationalizing the delivery of the basic health services based on the needs of the population in selected districts, especially in remote areas where the poorest are located; (b) reform the public health services, with particular emphasis on prevention of major communicable diseases such as malaria, tuberculosis and HIV/AIDS; and (c) further strengthening the institutional capability (both at the center and district levels) to carry out health care reforms, to improve the system for budgeting and spending for basic health services, and to control outbreaks of communicable diseases and prevent HIV/AIDS epidemic from spreading. The ongoing *Primary Health Care Project* and the proposed *Community and Basic Health Project (FY05)* (under preparation) are the main instruments for the implementation of this agenda.

9. With regard to **infrastructure** development, the Bank is concentrating on upgrading basic utility services impacting the population at large and especially the poor. The *Dushanbe Water Supply Project* is helping the Dushanbe Municipality and the local water company to address the most critical deficiencies of water supply services. The *Pamir Private Power Project*, is supporting improvements in reliability and of electricity supply in the Gorno Badakshan region through private sector participation. The *Rural Infrastructure Rehabilitation Project* aims to increase water supply and efficiency of irrigation systems to newly privatized farms, develop institutional capacity in land and water resources management, and improve the quality of drinking water in selected villages.

10. **Environment.** The Bank has supported programs to improve environmental management and to deal with natural disasters. A National Environment Action Plan was developed with the Bank's help. The *Emergency Flood Assistance* and *Lake Sarez Risk Mitigation Projects* have helped the government to mitigate the consequences of frequent natural disasters and to build national capacity to increase government's preparedness to frequent natural hazards such as mudslides, rock-falls, avalanches, and seasonal floods.

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

11. The Bank leads the dialogue on structural reforms through the *SAC 2*, approved by the Bank's Board of Executive Directors in May 2001. Despite volatility in the policy environment caused by the situation in Afghanistan all policy actions supported by the second (and final) tranche of the credit but one have been satisfied. The government is working on the fulfillment of the remaining condition—carrying out an acceptable IAS audit of the Aluminum Company TADAZ—and intends to complete it in about three months. Institution building and technical assistance in support of structural reforms under *SAC 2* are supported by *IBTA 2* and *Farm Privatization Support Project*. The Bank leads in areas of:

- (i) **Private Sector Development**, including new measures for financial transparency and hard budget constraints, establishment of a new agency to support the private sector and improvements in the regulatory framework, and reduction of taxes on the agricultural sector. The Bank is conducting an Investment Climate Review to determine the most important impediments to private sector development.
- (ii) **Privatization and Enterprise Reforms and Farm Privatization**, including acceleration of privatization of medium and large enterprises, development of a plan to engage the private sector in Tajikistan's strategic enterprises and adoption of a strategy to privatize these enterprises in a medium term context, improvements to the corporate governance framework public enterprises; upgrading of the status of the Land Reform Committee to the equivalent of a ministry and acceleration of farm privatization and enforcement of procedures to ensure the transparency and equitable privatization of farm land; development of procedures and institutional mechanisms at the state level and selected regions to ensure fair and equitable transfer of land and other farm assets to private individuals or groups; creation of sustainable private family farming units and providing them with the enabling conditions to operate independently in a market economy.
- (iii) **Regulatory Reforms**, including separation of regulatory and commercial functions of the Tajiktelekom, development of a modern telecommunications law that would allow the emergence of a multi-operator industry structure and the development of a privatization plan for Tajiktelekom; and taking the first steps towards splitting Tajik Air's organizational structure into three different business units in order to prepare it for privatization.

12. While the Bank has taken the lead in privatization and in structural reforms in the private sector as described above, the IMF has also a strong interest in these areas since many of these reforms are critical to achieving macroeconomic stabilization and enhancing growth prospects. Accordingly, there is a high degree of consultation and coordination between the two institutions on these matters.

Areas of shared responsibility

13. The Bank and the Fund are working jointly in the following four main areas (supported by the Bank's SAC 2, several investment operations and the Fund's PRGF):

- (i) **Public Sector Management.** This area includes public administration reforms aimed at redefining the role of the state in line with the market economy needs, reorganizing key ministries, strengthening the Financial Control Office responsible for audit the budget, and supporting customs administration reforms. The Bank is involved in civil service reform while the Fund is providing technical assistance in support of tax and customs administration.
- (ii) **Budget Planning and Execution.** Both institutions work on providing support for a national Treasury, adoption of new Law on Public Finances introducing modern budgetary procedures and improved fiscal management; including Public Investment Program and switching from norm-based costing and allocation of expenditures to activity/population based in education and health sectors.
- (iii) **Financial Sector Reforms.** This area includes the acceleration of financial sector restructuring and closure of weak banks, new regulatory framework for the establishment of non-bank intermediaries; significant changes in the tax code making tax authorities' access to bank accounts conditional on a court authorization. In terms of banking supervision, the IMF is monitoring the closure and merger of banks that do not satisfy prudential requirements.
- (iv) **Utilities Reform.** The Fund has included in the PRGF arrangement conditionality related to energy tariff rates, energy arrears and collection rates with the aim to reduce the fiscal burden and increase transparency. The Bank's program supports this objective, with a focus on enhancing market structures, improved enterprise operation, service delivery, as well as financial performance. The Bank is also working closely together with the Asian Development Bank and the EBRD in the areas of utilities reform and restructuring of strategic enterprises such as the railways and airlines.

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

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

infrastructure, necessitates close cooperation. In addition to the achievement of overall fiscal targets, the Fund-supported PRGF includes structural benchmarks and performance criteria prohibiting the National Bank of Tajikistan (NBT) from issuing directed credit, from making expenditures not related to its core business activities, and from paying dividends while it has negative net worth. This also includes finalization of an inventory of guarantees, pledges, and other contingencies of NBT.

15. In the budgetary area the Fund is taking the lead on tax reforms and treasury systems development. The IMF also leads the dialogue on policies to rationalize and contain expenditures in the public sector. These include policies regarding wage-setting in both the public service, and defining the ceiling for public investment expenditures.

16. In these areas the Bank takes into account the policy recommendations of the IMF and ensures that its own policy advice is consistent.

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

17. The Fund takes the lead in the formulation and execution of fiscal and monetary policies, external policies, and issues involving economic and financial statistics. On trade issues, the Bank plans to complete a Trade Diagnostic Study which will lead to closer collaboration in this area.

C. World Bank Group Strategy

18. The World Bank Group Strategy and future proposed lending operations are elaborated in the CAS discussed by the Board of Directors on February 27, 2003. It focuses on three key areas which are consistent with the PRSP:

- building long-term institutions geared towards a market economy;
- generating growth with equity through private sector development; and
- addressing the pressing needs of the population through greater involvement at the local community level.

19. Tajikistan is currently in the Base Case Scenario. Continued support under this scenario would depend on macroeconomic performance, particularly good external debt management, and continued progress with structural reforms supported by a SAC III in FY04 (US\$10 million). Under this case, IDA would provide up to US\$80 million. This level of lending is lower than in the past due to phasing out of Tajikistan's status as a transition country in a post-conflict situation. A move to the High Case Scenario would include an additional US\$20 million in lending and would depend on consistent implementation of the IMF's PRGF program as well as accelerated progress in fiduciary, human development, and institutional reforms. This scenario would include a proposed PRSC in FY05 (US\$20 million). If the country fails to show adequate progress in meeting the Base Case

triggers, or the security situation deteriorates significantly, the country program would be downgraded to the Low Case Scenario with a lending program of up to US\$45 million with projects limited to basic social services.

TAJIKISTAN: RELATIONS WITH THE ASIAN DEVELOPMENT BANK
(As of May 31, 2003)

1. 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 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.
2. 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.
3. 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. In response to an urgent request of the Government, an Emergency Restoration of Yavan Water Conveyance System loan (US\$3.6 million) was approved in November 2001. Two loans, including an Agriculture Rehabilitation Sector Project (US\$35 million) and a Rural Financial Systems Development Program loan (\$8 million) could not be processed in 2001 due to the war in Afghanistan.
4. In October 2002, the Trade Facilitation and Customs Cooperation Program loan (US\$10 million) has been approved, while the expected approval date of the Rural Financial Systems Development Program loan slipped to 2003. At the request of the government, the AsDB processed an Emergency Rehabilitation Assistance Project (\$5 million) which was approved in September 2002. Two loans were also approved in December 2002, the Agriculture Rehabilitation project (US\$35 million) aimed at improving living conditions of the project area farming communities and the Regional Power Transmission Modernization (US\$20 million) which is geared towards improving the reliability and the operation of the Central Asian power transmission system, enhancing the intercountry power trading, and establishing the foundation for a future wholesale regional power market.
5. AsDB also provided 29 technical assistance grants, totaling US\$15.125 million by the end of 2002 to support policy reforms, capacity building, and project implementation. A Rural Poverty Reduction project (US\$2.9 million grant) financed by Japan Fund for Poverty Reduction was also approved in 2001.
6. AsDB shall prepare a full country strategy and program in 2003 based on a national poverty reduction strategy for Tajikistan.

TAJIKISTAN: STATISTICAL ISSUES

1. The National Bank of Tajikistan (NBT) has made significant improvements in recent years in balance of payments and money and banking statistics with technical assistance provided by STA. The country page for Tajikistan was introduced in the *International Financial Statistics* in February 2003. However, weaknesses persist in the statistical system, in particular in compiling real sector statistics which is mainly the responsibility of the State Statistical Committee (Goskomstat). The weaknesses are due in large part to inadequate coverage of the statistics and to problems of valuation of certain production activities. Efforts to further improve the quality of the statistics are hampered by tight budgetary constraints and limited international assistance. The Chairman of the NBT has requested further technical assistance from the Fund in all areas of statistics, preferably through the placement of a resident multisector statistical advisor. The Chairman has also requested a mission to visit Tajikistan to assist the authorities adopt the GDDS as a framework for statistical development and to set the stage for further technical assistance (TA) from STA and from other agencies.

National Accounts Statistics

2. Although Goskomstat has made serious efforts to improve the national accounts statistics, the compilation of GDP estimates remains at a preliminary stage. The national accounts concepts are based on the *System of National Accounts 1993*, and the delimitation of the economy as well as the production and asset boundaries broadly follow these recommendations. Annual GDP estimates are derived from the production side by supplementing the data reported by enterprises with estimates for services. Preliminary GDP estimates have been compiled using the expenditure approach. However, the results have not been published. The accuracy of the GDP estimates is undermined by inadequate coverage of new private sector activities and by improper valuation of production activities. The estimation of GDP is also distorted because state-owned and other enterprises continue to value production using accounting prices instead of actual transaction prices, which tend to be higher.

3. Although Goskomstat is aware of the necessity of producing discrete data, the sub-annual GDP estimates are still compiled on cumulative basis through extrapolation using indices of sectoral output at a highly aggregated level. The decumulated quarterly GDP figures show a marked seasonal pattern, with output increasing strongly at the time of the fall harvest. The current practice of collecting cumulative totals results in some inaccuracy in the estimates for individual quarters, since the quarterly data are obtained by subtracting successive cumulative totals, and consequently include a revision component. Other features of the previous system also persist. In particular, there is strong demand for detailed data on individual enterprises, which ties up resources that could otherwise be put to better use. While reorienting its data collection effort within sampling frameworks, Goskomstat needs to undertake a strategic reappraisal of its production activities and significantly reduce the volume of microdata presently collected, while educating users to focus on statistical aggregates.

Price Statistics

4. Since January 1994, Goskomstat has compiled a consumer price index (CPI) on a monthly basis. The index was compiled with assistance from STA. The wholesale price index (WPI), which is also compiled on a monthly basis, 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

5. Since January 2000, the classification of fiscal accounts follows the IMF's Government Finance Statistics (GFS) manual. The new accounts were developed with FAD technical assistance. The 2002 budget follows GFS, and its execution is also reported with the GFS classification system. However, the weakness inherent in the accounting system and the poor quality of data limit the benefits from the GFS system. Statistics on state budget operations are available about two to three weeks after the end of the reference period.

6. Data covering the consolidated central government as well as the consolidated local government for 1998-2001 have been reported by Tajikistan for publication in the *2002 GFS Yearbook*. Further work could usefully target, in particular, improving the financing information (classification and valuation of transactions), consistent with the government debt. In addition, steps should be taken to ensure availability of information on the public sector as well as on quasi-fiscal operations.

Money and Banking Statistics

7. The procedures used by NBT for collecting and compiling money and banking statistics, following the adoption of the IAS-based new charts of accounts by NBT and commercial banks in end-1998, are broadly in line with the framework recommended by STA missions in 1998 and 1999. The money and banking statistics reported to the Fund are broadly adequate for policy and analytical purposes. However, a STA mission in October/November 2002 identified several areas for further improvement, including: (a) the classification of foreign assets and liabilities based fully on the residency criterion instead of currency denomination; (b) more detailed classification of loans; and (c) investigation and reclassification, as appropriate, of several bank accounts currently included in *other items (net)* in the analytical accounts of NBT and commercial banks. A follow-up mission included in RAP FY2004 is scheduled for early 2004.

Balance of Payments Statistics

8. The authorities have made significant improvements in compiling the balance of payments statistics with assistance provided by STA. A STA mission found in March 2002 that most recommendations of previous missions had been implemented, although there are outstanding problems, such as inadequate coordination of the exchange of data between government agencies and estimation of "shuttle" trade. A follow-up mission in

October/November 2002 recommended for the medium-term the modernization of the statistics law, establishment of a private statistics users council, the partial compilation of the international investment position and the establishment of a program for improving balance of payments statistics on an on-going basis. The May 2003 STA mission noted that the NBT is taking the initiative to draft an amendment aimed at ensuring legal protection of the confidentiality of reporters. No steps have been taken to establish a private statistics users council. Under-reporting by joint enterprises and wholly foreign-owned foreign direct investment enterprises, as well as the absence of portfolio investment data are the major deficiencies in the balance of payments accounts.

Tajikistan: Core Statistical Indicators
(As of June 15, 2003)

	Exchange Rates	International Reserves	Central Bank Balance Sheet	Reserve Money	Broad Money	Interest Rates 1/	Consumer Price Index	Exports/Imports	Current Account Balance	Overall Government Balance	GDP/ GNP	External Debt/ Debt Service
Date of Latest Observation	6/6/03	6/5/03	6/5/03	6/5/03	4/30/03	6/10/03	5/31/03	Q1/03	Q1/03	3/30/03	4/30/03	Q1/03
Date Received	6/10/03	6/10/03	6/10/03	6/10/03	6/10/03	6/12/03	6/10/03	4/24/03	4/24/03	4/24/03	5/16/03	4/24/03
Frequency of Data	W	W	W	W	M	W	M	Q	Q	M	M	Q
Frequency of Reporting	W	W	W	W	M	W	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

1/ Annual interest rate on NBT 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.

**President
of the Republic
of Tajikistan**

June 21, 2003
No. 23.1/1-1
Dushanbe

Mr. Horst Köhler
Managing Director
International Monetary Fund

Dear Mr. Köhler:

Mr. Managing Director, permit me to take this opportunity to express my gratitude to the International Monetary Fund for its constant support for Tajikistan in the process of its reforms.

During April/May of this year, the Government of Tajikistan held discussions with Fund staff for the first review under the Poverty Reduction and Growth Facility (PRGF) arrangement. Based on these discussions, we have prepared a supplement to the Memorandum of Economic and Financial Policies submitted to you on November 13, 2002. This supplement reflects the impact of recent economic developments on the macroeconomic framework; additional measures we will take to strengthen the structural reform effort; quantitative performance criteria; and structural performance criteria and benchmarks to cover the period April 1–December 31, 2003.

All of the quantitative performance criteria for end-March 2003 were observed. Two of the program's four structural performance criteria were also observed. The continuous performance criterion prohibiting the National Bank of Tajikistan (NBT) from issuing directed credit was not observed.

Since then, no new directed credits have been issued by the NBT and outstanding ones are being repaid. As well, the NBT has begun to restructure its operations and has taken measures to prevent such occurrences in future. The continuous performance criterion prohibiting the accumulation of new external payments arrears was not observed. While we made a payment towards fulfilling our debt service obligations to the U.S. government, this payment was delayed and insufficient to cover late charges. We have since cleared all arrears to the U.S. government and improved our communications with the creditor. The structural performance criterion requiring the unification of gas tariffs was implemented, but with a delay. Based on these remedial actions, we request a waiver for the non-observance of these two continuous and one structural performance criteria.

On the basis of performance during the period up to end-March 2003 and the policies set out in the attached supplemental memorandum of understanding, we request the completion of the first review under the PRGF arrangement.

We believe that the policies described in the supplemental Memorandum attached to this letter (which builds on our earlier understandings) will enhance the prospects for achieving the objectives of our economic program for 2002. We intend to remain in close consultation with Fund staff on the adoption of any measures that may be appropriate, in accordance with IMF policies on such consultations, and will provide the staff with information it requests for monitoring economic developments and progress in the implementation of policies and in reaching the objectives of the program supported by the PRGF arrangement. In addition, we stand ready to take any further measures, in consultation with Fund staff, on economic and financial policies that might be necessary to ensure that the overall objectives of the program can be attained. In order to enhance transparency of our economic policies, we request that this letter, the supplemental Memorandum of Economic and Financial Policies, the Technical Memorandum of Understanding, and the Staff Report be published on the Fund's website.

Please accept, sir, the assurance of my highest consideration for you.

/s/

Emomali Rakhmonov

REPUBLIC OF TAJIKISTAN

Supplemental Memorandum of Economic and Financial Policies for the Period April 1, 2003 to December 31, 2003 Supported under the Poverty Reduction and Growth Facility

I. INTRODUCTION

1. Since 1996, the International Monetary Fund has supported Tajikistan's economic reform program. Most recently, the Fund approved a three-year arrangement under the Poverty Reduction and Growth Facility (PRGF). Although we have achieved some progress with the implementation of the Fund-supported program, there have also been delays and shortcomings resulting from capacity constraints. We failed to observe the two continuous performance criteria prohibiting issuance of directed credits by the NBT and prohibiting the accumulation of new external payments arrears, and the structural performance criterion introducing a unified gas tariff. We have, however, taken appropriate remedial actions on the basis of which we request a waiver for the non-observance of these structural performance criteria. We deeply regret the most recent incident of misreporting due to the accumulation of new external payments arrears. Although in the past we have taken steps to prevent the recurrence of such incidents, we will now intensify our efforts. We have fully implemented the three structural benchmarks for end-December 2002, but with a delay. For end-March 2003, we met all the quantitative performance criteria (Annex I), but missed the structural benchmark for developing a timetable for civil service reform (Annex II). Given these problems, we intend to undertake measures that will strengthen program performance. These measures, along with revised quantitative performance criteria for end-September 2003, are described in this supplemental Memorandum of Economic and Financial Policies (MEFP).

2. Our economic policies have contributed to improved macroeconomic stability and strong growth. In 2002, real GDP grew by 9.1 percent. Based on the strong growth in the first half of 2003, we continue to project real GDP growth of at least 6 percent in 2003. Progress towards price stability, however, was limited; inflationary pressures caused end-period inflation for 2002 to be higher than projected. Because of the spillover of inflation from late 2002, higher energy prices and the changing nature of regional trade, we now expect end-period inflation of 9 percent for 2003. Our fiscal performance remained strong as we were able to achieve a nearly balanced budget because of higher-than-programmed revenue collections. The current account deficit narrowed to 2.8 percent of GDP in 2002 as a result of higher remittances, increased humanitarian aid flows and good harvests. We implemented several important reforms in the energy and banking sectors, but with delays due to capacity constraints.

3. The revised indicative targets for end-June, end-September and end-December 2003 and the performance criteria for end-September 2003 are detailed in Annex III. Structural performance criteria and benchmarks through end-September 2003 are proposed in

Annex IV. Performance relative to these targets, criteria and benchmarks will be measured as detailed in the Technical Memorandum of Understanding in Annex V. In addition, we have completed a prior action relating to the development and implementation of a comprehensive mechanism for mitigating the effects of energy sector reforms on poor households.

II. FISCAL POLICY

4. Our fiscal policy continues to be prudent. We maintained control over expenditures and modestly increased revenue collections as a share of GDP for 2002. As a result, the overall fiscal deficit, excluding the public investment program (PIP), for 2002 was SM 5.9 million (0.2 percent of GDP), which was less than projected. For 2003, we expect the deficit (excluding the PIP) to be no more than SM 36.4 million, or 0.9 percent of GDP, including increased interest payments due to the 2002 rescheduling agreement with Russia.

5. We plan to refocus our expenditures to better align them with the goals set out in the PRSP. By end-October 2003, we will submit a supplemental budget to parliament that contains indicative targets on health and education expenditures of SM 151.6 million for 2003. These target may be revised in light of overall revenue performance during the next months. We had hoped to complete a detailed classification of budgetary expenditures by end-March 2003, but now expect that it will be finished by end-June 2003. This classification system will provide a basis for improved tracking of expenditures, especially those for the social sectors, and will be used to monitor our indicative spending targets. In order to enhance transparency, we plan to publish our detailed classification of government's education and health expenditures in Tajikistan's national newspapers on a quarterly basis beginning end-June 2003. The publication of this information will provide the public with a breakdown of expenditures by individual facility, e.g., schools and clinics.

6. Although there continues to be an urgent need for increased public investment, we reaffirm our commitment to limit annual disbursements under the public investment program (PIP) to 3 percent of GDP in 2003 and 2004. In light of the recent consultative group meeting, we plan to revise the PIP such that we increase the share of social sector expenditures under the PIP beginning in 2004. Any decision to increase annual disbursements as a share of GDP under the PIP will be taken in consultation with Fund staff and will take into account our revised investment priorities, absorptive capacity, the availability of resources, and the sustainability of our external debt.

7. Continued expenditure discipline requires moderation in civil service wage increases. We raised civil service wages by 20 percent as of April 1, 2003 and will undertake further wage increases in 2003 only to the extent that reductions in civil service employment are achieved. Hence, we will ensure that the civil service wage bill will be no more than SM 120.8 million in 2003. In collaboration with the World Bank, we are developing a timetable for civil service reform that is aimed at reducing staffing levels and improving the efficiency of the civil service. During the first quarter of 2003, we have reduced civil service employment by 5 percent, and we plan further reductions during 2004. We will complete a

census of the civil service and construct a database of civil service positions, grades and salaries by end-June 2003.

8. While revenue collection has increased, further improvements are required to sustain our revenue effort over the medium and long-term. To this end, we created a modernization office to oversee a comprehensive improvement of our tax and customs system. The tax and customs codes are currently being revised and we plan to submit the revised versions to government by end-December 2003. The revisions to the tax and customs codes will be based on the recommendations made by the 2002 FAD mission. As of May 1, 2003 (Resolution 153), we harmonized excise rates on imported and domestically produced alcohol products. We plan to complete a comprehensive survey of the number of duties, fees and charges collected by government and other public institutions by end-December 2003. To increase transparency, we will publish on a quarterly basis an inventory of the 50 corporate and individual taxpayers that have the largest tax arrears beginning end-September 2003.

9. In order to improve the performance of customs revenues and to harmonize our tariff structure with that of other Eurasian Economic Community members, we plan to revise the present tariff system. The total number of rates under the new tariff system will be 5, i.e., 0, 2, 5, 10, and 15 percent. We will consult with Fund staff before making changes to this proposal. The government will limit export and import licensing to goods that adversely affect health, environment, or national security. Improved administration of our VAT system is another measure that is critical to revenue collection. By end-June 2003, we will compile and publish an inventory of each VAT refund claim and make these payments by end-September 2003.

III. MONETARY POLICY

10. The NBT has recently begun implementing a restructuring process that will improve its institutional integrity and the implementation of monetary policy. During the past year there have been several instances when directed credits were issued. Partly as a result of these credits our control over reserve money was inadequate, thereby contributing to inflationary pressures. As part of the restructuring of the NBT, we established a monetary policy committee (MPC) to improve liquidity management. The MPC meets on a weekly basis and issues instructions for the purchase and/or sale of foreign exchange and other monetary instruments. The weekly instructions of the MPC serve as the sole basis for the NBT's monetary policy interventions. Further, the NBT issued a resolution in February 2003 withdrawing lending authority from NBT department heads, branch managers, and deputy chairmen. In May 2003, the NBT issued resolutions that strictly limit the operations of all branches to cash and settlement operations only. Additionally, NBT staff was reduced by more than 10 percent in the six months ending March 2003.

11. We will complete the restructuring of the NBT by end-September 2003 in accordance with the plan agreed with Fund staff. Key elements of this plan include reducing the number of organization units and centralizing all accounting functions into one department. While all

these measures will contribute to improving the NBT's financial condition, its net worth remains negative. Therefore, the NBT will not pay any dividends to the Ministry of Finance as long as the NBT's net worth remains negative; further, the NBT will not make any contribution to a deposit insurance scheme.

IV. STRUCTURAL POLICY

12. The main areas of structural reform under the Fund-supported program continue to be banking, energy and agriculture. With regard to banking, we plan to finalize the restructuring of the Agroinvestbank by dividing its operations into two independent corporate entities, one dealing solely with financing cotton production and one that continues its commercial bank operations. This separation into two independent entities will be completed by end-June 2003 and will promote transparency of the bank's operations. Further, by end-June 2003, the NBT and the Ministry of Finance will jointly prepare a plan in consultation with Fund staff, that will ensure that the newly formed bank meets the minimum capital requirement.

13. To further strengthen the banking sector, by end-May 2003, we will revoke the banking licenses of the two commercial banks—in consultation with Fund staff—whose financial condition and lending practices put their deposits at unacceptable risk. We will close or merge these banks by end-September 2003. By end-December 2003, we will eliminate all waivers for the minimum capital requirement. To limit a further erosion of the remaining banks' capital, we will allow banks to hold up to 50 percent of their capital in foreign exchange as of end-December 2003. Further, we will delay an increase in the minimum capital requirement from \$1.5 million to \$2 million until end-2004.

14. We plan to continue reducing quasi-fiscal deficits in the gas sector. An appropriate compensation mechanism for protecting the poorest households from increases in gas tariffs will be introduced no later than end-June 2003. This mechanism will be effective retroactively from January 1, 2003 and will provide a total of SM 12 million from the budget for the purpose of compensating low income households. The target group for this mechanism will exclude privileged categories of consumers. In April 2003, we increased the gas tariff to SM 180 per thousand cubic meters which includes an adjustment for exchange rate depreciation of 3 percent in Q1 2003 (Resolution 154, March 31, 2003). On July 1, 2003, we will raise gas tariffs to at least SM 200 per thousand cubic meters and increase household norms from 16 cubic meters per person per month to 30 cubic meters per person per month. From October 1, 2003, we will implement the automatic quarterly adjustor of gas tariffs for depreciation in the nominal exchange rate. We will also eliminate all privileged categories of consumers of gas, electricity and heat by end-September 2003. We plan to expand our efforts to improve payment discipline in the energy sector by ensuring that budget entities and state-owned enterprises do not accumulate any new arrears to Naftason, Barki Tajik, and Tajikgas from end-June 2003 onwards. To increase transparency we will introduce a separate line item for public utility payments in the supplemental budget for 2003.

15. Effective farm restructuring requires addressing the debt burden of the remaining state-owned farms. Although we hoped to resolve this issue by end-December 2002, it proved to be more complex than anticipated. We are presently working with the Asian Development Bank to complete an inventory of farm debt by end-September 2003. Also by end-October 2003, we will finalize a plan for restructuring this debt. The plan will include recommendations to take into consideration the responsibilities of dekhani farms, exporters, government, and other relevant parties.

16. To promote transparency, we hereby request that the letter of transmittal, and the Memorandum of Economic and Financial Policies be published on the IMF website.

Tajikistan: Quantitative Performance Criteria for the First Annual Program Under
the PRGF Arrangement, October 2002–March 2003
(In stocks; unless otherwise indicated)

	2002			2003		
	Indicative Targets	Adjusted Indicative Targets 1/	Actual	Performance Criteria	Adjusted Performance Criteria 2/	Actual
(In millions of somoni)						
<i>Performance Criteria:</i>						
1. Ceiling on net domestic assets of the NBT 3/	106.8	169.3	167.4	104.6	168.5	124.6
2. Ceiling on net credit of the banking system to general government 3/	12.9	-4.1	-16.5	25.6	-0.5	-66.9
3. Ceiling on the cumulative overall fiscal deficit of the general government 4/ 5/ (excluding foreign-financed public investment program)	-25.8	-25.8	-25.0	-24.2	-24.2	26.4
4. Ceiling on general government wage, and nonworking pensioners' pension arrears 6/	0.0	0.0	0.0	0.0	0.0	0.0
5. Floor on tax collection of the Ministry of State Revenues and Duties 4/	93.3	93.3	105.9	191.3	191.3	227.8
(In millions of U.S. dollars; unless otherwise specified)						
6. Floor on total net international reserves 3/	19.4	-1.4	5.9	20.4	-0.9	16.6
7a. Ceiling on the contracting or guaranteeing of short-term non-concessional external debt with original maturity of up to and including one year 7/	0.0	0.0	0.0	0.0	0.0	0.0
7b. Ceiling on the contracting or guaranteeing of medium and long-term nonconcessional external debt with original maturity of more than one year 7/	0.0	0.0	0.0	0.0	0.0	0.0
8. New external payments arrears (in U.S. dollars) 6/	0.0	0.0	2,207	0.0	0.0	10,405
(In millions of somoni)						
<i>Indicative targets:</i>						
Ceiling on reserve money	165.1	165.1	185.0	165.8	165.8	174.3
<i>Memorandum items:</i>						
Program exchange rate (SM/US\$)	3.0	3.0	3.0	3.0	3.0	3.0
Disbursements of balance of payment support (in millions of U.S. dollars)	26.7	5.0	5.0	0.0	0.0	0.0

Sources: Tajik authorities; and Fund staff estimates.

1/ Adjusted for an unprogrammed disbursement from the Asian Development Bank (US\$5 million), the non-disbursement of budget support from the World Bank (US\$24.7 million) and the European Union (US\$2 million). Also adjusted for the principal payment to the EU (\$0.87 million) that was programmed for Q4 2002 but due in Q1 2003, and for the use of Tajikistan's claim on the Central Bank of Russia (CBR). Net international reserves and net domestic assets are evaluated at program exchange rates of SDR1 = U.S. dollars 1.299 as specified in the Technical Memorandum of Understanding (EBS/02/188). Therefore, they are not directly comparable with figures in tables 6 and 7 at revised program exchange rates of SDR1 = U.S. dollars 1.366.

2/ Adjusted for unprogrammed disbursement by the AsDB in Q4 2002 (\$5 million), and the non-disbursement of \$24.7 million from the World Bank and \$2 million from the EU in Q4 2002. Also adjusted for the revision of principal due to Kazakhstan in Q1 2003 from \$0.47 million to \$0.08 million, and for the eliminated use of Tajikistan's claim on the Central Bank of Russia (CBR) as ownership of the claim rests with the government of Tajikistan. Net international reserves and net domestic assets are evaluated at program exchange rates of SDR1 = U.S. dollars 1.299 as specified in the Technical Memorandum of Understanding (EBS/02/188). Therefore, they are not directly comparable with figures in tables 6 and 7 at revised program exchange rates of SDR1 = U.S. dollars 1.366.

3/ Excludes deposits related to the U.S. grant for project financing (\$2.4 million at end-March 2003).

4/ Cumulative from October 1, 2002.

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

6/ A continuous performance criterion.

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

Tajikistan: Structural Performance Criteria and Benchmarks for the First Annual Program
Under the PRGF Arrangement, December 2002–March 2003

Measure	Target Date	Status
Structural Performance Criteria		
Prohibit the NBT from issuing directed credits.	Continuous	Not met. Directed credits were extended until mid-February 2003.
Prohibit the NBT from making expenditures not related to its core business activities or paying dividends while it has negative net worth.	Continuous	Met through end-March 2003.
Introduce a uniform gas tariff of SM 140 per thousand cubic meters.	End-December 2002	Met with a delay. Resolution No. 240 (June 5, 2003) raised tariffs to SM 149 per thousand cubic meter effective June 1, 2002. Resolution No. 154 (April 24, 2003) unified tariffs for budgetary entities, agricultural and industrial enterprises, and households effective April 1, 2003.
Increase the collection rates of Tajikgas so that on average 60 percent of all households pay for the gas they receive.	End-June 2003	...
Structural Benchmarks		
Finalize a plan for mitigating the effects of higher energy tariffs on low-income households and ensure that the 2003 budget provides adequate resources for implementing the plan. This plan will include a timetable for mandatory installation of gas meters in all households and enterprises.	End-December 2002.	Met with a delay. Resolution No. 144 (March 31, 2003) did not provide an effective mechanism. The revised mechanism satisfies the benchmark.
The NBT will finalize an inventory of all guarantees, pledges and other NBT contingencies under the control of the Head of Accounting Department with required inputs from all areas of the NBT.	End-December 2002	Met with a delay by mid-February 2003.
Implement automatic quarterly adjustments of all utility tariffs to account for changes in the nominal exchange rate.	End-December 2002	Met with a delay. The tariff increase to SM 180 per thousand cubic meters effective April 1, 2003 (Resolution No. 154, April 24, 2003) includes the exchange rate adjustment for the first quarter of 2003.
The government will finalize a timetable for downsizing the civil service	End-March 2003	Not met.
Close or merge all banks that are not being restructured and do not fulfill the prudential requirements as of end-March 2003.	End-September 2003	...

Tajikistan: Quantitative Performance Criteria for the Second Review
of the First Annual Program Under the PRGF Arrangement, April–December 2003
(In stocks; unless otherwise indicated)

	2003				
	End-Jun.		End-Sep.		End-Dec.
	Revised Indicative Targets	EBS/02/188 Supplement 1	Revised Performance Criteria	EBS/02/188 Supplement 1	Indicative Targets
<i>Performance Criteria:</i> (In millions of somoni)					
1. Ceiling on net domestic assets of the NBT	67.9	108.3	92.5	79.9	117.3
2. Ceiling on net credit of the banking system to general government 1/	-120.4	28.4	-97.4	11.2	-71.5
3. Ceiling on the cumulative overall fiscal deficit of the general government 2/ 3/ (excluding foreign-financed public investment program)	-20.9	-31.1	-54.4	-37.4	-73.8
4. Ceiling on general government wage, and nonworking pensioners' pension arrears 4/	0.0	0.0	0.0	0.0	0.0
5. Floor on tax collection of the Ministry of State Revenues and Duties 2/	114.2	302.6	226.1	401.0	349.5
(In millions of U.S. dollars)					
6. Floor on total net international reserves	35.1	21.6	28.7	34.2	22.4
7a. Ceiling on the contracting or guaranteeing of short-term non-concessional external debt with original maturity of up to and including one year 5/	0.0	0.0	0.0	0.0	0.0
7b. Ceiling on the contracting or guaranteeing of medium and long-term nonconcessional external debt with original maturity of more than one year 5/	0.0	0.0	0.0	0.0	0.0
8. New external payments arrears 4/	0.0	0.0	0.0	0.0	0.0
(In millions of somoni; unless otherwise specified)					
<i>Indicative targets:</i>					
Ceiling on reserve money	173.1	173.2	178.6	182.6	184.6
New arrears of budget entities and key state-owned enterprises to Naftason, Barqui Tajik and Tajikgas	0.0	0.0	0.0	0.0	0.0
Floor on health and education spending 6/	75.8	...	113.7	...	151.6
<i>Memorandum items:</i>					
Program exchange rate (SM/US\$)	3.0	3.0	3.0	3.0	3.0
Disbursements of balance of payment support (in millions of U.S. dollars) 7/	24.7	0.0	0.0	12.5	0.0
Withdrawal from government project accounts (in millions of somoni)	1.5	...	3.0	...	2.7

Sources: Tajik authorities; and Fund staff estimates.

1/ Excludes deposits related to the U.S. grant for project financing.

2/ Cumulative from April 1, 2003.

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

4/ A continuous performance criterion.

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

6/ Cumulative from January 1, 2003.

7/ Disbursement in Q2 2003 is expected from the World Bank.

**Tajikistan: Prior Action, Structural Performance Criteria and Benchmarks
for the Second Review of the First Annual Program Under
the PRGF Arrangement, April–September 2003**

Measure	Target Date
Prior action	
Develop and implement an effective compensation mechanism for mitigating the effects of energy sector reforms on poor households. The revised mechanism should be designed in consultation with Fund staff.	
Structural Performance Criteria	
Prohibit the NBT from issuing directed credits.	Continuous
Prohibit the NBT from making expenditures not related to its core business activities or paying dividends while it has negative net worth.	Continuous
Raise gas tariffs to at least SM 200 per thousand cubic meters.	July 1, 2003
Eliminate all privileged categories of consumers of gas and electricity.	End-September 2003
Structural Benchmarks	
Complete the restructuring of the NBT in accordance with the plan agreed with Fund staff.	End-September 2003
Finalize the division of Agroinvestbank into two independent corporate entities, one that operates as a non-bank cotton financing institution and one that is a commercial bank.	End-June 2003

REPUBLIC OF TAJIKISTAN

Technical Memorandum of Understanding
for the PRGF Arrangement 2003-2005

1. This memorandum defines variables that constitute quantitative performance criteria and indicative targets under the Poverty Reduction and Growth Facility Arrangement (PRGF), and sets out the reporting requirements for the authorities and the National Bank of Tajikistan (NBT).¹

I. QUARTERLY TARGETS

A. Fiscal Deficit of the General Government

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

	(In millions of somoni)
Cumulative deficit from April 1, 2003 to:	
June 30, 2003 (indicative target)	-20.9
September 30, 2003	-54.4
December 31, 2003	-73.8

Definitions

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

- (i) The change in net claims (transactions) of the NBT on the general government which includes all deposits of the general government with the NBT, counterpart deposits (which reflect balance of payment and/or general budget support from IFIs and other donors), NBT loans and advances to the general government, NBT holdings of government securities, bank restructuring costs, and the privatization account (where proceeds from the privatization of state property are held);

¹ Quantitative targets are based on a program exchange rate of SM 3.0 = US\$1 and SDR 1 = US\$1.366.

(ii) The change in net claims (transactions) on the general government of the rest of the domestic banking system which are defined to include the net position of the general government with respect to other domestic commercial bank assets (loans, overdrafts, cash advances, holdings of treasury bills or other securities) and liabilities (deposits, etc.);

(iii) The change in net claims (transactions) on the general government of domestic nonbank institutions and households is defined to include net sales of treasury bills, bonds or other government securities to nonbank institutions and households (including nonresidents and nonresident financial institutions), plus any other increase in liabilities of the general government to domestic nonbank institutions or households. Included in this item are also compensation payments (-) to Tajik Rail for its servicing of external debt to Uzbekistan;

(iv) Gross proceeds from the privatization of state property, which are kept in a separate account with the NBT, are defined as all receipts originating from the sale of state property; and

(v) Net foreign financing of the general government which is defined as the difference between gross disbursements of foreign financing excluding the externally-financed public investment program and amortization of government debt to foreign financial and nonfinancial institutions, plus principal arrears, debt rescheduling and the drawdown of Tajikistan's claim on the Central Bank of Russia.

3. 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.

4. 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 provide detailed monthly data on: (i) revenues, expenditures and lending operations of the state and local budgets, as well as all budgetary and extra-budgetary 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.

Adjustors

5. The ceiling on the cumulative overall fiscal deficit will be adjusted downward by 100 percent for any overdue or rescheduled interest obligations.

B. Tax Collection of the Ministry of State Revenues and Duties

Table 2. Floor on the Tax Collection of the Ministry
of State Revenues and Duties

(In millions of somoni)	
Cumulative revenues from April 1, 2003 to:	
June 30, 2003 (indicative target)	114.2
September 30, 2003	226.1
December 31, 2003	349.5

Definitions

6. **Tax collection** include all taxes collected by the Ministry of State Revenues and Duties. With regard to internal taxation excluded from the definition is: any tax offsets or in-kind payments, sales taxes on cotton and aluminum exports, taxes, charges, and fees collected by the Social Protection Fund, and any proceeds from loans, or other banking system credits, the issuance of securities, or from the sale of state assets. With regard to foreign taxes, custom revenues are defined to include import duties, export duties and taxes, customs duties, exchange taxes, and other taxes (including VAT) on international trade and transactions.

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

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

(In millions of somoni)	
June 30, 2003 (indicative target)	67.9
September 30, 2003	92.5
December 31, 2003	117.3

Definitions

7. **Net domestic assets (NDA) of the NBT** are defined as: reserve money minus net foreign assets of the NBT. Reserve money is composed of currency in circulation, required reserves, other bank reserves, and deposits of non-government non-banks with the NBT. Net foreign assets of the NBT includes net international reserves in convertible currencies. The NBT's net domestic assets comprises the following assets and liabilities: net credit to the

general government, claims on banks, credit to the economy, and other items net (OIN). OIN includes, the foreign exchange re-valuation and capital accounts of the NBT.

8. The NDA ceiling should be also adjusted for changes in reserve requirements, in accordance with the following formula:

$$\Delta NDA = \Delta r B_0 + r_0 \Delta B + \Delta r \Delta B$$

where r_0 denotes the reserve requirement ratio prior to any change; B_0 denotes the programmed level of the reservable base money in the period prior to any change; Δr is the change in the reserve requirement ratio; and ΔB denotes the immediate change in the reservable base with respect to the programmed base money level as a result of changes in the definition.

Adjustors

9. The ceiling on net domestic assets of the NBT will be adjusted: (i) downward/upward by 100 percent for excesses/shortfalls of the disbursement of (non-project) foreign loans and cash grants; (ii) downward/upward by 100 percent for the excesses/shortfalls of privatization receipts; (iii) downward by 100 percent for any overdue or rescheduled debt service obligations; and (iv) upward by 100 percent for withdrawals from government project accounts at the NBT in excess of programmed levels and downward by 100 percent for disbursements in excess of programmed levels.

D. Limits on Net Credit of the Banking System to General Government²

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

	(In millions of somoni)
June 30, 2003 (indicative target)	-120.4
September 30, 2003	-97.4
December 31, 2003	-71.5

Definitions

10. Net credit of the banking system to the general government is the sum of net credit from the NBT to general government and net credit from the rest of the domestic banking system to general government, both as defined in section A above.

² The change in net credit to general government in the NBT balance sheet may differ from the change in NBT net claims (transactions) on the general government shown in the fiscal accounts because the NBT balance sheet revalues the stocks of the net general government according to the program exchange rate.

Adjustors

11. The ceiling on net credit of the banking system to general government will be adjusted: (i) downward/upward by 100 percent for excesses/shortfalls of the disbursement of (non-project) foreign loans and cash grants; (ii) downward/upward by 100 percent for the excesses/shortfalls of privatization receipts; and (iii) downward by 100 percent for any overdue or rescheduled debt service obligations.

E. Net International Reserves

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

	(In millions of U.S. dollars)
June 30, 2003 (indicative target)	35.1
September 30, 2003	28.7
December 31, 2003	22.4

Definitions

12. 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, convertible currency denominated claims on domestic banks and other residents, assets in non-convertible currencies, foreign assets pledged as collateral or otherwise encumbered and the net forward position, if any (defined as the difference between the face value of foreign currency denominated NBT off balance sheet claims on nonresidents and foreign currency obligations to both residents and non-residents). *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.

13. 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\$333.25 per troy ounce.

14. 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).

Adjustors

15. The floor on net international reserves of the NBT will be adjusted:
(i) upward/downward by 100 percent for excesses/shortfalls of the disbursement of (non-project) foreign loans and cash grants; (ii) upward/downward by 100 percent for the excesses/shortfalls of privatization receipts in foreign exchange; (iii) upward by 100 percent for any overdue or rescheduled debt service obligations; and (iv) downward by 100 percent for withdrawals from government project accounts at the NBT in excess of programmed levels and upward by 100 percent for disbursements in excess of programmed levels.

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

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

	0-1 Year Maturity	Over 1 Year Maturity
During the period from end-March 2003 to:		
June 30, 2003 (indicative target)	0	0
September 30, 2003	0	0
December 31, 2003	0	0

Definitions

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

17. The definition of debt set forth in point No. 9 of the guidelines reads as follows:
“(a) For the purposes of this guideline, the term “debt” will be understood to mean a current, i.e., not contingent, liability, created under a contractual arrangement through the provision of value in the form of assets (including currency) or services, and which requires the obligor to make one or more payments in the form of assets (including currency) or services, at some future points in time; these payments will discharge the principal and/or interest liabilities under the contract. Debts can take a number of forms, the primary ones being as follows:
(i) loans, i.e., advances of money to obligor by the lender made on the basis of an undertaking that the obligor will repay the funds in the future (including deposits, bonds, debentures, commercial loans, and buyers’ credits) and temporary exchanges of assets that are equivalent to fully collateralized loans under which the obligor is required to repay the funds and usually pay interest, by repurchasing the collateral from the buyer in the future (such as repurchase agreements and official swap arrangements); (ii) suppliers’ credits, i.e., contracts where the supplier permits the obligor to defer payments until some time after the

date on which the goods are delivered or services are provided; and (iii) leases, i.e., arrangements under which property is provided which the lessee has the right to use one or more specified period(s) of time that are usually shorter than the total expected service life of the property, while the lessor retains the title to the property. For the purpose of the guideline, the debt is the present value (at the inception of the lease) of all lease payments expected to be made during the period of the agreement excluding those payments that cover the operation, repair or maintenance of the property. (b) Under the definition of debt set out in point 9(a) above, arrears, penalties, and judicially awarded damages arising from the failure to make payment under a contractual obligation that constitutes debt are debt. Failure to make payment on an obligation that is not considered debt under this definition (e.g., payment on delivery) will not give rise to debt.”

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

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

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

21. 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.

22. Concessionalality will be based on currency-specific discount rates based on the OECD commercial interest reference rates (CIRRs). For loans 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 concessionalality of these loans, while the average of CIRRs of the preceding six-month period will be used to assess the concessionalality 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 29 years. Under this

definition of concessionality, only loans with grant element equivalent to 35 percent or more will be excluded from the debt limits.

II. CONTINUOUS QUARTERLY TARGETS

A. No Directed Credits by the NBT

23. The NBT will not issue any directed credits. These involve credits that are issued in the absence of a competitive auction or on non-market terms and conditions. This requirement will be monitored on the basis of changes in the NBT's balance sheets supported by the NBT's regular reporting on the results of its credit auctions, including interest rates, and amounts bid and received.

B. No Non-Core Activities of the NBT and no Dividend Payments by the NBT

24. The NBT will not make any expenditures not related to its core business activities or pay dividends while it has negative net worth.

C. No New External Payments Arrears

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

D. Exchange and Payments Arrangements

26. Over the next six months, 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.

E. No Expenditure Arrears of the General Government and of the Social Protection Fund

27. No new arrears of the general government on wages and of the Social Protection Fund on transfer payments for non-working pensioners' pension payments to its regional offices shall be accumulated at any time under the PRGF arrangement.

28. 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. A monthly disbursement plan will be presented to the Fund staff by the 15th day of the month preceding the month of actual wage and pension payments.

29. 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.

III. QUARTERLY INDICATIVE TARGETS

A. Reserve Money

Table 7. Indicative Ceiling on the Stock of Reserve Money of the NBT

	(In millions of somoni)
June 30, 2003	173.1
September 30, 2003	178.6
December 31, 2003	184.6

Definition

30. 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.

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

Table 8. Indicative Ceiling on New Arrears of Budget-Entities and Key State-Owned Enterprises to Barqui Tajik, Naftrason and Tajikgas

	(In millions of somoni)
June 30, 2003	0
September 30, 2003	0
December 31, 2003	0

Definition

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

C. Education and Health Expenditures

Table 9. Indicative Floor on Health and Education Expenditures

	(In millions of somoni)
Cumulative from January 1, 2003:	
June 30, 2003	75.8
September 30, 2003	113.7
December 31, 2003	151.6

Definition

32. Education and health expenditures include education and health expenditures at all levels of government.

**Statement by the IMF Staff Representative on the Republic of Tajikistan
July 18, 2003**

The following information has become available since the staff report was issued on July 1, 2003. This information does not alter the thrust of the staff appraisal.

- The prior action relating to the development of a mechanism for compensating low-income households for higher energy tariffs was observed.
- Preliminary data indicate that the authorities met the end-June 2003 indicative targets for net international reserves and net domestic credit of the central bank. An over-performance on net international reserves, however, will be reflected in higher than programmed reserve money.
- Preliminary indicators suggest that the authorities are on track to meet the end-June 2003 indicative fiscal targets. Tax collections exceeded projections for April and May and public expenditures were consistent with budget estimates.
- The price level declined by 0.4 percent in May (compared with the previous month) and a further 0.8 percent in June.
- The safeguards assessment of the National Bank of the Republic of Tajikistan, referred to in paragraph 23 of the staff report is currently with management for approval. The authorities have formally agreed with most of the staff findings and recommendations and the relevant measures will be monitored by staff under the PRGF Arrangement.
- On July 1, 2003, gas tariffs were increased to SM 200 per thousand cubic meters, which was a structural performance criterion.



Press Release No. 03/119
FOR IMMEDIATE RELEASE
July 21, 2003

International Monetary Fund
Washington, D.C. 20431 USA

IMF Completes First Review of the Three-Year Arrangement Under the Poverty Reduction and Growth Facility and Approves Request for Modification and Waivers of Performance Criteria for the Republic of Tajikistan

The Executive Board of the International Monetary Fund (IMF) today completed the first review of the Tajik Republic's economic performance under the three-year Poverty Reduction and Growth Facility Arrangement (PRGF) and approved a request for program modification to reflect recent economic developments and waivers for the nonobservance of two continuous performance criteria – on the non-issuance of directed credits and the non-accumulation of new external payments arrears – and a structural performance criterion on unification of gas tariffs. The decision enables the Tajik Republic to draw an amount equivalent to SDR 8 million (about US\$11 million) under the arrangement.

The IMF's Executive Board approved the three-year arrangement effective on December 11, 2002 (see [Press Release No. 02/54](#)) for amount equivalent to SDR 65 million (about US\$90 million).

The PRGF is the IMF's concessional facility for low-income countries. PRGF-supported programs are based on country-owned poverty reduction strategies adopted in a participatory process involving civil society and development partners and articulated in a [Poverty Reduction Strategy Paper \(PRSP\)](#). This is intended to ensure that PRGF-supported programs are consistent with a comprehensive framework for macroeconomic, structural, and social policies to foster growth and reduce poverty. PRGF loans carry an annual interest rate of 0.5 percent and are repayable over 10 years with a 5 ½-year grace period on principal payments.

Following the discussion of the Executive Board, Shigemitsu Sugisaki, Deputy Managing Director and Acting Chairman, said:

“Tajikistan’s performance under the Fund-supported Poverty Reduction and Growth Facility (PRGF) arrangement has generally been satisfactory, and its economic growth remains strong. The authorities are to be commended for maintaining a prudent fiscal stance through expenditure discipline and better tax administration. During 2002, the government was able to reduce its deficit. The authorities are encouraged to allocate more resources toward poverty reducing social spending, consistent with their Poverty Reduction Strategy Paper.

“Recent episodes of weak coordination of monetary policy tools and unsterilized intervention in the foreign exchange market by the National Bank of Tajikistan (NBT) have contributed to inflationary pressures. The authorities are therefore taking needed steps to rationalize and strengthen their monetary policy framework. The institutional capacity of the NBT will be strengthened by restructuring its operations and by giving the task of designing and overseeing the implementation of monetary policy to the newly-created monetary policy committee.

“Structural reforms will need to be pursued vigorously to enhance prospects for achieving sustainable growth and reducing poverty, and in that light, the structural improvements and reforms in the banking sector are welcome. The authorities have also taken steps to raise energy and utility tariffs toward cost-recovery levels, while setting in place a mechanism to protect low-income households.

“Given the importance of agriculture as a potential source of growth and poverty reduction, reinvigorating the farm privatization process is an important objective. In that connection, the authorities are moving to resolve the problem of the large debts of the state-owned farms that are discouraging farm privatization.

“The authorities are increasingly aware that strengthening governance will be crucial to support private sector development, broaden the economic base, and sustain growth. Measures taken so far to promote compliance with the law, such as the publication of a list of the largest delinquent taxpayers, are promising. The authorities are encouraged to build on these efforts.

“It is regrettable that misreporting has again occurred, relating to nonobservance of a prior action on the clearance of external arrears. However, as the arrears were minor, attributable to technical problems, and have now been cleared, the Fund grants a waiver of the nonobservance. The authorities are urged to strengthen their debt management capabilities. The Fund completes the first review under the program, and also grants the program-related waivers for the non-observance of three performance criteria,” Mr. Sugisaki stated.

**Statement by Fritz Zurbrugg, Executive Director for the Republic of Tajikistan
July 18, 2003**

1. My Tajik authorities would like to thank staff for constructive discussions in the context of the first review under the PRGF and for the concise report on Tajikistan's accomplishments and the challenges under the arrangement. They would also like to thank management for the continuing support. They are especially grateful to Mr. Aninat for his recent visit, which provided the opportunity to further strengthen the relationship between the Fund and Tajikistan. My authorities remain fully committed to the program, which they see as an appropriate response to Tajikistan's medium-term economic problems and as an important means to sustain strong growth and improved macroeconomic stability. Accordingly, they are undertaking measures that will strengthen program performance, and they stand ready to take any further measures that might be necessary to ensure that the overall objectives of the program can be achieved.

Macroeconomic policies

2. For the period under review, all the quantitative performance criteria were observed. Fiscal performance was particularly strong, due to both improved revenue collections and expenditure discipline. Moreover, several measures are being undertaken to ensure that this performance can be sustained. Based on the recommendations of the Fiscal Affairs Department and with technical assistance from USAID, the authorities are currently in the process of reforming the tax and customs system. The fact that these efforts have already yielded positive first results should help promote these reforms. In order to improve transparency and payment discipline, the authorities have also agreed to publish on a quarterly basis an inventory of the 50 corporate and individual taxpayers with the largest tax arrears. On the expenditure side, civil service employment has been reduced by 5 percent during the first quarter of 2003, and the authorities intend to develop a civil service reform program in collaboration with the World Bank. They have also committed themselves to undertake further wage increases only to the extent that reductions in civil service employment are achieved. To enhance the transparency of the budget, the Ministry of Finance has started with the publication of a detailed classification of education and health expenditures.

3. As to monetary policy, it is important to stress that all quantitative performance criteria were met. However, my Tajik authorities are fully aware that institutional weaknesses in the National Bank of Tajikistan (NBT) continue to be a source of problems in the implementation of monetary policy. They would like to underscore the broad range of measures that are being taken in the ongoing restructuring process of the NBT. The authorities are confident that these measures will help to address the underlying institutional problems. An important element of this restructuring was the establishment of a monetary policy committee (MPC). The MPC meets on a weekly basis and is responsible for designing and overseeing the implementation of monetary policy. The authorities are committed to adhering to the new operational structure to improve the coordination within the NBT and to enhance the consistency of monetary policy. In order to avoid future issuance of directed

credits, the NBT issued a resolution withdrawing lending authority from department heads, branch managers, and deputy chairmen. It has also issued resolutions that strictly limit the operations of all branches to cash and settlement operations only.

4. As regards the interventions in the foreign exchange market, the NBT firmly believes that the relatively significant interventions in the recent past were necessary to prevent a destabilization of the market by the large foreign exchange sales by the aluminum enterprise. However, the NBT does intend to restrict its interventions and take measures to mitigate the impact of such large purchases. The NBT continues to support a regime of a managed floating exchange rate without a predetermined path.

Structural Policies

5. In the report to the Executive Board on his visit to Tajikistan in May 2003, Mr. Aninat has rightly stressed that Tajikistan's most immediate task is the implementation of structural reforms, and that the two most pressing issues are energy sector reform and better targeting of social sector expenditures. Although there have been some delays in implementing the measures agreed upon under the arrangement, my authorities would like to underscore that all the measures have been implemented. Unifying gas tariffs and increasing them to cost recovery levels were politically difficult measures, particularly when this necessitates an increase of tariffs of 34 percent over such a short period. Furthermore, a rigorous policy of shutting off gas supplies to non-paying customers has been implemented to improve payment discipline. My authorities are fully aware of the negative impact these policies will have on low-income households and are committed to implementing an effective safety net. They have introduced and refined a compensation mechanism to protect such households from the energy price increases. As noted by staff, designing such a scheme is complex. The authorities are confident that the draft monitoring plan to track these compensations, which has already been developed, and the planned Poverty and Social Impact Analysis (PSIA) of energy prices by the World Bank will allow them to further improve the compensation mechanism.

6. Progress has also been made in the banking sector, particularly with regard to the restructuring of commercial banks. The restructuring of the remaining state-owned bank (Amonatbank) is also nearly completed and the bank is now operating with profit. As to the Agroinvestbank (AIB), the inventory of its non-performing loans has been completed, but the compensation for non-performing directed credits has proved to be more difficult than anticipated. My authorities believe that this issue needs to be thoroughly addressed and resolved before they can move ahead with the separation of the AIB into two independent and financially viable commercial entities. However, we would note that the bank is already maintaining separate accounts.

7. The complexity of outstanding debt has unfortunately also led to delays in the restructuring and privatization process of state-owned farms. To address these problems, a comprehensive debt inventory is being prepared. In order to accelerate farm privatization, the Tajik authorities are considering a plan, whereby they would write-off debt to the

government and state-owned enterprises and implement a scheme for restructuring the external obligations of individual farms.

Debt Management

8. As noted at previous occasions, weaknesses in administrative capacities in all sectors pose significant challenges for program implementation in Tajikistan. One area, in which this was particularly evident was debt management. Weak debt management has led to a number of misreporting incidents in the past. Unfortunately, we are again faced with incidents of accumulation of new external payments arrears. Given the history, it is important to set these incidents in perspective. The first two incidents regarding the 2001 disbursements stem from the above-mentioned institutional weaknesses. As noted by the Chairman of the NBT in his letter to the Managing Director, the steps taken in the recent past to strengthen debt management will rectify these problems. My authorities would also like to underscore that persistent communication problems with the creditor played an important role in these incidents. As regards the incident relating to the December 2002 disbursement, this was purely a result of technical payment delays and communication problems, as acknowledged also by the creditor. My authorities, therefore, welcome the Managing Director's recommendation to grant a waiver for the breach of the prior action stemming from this incident and hope that Executive Directors can support this recommendation.

Poverty Alleviation

9. Implementing the poverty reduction strategy in an effective way remains a priority of my Tajik authorities. The Poverty Reduction Strategy Paper (PRSP) discussed in detail at our last meeting provides a good framework for this important task. Of course, an important challenge is to mobilize sufficient resources to finance the broad range of demands that exist in a country, in which a majority of the population lives below the poverty line. My authorities would like to take this opportunity to thank donors and international organizations for participating in the successful meeting of the Consultative Group on Tajikistan in Dushanbe on May 2-3, 2003. Donor pledges of about US\$900 million over the next three years, two-thirds of which in grants, demonstrated the readiness of the international community to support Tajikistan's efforts to fight poverty. In light of this meeting, the authorities intend to revise their public investment program (PIP) for 2004, when they prepare the update of the PRSP later this year.