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Republic of Tajikistan: Sixth Review Under the Poverty Reduction and Growth Facility—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 sixth review under the Poverty Reduction and Growth Facility, the following documents have been released and are included in this package:

- the staff report for the Sixth Review Under the Poverty Reduction and Growth Facility, prepared by a staff team of the IMF, following discussions that ended on November 16, 2005, 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 January 13, 2006. 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 February 2, 2006 updating information on recent developments.

- a Press Release summarizing the views of the Executive Board as expressed during its February 6, 2006 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.

Ex Post Assessment of Longer-Term Program Engagement
Letter of Intent sent to the IMF by the authorities of the Republic of Tajikistan*

*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.

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INTERNATIONAL MONETARY FUND

REPUBLIC OF TAJIKISTAN

Sixth Review Under the Poverty Reduction and Growth Facility

Prepared by Middle East and Central Asia Department
(In consultation with other departments)

Approved by David Owen and Mark Plant

January 13, 2006

- Discussions for the sixth and final review under the Poverty Reduction and Growth Facility (PRGF) arrangement took place in Dushanbe during November 8–16, 2005. The mission also discussed with the authorities the results of a draft Ex Post Assessment of Longer-term Engagement, including options for future Fund engagement. A three-year PRGF arrangement in an amount equivalent to SDR 65 million (75 percent of quota) was approved on December 11, 2002. On July 18, 2005, the Executive Board completed the fifth review under the PRGF arrangement. As of end-November 2005, Tajikistan's outstanding use of Fund resources was SDR 92.94 million (106.8 percent of quota).

- The staff team comprised Messrs. Piñerúa (head), Zytek, Sumlinski, and Matovu (all MCD), and Ms. Brixiova (PDR). Mr. Khawaja, the Fund's resident representative in Dushanbe, assisted the mission. Messrs. Haegeli and Nuraliev (OED) participated in some of the policy meetings.

- The mission met with President Rakhmonov, State Economic Advisor Kholboboev, Minister of Finance Nadjmiddinov, Minister of Economy and Trade Soliev, Minister of State Revenue Babaev, National Bank Chairman Alimardonov, other senior officials, members of parliament, donors, NGOs, and the media.

- In the attached Letter of Intent (Attachment I), the authorities report on the implementation of the program, set out their policies for 2006, request the completion of the sixth review under the PRGF arrangement and reiterate their interest in starting discussions on a successor arrangement. The authorities also welcome Tajikistan's inclusion in the Multilateral Debt Relief Initiative.

- Tajikistan accepted the obligations of Article VIII, sections 2, 3, and 4 with effect from December 9, 2004 and maintains an exchange system that is free of restrictions on the making of payments and transfers for current international transactions, except for exchange restrictions maintained for security reasons that have been notified to the Fund pursuant to EBD144-(52/51).

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List of Acronyms

ADB	Asian Development Bank
APR	Annual Progress Report on PRSP Implementation
CIS	Commonwealth of Independent States
CPI	Consumer Price Index
DSA	Debt Sustainability Analysis
EBRD	European Bank for Reconstruction and Development
EPA	Ex Post Assessment of Longer-Term Engagement
FAD	IMF Fiscal Affairs Department
FDI	Foreign Direct Investment
FSAP	Financial Sector Assessment Program
GDDS	General Data Dissemination Standard
GDP	Gross Domestic Product
IDA	International Development Association
IFC	International Finance Corporation
LTI	Large Taxpayer Inspectorate
MDG	Millennium Development Goal
MDRI	Multilateral Debt Relief Initiative
MEFP	Memorandum of Economic and Financial Policies
MoF	Ministry of Finance
MSRD	Ministry of State Revenues and Duties
NBT	National Bank of Tajikistan
NFA	Net Foreign Assets
NIR	Net International Reserves
NPL	Nonperforming Loan
PBC	Policy Based Credit (World Bank)
PIP	Public Investment Program
PRGF	Poverty Reduction and Growth Facility
PRSC	Poverty Reduction Support Credit
PRSP	Poverty Reduction Strategy Paper
PSI	Policy Support Instrument
ROSC	Report on Standards and Codes
SAC	Structural Adjustment Credit (World Bank)
SEDP	Socio Economic Development Plan
SDDS	Special Data Dissemination Standard
STA	IMF Statistics Department
TadAZ	Tajik Aluminum Plant
UN	United Nations
USAID	United States Agency for International Development
VAT	Value Added Tax
WTO	World Trade Organization

EXECUTIVE SUMMARY

Despite a significant drop in cotton production, the economy continues to expand at a robust pace. GDP growth is projected to reach 7–8 percent in 2005, fueled by a continuing strong growth in remittances and rising output in the services sector. CPI inflation, after increasing early in 2005, is now expected to remain within the program goal of 7 percent. The external position has been slightly stronger than previously projected, mainly as a result of the rapid growth in foreign remittances.

The program for 2005 has been implemented satisfactorily. All quantitative and structural performance criteria and indicative targets for end-September 2005 were observed, and all outstanding structural benchmarks for 2005 have either been completed or are in the process of implementation. In view of the authorities' satisfactory implementation of the program during 2005, the staff is recommending completion of the sixth review under the PRGF.

As regards prospects for 2006, the authorities felt that the continued strength of foreign remittances flows and the start of construction of major infrastructure projects would maintain the impetus for further income growth. They recognized nevertheless that their policy framework, particularly their inflation goal, could be challenged by a likely increase in energy import prices. They also acknowledged that medium-term growth prospects would be greatly enhanced by faster progress in structural reforms.

The authorities' macroeconomic framework for 2006 envisages GDP growth of about 8 percent and CPI inflation remaining below 7 percent. Prudent fiscal and monetary policies are expected to preserve exchange rate stability and limit CPI inflation to below 7 percent, despite uncertainty about energy prices. Consistent with the macroeconomic framework, the draft 2006 budget limits the fiscal deficit to 0.5 percent of GDP, the medium-term goal under the PRGF. In the structural area, the authorities remain committed to pressing ahead with reform plans in the civil service, education and health care sectors. Furthermore, they will work with the World Bank in developing an appropriate framework for the development of the energy sector.

On balance, the authorities were satisfied with the conclusions of the EPA. Their main comment was that, particularly during the period of the first PRGF program, they were overwhelmed by conditionality called for by the various international institutions that assisted Tajikistan. In addition, they noted their lack of familiarity with Fund programs may have contributed to policy slippages and episodes of misreporting. Looking forward, the authorities reiterated their interest in starting discussions on a successor arrangement in early 2006. They concurred that the structural reform agenda in any prospective arrangement should draw on the recommendations contained in the EPA.

I. Performance Under the Program

1. **Overall, economic performance over the three-year arrangement has been strong.** In particular, economic growth has exceeded by a wide margin the projections included in the original request (Box 1). While inflation performance has not been as strong, achievements in this area are also noteworthy. Progress has also been significant in many policy areas, as evidenced by a continuing strong fiscal policy stance, improved monetary and exchange rate policy management, significant improvements in the health of the financial sector, and some gains in other structural reform areas. Nevertheless, the authorities consider that much remains to be done in the structural area and that macroeconomic gains need to be protected by retaining an appropriate policy framework. They expressed interest in a successor arrangement to support their policy agenda.

2. **All quantitative and structural performance criteria and indicative targets for end-September 2005 were observed, and all outstanding structural benchmarks for 2005 have either been completed or are in the process of implementation (Tables 1 and 2 in Attachment I).** Specifically, as regards the benchmarks that are yet to be observed, amendments to the banking law to open the banking sector to foreign participation have been approved by one chamber of parliament and are expected to be enacted before the end of 2005; and the NBT has recovered about SM 9.5 million in credit to the private sector (out of a target of SM 10 million), with the remainder expected to be collected before the end of the year. The central bank has also made progress in updating its private sector external debt database (created in July 2005), and has expanded it to include a breakdown of debt by the creditors' country of origin.

II. Recent Political and Economic Developments

3. **Ahead of presidential elections in November 2006, the political situation appears stable.** Following a referendum in 2003, the president secured the right to stand for a third term in office. The political turmoil in neighboring Uzbekistan and the Kyrgyz Republic in early 2005 appears to have had a very limited political and economic impact on Tajikistan. There is a sense that the country has progressed much during the last six years, with incomes rising and the quality of life improving. The security situation has also improved markedly.[1] Russia continues to play a key role in the economy, particularly by providing employment opportunities to Tajikistan's migrant workers and much needed foreign investment in the hydropower sector.

[1] Tajikistan's U.N. security designation was upgraded to Phase I effective September 6, 2005.

Box 1. Tajikistan: Performance During the Three-Year PRGF Arrangement

Macroeconomic performance in 2003–05 surpassed expectations, although inflation remained somewhat higher than projected, mostly due to higher than projected imported inflation.

- The program envisaged real GDP growth of 5 percent annually during 2003–05. Actual real GDP growth averaged 9.6 percent and GDP per capita almost doubled.
- Inflation, targeted to decline to 5 percent by 2005, from 14 percent in 2002, is projected to end 2005 at 7 percent.
- On fiscal performance, while the program envisaged a fiscal deficit of 0.5 percent of GDP in each of the three program years, and despite the fact the tax ratio was slightly below target, reflecting rapid growth in the difficult-to-tax services sector, the fiscal balance was in surplus in each of the three years.
- As regards external sector outcomes, the debt to GDP ratio plummeted, as the authorities succeeded in negotiating debt reductions with creditors and nominal GDP doubled in dollar terms. Although international reserves rose sharply, their import cover remained almost unchanged, as imports surged.

Performance under the PRGF, 2002–05

	2002	2005	
	Actual	Program 1/	Outcome 2/
Real			
Nominal GDP (in millions of U.S. dollars)	1,197	1,254	2,404
Real GDP growth (annual average for 2003–05)	9.1	4.7	9.6
GDP per capita (in U.S. dollars)	184	183	354
CPI inflation (in percent per annum, annual average 2003–05)	12.2	6.6	10.2
CPI inflation (in percent per annum, eop)	14.5	5.0	7.0
Fiscal (in percent of GDP)			
Tax revenue	15.0	16.5	16.0
Current expenditure	13.7	15.0	14.4
Expenditure on social services	7.0	8.8	9.1
Fiscal deficit (cumulative for 2003–05)	-0.1	-0.5	1.7
External			
Current account balance (in percent of GDP)	-3.6	-3.7	-3.6
Gross international reserves (in millions of U.S. dollars)	96	193	219
In months of imports	1.8	3.3	1.9
Total PPG external debt (in percent of GDP)	84	94	36
PPG debt service due in percent of exports	9.2	18.3	5.7

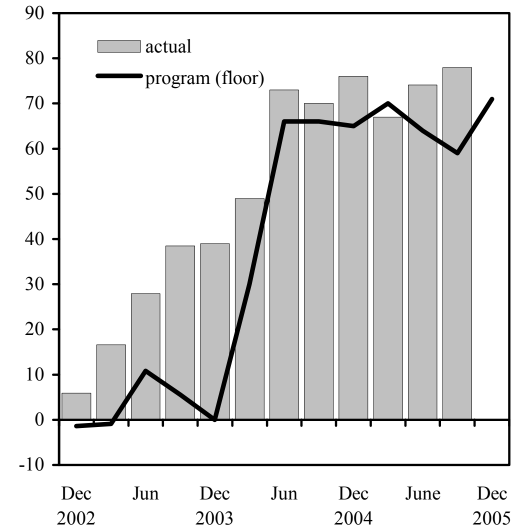
Sources: Tajik authorities; IMF CR No. 03/10; and Fund staff estimates.

1/ As projected in the request for a three-year PRGF arrangement in 2002. For details, see: IMF CR No. 03/10.

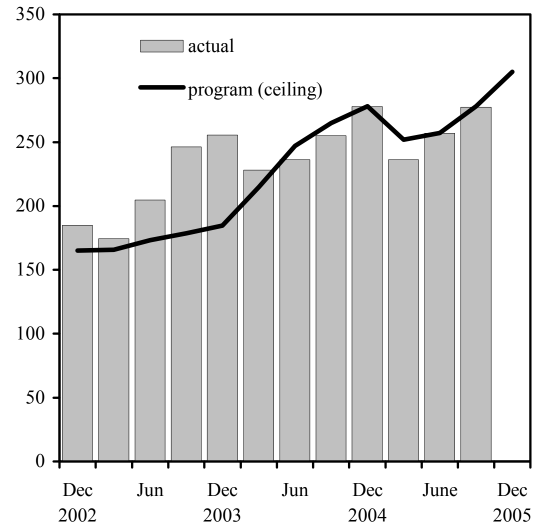
2/ Projected 2005 outcomes as of December 1, 2005.

Box 1. Performance During the Three-year PRGF Arrangement, 2002–05

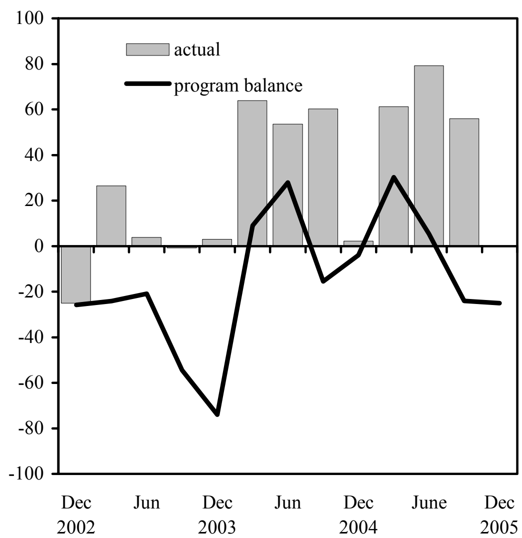
Net International Reserves
(In millions of US$)



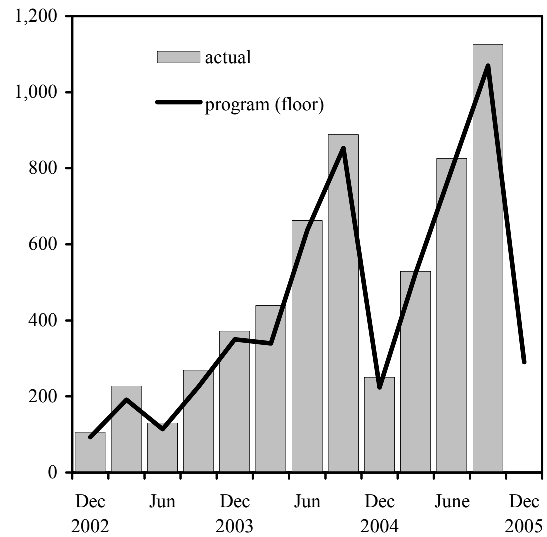
Reserve Money
(In millions of somoni)



Overall Fiscal Balance 1/2/
(In millions of somoni)



Tax Revenue 2/
(In millions of somoni)



Sources: Tajik authorities; and Fund staff estimates.
1/ Overall fiscal balance excludes the foreign-financed public investment program.
2/ Targets for overall fiscal balance and tax revenue in IMF CR No. 03/222 were cumulative from April 1, 2003. In IMF CR No. 04/17, IMF CR No. 04/248 and IMF CR No. 05/132 these targets were cumulative from October 1.

4. **Despite a significant drop in cotton production, the economy continues to expand at a robust pace.** GDP growth is projected to reach 7–8 percent in 2005, fueled by a continuing strong growth in remittances and rising output in the services sector (Figure 1). Inflation, after increasing early in 2005, has since fallen to a more moderate level and is projected at 7 percent for the year as a whole.

5. **The external position has been slightly stronger than previously projected.** A deterioration in Tajikistan's terms of trade reflecting higher import prices for oil and gas and weaker export cotton prices, coupled with a rapid growth in consumer imports and a lower volume of cotton exports, are expected to lead to an increase in the trade deficit (from 7 percent in 2004 to about 12 percent of GDP in 2005). However, the current account deficit in 2005 is projected to narrow slightly relative to 2004, mainly as a result of the rapid growth in foreign remittances, which are projected to increase by almost 50 percent from their 2004 level (Figure 2).

6. **The somoni depreciated in nominal terms by about 5 percent against the dollar through end-July, but has been stable since then.** However, in real terms, it has continued to depreciate, mainly as a result of strong appreciation of the Russian ruble. Competitiveness does not appear to be a concern, as wages, despite their rapid growth in recent years, remain low by regional standards. Nevertheless, lack of export diversification remains a concern.

7. **Cautious monetary policy has contributed to the decline in inflation.** All quantitative and structural performance criteria for end-September 2005 were met, and the authorities are on track to meet the end-December indicative monetary targets. As regards exchange rate policy, the central bank's intervention strategy has at times been asymmetrical, with the aim of limiting nominal appreciation. Interventions have generally been unsterilized, reflecting limited instruments and cost concerns. Nevertheless, the authorities have managed, with the aid of a strong fiscal performance, to offset the reserve money expansion resulting from a higher-than-programmed buildup in net international reserves.[2]

Recent Monetary Indicators

(In millions of somoni; unless otherwise indicated. Using program exchange rates)

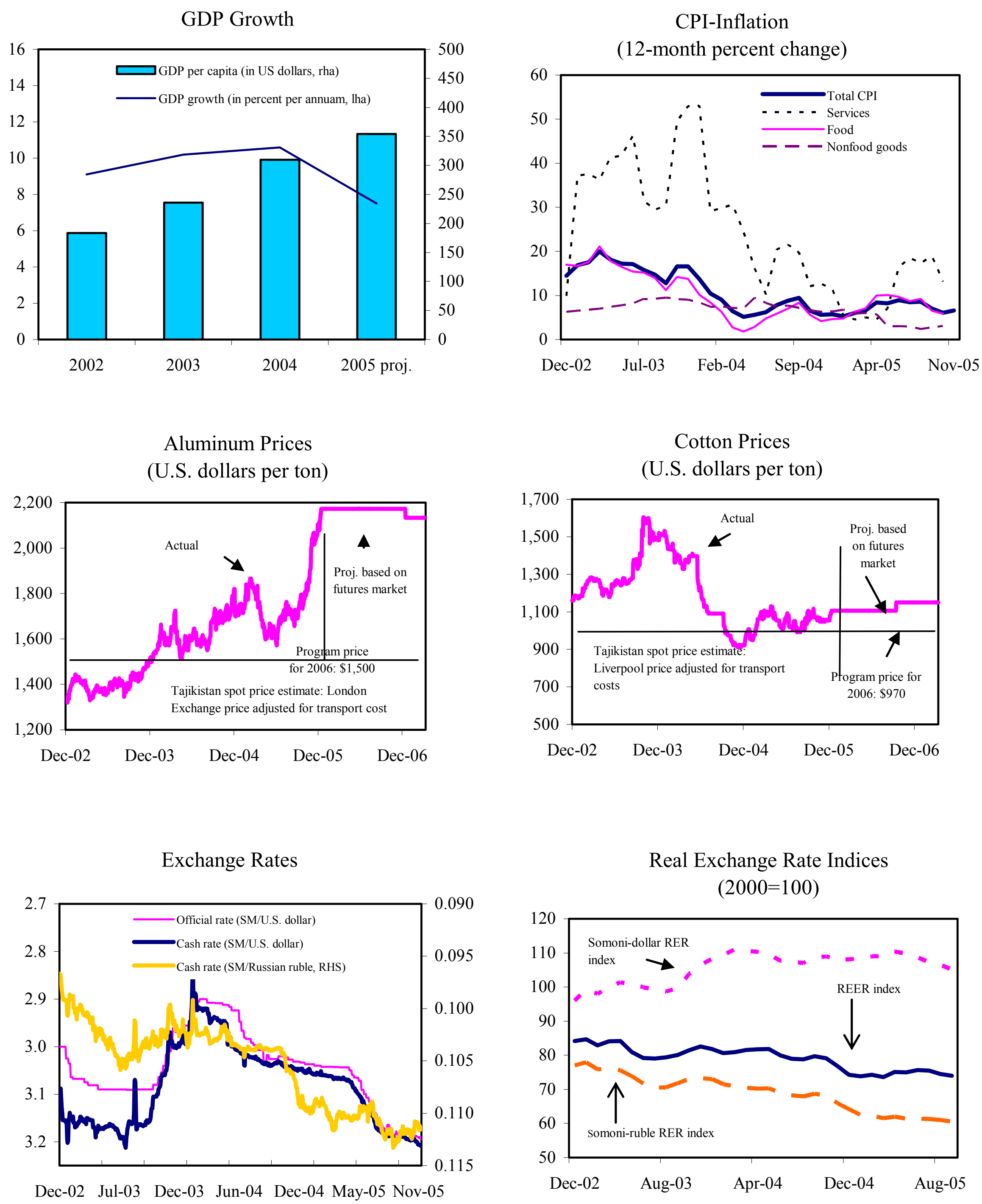
	End-June		End-September		End-November	End-December
	Indicative targets (adj.) 1/	Actual	Program targets	Actual	Prel.	Indicative targets
Ceiling on net domestic assets of the NBT	64	32	101	41	33	90
Ceiling on net credit of the banking system to government	-214	-285	-169	-257	-269	-178
Floor on net international reserves (millions of U.S. dollars)	64	74	59	78	79	71
Reserve money (indicative target)	257	257	278	277	274	305

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

1/ Adjusted for disbursement of Asian Development Bank loan ($5.8 million).

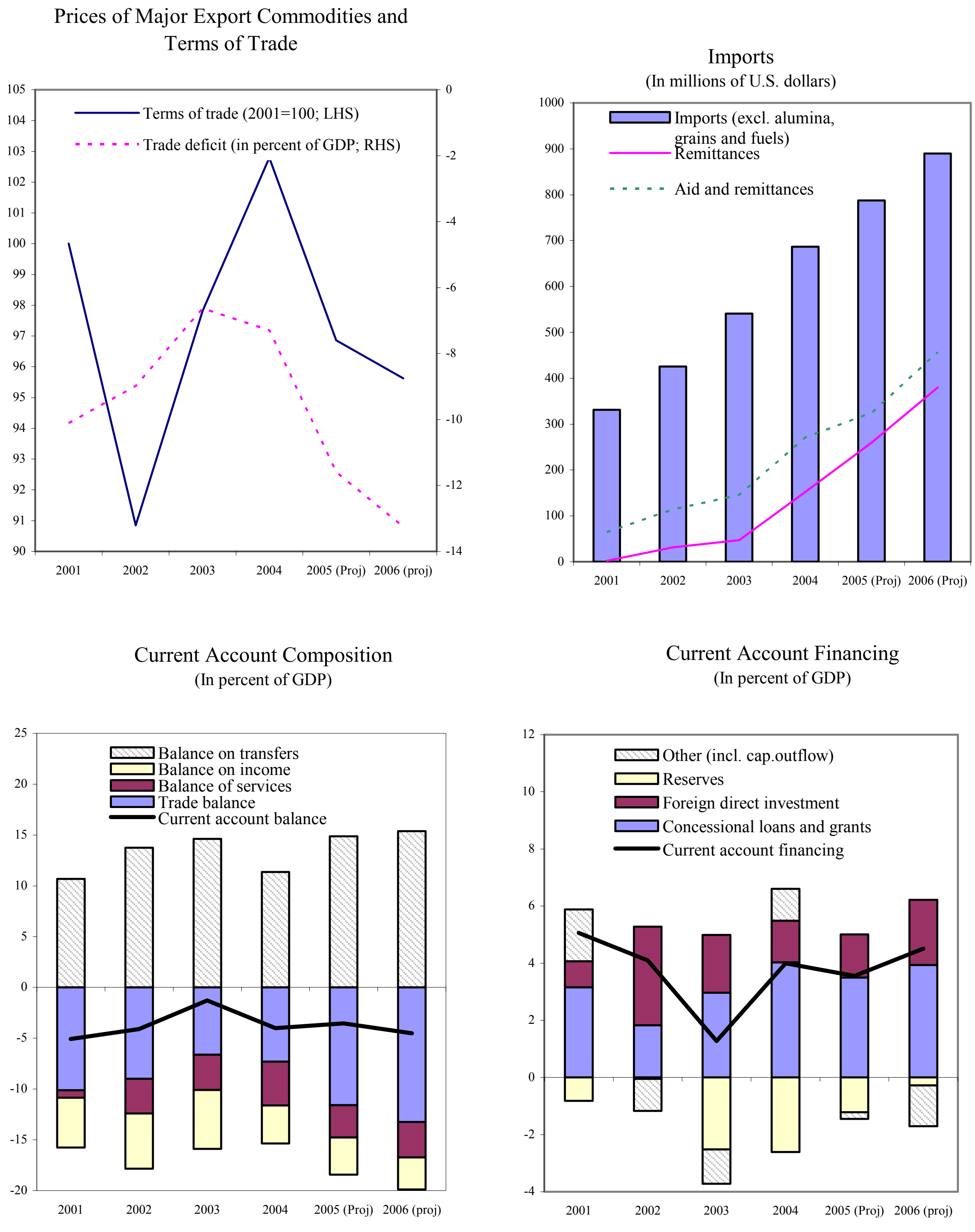
[2] Despite this overperformance, reserve coverage remains relatively low on account of the recent surge in imports.

Figure 1. Tajikistan: Selected Economic Indicators, 2002–05



Sources: Tajik authorities; DataStream; and Fund staff estimates.

Figure 2. Tajikistan: External Sector Developments, 2001–06



Sources: Tajik authorities; and Fund staff calculations.

8. **The central bank has improved the coordination of policies with the MoF, but some structural problems affecting monetary policy remain.** Limited progress has been made in broadening the array of monetary policy instruments. The central bank and the MoF continue to disagree on the formula for mutual interest settlements. In addition, the MoF continues to object to a restructuring of the existing stock of its obligations to the central bank (about SM 150 million), something that would facilitate the central bank's ability to conduct open market operations since these securities currently carry terms that make them difficult to trade in the money market. So far, however, with the MoF running surpluses, this structural problem has not affected the central bank's ability to manage monetary conditions.

9. **Fiscal performance continues to exceed expectations, reflecting strong revenue collections and expenditure restraint.** The fiscal balance (excluding the foreign-financed PIP) has been in surplus through October 2005. Tax collections, especially for income tax and VAT, continued to increase faster than nominal GDP owing to rapid growth in household incomes and improving tax administration. For 2005 as a whole, tax revenues are projected to reach 16.0 percent of GDP, exceeding the program target by 0.3 percent of GDP.[3] Spending has been lower than programmed, but it is expected to reach the program level for the year. As the authorities have expressed their intention not to prepare a supplementary budget for 2005, the fiscal balance in 2005 is projected at a surplus of 0.1 percent of GDP, compared to a deficit of 0.5 percent of GDP in the 2005 Budget Law. Wages in the social sectors—especially health care and education—have been raised sharply over the past two years from extremely low levels, to try to ameliorate the recent deterioration in the quality of social services.

10. **Further progress has been made in strengthening public expenditure and debt management.** Following the recommendations of an FAD technical assistance in July 2005, the authorities have established and staffed a cash management unit in the treasury. After testing the computerization system and links with the central bank in late 2005, the authorities expect the unit to become fully operational in early 2006. There has also been visible improvement in external debt management, as the authorities have started to build their own capacity to carry out debt forecasting and debt sustainability analysis, with technical assistance from the Fund. They have also cooperated with Fund and World Bank staff in the preparation of an updated debt sustainability analysis.

11. **Macroeconomic stability and increased public resources have allowed the government to direct more attention to structural reforms.** There is clear evidence of progress in banking sector reform and, to a lesser extent, in energy sector reform. In the banking sector, the quality of loan portfolios and the profitability of the commercial banks have improved, allowing some banks to increase capital.[4] The minimum capital requirement

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[3] TadAZ has remained current on its tax obligations to the budget.

[4] The banking sector's capital base improved from SM 60 million in December 2002 to SM 200 million (2.7 percent of GDP) in September 2005. Banks also improved their compliance with prudential requirements.

(continued…)

will be raised to $5 million starting January 1, 2006. In this connection, the MoF is committed to completing the recapitalization of the State Savings Bank to guarantee it meets the new requirement, and the sector is being opened to wider foreign participation. These reforms are expected to result in further consolidation of the sector and increased competition. In the energy sector, the low summer electricity tariff has been eliminated (after the elimination of privileged tariffs in 2003), although tariffs still remain below cost-recovery levels. Moreover, the authorities are currently discussing with the World Bank the development of a regulatory framework for the electricity sector to encourage additional foreign investment. Farm restructuring is, however, lagging behind expectations. In particular, efforts to resolve the cotton debt problem have not yielded positive results yet. Given the sizeable amount of obligations involved (currently estimated at about $220 million, or close to 10 percent of GDP), this continues to be a major vulnerability for macroeconomic policy management. Finally, concerns over transparency, governance and other impediments to private sector development, continue to hinder private sector investment and growth.

III. Policy Discussions

12. **The discussions focused on assessing risks to the macroeconomic outlook and evaluating possible complementary measures, if needed, to achieve program goals**. The mission also discussed with the authorities the results of a draft EPA of Longer-term Engagement, including options for future Fund engagement. With economic growth robust, and strong macroeconomic policies (and stability) firmly anchored, the authorities felt that their economic program had delivered many of the gains originally envisaged. However, they accepted that further (and faster) progress is still needed, particularly in the area of structural reform, to safeguard macroeconomic stability and promote sustainable growth. They also shared the mission's view that the outlook for 2006, despite a potentially negative external environment, was still positive.

A. Macroeconomic Outlook

13. **There was consensus between staff and the authorities on the macroeconomic framework for 2006.** The authorities felt that the continued strength of foreign remittances flows and the start of construction of major infrastructure projects would maintain the impetus for further income growth. They recognized nevertheless that their policy framework, particularly their inflation goal, could be challenged by a recent decision by the Uzbek government to significantly raise their gas export prices.[5] Nevertheless, they

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Nonperforming loans declined from 32 percent in 2000 to about 10 percent recently, although this ratio remains high by international standards.

[5] Tajikistan imports about 90 percent of its gas consumption needs, mostly from Uzbekistan.

concurred with staff that their policy of full pass-through of fuel prices would need to continue. As for the upcoming elections and their possible effect on macroeconomic performance, President Rakhmonov gave assurances to the mission that macroeconomic policies will not be affected.

14. **Real GDP growth is expected to remain at about 8 percent in 2006.** Growth will be supported by the continuing stimulus from remittances, the start of construction of large-scale Russian-financed projects in the hydropower sector, significant growth in construction and manufacturing activity, and an expansion in nontraditional agricultural production.

15. **Inflation is projected to decline slightly to about 6–7 percent in 2006.** The authorities believe, and staff concurred, that this is a reasonable target, given continued uncertainty about movements in energy prices, the possible need to adjust gas and electricity prices in the near future, and potential upward pressures on nontraded goods prices coming from rising incomes, especially from remittances.

16. **The external current account deficit is projected to increase to about 4.5 percent of GDP in 2006, owing mostly to an increase in imports associated with higher FDI flows.** Consistent with the fiscal projection (paragraph 17), the external outlook is based on cautious projections regarding export prices for cotton and aluminum, as well as on a projected slowdown in the growth of remittance inflows (from 50 percent in 2005 to 20 percent in 2006). The larger deficit will be financed by increased FDI into the hydropower projects and higher disbursements of concessional loans and grants, including from the ADB. Gross international reserves are projected to remain relatively low, at about two months of imports.

B. Macroeconomic Policy Setting

Fiscal Policy

17. **Consistent with the macroeconomic framework, the 2006 budget limits the fiscal deficit to 0.5 percent of GDP.** While this means a slight deterioration relative to the projected fiscal outturn for 2005, it is based on rather cautious projections for tax revenue performance, particularly since the program's projections for aluminum and cotton prices are below current market expectations.[6]

18. **Tax revenues are conservatively projected to increase by ¼ percentage point of GDP, to 16.2 percent of GDP in 2006.** The modest increase in tax performance over the projected level of 2005 reflects the limited tax potential for some of the new sources of GDP growth, such as the Sangtuda power plant and other foreign investment projects. VAT

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[6] In this scenario, cotton and aluminum prices for 2006 are projected at $970 per ton and $1,500 per ton, respectively.

revenue is expected to benefit from continued rapid growth in consumption, financed by higher wages and salaries in the budgetary and private sectors and strong inflows in remittances.

19. **Staff welcomed the introduction of a number of revenue measures to support the 2006 budget.** The draft 2006 Budget Law includes a provision to replace the current 3 percent tax on aluminum exports (and the tax on alumina imports) with a 4 percent processing tax on aluminum exports, to apply as of January 1, 2006. Although taxing exports in general is not an accepted best practice, this step was required, at this stage, to eliminate potential loopholes in the tax treatment of TadAZ, which had legally contested the right of the government to tax any of its operations on the grounds that the company was operating under a tolling arrangement with its alumina supplier (RUSAL).[7] To minimize disputes over aluminum exports pricing and improve governance as well as preserve the tax base, the tax rate will apply to exports valued at prices quoted at the London Metal Exchange. To improve the administration of the VAT, the authorities have proposed to increase the VAT threshold to $60,000 dollars (from $16,000). They will also eliminate some tax exemptions, including on imports of spare parts for agricultural machinery. The tax base for excise duties will be broadened and compliance strengthened. Lastly, their efforts to modernize customs posts, a project funded by the ADB, are expected to result in more efficient administration and collection of customs duties. The authorities acknowledged, however, that a number of additional measures need to be implemented in the medium term to sustain tax administration efforts (Box 2).

20. **Expenditure in 2006 is expected to increase by 0.4 percentage points of GDP relative to the anticipated 2005 outcome.** The draft budget includes a provision to increase the wage bill by 36 percent (to about 4.5 percent of GDP). The authorities justify this adjustment by the need to (a) meet the requirements of a rapidly growing school-age population; (b) support the health care sector's financing reforms (including to retain skilled staff); (c) raise compensation for law enforcement bodies and border guards previously funded by the Russian Federation; and (d) finance the cost of decompressing wages in the pilot ministries, where reforms are being supported by the World Bank.[8]

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[7] The existing tax code exempts this type of operations from taxation. For this reason, in 2005, pending resolution of the legal case, the government and TadAZ reached an agreement calling for TadAZ to pay SM 13 million per month to cover the equivalent of the tax liabilities under the current tax code.

[8] In order to better monitor wage allocations in the budget, the World Bank is currently working with the authorities on developing a census of public sector positions and sectoral employment.

Box 2. Tajikistan: Challenges In Improving Tax Collections

To broaden the tax base and strengthen tax compliance the authorities will need to implement reforms in the following tax administration areas:

- *Implementing the new tax code*—Further progress is needed in implementing the new tax code, including drafting and ratifying supporting regulations; preparing and disseminating information to taxpayers; and introducing new operational procedures and forms.
- *Strengthening the large taxpayer inspectorate*—The LTI should be a particular focus of modernization efforts over the next 3–4 years, with special emphasis on developing it as a model for future tax administration and securing a high level of revenue.
- *Establishing model inspectorates in major centers*—Model inspectorates should be established in Dushanbe, Sogd, and Khatlong regions to administer medium-sized taxpayers (i.e., VAT and profit taxpayers not handled by the LTI).
- *Accelerating information technology systems development*—With special emphasis on extending registration and taxpayer accounting systems beyond pilot sites.

21. **Regarding other budgetary outlays**, the authorities included in the draft budget cuts in nonessential expenditures items (0.2 percent of GDP), which the authorities had proposed to staff as a partial compensation for the wage adjustment. On capital expenditure, which is expected to remain unchanged as a share of GDP relative to 2005, the staff supported the authorities' intention to maintain the current limit on the foreign-funded PIP at 4 percent of GDP, particularly considering limited absorptive capacity, risks to debt sustainability, and the authorities' concerns about their ability to monitor the quality of projects. Budget expenditure increases will continue to benefit social sectors, as envisaged in the PRSP. Expenditure on health care and education will rise by 0.6 percent of GDP in 2006. However, the authorities informed staff that the implementation of the guaranteed benefit package in health care has been delayed due to lack of sufficient funding.[9]

22. **To strengthen the operations of the treasury, the government will require significant additional resources.** In this regard, the authorities informed staff that they intend to implement further reforms to modernize the treasury along the lines recommended by the FAD technical assistance mission of July 2005 (Box 3).

[9] Successfully implementing this package would require increasing health sector spending from 1.3 percent to 3 percent of GDP.

Monetary and Exchange Rate Policy

23. **The authorities' monetary program for 2006 envisages growth in reserve money of 18 percent.** The NBT will focus policies on achieving the program's reserve money targets—the key monetary anchor—and limit unscheduled foreign exchange interventions to smoothing operations only. They also reiterated their commitment to refrain from extending directed credits. While welcoming the NBT's explicit renewed commitment to reserve money as the key nominal anchor, the staff noted that in the past the NBT had deviated from its reserve money targets, with possible negative repercussions for inflation performance. The authorities noted that they had been concerned about the effects of a nominal appreciation of the somoni on an already widening trade deficit, but accepted that a more flexible exchange rate regime was paramount for absorbing any potential external shocks and achieving a sustained improvement in inflation performance.

24. **In order to facilitate the implementation of monetary policy, the authorities have asked Fund staff to provide technical assistance** in developing a strategy to recapitalize the central bank, designing an appropriate mutual settlements agreement between the central bank and the MoF, and in developing a securities market.[10] The authorities have also asked for additional technical assistance in the area of external debt management.

Medium-Term Prospects and Debt Sustainability

25. **The staff discussed with the authorities a set of medium-term macroeconomic projections**. In this scenario, export growth during 2006–08 is projected to be subdued (at about 6 percent), as a result of continued sluggishness in export prices and limited export diversification. Persistent high trade deficits (of about 14 percent of GDP) will be partially offset by remittances inflows. The current account deficit would remain at about 4.5 percent of GDP, while gross reserves are projected to cover only about 2 months of imports of goods and services. The authorities and the staff shared the view that, with strong structural reforms (to mitigate the effects of a less favorable external environment), increased FDI in energy sector, continuing sizeable remittance inflows, and the maintenance of prudent fiscal and monetary polices, real GDP would grow in the range of 6–7 percent during 2007–08. This scenario nevertheless underscores the importance of diversifying Tajikistan's production and export base, in order to reduce Tajikistan's vulnerability to shocks over the longer term.

[10] The NBT's external auditors estimated that, as of April 2005, the shortfall in the capital of the central bank was about SM 147 million (about 50 percent of end-September 2005 reserve money).

Box 3. Modernizing the Public Financial Management System

Budget modernization still faces some challenges. While the basic regulatory framework for budget preparation is relatively well established, the regulations for budget execution are not yet fully developed. To modernize public financial management, the mission concurred with the authorities that the following areas should be the focus for future reforms.

- *Treasury Single Account*—Complete the Treasury Single Account system by closing all treasury somoni bank accounts except for one bank account at the central bank to be used for all somoni receipts and payments, except for disbursements required by international agreements to be made via separate bank accounts.

- *Accounting*—Introduce a double entry general ledger in the treasury.

- *Audit*—Strengthen the internal audit department within the MoF, and initiate routine external audits of the treasury and reporting to parliament.

- *Cash planning and management*—Integrate the Treasury Single Account project with the systematic cash planning and management division. While the electronic link between the central treasury and NBT is already established, extending this to local treasuries should be the focus during the next three years.

- *Commitment controls*—Develop instructions on new commitment controls, that covers all categories of expenditures and requires approved commitments to be within budget allocations and cash disbursement profiles.

- *Budget preparation*—Develop the organizational classification and define public units, including budget organizations, nonprofit organizations and public organizations, in line with *Government Finance Statistics Manual 2001*.

26. **The authorities were of the view that, to maintain their hard-earned progress toward debt sustainability, Tajikistan should continue to avoid nonconcessional borrowing and use external resources productively.** An updated DSA carried out jointly with the World Bank and the authorities shows that, over the medium term, the public sector external debt position would remain sustainable, but highly vulnerable to exogenous shocks and could be compromised if more borrowing was done on nonconcessional terms. In that context, the staff stressed the importance of further improving external debt management and the continuation of prudent use of borrowed resources. Furthermore, expanding the database to take account of private sector external debt obligations (including of the cotton sector) should also be a priority. Moreover, the staff emphasized that the MoF should further

strengthen its capacity to carry out forecasting and debt sustainability analysis. Finally, the DSA shows that implementation of the MDRI should further reduce the risk of debt distress.

27. **The authorities welcomed the Executive Board's December 21, 2005 decision to grant debt relief under the MDRI to Tajikistan on its Fund obligations.**[11] The authorities also informed the mission of their intention to ask for further debt relief from other multilateral and bilateral external creditors. In this connection, the authorities are in the process of developing a strategy on how to use any freed resources, and have committed to developing such a strategy with assistance from the Fund and the Bank. In this connection, they have indicated that their overriding policy aim is to increase spending to meet the needs of the poorest segments of the population and to focus on achieving the MDGs on a timely basis. In this regard, with the assistance of the UN, Tajikistan became one of the first few countries to prepare a needs assessment document outlining the estimated overall costs and resources required to meet the MDGs.

Structural Reforms and Poverty Reduction Strategy

28. **In the banking sector, the staff supported the authorities' reform plans for 2006, which will focus on enhancing supervisory capacity, improving transparency, and further strengthening the balance sheets of commercial banks**. The authorities have requested an FSAP assessment in 2006. They are also in the process of introducing measures to improve the transparency of lending activities, including the development of a credit rating bureau and the full publication and dissemination of commercial banks' balance sheets. The authorities will continue to implement their reform program supported by USAID, with special focus on strengthening the central bank capacity for banking supervision.

29. **In other areas of structural reform, the authorities remain committed to pressing ahead with the implementation of reforms already underway.** In particular, they will continue with their reforms of the civil service, education and health care sectors, with assistance from the World Bank. Furthermore, they will continue to work with the World Bank in developing an appropriate framework for the development of the energy sector, which the mission believed is essential for improving growth prospects in the medium term. Finally, with assistance from the ADB and other donors, they will continue their efforts to develop a permanent solution to the cotton debt problem, as this issue remains an area of vulnerability for their economic program. In this regard, the mission highlighted the importance of finding a quick and durable solution for the cotton debt problem. The mission expressed in particular its concern that this issue has become a major vulnerability for macroeconomic policy management, particularly because pressures to provide central bank credit (or explicit government guarantees) will not subside until the problem is solved.

[11] Tajikistan's GDP per capita in 2004 was below the threshold of $380, and all the relevant criteria for MDRI qualification were deemed met. The stock debt relief under the MDRI amounts to SDR 69 million (about $100 million), with debt service flow relief in 2006 amounting to SDR 11 million (about $16 million).

30. **During the past few months, the government has taken steps to develop a unified National Development Strategy, which is expected to provide a strategic framework for the next PRSP**. The costing of the MDGs, prepared jointly with the UN, will provide the basis for developing the NDS. The authorities have also recently established the National Coordination Council, with responsibility for formulating the Strategy. The Council, comprising government officials from line ministries and agencies as well as donor countries' representatives, is supported by 12 working groups responsible for the development of sectoral strategies. A concept paper, outlining the main policy areas to be covered in the Strategy, was presented to donors in New York on December 12, 2005. The next PRSP is expected to be finalized in the first half of 2006. While welcoming these efforts, the mission noted that it was of crucial importance to link the PRSP process with a realistic medium-term budget framework that could be supported by donors.

Statistics

31. **The authorities expressed keen interest in strengthening their national statistics framework.** Tajikistan has participated in the GDDS since November 2004, and the authorities expressed particular interest in upgrading their statistical system and subscribing to SDDS. For that purpose, they have appointed a national SDDS coordinator and plan to subscribe to the SDDS as soon as feasible.

C. Ex Post Assessment and Continued Cooperation with the Fund

32. **On balance, the authorities were satisfied with the conclusions of the EPA (Box 4).** Their main reaction was that, particularly during the period of the first PRGF program, they were overwhelmed by conditionality called for by the various international institutions that assisted Tajikistan. They argued that better coordination among IFIs and a more streamlined policy agenda earlier in the process would have helped program implementation. They also noted that the high number of misreporting cases was due to their inexperience with Fund procedures and debt management policies, and pointed to the small amounts involved. Finally, the authorities felt that, even though there are still structural problems in the area of monetary policy (e.g., lack of appropriate instruments), the assessment gave a mistaken impression that during the second PRGF the central bank's monetary program was inconsistent with its ability to fend off pressures to provide directed lending. They felt, in particular, that the report gave an erroneous view that the problems that emerged during the first PRGF were likely to reappear in the near future.

33. **Looking forward, the authorities reiterated their interest in starting negotiations on a successor arrangement in early 2006.** The mission discussed with the authorities all available options for continued Fund engagement, including a successor PRGF arrangement (with either low or significant access), engagement under the PSI, and a surveillance relationship. The authorities, at this point, appear inclined to request a successor PRGF arrangement, with access to be determined on the basis of the strength of the underlying program and the balance of payments need at the time of the expected request. They shared the staff's view that a successor program should focus on deepening reforms in the areas of

tax administration and public expenditure management, and strengthening the financial relations between the MoF and the central bank. The authorities also concurred that the structural reform agenda in any prospective arrangement should draw on the recommendations contained in the EPA, including the need to speed up agriculture reforms.

Box 4. Tajikistan: Lessons from Fund Engagement

- **The foremost lesson is that weak institutional capacity posed a major constraint** to reform, and that therefore a balance had to be found between the need for speedy reform and the authorities' ability to meet the requirements of reform.

- **The peace agreement clearly introduced a number of constraints** that ex-ante limited the ability of the authorities to move more quickly and effectively in many areas of structural reforms.

- **Early programs clearly went too far in terms of extent and detail regarding structural conditionality.** Moreover, a number of the structural measures included in the programs were difficult to monitor.

- **Programs should have been more forceful in addressing the problems of the cotton sector**, or at least ensuring that any public financial assistance should have been channeled in a transparent way through the budget.

- **Programs have failed to resolve institutional weaknesses in the design and implementation of monetary policy**. The structural weakness of the central bank's balance sheet has yet to pose a problem for macroeconomic stability because of the strong fiscal performance, but this risk cannot be ignored for long.

- **Fund engagement and financial assistance have been beneficial for Tajikistan**. The authorities have broadly followed Fund advice and appear more committed to reform than in the early years of engagement.

IV. Staff Appraisal

34. **Tajikistan's macroeconomic performance during the last three years has been strong, but its record in structural reforms has been mixed.** Performance has clearly benefited from improved program ownership under the second PRGF arrangement and a much more streamlined policy agenda. Nevertheless, there are persistent concerns about the quality and speed of reforms in key structural areas (mainly agriculture), and lingering problems with weak institutional capacity. The staff urges the authorities to address these

problems forcefully, to consolidate the macroeconomic gains achieved so far and strengthen growth prospects in the medium term.

35. **The Tajik authorities have maintained their efforts to strengthen macroeconomic management.** The strong fiscal stance has been maintained and monetary management has continued to improve, although monetary instruments remain weak. The exchange rate has been relatively stable and inflation remains in check. Despite weaker commodity export prices and higher energy costs, macroeconomic prospects for the near term are good, with economic growth likely to remain strong and inflation stable. Looking forward, the authorities need to continue to hold the line in their macroeconomic policy strategy in order to support growth and further reduce vulnerabilities.

36. **The staff welcomes the authorities' commitment to keeping fiscal policy consistent with the program's medium-term objectives.** The 2006 budget has been designed cautiously, with a view to limiting any negative repercussions of a potential drop in the main commodity prices. The staff urges the authorities to allocate any revenue overperformance transparently and to use these additional resources to augment social expenditure, with the ultimate goal of meeting the MDGs. Furthermore, the staff welcomes the authorities' intentions to amend the new tax code to close any potential loopholes. In particular, the new tax regime for the aluminum sector should be conducive to the preservation of the revenue base. The staff encourages the authorities to continue to improve treasury operations and tax administration, along the lines of technical assistance provided by the Fund.

37. **Monetary policy has contributed to improved inflation performance but has at times been compromised by the pursuit of an exchange rate objective.** Going forward, achieving the monetary program's reserve money targets should be the focus of the central bank's policy strategy. Given the country's susceptibility to external shocks, a managed floating exchange rate regime is appropriate. The staff strongly supports the authorities' commitment to limit foreign exchange interventions in the future to smoothing operations only, without focusing on a particular exchange rate level. The authorities should also steadfastly retain the commitment not to grant any additional directed credits and take full advantage of the technical assistance being provided to expand the range of monetary instruments and to develop a strategy for recapitalizing the central bank.

38. **Regarding the financial system, the staff appreciates the continued efforts to strengthen the banking system's capital base and the enhanced monitoring of banks' loan portfolios**. The approval of the amendments aimed at eliminating restrictions on foreign competition is an important step toward further strengthening the banking system and improving the quality of financial services.

39. **Recent efforts to enhance external debt management should continue.** In particular, the policy of refraining from contracting nonconcessional government and government guaranteed debt has worked well and should be sustained. Efforts should also be expanded to enhance the quality and coverage of the database for private external debt.

40. **The staff strongly supports the authorities' intention to press ahead with structural reforms already underway.** Public sector reform, in particular in the areas of education, health care, and civil service, should be accelerated with the assistance of the World Bank. In the electricity sector, the development of a consistent reform strategy will be paramount for investment in the sector, and should be accompanied not only by the enforcement of payments and financial governance but also by the design and implementation of a better-targeted social compensation mechanism.

41. **The staff remains concerned about the speed and quality of reforms in the agricultural sector, particular in dealing with the cotton debt.** Efforts should focus on developing a debt resolution strategy that would facilitate the resumption of growth in the sector without damaging the financial position of the government. This strategy should also be complemented by efforts to liberalize the production and marketing arrangements for cotton to promote diversification and efficiency.

42. **The staff agrees that there is a good case for a successor PRGF arrangement.** Given Tajikistan's still low per-capita income, the low level of reserves, lack of access to capital markets, and the high probability of financing gaps in the medium term, there is likely to be a strong case for a successor PRGF arrangement, with access to be determined on the basis of the strength of the underlying program and the balance of payments need at the time of the expected request.

43. In view of the authorities' satisfactory implementation of the program during the 2005, the staff recommends completion of the sixth review under the PRGF.

Table 1. Tajikistan: Selected Macroeconomic Indicators, 2003–06

(Quota: SDR 87 million)

(Population: 6.5 million)

(Per capita GDP: $310; Per capita GNP: $370, 2004)

			2005			2006
			Jan-Sept.	Year		Year
	2003	2004	Actual	Prog.	Staff proj.	Staff proj. 1/
			(Annual percent change, unless otherwise indicated)			
National accounts						
Nominal GDP (in millions of somoni)	4,758	6,158	5,049	7,100	7,300	8,400
Nominal GDP (in millions of dollars)	1,556	2,073	1,632	2,338	2,404	2,642
Real GDP	10.2	10.6	5.3	8.0	7.5	8.0
CPI inflation (end-of-period)	13.7	5.6	6.8	7.0	7.0	7.0
Poverty rate (in percent of population)	64.0	…	...	...	...	...
			(In percent of GDP)			
Investment and savings 2/						
Investment	13.1	14.9	...	15.5	14.3	14.5
Fixed capital investment	12.0	13.5	...	14.0	12.8	13.1
Government	6.5	8.1	...	8.0	6.9	7.0
Private	5.5	5.4	...	5.9	5.9	6.1
Gross national savings	11.9	10.9	...	10.6	10.8	10.0
Public	4.8	5.8	...	3.9	3.1	2.5
Private	7.1	5.1	...	6.6	7.6	7.5
Savings/investment balance	-1.3	-4.0	...	-4.9	-3.6	-4.5
			(In percent of annual GDP)			
Revenue and grants	17.3	17.9	13.9	17.7	18.8	18.6
Of which: tax revenue	15.0	15.2	12.0	15.7	16.0	16.2
Expenditure and net lending	19.1	20.3	15.6	22.2	22.6	23.1
Of which: current	12.6	12.1	10.3	14.1	15.6	16.0
capital	6.5	8.1	5.3	8.0	6.9	7.0
Balance (excluding debt-financed PIP)	0.9	0.7	0.7	-0.5	0.1	-0.5
Balance (including debt-financed PIP)	-1.8	-2.4	-1.8	-4.5	-3.8	-4.5
Domestic financing	-1.1	-1.7	-0.3	0.7	0.9	1.1
External financing	2.8	4.0	2.0	3.7	2.9	3.4
		(12-month growth in percent of broad money, unless otherwise indicated)				
Net foreign assets of the banking sector	48.8	-22.3	13.2	2.1	11.0	4.8
Net domestic assets of the banking sector	-21.4	78.8	18.5	15.0	8.0	18.3
Broad money 3/	29.2	14.3	29.6	18.4	21.3	21.2
Bills payable	-1.8	42.2	2.1	-1.4	-2.3	1.9
Velocity of broad money (four-quarter average)	3.0	3.8	3.7	3.7	3.7	3.5
Interest rate (28-day NBT bill rate, in percent)	4.9	6.2	7.5	...	...	...
			(In millions of U.S. dollars, unless otherwise indicated)			
External sector						
Exports of goods and services	985	1,211	931	1,253	1,274	1,352
Annual percent change	23.2	22.9	6.9	3.5	5.3	6.1
Imports of goods and services	1,142	1,451	1,217	1,568	1,629	1,795
Annual percent change	22.9	27.1	16.9	8.1	12.3	10.2
Current account balance	-20	-83	-93	-115	-86	-118
In percent of annual GDP	-1.3	-4.0	-3.9	-4.9	-3.6	-4.5
Total PPG external debt	990	819	...	897	881	951
In percent of GDP	63.7	39.5	...	38.4	36.6	36.0
Gross official reserves	135	189	216	205	219	226
In months of imports	1.9	1.8	1.8	1.9	1.9	1.8
Memorandum items:						
Nominal effective exchange rate (Index 1999=100)	49.4	46.9	46.8	...	...	...
Real effective exchange rate (Index 1999=100)	79.1	75.5	74.7	...	...	...
Average exchange rate (somoni per dollar)	3.1	2.97	3.09	...	...	...

Sources: Data provided by the Tajikistan authorities; and Fund staff estimates.

1/ Projections were discussed and agreed with the authorities prior to Board discussion of MDRI qualification, and thus its implementation is not reflected i

2/ Private investment and savings are estimates.

3/ The definition of broad money was revised in 2004.

Table 2. Tajikistan: Basic Social Indicators, 1970–2004

	Tajikistan				Europe and Central Asia 1/	Low-income countries 1/
	1970–75	1980–85	1990–99	2000–04 1/		
Population 2/						
Life expectancy at birth (in years)	64	66	69	66	69	59
Infant mortality (per thousand live births)	…	58	20	76	29	79
Birth rate, crude (per thousand people)	…	…	22	23	13	29
Death rate, crude (per thousand people)	…	…	5	7	12	11
Fertility rate (in births per woman)	6.3	5.6	3.3	2.9	1.6	3.5
Age dependency ratio (in percent)	…	0.90	0.80	0.73	0.48	0.69
Rural population (in percent of population)	65	66	73	72	36	69
Urban population (in percent of population)	36	34	28	28	64	31
Health indicators						
Child immunization: Measles (in percent of children under 12 months) 3/	…	…	79	87	93	65
Child immunization: DPT (in percent of children under 12 months) 3/	…	…	81	84	92	65
Physicians (per thousand people)	…	2.4	2.0	2.1	3.1	...
Hospital beds (per thousand people)	…	10.0	8.8	6.4	8.9	...
Education 2/						
Gross primary school enrollment rate (in percent of age group)	…	…	95	98	99	94
Gross secondary school enrollment rate (in percent of age group	…	…	78	82	86	46

Sources: World Development Indicators; the World Bank Group.

1/ Latest data available.
2/ Data in the column labelled 1990–99 is the period average for 1993–99.
3/ Data in the column labelled 1990–99 is the period average for 1995–99.

Table 3. Tajikistan: General Government Operations, 2004–06

(In millions of somoni; unless otherwise indicated)

		2005					2006
		Q1	Q2	Q3	Q4	Year	Year
	2004	Act.	Act.	Act.	Proj.	Proj.	Budget
Overall revenues and grants	1,104	309	360	342	360	1,372	1,566
Total revenues	1,063	309	334	342	327	1,312	1,528
Tax revenues 1/	934	277	299	300	293	1,169	1,374
Income and profit tax	105	36	41	35	31	142	156
Payroll taxes	120	34	39	41	31	146	172
Property taxes	34	11	15	16	9	51	66
Internal taxes on goods and services	482	149	162	167	148	625	728
International trade and operations tax	185	47	43	41	75	205	252
Other taxes	8	0	0	0	0	0	0
Nontax revenues	129	32	35	42	33	143	154
Grants	41	0	26	0	33	60	38
Total expenditures and lending minus repayments	1,250	317	391	433	506	1,648	1,944
Current expenditures	747	210	268	273	391	1,141	1,350
Expenditures on goods and services	514	138	187	199	327	851	1,016
Wages and salaries	168	56	68	63	92	278	378
Others	346	82	119	137	235	573	638
Interest payments	43	4	8	2	42	56	51
Transfers and subsidies	189	68	73	71	22	234	283
Capital expenditures	500	107	119	160	119	504	592
Externally financed PIP	189	66	49	68	101	284	336
Domestically financed 2/	311	40	71	92	18	220	256
Lending minus repayments	3	0	4	1	-3	2	2
Overall balance (including externally financed PIP)	-146	-7	-31	-91	-146	-276	-378
Overall balance (excluding externally financed PIP)	43	59	18	-23	-45	8	-42
Total financing (including externally financed PIP)	146	7	31	91	146	276	378
Net external	249	50	46	52	64	212	285
Disbursements	267	84	49	68	102	303	393
Amortization	-18	-34	-3	-16	-38	-91	-108
Net domestic	-103	-42	-15	39	82	63	93
NBT 3/	-119	-44	-10	25	38	9	55
Commercial banks	-9	-7	-1	-5	16	4	12
Gross proceeds from privatization	25	4	3	7	28	42	26
Other nonbank and discrepancy	0	5	-9	11	0	7	0
Memorandum items:							
Nominal GDP	6,158	7,300	7,300	7,300	7,300	7,300	8,400

Sources: Tajik authorities; and Fund staff estimates.

1/ For 2006, the draft budget includes (both in revenues and expenditures) a projected SM 10 million in VAT receipts that are expected to be refunded.
2/ Domestic capital spending was reclassified with effect from January 1, 2005.
3/ Differences between the historical financing figures and those in the NBT accounts are due to the inclusion of undisbursed project financing in the NBT's accounts with government. Also, the historical financing figures in this table are based on estimated flows, not differences between end-period stocks.

Table 4. Tajikistan: General Government Operations, 2004–06

(In percent of GDP; unless otherwise indicated)

		2005					2006
		Q1	Q2	Q3	Q4	Year	Year
	2004	Act.	Act.	Act.	Proj.	Proj.	Budget
Overall revenues and grants	17.9	4.2	4.9	4.7	4.9	18.8	18.6
Total revenues	17.3	4.2	4.6	4.7	4.5	18.0	18.2
Tax revenues 1/	15.2	3.8	4.1	4.1	4.0	16.0	16.4
Income and profit tax	1.7	0.5	0.6	0.5	0.4	1.9	1.9
Payroll taxes	1.9	0.5	0.5	0.6	0.4	2.0	2.0
Property taxes	0.6	0.2	0.2	0.2	0.1	0.7	0.8
Internal taxes on goods and services	7.8	2.0	2.2	2.3	2.0	8.6	8.7
International trade and operations tax	3.0	0.6	0.6	0.6	1.0	2.8	3.0
Other taxes	0.1	0.0	0.0	0.0	0.0	0.0	0.0
Nontax revenues	2.1	0.4	0.5	0.6	0.5	2.0	1.8
Grants	0.7	0.0	0.4	0.0	0.5	0.8	0.5
Total expenditures and lending minus repayments	20.3	4.3	5.4	5.9	6.9	22.6	23.1
Current expenditures	12.1	2.9	3.7	3.7	5.4	15.6	16.1
Expenditures on goods and services	8.4	1.9	2.6	2.7	4.5	11.7	12.1
Wages and salaries	2.7	0.8	0.9	0.9	1.3	3.8	4.5
Others	5.6	1.1	1.6	1.9	3.2	7.9	7.6
Interest payments	0.7	0.1	0.1	0.0	0.6	0.8	0.6
Transfers and subsidies	3.1	0.9	1.0	1.0	0.3	3.2	3.4
Capital expenditures	8.1	1.5	1.6	2.2	1.6	6.9	7.0
Externally financed PIP	3.1	0.9	0.7	0.9	1.4	3.9	4.0
Domestically financed 2/	5.1	0.6	1.0	1.3	0.2	3.0	3.0
Lending minus repayments	0.1	0.0	0.1	0.0	0.0	0.0	0.0
Overall balance (including externally financed PIP)	-2.4	-0.1	-0.4	-1.3	-2.0	-3.8	-4.5
Overall balance (excluding externally financed PIP)	0.7	0.8	0.2	-0.3	-0.6	0.1	-0.5
Total financing (including externally financed PIP)	2.4	0.1	0.4	1.3	2.0	3.8	4.5
Net external	4.0	0.7	0.6	0.7	0.9	2.9	3.4
Disbursements	4.3	1.2	0.7	0.9	1.4	4.2	4.7
Amortization	-0.3	-0.5	0.0	-0.2	-0.5	-1.2	-1.3
Net domestic	-1.7	-0.6	-0.2	0.5	1.1	0.9	1.1
NBT 3/	-1.9	-0.6	-0.1	0.3	0.5	0.1	0.7
Commercial banks	-0.1	-0.1	0.0	-0.1	0.2	0.1	0.1
Gross proceeds from privatization	0.4	0.1	0.0	0.1	0.4	0.6	0.3
Other nonbank and discrepancy	0.0	0.1	-0.1	0.1	0.0	0.1	0.0
Memorandum items:							
Nominal GDP (in millions of somoni)	6,158	7,300	7,300	7,300	7,300	7,300	8,400

Sources: Tajik authorities; and Fund staff estimates.

1/ For 2006, the draft budget includes (both in revenues and expenditures) a projected SM 10 million in VAT receipts that are expected to be

2/ Domestic capital spending was reclassified with effect from January 1, 2005.

3/ Differences between the historical financing figures and those in the NBT accounts are due to the inclusion of undisbursed project financir NBT's accounts with government. Also, the historical financing figures in this table are based on estimated flows, not differences between end-period stocks.

Table 5. Tajikistan: General Government Operations by Functional Classification, 2004–06

(In millions of somoni; unless otherwise indicated)

	2004		2005				2006			
			IMF		Budget		IMF		Budget	
	Act.	Percent of GDP	Proj.	Percent of GDP	Proj.	Percent of GDP	Proj.	Percent of GDP	Proj.	Percent of GDP
Overall revenue and grants	1,104	17.9	1,372	18.8	1,329	18.7	1,558	18.6	1,566	18.6
Tax revenues 1/	934	15.2	1,169	16.0	1,148	16.2	1,364	16.2	1,374	16.4
Nontax revenues	129	2.1	143	2.0	142	2.0	154	1.8	154	1.8
Grants	41	0.7	60	0.8	38	0.5	40	0.5	38	0.5
Total expenditures and lending minus re	1,250	20.3	1,648	22.6	1,648	23.2	1,936	23.1	1,944	23.1
General administrative services	117	1.9	157	2.1	157	2.2	185	2.2	185	2.2
Protection services	134	2.2	194	2.7	194	2.7	239	2.8	239	2.8
Social services	438	7.1	664	9.1	623	8.8	805	9.6	805	9.6
Education	161	2.6	250	3.4	250	3.5	336	4.0	336	4.0
Health	62	1.0	91	1.2	83	1.2	106	1.3	106	1.3
Social security and welfare	153	2.5	228	3.1	194	2.7	238	2.8	238	2.8
Other social services	61	1.0	95	1.3	95	1.3	125	1.5	125	1.5
Economic services	119	1.9	148	2.0	148	2.1	167	2.0	167	2.0
Interest payments	43	0.7	56	0.8	56	0.8	51	0.6	57	0.7
Other services	211	3.4	144	2.0	187	2.6	155	1.8	156	1.9
Externally financed PIP	189	3.1	284	3.9	284	4.0	336	4.0	336	4.0
Overall balance (incl. PIP)	-146	-2.4	-276	-3.8	-319	-4.5	-378	-4.5	-378	-4.5
Overall balance (excl. PIP)	43	0.7	8	0.1	-35	-0.5	-42	-0.5	-42	-0.5
Total financing	146	2.4	276	3.8	319	4.5	378	4.5	378	4.5
Net external	249	4.0	212	2.9	213	3.2	285	3.4	285	3.4
Disbursements	267	4.3	303	4.2	303	4.2	393	4.7	372	4.4
Amortization	-18	-0.3	-91	-1.2	-91	-1.0	-108	-1.3	-108	-1.3
Net domestic	-103	-1.7	63	0.9	106	1.5	93	1.1	93	1.1
Banking system	-128	-2.1	13	0.2	60	0.8	59	0.7	67	0.8
Nonbank	25	0.4	51	0.7	47	0.7	34	0.4	26	0.3
Memorandum item:										
Nominal GDP	6,158		7,300		7,100		8,400		8,400	

Sources: Tajik authorities; and Fund staff estimates.

1/ In the 2006 budget the authorities included in tax revenues and expenditure a projected SM 10 million in VAT receipts that will be refunded.

Table 6. Tajikistan: Accounts of the National Bank of Tajikistan, 2004–06

(End-of-period stock; unless otherwise specified)

	2004	2005						2006			
	Dec.	March	June	Sep.		Dec.		March	June	Sept.	Dec.
	Act. 1/ 2/	Act. 1/	Act. 1/	(IMF CR No. 05/368)	Act 2/	(IMF CR No. 05/368)	Proj.	Proj.			
	(In millions of U.S. dollars)										
Net international reserves	67	69	80	59	78	71	81	76	79	81	90
Gross assets	189	202	204	200	216	205	219	228	223	224	226
Gross liabilities	122	133	123	141	138	135	138	152	144	143	136
Official exchange rate (Sm/US$)	3.037	3.043	3.116	...	...	...	...	...	...	...	...
Program exchange rate (Sm/US$)	...	3.037	3.037	3.037	3.037	3.037	3.037	3.037	3.037	3.037	3.037
	(In millions of somoni)										
Net foreign assets	205	209	251	178	237	215	246	231	240	245	272
Gross assets	575	614	635	606	655	624	664	691	678	681	686
Gross liabilities	370	405	384	428	419	409	418	460	439	436	414
Net domestic assets	73	27	7	101	41	90	68	45	62	82	99
Net credit to general government	-192	-238	-252	-148	-219	-158	-181	-200	-179	-158	-134
Credit to the private sector	221	219	218	209	216	202	209	206	203	201	199
Other items, net	44	46	41	40	44	46	40	40	39	39	34
NBT bills	-5	-4	-9	-16	-11	-10	-14	-15	-15	-15	-19
Reserve money	278	236	258	278	277	305	314	276	301	327	372
Currency in circulation	205	154	183	208	204	150	238	188	222	252	282
Bank reserves	70	78	72	66	68	151	71	83	75	70	84
Of which:											
Required reserves	45	48	49	52	48	69	58	60	73	71	72
Somoni	16	18	20	20	20	40	21	23	26	21	27
Foreign exchange	28	30	29	32	28	29	37	38	47	49	45
	(12-month change as a percent of initial reserve money stock)										
Net international reserves	38.9	36.2	19.9	-19	21.2	3.6	14.9	12.0	5.7	3.1	8.3
Net domestic assets	-29.0	-31.0	-9.6	28	-11.4	6.2	-1.8	5.0	11.7	14.9	10.0
Reserve money	10.0	5.2	10.3	9.3	9.8	9.8	13.1	17.0	17.3	18.0	18.3
Quarterly disbursements of program loans (in millions of U.S. dollars)	25	6	9	6	6	6	6	0	10	5	0

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

1/ Data are based on official SDR/U.S. dollar and somoni/U.S. dollar exchange rates.
2/ Data are based on the following program exchange rates: SM 3.037=US$1, and SDR 1=US$1.54, and gold price of US$438 per ounce, which were end-2004 actual rates.

Table 7. Tajikistan: Monetary Survey, 2004–06

(In millions of somoni; end-of-period stock unless otherwise specified)

	2004	2005						2006			
	Dec.	Mar.	June	Sept.		Dec.		March	June	Sept.	Dec.
	Act. 1/ 2/	Act. 1/	Act. 1/	(IMF CR No. 05/368)	Act. 2/	(IMF CR No. 05/368)	Proj.	Proj.			
Net foreign assets	-207	-203	-149	-235	-168	-198	-158	-173	-165	-159	-132
National Bank of Tajikistan	205	209	251	178	237	215	246	231	240	245	272
Commercial banks	-412	-413	-399	-413	-404	-413	-404	-404	-404	-404	-404
Net domestic assets	828	787	816	916	890	894	863	829	933	957	962
Net credit to general government	-218	-271	-285	-169	-257	-178	-203	-219	-195	-171	-143
Credit to the private sector	1,098	1,131	1,184	1,152	1,214	1,126	1,133	1,115	1,196	1,196	1,173
Of which : cotton financing	655	656	659	657	624	657	624	624	624	624	624
Other items net	-53	-73	-83	-67	-67	-53	-68	-68	-68	-68	-68
Broad money	444	403	495	508	553	526	539	488	599	627	654
Somoni broad money	265	223	271	277	294	317	325	273	331	345	397
Currency outside banks	175	117	148	183	171	133	204	142	179	222	242
Deposits	89	106	122	93	124	184	121	130	151	123	156
Foreign currency deposits	180	180	224	231	259	209	215	215	268	282	256
Bills payable 3/	176	180	173	173	169	170	166	167	169	171	176
Memorandum items:											
Actual/program exchange rate (Sm/US$, e.o.p)	3.037	3.043	3.116	3.037	3.037	3.037	3.037	3.037	3.037	3.037	3.037
Broad money (12-month percent change)	14.3	17.2	27.4	16.1	29.6	18.4	21.3	21.2	22.5	13.3	21.2
Credit to the private sector (12-month percent change)	57.9	49.0	15.0	4.6	10.2	2.5	3.2	-1.3	2.5	-1.5	3.5
Year-to-year average of quarterly velocity 4/	3.8	3.8	3.7	3.7	3.7	3.7	3.7	3.5	3.6	3.6	3.5
Money multiplier 5/	1.60	1.71	1.92	1.83	1.92	1.73	1.72	1.76	1.99	1.92	1.76

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

1/ Data are based on official SDR/U.S. dollar and somoni/U.S. dollar exchange rates.
2/ Data are based on the following program exchange rates: SM 3.037=US$1, and SDR 1=US$1.54, and gold price of US$438 per ounce, which were end-2004 actual rates.
3/ Liabilities to cotton financiers related to domestic cotton financing.
4/ Quarterly GDP divided by end-quarter broad money; four-quarter average.
5/ Broad money divided by reserve money.

Table 8. Tajikistan: Balance of Payments, 2004–06
(In millions of US dollars)

	2004	2005					2006
		Q1 Act.	Q2 Act.	Q3 Act.	Q4 Proj.	Annual Proj.	Proj.
Current account	-83	-55	-49	11	7	-86	-118
Balance on goods and services	-241	-85	-108	-94	-68	-355	-443
Balance on goods	-151	-65	-95	-74	-45	-279	-351
Exports 1/	1,088	247	271	303	302	1,124	1,188
Of which: aluminum	563	132	139	143	136	550	566
cotton fiber	162	39	29	18	43	129	118
Imports	1,239	312	366	378	346	1,403	1,539
Balance on services	-89	-21	-13	-19	-23	-76	-92
Balance on income	-78	-26	-24	-20	-19	-89	-82
Balance on transfers	236	57	82	125	94	357	406
Of which: migrants' remittances, net	141	21	52	102	72	247	309
Capital and financial account	106	53	57	-12	2	100	127
Capital transfers	13	0	10	0	11	21	24
Public sector (net)	-194	11	13	12	21	56	64
World Bank	25	0	0	0	0	0	10
ADB	0	6	0	0	0	6	6
FDI 2/	272	11	5	9	12	36	60
Commercial banks	63	0	0	0	0	0	0
Electricity credit	7	12	-2	-6	4	7	0
Other capital and errors and omissions	-81	14	32	-26	-47	-27	-37
Overall balance	23	-1	8	-1	9	14	8
Use of international reserves (- increase)	-54	-13	-2	-12	-3	-29	-7
Financing items	31	14	-6	13	-6	15	-1
IMF (net)	17	14	-6	13	-6	15	-1
Other reserve liabilities	1	0	0	0	0	0	0
Drawdown on Tajikistan's claim on the CBR	0	0	0	0	0	0	0
Exceptional financing 3/	13	0	0	0	0	0	0
Financing gap	0	0	0	0	0	0	0
Memorandum items:							
GDP (in millions of U.S. dollars)	2,073	419	460	718	741	2,404	2,642
Current account balance in percent of GDP	-4.0	…	…	…	…	-3.6	-4.5
(excluding net transfers)	-15.4	…	…	…	…	-18.4	-19.8
Terms of trade	5.1	…	…	…	…	-5.8	-1.3
Net international reserves	67	69	74	72	81	81	90
Gross reserves	189	202	204	216	219	219	226
(in months of imports) 4/	1.8	1.7	1.7	1.8	1.9	1.9	1.8
Debt service on PPG debt	38.6	…	…	…	…	64.4	68.0
(in percent of exports)	3.5	…	…	…	…	5.7	5.7
Total PPG external debt	819	…	…	…	…	881	951
(in percent of GDP)	40	…	…	…	…	37	36

Sources: Tajik authorities; and Fund staff estimates.

1/ Includes small export receipts, which were previously classified as inflows of remittances.
2/ In Q4 2004 includes debt-for-equity swap with Russia.
3/ Debt cancellation by Pakistan.
4/ Excluding trade in alumina and electricity, which are on barter basis.

Table 9. Tajikistan: Medium-Term Macroeconomic Projections, 2003–08

	2003	2004	2005	2006	2007	2008
			Projections			
National income and prices						
Nominal GDP (in millions of somoni)	4,758	6,158	7,300	8,400	9,353	10,412
Nominal GDP (in millions of U.S. dollars)	1,556	2,073	2,404	2,642	2,855	3,086
Real GDP (annual percent change)	10.2	10.6	7.5	8.0	6.0	6.0
GDP per capita (in U.S. dollars)	236	310	354	383	408	434
GDP deflator (annual percent change)	29.1	17.0	10.3	6.6	5.0	5.0
Consumer prices (12-month percent change, e.o.p.)	13.7	5.6	7.0	7.0	5.0	5.0
Consumer prices (year-on-year percent change, average)	16.4	7.1	7.2	7.0	5.0	5.0
	(In percent of GDP)					
General government finances						
Total revenue and grants	17.3	17.9	18.8	18.6	18.8	18.9
Of which:						
Tax revenue	15.0	15.2	16.0	16.2	16.5	16.8
Total expenditure	19.1	20.3	22.6	23.1	23.3	23.4
Of which:						
Current expenditure	12.6	12.1	15.6	16.0	16.3	16.4
Fiscal balance (excluding the PIP)	0.9	0.7	0.1	-0.5	-0.5	-0.5
Externally-financed public investment program (PIP)	2.7	3.1	3.9	4.0	4.0	4.0
Savings/investment balances						
External current account balance	-1.3	-4.0	-3.6	-4.5	-4.5	-4.5
Overall fiscal balance (including the PIP)	-1.8	-2.4	-3.8	-4.5	-4.5	-4.5
Net savings (S-I) of the private sector 1/	0.4	-1.6	0.2	0.0	0.0	0.0
	(In millions of U.S. dollars; unless otherwise specified)					
External sector						
Exports of goods	900	1,088	1,124	1,188	1,243	1,310
Imports of goods	1,003	1,239	1,403	1,539	1,637	1,737
Current account balance	-20	-83	-86	-118	-129	-140
Gross international reserves	135	189	219	226	256	296
Gross international reserves (in months of imports)	1.9	1.8	1.9	1.8	1.8	1.9

Sources: Tajik authorities; and Fund staff estimates.

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

Table 10. Tajikistan: Fund Position During the Period of the PRGF Arrangement, October 2002–December 2006

	Outstanding on 30-Sep-02	2005				2006			
		Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
					Proj.	Projection 1/			
		(In millions of SDR)							
Disbursements									
PRGF	n.a.	9.8	0.0	9.8	0.0	9.8	0.0	0.0	0.0
Repurchases/repayments	n.a.	0.7	4.0	0.7	4.0	0.7	4.6	0.7	4.6
Ordinary resources	n.a.	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
PRGF	n.a.	0.7	4.0	0.7	4.0	0.7	4.6	0.7	4.6
Charges and interests	n.a.	0.0	0.2	0.0	0.2	0.0	0.2	0.0	0.2
Ordinary resources	n.a.	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
PRGF	n.a.	0.0	0.2	0.0	0.2	0.0	0.2	0.0	0.2
SDR charges	n.a.	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total Fund credit outstanding (e.o.p.)	69.37	87.8	83.8	92.9	88.9	98.0	93.4	92.7	88.1
Ordinary resources	3.75	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
PRGF	65.62	87.8	83.8	92.9	88.9	98.0	93.4	92.7	88.1
		(In percent of quota)							
Total Fund credit outstanding (e.o.p.)	79.74	101.0	96.3	106.8	102.2	112.7	107.4	106.6	101.3
PRGF disbursements	n.a.	11.3	0.0	11.3	0.0	0.0	0.0	0.0	0.0
Repurchases/repayments	n.a.	0.8	4.6	0.8	4.6	0.8	5.3	0.8	5.3
Charges and interests	n.a.	0.0	0.2	0.0	0.3	0.0	0.3	0.0	0.3

Source: Fund staff estimates.

1/ Projections were discussed and agreed with the authorities prior to Board discussion of MDRI qualification, and thus its implementation is not reflected in the numbers.

Table 11. Tajikistan: Millennium Development Goals, 1990–2015 1/

	1990	1995	2001	2002	2003	2004	2015 Target
Goal 1. Eradicate extreme poverty and hunger							
Target 1: Halve, between 1990 and 2015, the proportion of people whose income is less than one dollar a day.							
1. Population below $1 a day (percent)	...	...	...	...	13.0	...	
1a. Population below $2 a day (percent) 2/	...	...	65.4	...	57.0	...	41.0
2. Poverty gap at $1 a day (percent)	...	...	...	...	1.3	...	
3. Percentage share of income or consumption held by poorest 20 percent	...	...	...	...	7.9	...	
Target 2: Halve, between 1990 and 2015, the proportion of people who suffer from hunger.							
4. Prevalence of child malnutrition (percent of children under 5)	...	...	...	...	...	...	
5. Population below minimum level of dietary energy consumption (percent)	...	...	...	...	...	...	
Goal 2. Achieve universal primary education							
Target 3: Ensure that, by 2015, children everywhere, boys and girls alike, will be able to complete a full course of primary schooling.							
6. Net primary enrollment ratio (percent of relevant age group)	77.0	...	102.6	100.0	100.0	...	100.0
7. Percentage of cohort reaching grade 5 (percent)	...	...	100.0	100.0	100.0	...	100.0
8. Youth literacy rate (percent ages 15–24)	100.0	99.8	99.8	100.0	...	...	100.0
Goal 3. Promote gender equality							
Target 4: Eliminate gender disparity in primary and secondary education preferably by 2005 and to all levels of education no later than 2015.							
9. Ratio of girls to boys in primary and secondary education (percent)	...	...	87.2	88.0	77.9	77.8	100.0
10. Ratio of young literate females to males (percent ages 15–24)	100.0	100.0	100.0	100.0	...	...	100.0
11. Share of women employed in the nonagricultural sector (percent)	40.0	...	...	50.0	...	...	
12. Proportion of seats held by women in national parliament (percent)	...	3.0	15.0	13.0	13.0	13.0	
Goal 4. Reduce child mortality							
Target 5: Reduce by two-thirds, between 1990 and 2015, the under-five mortality rate.							
13. Under 5 mortality rate (per 1,000)	119.0	122.0	116.0	...	95.0	...	42.3
14. Infant mortality rate (per 1,000 live births)	92.0	95.0	91.0	...	76.0	...	30.7
15. Immunization, measles (percent of children under 12 months)	84.0	88.0	86.0	...	89.0	...	100.0
Goal 5. Improve maternal health							
Target 6: Reduce by three-quarters, between 1990 and 2015, the maternal mortality ratio.							
16. Maternal mortality ratio (modeled estimate, per 100,000 live births)	...	120.0	100.0	...	36.5	...	30.0
17. Births attended by skilled health staff (percent of total)	...	79.0	71.3	71.0	71.0	...	100.0
Goal 6. Combat HIV/AIDS, malaria and other diseases							
Target 7: Have halted by 2015, and begun to reverse, the spread of HIV/AIDS. Have halted by 2015, and begun to reverse, the incidence of malaria and other major diseases.							
18. Prevalence of HIV, female (percent ages 15–24)	...	...	0.0	...	<0.1 percent	<0.1 percent	
19. Contraceptive prevalence rate (percent of women ages 15–49)	...	34.0	34.0	34.0	34.0	...	
20. Number of children orphaned by HIV/AIDS	...	...	...	...	...	...	
Target 8: Have halted by 2015, and begun to reverse, the incidence of malaria and other major diseases.							
21. Incidence of tuberculosis (per 100,000 people)	...	...	159.6	...	66.5	66.6	
22. Tuberculosis cases detected under DOTS (percent)	...	...	...	...	2.0	...	

Table 11. Tajikistan: Millennium Development Goals, 1990–2015 (Continued)

	1990	1995	2001	2002	2003	2004	2015 Target
Goal 7. Ensure environmental sustainability							
Target 9: Integrate the principles of sustainable development into country policies and programs and reverse the loss of environmental resources.							
23. Forest area (percent of total land area)	2.7	...	2.8	...	...	...	
24. Nationally protected areas (percent of total land area)	...	4.2	4.2	4.2	4.2	...	
25. GDP per unit of energy use (PPP $ per kg oil equivalent)	0.8	1.4	1.7	1.9	...	...	
26. CO2 emissions (metric tons per capita)	3.7	0.9	0.8	...	...	...	
Target 10: Halve, by 2015, the proportion of people without sustainable access to safe drinking water.							
27. Access to an improved water source (percent of population)	...	...	58.0	58.0	...	...	
Target 11. Achieve by 2020 significant improvement for at least 100 million slum dwellers.							
28. Access to improved sanitation (percent of population)	...	...	...	53.0	...	...	
29. Access to secure tenure (percent of population)	...	...	...	...	...	...	
Goal 8. Develop a Global Partnership for Development							
Target 12: Develop and implement strategies for decent and productive work for youth.							
30. Youth unemployment rate (percent of total labor force ages 15–24)	...	...	...	...	...	...	
Target 12: Develop further an open, rule-based, predictable, non-discriminatory trading and financial system. Address the Special Needs of the Least Developed Countries. Address the Special Needs of landlocked countries and small island developing states.							
32. Fixed line and mobile telephones (per 1,000 people)	45.0	41.6	36.2	...	45.0	62.5	
33. Personal computers (per 1,000 people)	...	...	...	...	...	...	
33a. Internet users (per 1,000 people)	...	...	...	...	0.1	0.4	
34. General indicators							
35. Population (in millions)	5.3	5.8	6.2	6.3	6.5	6.5	
36. Gross national income (in billions of dollars)	4.5	2.3	1.1	1.2	1.6	...	
37. GNI per capita (in dollars)	840.0	390.0	180.0	180.0	350.0	...	
38. Adult literacy rate (percent of people ages 15 and over)	98.2	98.8	99.3	99.3	...	...	
39. Total fertility rate (births per woman)	5.1	3.7	3.0	2.9	...	...	
40. Life expectancy at birth (years)	69.3	68.3	66.9	66.6	...	...	
41. Aid (percent of GNI)	0.5	2.9	15.5	...	...	...	
42. External debt (percent of GNI)	0.4	28.2	105.9	...	...	...	
43. Investment (percent of GDP)	24.8	28.7	16.7	13.9	13.1	14.9	
44. Trade (percent of GDP)	63.0	143.4	139.6	132.4	122.3	112.2	

Sources: World Development Indicators, the World Bank Group.

1/ In some cases the data are for earlier or later years than those stated.

2/ World Bank estimate for 1999; based on purchasing power parity expenditure level of $2.15 per day. Preliminary estimates indicate that poverty declined to 57 percent in 2003.

Table 12. Tajikistan: Number of Banks Complying with Prudential Requirements, December 2002–September 2005

						2005		
	Coefficient	Prudential limits	2002	2003	2004	Mar.	June	Sept.
Gross capital of all banks (millions of somoni) 1/			60	88	147	168	186	198
Total capital	Total capital	Min. US$1.5 million 2/	6	8	11	12	12	12
Total capital / Risk Weighted Assets	K1-1	Min. 12 percent	12	12	12	12	12	12
Total capital / Total Assets	K1-2	Min. 10 percent	11	12	11	12	12	12
Liquid Assets / Demand Liabilities	K2-1	Min. 75 percent 3/	11	11	12	12	12	12
Liquid Assets / Total Capital	K2-2	Min. 25 percent	11	11	...	...	...	...
Single Borrower Loans / Total Capital	K3-1	Max. 25 percent	10	9	9	9	10	10
Large Credit Exposure / Total Capital	K3-2	Max. 5 times	13	13	12	12	12	12
Single Shareholder Borrowing / Total Capital	K4-1	Max. 10 percent	10	10	11	11	11	11
All Shareholder's Borrowing / Total Capital	K4-2	Max. 50 percent	11	11	11	11	11	11
Single Insider Borrowing / Total Capital	K4-3	Max. 2 percent	13	13	12	12	11	11
All Insider Borrowing / Total Capital	K4-4	Max. 3 percent	14	14	12	12	11	11
Stocks of Other Legal Entities/ Total Capital	K5	Max. 20 percent	14	14	12	12	12	12
Total number of reporting banks			14	14	12	12	12	12

Sources: National Bank of Tajikistan; and Fund staff estimates.
1/ Excluding negative capital of Agroinvestbank (AIB) before its restructuring in late 2003. In December 2002, AIB's negative capital was estimated at SM 113 million.
2/ The requirement was raised to $5 million for the largest private and new banks starting January 1, 2005, and for all banks January 1, 2006.
3/ Starting February 1, 2004, minimum 30 percent for banks that meet all prudential requirements, 50 percent for all other banks.

Table 13. Tajikistan: Financial Soundness Indicators, 2000–05

(In percent, unless otherwise indicated)

	2001	2002	2003	2004	Sep-05
Capital adequacy					
Total net capital to unweighted assets 1/	12.1	14.9	17.8	29.4	26.2
Reported total capital to risk weighted assets (K1-1)	...	-10.9	-3.0	43.8	39.0
Asset quality 2/ 3/					
Nonperforming loans to gross loans	43.3	85.1	71.5	9.8	8.4
excluding Agroinvestbank	29.0	20.5	11.5	n.a.	n.a.
Nonperforming loans net of provisions to capital	n.a.	-639.3	-2,006.8	1.5	6.2
excluding Agroinvestbank	n.a.	2.3	2.3	n.a.	n.a.
Provisions to nonperforming loans	78.1	7.9	8.7	91.1	62.1
excluding Agroinvestbank	82.9	93.0	89.9	n.a.	n.a.
Banks exceeding maximum single borrower limit 4/	n.a.	5 of 14	6 of 14	3 of 12	2 of 12
Earnings and profitability					
Reported return on assets (ROA)	12.3	18.0	10.6	...	...
Reported return on equity (ROE)	12.7	14.9	1.4	...	...
Interest margin to gross income	12.8	20.2	10.9	...	...
Non-interest expenditures to gross income	52.7	47.5	46.1	...	...
Salary expenditures to non-interest expenditures	24.8	29.4	28.2	...	...
Liquidity					
Liquid assets to total assets	15.7	14.6	22.1	36.9	32.9
Liquid assets to demand and savings deposits	89.6	88.1	124.7	113.5	87.0
Liquid assets to total deposits	75.6	75.6	75.6	71.2	58.2
Sensitivity to market risk					
Net open position in foreign exchange to capital	...	...	...	...	...

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

1/ Calculated on the basis of consolidated balance sheets for the banking system. Total net capital includes statutory capital, paid-in capital, reserves, retained earnings, fixed assets reserve and currency revaluation reserves.
2/ Non-performing loans include three loan classifications: watch, doubtful, and loss.
3/ Reported data on Agroinvestbank excludes cotton sector in 2001. In 2004, Agroinvestbank was split into Agroinvestbank and Kredit Invest, with the latter institution taking over most of the cotton sector debt.
4/ Maximum single borrower limit is defined as 25 percent of capital (K3-1).

TAJIKISTAN—Relations with the Fund

(As of November 30, 2005)

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

II. **General Resources Account:**

	SDR million	% Quota
Quota	87.00	100.00
Fund holdings of currency	87.00	100.00
Reserve position in Fund	0.00	0.00

III. **SDR Department**

	SDR million	% Allocation
Holdings	8.06	N/A

IV. **Outstanding Purchases and Loans**

	SDR million	% Quota
PRGF arrangements	92.94	106.83

V. **Latest Financial Arrangements**

Type	Approval Date	Expiration Date	Amount Approved (SDR million)	Amount Drawn (SDR million)
PRGF	Dec 11, 2002	Feb 10, 2006	65.00	55.20
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):

	Forthcoming				
	2005	2006	2007	2008	2009
Principal	4.03	10.59	10.59	10.39	6.71
Charges/Interest	0.23	0.43	0.37	0.32	0.27
Total	4.26	11.02	10.97	10.71	6.98

VII. Implementation of HIPC Initiative

Not Applicable.

VIII. Safeguards Assessment

Under the Fund's safeguards assessment policy, the NBT is subject to a full safeguards assessment with respect to the PRGF arrangement approved on December 11, 2002. The assessment was completed on July 23, 2003, and included specific measures to address a number of weaknesses, mainly in the areas of financial accounting and reporting and auditing procedures. The NBT is implementing the recommendations of the safeguards assessment, albeit with some delay compared to the original schedule due to capacity constraints. These measures are being monitored by staff under the current PRGF arrangement.

IX. Exchange Rate Arrangements

The NBT maintains a managed floating exchange rate regime with no pre-announced path for the exchange rate. Since August 2005, the NBT has increased the frequency of calculating and announcing the official exchange rate from a weekly to a daily basis. The official exchange rate is based on all interbank transactions in foreign exchange.

With effect from December 9, 2004, the Republic of Tajikistan accepted the obligations of Article VIII, Sections 2, 3, and 4 of the Articles of Agreement. As a result, the Republic of Tajikistan maintains an exchange system that is free of restrictions on the making of payments and transfers for current international transactions, except for exchange restrictions maintained for security reasons that have been notified to the Fund pursuant to Executive Board decision No. 144-(52/51).

X. Article IV Consultation

The 2004 Article IV consultation was completed in March 2005. 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.

XII. Resident Advisors

A resident debt management expert, financed by the Swiss Secretariat for Economic Affairs, began his assignment in May 2003 and finished at end 2004.

XIII. Technical Assistance

The following list summarizes the technical assistance provided by the Fund to Tajikistan since 2002.

Fiscal Affairs:

July 2004	Revenue Administration Reform
December 2004	Poverty and Social Impact Analysis
June 2005	Public Financial Management
August 2005	Tax Policy and Administration

Monetary and Financial Systems:

July 2002	Multi-topic

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
April 2004	Data ROSC
October 2004	General Data Dissemination System (GDDS)

Finance:

May 2003	Safeguards Assessment Follow-up

Legal:

March 2003	Tax Legislation
January 2004	Tax Legislation
May 2004	Tax Legislation

TAJIKISTAN—Relations with the World Bank

(As of December 14, 2005)

Country Director: Mr. Dennis N. de Tray Telephone: (202) 473 3544

Partnership in Tajikistan's Development Strategy

1. The Bank's Country Partnership Strategy, endorsed by the Bank's Board of Executive Directors on July 26, 2005, focuses on the following three priorities, which are in line with the country's PRSP:

- To improve business opportunities in rural and urban areas
- To enhance and preserve the quality of the human capital
- To improve energy service delivery and increase electricity exports.

2. In addition, in each of the above areas, the Bank Group and Government agreed to work to improve government capacity and efficiency, and reduce corruption by giving special emphasis to measures that increase transparency of resource use, reduce discretionary controls, and encourage the participation of users in the provision of services.

3. 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. However, to maintain strong growth the authorities will need to accelerate structural reform to support private sector development and investment, and encourage foreign investment.

4. The IMF has taken the lead in assisting Tajikistan in enhancing macroeconomic stability. The Fund has encouraged the authorities to continue with fiscal consolidation, maintain a restrictive monetary policy, and restructure external debt to enhance debt sustainability.

5. 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. Policy based lending and technical assistance are supporting reforms in a number of sectors. The Policy Based Credit currently under preparation will engage the government in the areas of public administration reform, public expenditure management, social service delivery and private sector development.

6. This broad-based approach is combined with sector projects in health, education, municipal infrastructure, power, agriculture, environment, and poverty alleviation. Over the last two years, the Country Procurement Assessment Review, the Country Financial

Accountability Assessment, a Trade Diagnostic Study, an Investment Climate Assessment, a Note on Public Sector Wages and the Public Expenditure and Institutional Review have been finalized in collaboration with the Government of Tajikistan. An Aviation Sector Note and a Note on Remittances will be issued soon.

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	*IMF:* PRGF performance criteria and benchmarks on monetary and fiscal targets. *Bank:* PBC under preparation.
Budget	Medium-term budget framework, tax and customs policy and administration, and treasury and debt management	Budget management, debt management and statistics, Public Expenditure Review, Country Procurement Assessment	*IMF:* PRGF performance criteria on overall fiscal balance, including PIP. Structural benchmark on treasury development *Bank:* PBC, Rapid Response TA, and Treasury under preparation.
Public Sector Reform		Civil service reform, public sector wage policy, administrative restructuring and health and education financing	*IMF:* PRGF *Bank*: PBC and Rapid Response TA under preparation.
Social/Poverty		Poverty analysis; reforms in education, health, social protection; support to community driven development	*IMF:* PRGF *Bank*: PBC, Community Health, Poverty Alleviation 3, Health and Education SWAPs under preparation. Education Modernization, Poverty Alleviation 2 under implementation.
Private and Financial Sector Development	Bank supervision; development of the interbank market and increasing competition in the banking sector	Pricing policies, developing and implementing the privatization strategy, farm privatization, bank closure and restructuring	*IMF:* PRGF conditions on farm privatization, bank closures, and opening the banking sector to foreign competition. *Bank:* PBC under preparation
Other Sectors		Reforms in agriculture, energy sector, water and sanitation, environment, infrastructure.	*Bank:* PBC, Cotton Development, Municipal Infrastructure under preparation. Energy Loss Reduction, Dushanbe Water Supply, Cadastre, Ferghana Valley projects under implementation.

7. 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. Finally, in areas such as monetary policy, tax policy, and customs the IMF takes the lead with little Bank involvement.

World Bank Collaboration in Specific Areas

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

8. 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. Based on the completed *Living Standards Survey* (*2003),* a *Poverty Assessment Update Report* has been prepared. Two *Poverty Alleviation Projects* have supported capacity development at the national and local levels 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 microprojects, microfinance services, and community empowerment. A third *Poverty Alleviation Project* will be prepared in FY2007.

9. **In education,** the Bank focuses on both addressing policy issues and utilizing IDA credit funds for investments. The ongoing *Education Modernization Project (FY03)* aims to upgrade the basic education system through: (a) building capacity for change by providing 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. Key issues in education are pay reform, per capita financing and expenditure tracking. Assistance to this sector will continue through the multi-donor *Education SWAP (FY08) and Rapid Response TA (FY07)*. The IMF has supported the education reform process, in close collaboration with the World Bank, through a structural benchmark requiring the drawing up of a fully costed education reform plan by the government.

10. **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, pay reform and to control outbreaks of communicable diseases and prevent

HIV/AIDS epidemic from spreading. The proposed *Community and Basic Health Project (FY05)* (under preparation) is the main instrument for the implementation of this agenda.

11. 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 of electricity supply in the Gorno Badakshan region through private sector participation. The *Energy Loss Reduction Project* is helping to reduce commercial losses and improve the power and gas sector financial viability. *Municipal Infrastructure Project* is providing support to improve urban infrastructure in big towns.

12. In **agriculture**, the Bank is concentrating on land reform, rehabilitation of irrigation and drainage infrastructure and introduction of market rules in procurement of inputs and marketing of outputs as well as on the resolution of the cotton farm debts. The *Land Registration and Cadastre Project* is assisting the government with the land reform, issuance of land certificates and establishment of a modern cadastre system. The *Ferghana Valley Project* aims to increase water supply and efficiency of irrigation systems in the Ferghana Valley, and develop institutional capacity in land and water resources management. The proposed *Cotton Development Project* (FY07) will help provide alternative financing mechanisms to cotton farmers. Cross cutting policy issues for increasing productivity in cotton sectors are being addressed through the Policy Based Credit.

13. 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 address 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

14. The Bank leads the dialogue on structural reforms through the PBC currently under preparation. Institution building and technical assistance in support of structural reforms continue to be provided by the Education Modernization project, Land Registration and Cadastre, and the upcoming Rapid Response TA project. The Bank leads in areas of:

- **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 has completed the Investment Climate Review and Agriculture Sector Review to determine the most important impediments to private sector development.

- **Enterprise and farm privatization and reform**, 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. The Bank has completed the Investment Climate Review and Agriculture Sector Review to determine the most important impediments to unleashing the agriculture sector potential.

- **Regulatory reforms**, including focus on (a) changing role of Anti-monopoly Agency and further strengthening its capacity; (b) improving inspection regime for businesses; and (c) easy and transparent rules for business entry (licensing) and exit (bankruptcy regulation). In addition to that, separation of policy making and technical regulators functions in aviation sector is a subject of on-going dialogue under PBC. Actions in this area also include initial steps towards separation of airline, airport and air traffic control to improve access to Tajikistan. The upcoming the discussion on the Review of the Air Transport Sector in Tajikistan will provide the basis for further reforms in this area.

15. 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

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

- **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 State Financial Control Committee responsible for budget audits, and supporting the pay reform. The Bank is involved in civil service reform while the Fund is providing technical assistance in support of tax and customs administration and treasury management.

- **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.

- **Financial sector reforms.** This area includes the acceleration of financial sector restructuring and closure of weak banks, new regulatory framework for the establishment of nonbank 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.

- **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 quasi-fiscal activities 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 completed an Energy Sector Utility Reform Review in 2004. The Review described the financial condition of the energy sector enterprises and detailed the Bank's medium-term energy sector development strategy. The Bank also approved the Energy Loss Reduction Project to help implement the energy sector strategy. It 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

17. 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 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.

18. In the budgetary area, the Fund is taking the lead on tax reforms and treasury systems development. The IMF also leads the dialogue on polices 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.

19. 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

20. The Fund takes the lead in the formulation and execution of fiscal and monetary policies, external policies, and issues involving economic and financial statistics. However, the World Bank has provided a grant ($350,000) financed by the Trust Fund for Statistical Capacity and Institutional Building to strengthen the National Statistics Service (Gozkomsatat) and is preparing a new multi sectoral *STATCAP Project* (FY06). On trade issues, the Bank has finalized a Trade Diagnostic Study that should lead to closer collaboration in this area.

A. IDA funding

21. IDA funding to Tajikistan is provided in the form of 100% grant in FY06. Tajikistan’s eligibility for grants in outer years will be determined based on the annual Debt Sustainability Analyses. The indicative FY06–09 IDA funding is about SDR79 million; the FY06 allocation is SDR 20 million.

TAJIKISTAN—Relations with the Asian Development Bank

(As of December 14, 2005)

Country Director: Mr. Neeraj Jain Telephone: 992-372-210558/235314/235315

1. Tajikistan became a member of the Asian Development Bank (ADB) in 1998. The ADB has participated in the Consultative Group Meeting for Tajikistan since 1998. After conducting an initial mission in June 1998, ADB completed an Economic Report and Interim Operational Strategy that identified three areas: (a) agriculture; (b) infrastructure rehabilitation (especially energy and transport sectors); and (c) social sector, in which ADB assistance would have the greatest development impact. Based on the Interim Strategy, ADB's Board of Directors approved in October 1998 Tajikistan's country classification, which provides the basis for Tajikistan's full access to concessional resources (Asian Development Fund (ADF)). Based on the new ADF replenishment arrangements completed in 2004, Tajikistan is eligible for receiving 40 percent of the loan amount on grant basis after 2005.

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

- **Transport Sector**: the Road Rehabilitation Project loan ($20 million in 2000), which rehabilitates the most deteriorated sections of the Dushanbe—Kulyab road in the southern part of Tajikistan, the most civil-war affected areas; and the first phase of Dushanbe—Kyrgyz Border Road Rehabilitation Project loan ($15 million in 2003), which improves Tajikistan's transportation link toward north and east through Kyrgyz Republic, further to Kazakhstan and Russia as well as to the Peoples Republic of China. These projects also improve rural roads in the project areas. The second phase of the Dushanbe–Kyrgyz Border Road Rehabilitation Project loan is being prepared for the ADB Board approval in 2005. Continued supports in strengthening the government's institutional capacity for efficient management of national road network are provided under technical assistance grants associated with these loans.

- **Power Sector**: the Power Rehabilitation Project loan ($34 million in 2000), which aims to improve people's quality of life and support poverty reduction by increasing the availability of electricity, and assist in post-conflict recovery of Tajikistan's economy (the project rehabilitates and reinforces power transmission and distribution facilities in the war-damaged areas in Khatlon and Dushanbe regions, and rehabilitates the Nurek Power Plant and Central Hydropower Plant); and the Regional Power Transmission Modernization Project loan ($20 million in 2002), which is geared towards improving the reliability and the operation of the Central Asian power transmission system, enhancing the intercountry power trading between Tajikistan and Uzbekistan, and laying the foundation for a future wholesale regional power market. Various technical assistance projects were provided to accelerate market-oriented reforms in the power sector in line with IMF and WB programs and for supporting the government in formulating a power sector development strategy. The second Power Rehabilitation Project loan is being prepared for ADB Board approval in 2006.

3. In addition to the above, the ADB Board approved to date the following loans to Tajikistan in each sector:

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

- **Agriculture Sector**: based on the agriculture sector assessment prepared during 1999–2000, the Agriculture Rehabilitation Project loan ($35 million in 2002) is being implemented to improve living conditions of the farming communities in the project area and to institute measures to sustain benefits of improvements for irrigation and drainage systems and water supply as well as by providing farm production support services. In order to support the agriculture sector reforms, the TA for Farm Debt Resolution and Policy Reforms, which is associated with the loan, has been implemented in consultation with the IMF, involving a wide range of stakeholders. Based on the findings of the TA, ADB supported the government in close cooperation with other donors and NGOs for formulating a National Farm Debt Resolution Strategy. A wide range of donor assistance is now needed as the Strategy has been announced by the government. Grant assistance for Rural Poverty Reduction Project ($2.9 million in 2001) financed by JFPR has supported the loan preparation and implementation by pilot testing innovative poverty-oriented on- and off-farm supports. In 2004, Irrigation Rehabilitation Project loan was approved for $22.7 million.

- **Finance**: Microfinance Systems Development Program loan ($4 million in 2003) to support policy, legal, and regulatory reforms; and Microfinance Systems Development Project loan ($4 million in 2003) to help transform nongovernmental organization microfinance programs into licensed and regulated microfinance institutions.

- **Trade Facilitation**: the Regional Trade Facilitation and Customs Cooperation Program loan ($10 million in 2002), which supports trade and customs reform development across the East and Central Asia. Regional Customs Modernization and Infrastructure Development ($10.7 million in 2004) to promote international trade and enabling environment for private sector development.

- **Emergency Assistance**: in response to the government's urgent requests, three emergency loans, including the Emergency Flood Rehabilitation Project loan ($5 million in 1999), the Emergency Restoration of Yavan Water Conveyance System loan ($3.6 million in 2001), and the Emergency Baipaza Landslide Stabilization Project loan ($5.3 million in 2002) were approved.

4. As of December 2004, in addition to the above 17 loans, totaling $244.3 million, and 3 JFPR grant projects, totaling $5.9 million, ADB provided 43 technical assistance grants, totaling $21.2 million to support policy reforms, capacity building, and project implementation.

5. In end 2000, ADB started supporting the government in developing PRSP through participatory approach under a TA grant in close cooperation with the IMF, WB, and UNDP. Following the finalization of the PRSP in June 2002, ADB concluded the Poverty Partnership Agreement (PPA) with the government in December 2002, and proceeded to prepare a new five-year Country Strategy and Program (CSP) for 2004–08 for Tajikistan, which was endorsed by the ADB Board in October 2003. Its main objectives are (a) to strengthen rural development through institution building that will support policy implementation and the private sector; (b) to rehabilitate power and rural infrastructure; and (c) to strengthen regional cooperation through improved customs services and transport links, both within the country and neighboring ones. In view of the current challenging circumstances for development, including the limited borrowing capacity of Tajikistan, the CSP was not able to support all areas identified in the PRSP and the PPA.

ADB prepares and updates its three-year rolling programs for Tajikistan every year in consultation with the government based on the ADF resources availability, carefully examining the country's social and economic development status and in coordination with other donors, including IMF. The Country Strategy Update for 2006–08 was approved by the Board in August 2005. ADB pays full attention to the progress of Tajikistan's MDG achievement. In view of the ceiling on borrowing for the PIP and an expected inflow of grant funds committed for social sectors during previous consultative group (CG) meetings, ADB had intended to limit its involvement in the social sector mainly to nonlending operations, enabling it to take part in policy dialogue and follow sector developments. However, in line with the enhanced emphasis of the government on social sectors, ADB proposes to make investments in the sector in its forward program. It also plans technical assistance support for governance reforms. The total country indicative planning figure of ADF lending level for Tajikistan is $55 million for 2006—08 including a 40 percent grant element. Moreover, Tajikistan will be a potential candidate for regional projects amounting to $55 million over 2006–08. In addition, nonlending operations are proposed for $3.6 million over 2006–07. This excludes cofinancing. The actual lending level will be determined by (a) availability of overall ADF resources; (b) country performance assessment vis-à-vis ADB's policy on performance based allocation of ADF resources; and (c) processing status of the projects in the pipeline.

TAJIKISTAN—Statistical Issues

1. Tajikistan began participation in the GDDS in November 2004. The country page for Tajikistan has been published in the *International Financial Statistics* (*IFS*) since February 2003.

2. Tajik authorities have indicated their interest in subscribing to the Fund's SDDS. They have appointed a national SDDS coordinator and requested technical assistance for this purpose. Before subscribing to the SDDS, Tajikistan will need to disseminate the following datasets: general government operations that include special funds (extra-budgetary accounts); central government debt; gross international reserves and template on international reserves and foreign currency liquidity; international investment position; and external debt. Also, Tajikistan will need to compile quarterly national accounts and improve the timeliness of several data categories.

3. The data ROSC mission in April 2004 found that the consumer price index, government finance statistics (GFS), and monetary statistics broadly follow sound methodologies. The mission also noted that source data are well developed in all areas of statistics, and that suitable processes for assessment and validation of source data are in place. However, further efforts to improve the quality of economic statistics are limited by tight budgetary constraints.

National Accounts and Price Statistics

4. The ROSC mission identified significant deficiencies in statistical techniques for national accounts and price statistics, most notably in procedures to estimate the informal economy, and in the techniques for imputation, replacement, quality adjustment, and introduction of new products in the price indices. In addition, an intensified effort is needed to strengthen the scope, classification/sectorization, and basis of recording of the national accounts, and to reconsider the concepts and basis of recording the input data underlying the producer price index (PPI).

Fiscal Sector Statistics

5. Government finance statistics for Tajikistan are based on cash transactions as recommended in *A Manual on Government Finance Statistics, 1986*. Although there are no plans at present to migrate the basis of compilation to the standards based on the *Government Finance Statistics Manual 2001,* the cash GFS data were reported in the new framework for inclusion in the *2005 GFS Yearbook*.

Balance of Payments Statistics

6. There is a need for consistency in applying the residency concept in the balance of payments and the national accounts, and the scope of the foreign trade data needs to be improved to cover the shuttle trade.

TAJIKISTAN: TABLE OF COMMON INDICATORS REQUIRED FOR SURVEILLANCE

AS OF DECEMBER 14, 2005

	Date of latest observation	Date received	Frequency of Data[6]	Frequency of Reporting[6]	Frequency of publication[6]	Memo Items:	
						Data Quality – Methodological soundness[7]	Data Quality – Accuracy and reliability[8]
Exchange Rates	12/07/05	12/12/05	D	W	W		
International Reserve Assets and Reserve Liabilities of the Monetary Authorities[1]	12/7/05	12/12/05	W	W	W		
Reserve/Base Money	12/7/05	12/12/05	W	W	W	O, O, LO O	LO, O, O, O, NO
Broad Money	10/31/05	12/12/05	M	M	M		
Central Bank Balance Sheet	12/7/05	12/12/05	W	W	W		
Consolidated Balance Sheet of the Banking System	10/31/05	12/120/05	M	M	M		
Interest Rates[2]	12/07/05	12/12/05	W	W	V		
Consumer Price Index	11/30/05	12/13/05	M	M	M	LO, LO, LNO, O	LO, LO, LO, O, O
Revenue, Expenditure, Balance and Composition of Financing[3] – General Government[4]	10/31/05	12/9/05	M	M	M	LO, LO, O, O	O, O, O, LO, LO
Revenue, Expenditure, Balance and Composition of Financing[3] – Central Government	10/31/05	12/9/05	M	M	M		
Stocks of Central Government and Central Government-Guaranteed Debt	Q3/05	11/10/05	Q	Q	V		
External Current Account Balance	Q3/05	11/10/05	Q	Q	V	LNO, LNO, O, O	LO, O, O, O, O
Exports and Imports of Goods and Services	Q3/05	11/10/05	Q	Q	V		
GDP/GNP	9/30/05	10/8/05	M	M	V	O, LNO, LNO, LNO	LO, LNO, LO, O, O
Gross External Debt[5]	Q3/05	11/11/05	Q	Q	V		

[1] Includes reserve assets pledged or otherwise encumbered as well as net derivative positions.
[2] Both market-based and officially determined, including discount rates, money market rates, and rates on treasury bills, notes and bonds.
[3] Foreign, domestic bank, and domestic nonbank financing.
[4] The general government comprises central government (budgetary, extra budgetary, and social protection funds) and state and local governments.
[5] Including currency and maturity composition.
[6] Daily (D), Weekly (W), Monthly (M), Quarterly (Q), Annually (A); NA: Not Available.
[7] Reflects the assessment provided in the data ROSC published in April 2005 and based on the findings of the staff mission during April 2004 for the dataset corresponding to the variable in each row. The assessment indicates whether international standards concerning concepts and definitions, scope, classification/sectorization, and basis for recording are fully observed (O), largely observed (LO), largely not observed (LNO), or not observed (NO).
[8] Same as footnote 8, except referring to international standards concerning source data, statistical techniques, assessment and validation of source data, assessment and validation of intermediate data and statistical outputs, and revision studies.

Tajikistan: Joint Fund–World Bank External Debt Sustainability Analysis

Tajikistan's risk of debt distress is moderate. Under the baseline scenario, all the external debt burden indicators are below their policy-dependent thresholds, but some of the indicators worsen over time. Several indicators breach their thresholds under various stress tests reflecting potential macroeconomic shocks. Given the high concessionality of the external public and publicly guaranteed debt, debt service payments remain low in terms of revenues and exports, at 14.3 percent and 5.6 percent in 2006, respectively. Implementation of the MDRI in January 2006, which would provide debt relief of 69.3 million of SDR from the Fund, would further reduce the risk of debt distress, and the NPV of debt-to-revenues ratio would decrease from 128.8 percent to 113.7 percent.

I. Data and Methodology[1]

Reflecting limited data availability, the DSA focuses on external public and publicly guaranteed debt.[2] The NBT has recently started compiling inventory of external private sector debt not guaranteed by the government. Reliable information on domestic public debt is also not available at this time, but obtaining it should be a future priority in order to conduct a full debt sustainability analysis.[3] Including information on domestic and private debt could substantially increase Tajikistan's risk of debt distress.

[1] This DSA was conducted jointly by Fund and World Bank staff, using the debt sustainability framework for low income countries. It has benefited from Fund and Bank staff consultations with the ministry of finance during missions to Dushanbe in September and November 2005, and included reconciliation of the debt data. The Low-Income Countries (LICs) DSA uses (a) the current year exports as denominators for estimating debt-to-exports ratio; (b) the WEO exchange rate projections for estimating debt stocks and debt service; and (c) a 5 percent discount rate.

[2] Tajikistan has some "disputed" government guaranteed debt from the period prior to 1998, when guarantees were issued in ad hoc manner; the estimated amount of guarantees is about $50 million. In 1999, the issuance of guarantees was centralized at the MoF. The disputed guarantees were not included in the DSA given that exact terms, conditions, and government repayment obligations were not known at the time of this analysis. However, even if these guarantees were recognized as valid, given the small amount involved (about 6 percent of total public and publicly guaranteed debt at end-2004), including them in the DSA would not change the main results.

[3] As also mentioned in the text of the staff report, one of the major issues in the area of the private external sector debt is cotton farm debt, which was tentatively estimated to be $220 million in May 2005. Regarding the domestic public debt, long-term domestic debt to monetary authorities was equivalent of $41 mln at end-2005. However, the government remains a net creditor to the NBT.

II. Tajikistan's External Debt Situation

Tajikistan's past record points to the authorities' overall strong commitment to meeting their external public and publicly guaranteed debt obligations.[4] Since a large share of loans was provided on a concessional basis, debt service obligations have been manageable. Moreover, Tajikistan has actively sought debt relief through bilateral negotiations with its main creditors, taking advantage of its strong ties with them.

Tajikistan's external position has shown a marked improvement with the nominal debt to GDP ratio from 96 percent of nominal debt-to-GDP ratio at end-2000 falling to 40 percent at end-2004. This was due to both decline in the level of debt and rapid real GDP growth. The lower level of indebtedness is also the result of improved debt management (such as restrictions on government public and publicly guaranteed nonconcessional borrowing) and debt rescheduling, write offs and debt-asset swaps after successful negotiations with bilateral creditors.

A major breakthrough in Tajikistan's debt consolidation was the debt-asset swap operation of about $250 million with Russia in October 2004. At end-2003, the debt to Russia amounted to $300 million, carried an interest of 4 percent a year, and constituted almost 30 percent of total external debt. The debt-asset swap reduced Tajikistan's stock of debt to Russia to $50 million at end-2004. [5] This amount will be repaid as investment on behalf of Russia in Sangtuda hydroelectric project by 2008. In 2004, an additional debt reduction was obtained through debt write-off of $13 million from Pakistan. Following these transactions, the total external Public and Publicly Guaranteed (PPG) debt decreased from 64 percent of GDP at end-2003 to 40 percent at end-2004. At the same time, the share of multilateral concessional debt increased from 30 percent of external debt in 2000 to almost 70 percent at end-2004. By end 2004, the debt owed to the IDA constituted about 50 percent of the total debt to multilateral creditors.

III. Baseline Scenario

The baseline scenario, developed on a cautious set of assumptions about economic policies and outcomes (Box 1), shows that Tajikistan is at a moderate risk of debt distress. This scenario assumes no MDRI debt relief. The 2004 World Bank's Country Policy and Institutional Assessment (CPIA) ranks Tajikistan's policies and institutions as those corresponding to a "weak performer." The debt-burden thresholds for countries in this

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[4] There were several incidences of misreporting on accumulation of external arrears, but the amounts involved were small and stemmed from the authorities' inexperience with external debt management.

[5] Under the swap, $242 million was converted into Russia's state ownership of Nurek space tracking station. Further information on this other bilateral negotiations can be found in the "2005 status report on external debt of Tajikistan," prepared by the MoF, as well as in the April 2005 staff report (IMF Country Report No. 05/132) and the accompanying selected issues paper (IMF Country Report No. 05/131).

category are (a) NPV of debt-to-exports of goods and services of 100 percent; (b) NPV of debt-to-GDP of 30 percent; and (c) NPV of debt-to-fiscal revenue of 200 percent. The relevant debt service thresholds are (a) 15 percent of exports of goods and services; and (b) 25 percent of revenues.

All of Tajikistan's external debt burden indicators remain below the policy-dependent thresholds during the projection period under the baseline scenario (Table 1 and Figure 1). The NPV of debt-to-exports of goods and services ratio amounts to 52 percent in 2005, well below the threshold of 100 percent. Following a gradual increase until 2015, due to an assumed accelerated disbursement of public investment project finances, and no new bilateral debt relief agreement, this ratio is projected to decline to 49 percent by 2025. Debt service payments continue to be very manageable, reflecting a rapid repayment of the remaining debt to Russia as well as the fact that all Tajikistan's external public and publicly guaranteed debt has been contracted on concessional terms. However, the NPV of debt-to-GDP ratio converges close to its threshold over the years, underscoring the importance of implementing the relevant structural reforms.[6]

Box 1. Tajikistan: Macroeconomic Assumptions

Real GDP grows at about 6 percent until 2010, and at 5 percent between 2011 and 2025. This figure is slightly above its ten-year historical average of 4.2 percent, but well below its five-year (post-Russian crisis) average of 9.7 percent. Growth is driven by exports, expanding nontraditional sectors (services, textile, and noncotton agriculture) as well as continued inflows of remittances.

Exports of goods and services are projected to grow at a rate of 6 percent through 2010, at a time when exports of aluminum and cotton, the main export commodities, are relatively low because of declining prices in 2005 and 2006. The authorities have identified other sectors of the economy as key for increasing economic diversification, and the forthcoming investment in the energy sector and ongoing structural reforms support this strategy. As the diversification of exports progresses, export growth is projected to increase to 9 percent between 2011 and 2025.

The current account deficit (including official transfers) between 2005 and 2010 is above its historical average for 1998–2004 of 4.2 percent by 0.3 percent of GDP, mainly due to projected higher FDI-related imports during this period. The current account deficit is projected to gradually decrease further to 2.5 percent of GDP by the end of the projection period, while the **reserve coverage** of imports is projected to build up gradually to slightly over 3 months of imports by 2025. The net foreign transfer inflows (driven by remittances) are assumed to remain strong at 13–15 percent of GDP throughout the projected period.

The fiscal stance continues to be appropriately prudent. Due to improved administration, revenues would increase from 18.1 percent of GDP in 2005 to 19.1 in 2010, and further to almost 21 percent by 2025. Expenditures are projected to increase at the same rate, leaving the fiscal deficit unchanged.

Official external loan financing (on concessional terms) is projected to remain at 4 percent of GDP until 2010 and increase to 4.5 percent thereafter. The DSA assumes that only IDA grants committed before December 2004 will be disbursed.

[6] Substantially lower than projected net foreign transfer inflows in the outer years (for example, due to a deteriorating regional economic situation) would likely lower imports, exports, and real GDP growth, with a possibility of the NPV of debt-to-GDP ratio marginally exceeding its policy-relevant threshold in those years.

External debt indicators relative to government revenues also stay well below their thresholds (Table 2 and Figure 2). The NPV of debt-to-revenue ratio would remain just below 150 percent throughout the projection period, while the associated debt service ratio would exhibit a somewhat declining trend (from 14.8 percent in 2005 to 13.6 percent in 2025).

IV. Alternative Scenarios and Bound Tests

The historical scenario is based on averages from 1998 to 2004, and thus reflects a period of macroeconomic consolidation, some progress with structural reforms, and debt reduction.[7] Under this scenario, not only do all debt burden ratios remain well below the threshold indicators, they also follow a downward trend throughout the projection period. While the conditions of the economy as well as its external environment have changed, this scenario illustrates the importance of preserving macroeconomic stability, progress with structural reforms and continued prudent debt management.

A relaxation of the authorities' prudent approach to contracting external debt would lead to a substantial deterioration of Tajikistan's external debt indicators. If all new borrowing were to be contracted on less than concessional terms during the projection period, Tajikistan's NPV debt-to-GDP ratio would rise substantially. Specifically, increasing the average interest rate on new disbursement by 2 percentage points would bring the NPV of debt-to-GDP ratio to the threshold level of 30 percent by 2011 and to 47 percent by the end of the projection period (Table 3).

Bound tests show that adverse macroeconomic shocks would also have a profound negative impact on Tajikistan's external position. In the event of a combined shock (to real GDP growth, exports growth, FDI inflows), Tajikistan's NPV of debt-to-GDP ratio would rise to 53 percent in 2007, keeping it above the policy-dependent threshold of 30 percent throughout the entire projection period. The same shock would also significantly worsen the NPV of PPG debt-to-revenues ratio, which would jump to 286 percent in 2007 and stay above the threshold of 200 percent until 2023.[8] If FDI were to grow less by one standard deviation in 2006–07, Tajikistan's NPV of debt-to-exports ratio would be above the 100 percent threshold between 2007 and 2018.

[7] The 1995–97 period has been excluded from historical average scenario due to disruptions from civil war. The average values for the 1998–2004 period are calculated for current account deficit, real GDP growth, GDP deflator in $, export growth, net transfers and FDI to GDP ratios.

[8] Since Tajikistan is a small open economy with a high share of exports-to-GDP, the debt-to-revenue indicator is an important measure of debt vulnerabilities.

V. Effects of MDRI

After the Executive's Board approval of the MDRI, Tajikistan qualifies for MDRI debt relief from the Fund amounting to SDR 69.3 million (about $100 million) on January 3, 2006.[9] This debt relief would further decrease Tajikistan's probability of debt distress in the short and medium term. In 2006, the relief under the initiative would lower Tajikistan's NPV of debt-to-revenues ratio from 128.8 percent to 113.7 percent, while the debt-to-exports ratio would decrease from 52.3 percent to 46.2 percent (Table 2). The debt service-to-exports ratio would decrease from 5.6 percent to 4.2 percent. Regarding the dynamics of NPV of debt-to-GDP ratios, the "MDRI path" would start at a lower value in 2006, but converge to the "non-MDRI path" by 2014. The same pattern holds for the paths of NPV of debt-to-exports and debt-to-revenues ratios.

VI. Conclusions

The conclusion of the DSA is that Tajikistan's risk of debt distress is moderate. However, the results of the alternative scenarios and stress tests indicate that the debt sustainability situation would deteriorate with negative macroeconomic shocks and/or borrowing on nonconcessional terms. The DSA results thus underscore the need for the authorities to maintain sound macroeconomic policies and accelerate structural reforms to achieve higher export and output growth. While these measures would reduce Tajikistan's vulnerability to exogenous shocks, staying on sustainable debt path would also require that Tajikistan continues with prudent debt management policies and uses external resources productively.

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[9] As of December 21, 2005, the Fund still needed to obtain consents from several contributors to the PRGF Trust Subsidy Account for this debt relief to take effect.

Figure 1. Tajikistan: Indicators of Public and Publicly Guaranteed External Debt Under Alternative Scenarios, 2005–25

(In percent)

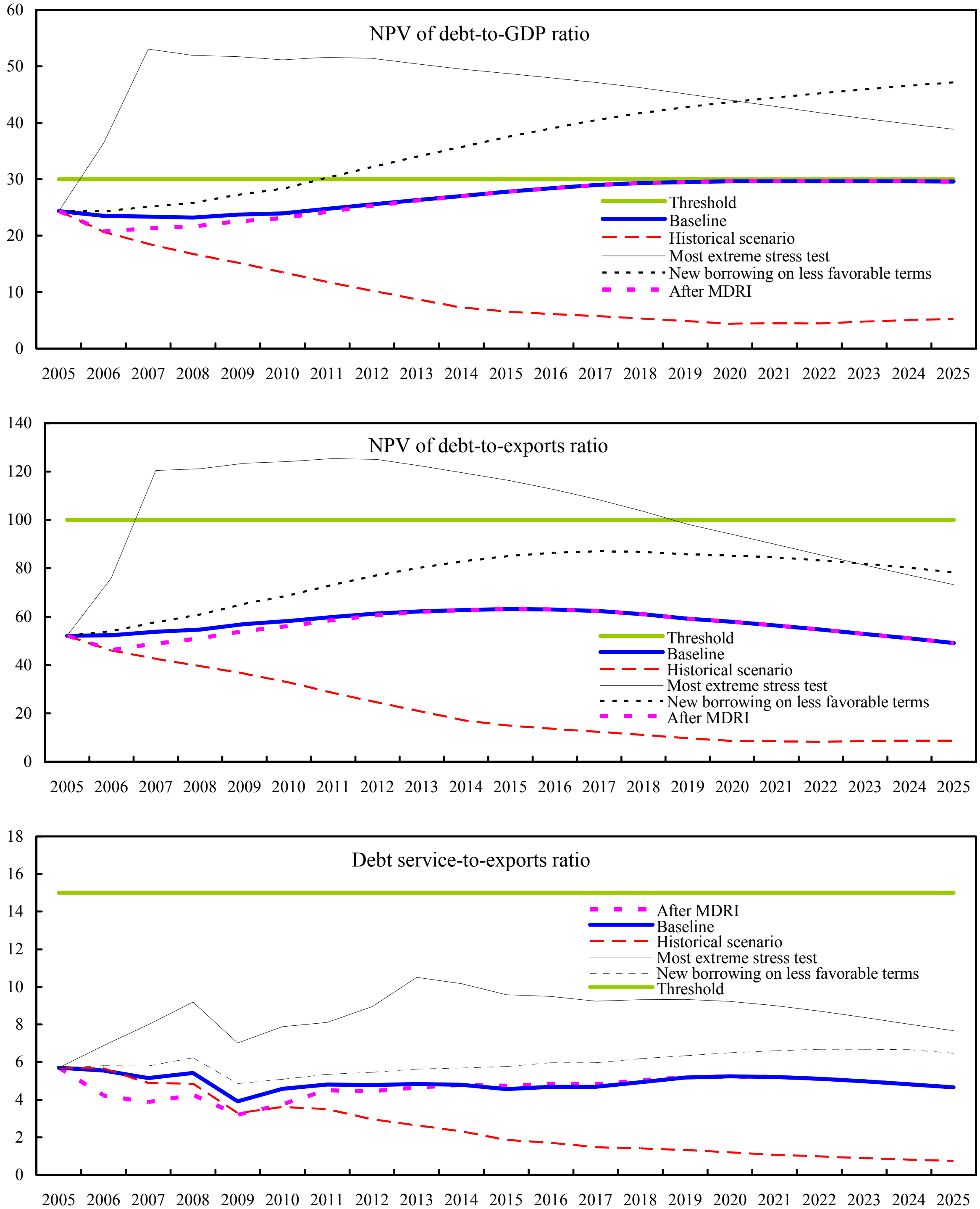
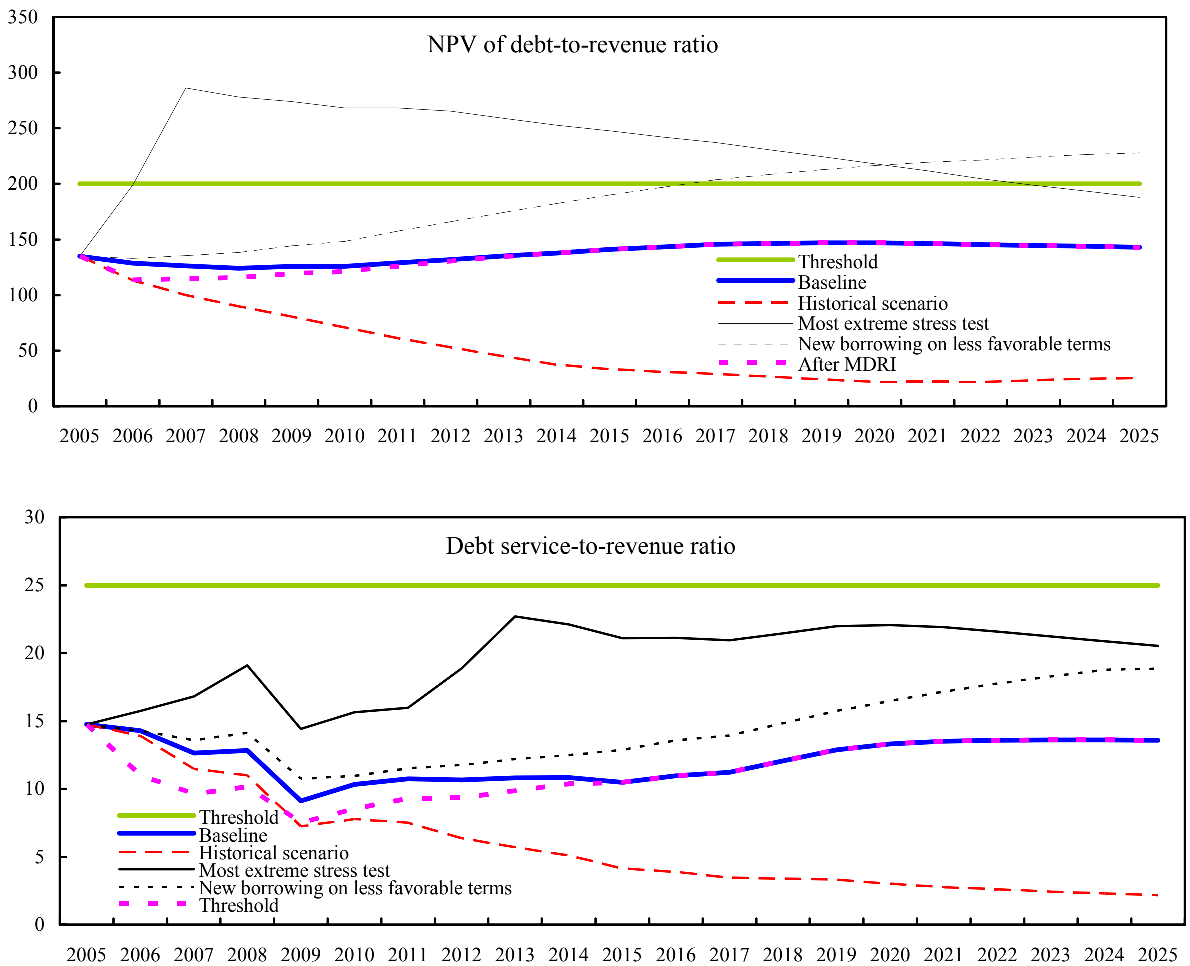


Figure 1. Tajikistan: Indicators of Public and Publicly Guaranteed External Debt
Under Alternative Scenarios, 2005–2025 (Concluded)
(In percent)



Sources: Staff projections, and simulations.

Table 1. Tajikistan: External Debt Sustainability Framework, Baseline Scenario, 2004–25 1/
(In percent of GDP, unless otherwise indicated)

	Actual			Historical Average 8/	Standard Deviation 8/	Estimate	Projections								
	2002	2003	2004			2005	2006	2007	2008	2009	2010	2005-10 Average	2015	2025	2011-25 Average
External debt (nominal) 1/	**96.6**	**66.3**	**41.6**			**38.3**	**37.4**	**36.5**	**35.8**	**35.8**	**35.8**		**40.7**	**47.0**	
of which: public and publicly guaranteed (PPG)	90.3	63.7	39.5			36.7	36.0	35.4	34.8	35.0	35.1		40.5	47.0	
Change in external debt	-1.8	-30.4	-24.7			-3.2	-0.9	-0.9	-0.8	0.0	-0.1		1.0	0.3	
Identified net debt creating flows	-0.5	-32.4	-14.0			-0.8	-0.3	-1.1	-1.4	-0.5	-0.5		0.2	-1.0	
Noninterest current account deficit	**0.5**	**-2.0**	**2.1**	**1.7**	**5.2**	**2.9**	**4.0**	**3.9**	**3.9**	**4.0**	**3.7**		**3.2**	**1.8**	2.7
Deficit in balance of goods and services	19.0	15.6	17.5			21.0	22.9	23.4	23.4	23.5	23.3		24.0	18.3	
Exports	69.8	57.9	52.5			46.8	45.0	43.5	42.4	41.7	41.2		44.0	60.2	
Imports	88.9	73.4	70.0			67.8	67.9	67.0	65.9	65.2	64.5		68.0	78.5	
Net current transfers (negative = inflow)	-13.7	-14.6	-11.4	-7.3	4.6	-14.9	-15.4	-15.8	-15.6	-15.6	-15.6		-16.8	-13.2	-15.4
Other current account flows (negative = net inflow)	-4.7	-2.9	-4.1			-3.2	-3.6	-3.7	-3.9	-3.9	-4.0		-4.0	-3.3	
Net FDI (negative = inflow) 2/	**-3.4**	**-2.0**	**-13.1**	**-1.9**	**0.7**	**-1.5**	**-2.3**	**-3.5**	**-3.9**	**-3.1**	**-2.8**		**-1.8**	**-1.3**	-1.6
Endogenous debt dynamics 3/	**2.4**	**-28.4**	**-14.6**			**-2.2**	**-2.0**	**-1.5**	**-1.5**	**-1.4**	**-1.4**		**-1.2**	**-1.4**	
Contribution from nominal interest rate	3.6	3.3	1.9			0.6	0.5	0.5	0.6	0.6	0.6		0.7	0.8	
Contribution from real GDP growth	-8.9	-6.6	-5.3			-2.9	-2.4	-2.1	-2.0	-2.0	-2.0		-1.9	-2.2	
Contribution from price and exchange rate changes 4/	7.7	-25.0	-11.3			…	…	…	…	…	…		…	…	
Residual (3-4) 5/	**-1.3**	**2.0**	**1.0**			**-2.4**	**-0.7**	**0.3**	**0.7**	**0.5**	**0.4**		**0.8**	**1.3**	
of which: exceptional financing	0.0	0.0	-0.6			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
NPV of external debt 6/	...	...	28.9			26.0	24.9	24.6	24.2	24.6	24.6		28.0	29.6	
In percent of exports	...	...	55.1			55.6	55.4	56.4	57.0	58.9	59.8		63.6	49.1	
NPV of PPG external debt	**...**	**...**	**26.9**			**24.4**	**23.5**	**23.4**	**23.2**	**23.7**	**24.0**		**27.8**	**29.6**	
In percent of exports	...	...	51.2			52.1	52.3	53.7	54.7	56.9	58.2		63.1	49.1	
Debt service-to-exports ratio (in percent)	10.3	7.4	5.7			6.2	6.1	5.7	6.0	4.4	5.0		4.7	4.7	
PPG debt service-to-exports ratio (in percent)	7.1	4.1	3.4			5.7	5.6	5.1	5.4	3.9	4.6		4.6	4.7	
Total gross financing need (billions of U.S. dollars)	0.0	0.0	0.1			0.1	0.1	0.1	0.1	0.1	0.1		0.2	0.3	
Noninterest current account deficit that stabilizes debt ratio	2.3	28.4	26.8			6.2	4.9	4.8	4.7	3.9	3.8		2.2	1.5	
NPV of debt to revenue			155.6			134.8	128.7	126.1	124.2	125.7	125.6		140.9	143.0	
DS to revenue			5.7			14.8	14.3	12.6	12.8	9.1	10.3		10.5	13.6	
Key macroeconomic assumptions															
Real GDP growth (in percent)	9.1	10.2	10.6	4.2	7.6	8.0	7.0	6.0	6.0	6.0	6.0	6.5	5.0	5.0	5.0
GDP deflator in U.S. dollar terms (change in percent)	-7.2	35.0	20.5	8.8	30.4	7.3	2.7	2.0	2.0	2.0	2.0	3.0	1.7	1.7	1.7
Effective interest rate (percent) 7/	3.7	5.1	3.9	4.4	1.4	1.8	1.4	1.5	1.7	1.7	1.8	1.6	1.9	1.7	1.8
Growth of exports of G&S (U.S. dollar terms, in percent)	8.6	23.2	20.9	8.4	18.6	3.3	5.7	4.6	5.4	6.2	6.7	5.3	9.1	10.8	9.5
Growth of imports of G&S (U.S. dollar terms, in percent)	9.7	22.9	27.1	7.8	13.7	12.3	10.1	6.6	6.3	7.0	6.9	8.2	8.2	8.8	8.2
Grant element of new public sector borrowing (in percent)	...	...	...	...	...	33.3	28.4	27.2	27.2	27.2	27.2	28.4	27.2	27.2	27.2
Memorandum item															
Nominal GDP (billions of U.S. dollars)	1.0	1.6	2.1			2.4	2.6	2.9	3.1	3.3	3.6		5.0	9.7	

Source: Staff simulations.

1/ Includes both public and private sector external debt.
2/ FDI in 2004 included $242 million resulting from debt-equity swap with Russia.
3/ Derived as [r - g - ρ(1+g)]/(1+g+ρ+gρ) times previous period debt ratio, with r = nominal interest rate; g = real GDP growth rate, and ρ = growth rate of GDP deflator in U.S. dollar terms.
4/ The large changes in 2003 and 2004 are due to depreciation of US dollar wr.t. to Euro and Russian ruble, as well as increase in commodity prices during those years, reflected in the GDP deflators.
5/ Includes exceptional financing (i.e., changes in arrears and debt relief); changes in gross foreign assets; and valuation adjustments. For projections also includes contribution from price and exchange rate changes.
6/ Assumes that NPV of private sector debt is equivalent to its face value.
7/ Current-year interest payments divided by previous period debt stock.
8/ Historical averages and standard deviations are generally derived over the past 10 years, subject to data availability.

Table 2. Tajikistan: External Debt Sustainability Framework, MDRI Scenario, 2004–25 1/
(In percent of GDP, unless otherwise indicated)

	Actual			Historical Average 8/	Standard Deviation 8/	Estimate	Projections								
	2002	2003	2004			2005	2006	2007	2008	2009	2010	2005-10 Average	2015	2025	2011-25 Average
External debt (nominal) 1/	**96.6**	**66.3**	**41.6**			**38.3**	**34.2**	**34.1**	**34.0**	**34.5**	**34.8**		**40.7**	**47.0**	
of which: public and publicly guaranteed (PPG)	90.3	63.7	39.5			36.7	32.8	32.9	33.0	33.6	34.1		40.5	47.0	
Change in external debt	-1.8	-30.4	-24.7			-3.2	-4.1	-0.1	-0.1	0.5	0.3		1.0	0.3	
Identified net debt creating flows	-0.5	-32.4	-14.0			-0.8	-0.3	-0.4	-0.8	-0.1	-0.1		0.3	-1.0	
Noninterest current account deficit	**0.5**	**-2.0**	**2.1**	**1.7**	**3.4**	**2.9**	**4.0**	**3.9**	**3.9**	**4.0**	**3.7**		**3.2**	**1.8**	2.7
Deficit in balance of goods and services	19.0	15.6	17.5			21.0	22.9	23.4	23.4	23.5	23.3		24.0	18.3	
Exports	69.8	57.9	52.5			46.8	45.0	43.5	42.4	41.7	41.2		44.0	60.2	
Imports	88.9	73.4	70.0			67.8	67.9	67.0	65.9	65.2	64.5		68.0	78.5	
Net current transfers (negative = inflow)	-13.7	-14.6	-11.4	-7.3	4.7	-14.9	-15.4	-15.8	-15.6	-15.6	-15.6		-16.8	-13.2	-15.4
Other current account flows (negative = net inflow)	-4.7	-2.9	-4.1			-3.3	-3.6	-3.8	-3.9	-4.0	-4.0		-4.0	-3.3	
Net FDI (negative = inflow) 2/	**-3.4**	**-2.0**	**-13.1**	**-3.1**	**3.6**	**-1.5**	**-2.3**	**-3.0**	**-3.4**	**-2.8**	**-2.5**		**-1.8**	**-1.3**	-1.5
Endogenous debt dynamics 3/	**2.4**	**-28.4**	**-14.6**			**-2.1**	**-2.0**	**-1.4**	**-1.3**	**-1.3**	**-1.3**		**-1.2**	**-1.4**	
Contribution from nominal interest rate	3.6	3.3	1.9			0.7	0.5	0.5	0.6	0.6	0.6		0.7	0.8	
Contribution from real GDP growth	-8.9	-6.6	-5.3			-2.9	-2.4	-1.9	-1.9	-1.9	-1.9		-1.9	-2.2	
Contribution from price and exchange rate changes 4/	7.7	-25.0	-11.3			…	…	…	…	…	…		…	…	
Residual (3-4) 5/	**-1.3**	**2.0**	**1.0**			**-2.5**	**-3.9**	**0.3**	**0.7**	**0.6**	**0.5**		**0.8**	**1.3**	
of which: exceptional financing	0.0	0.0	-0.6			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
NPV of external debt 6/	...	...	28.9			26.0	22.2	22.5	22.6	23.3	23.8		28.0	29.6	
In percent of exports	...	...	55.1			55.6	49.3	51.6	53.4	56.0	57.8		63.6	49.1	
NPV of PPG external debt	**...**	**...**	**26.9**			**24.4**	**20.8**	**21.3**	**21.7**	**22.5**	**23.1**		**27.8**	**29.6**	
In percent of exports	...	...	51.2			52.1	46.2	48.9	51.0	54.0	56.2		63.1	49.1	
Debt service-to-exports ratio (in percent)	10.3	7.4	5.7			6.4	4.8	4.5	4.8	3.7	4.2		4.7	4.7	
PPG debt service-to-exports ratio (in percent)	7.1	4.1	3.4			5.7	4.2	3.9	4.2	3.2	3.8		4.6	4.7	
Total gross financing need (billions of U.S. dollars)	0.0	0.0	0.1			0.1	0.1	0.1	0.1	0.1	0.1		0.2	0.3	
Noninterest current account deficit that stabilizes debt ratio	2.3	28.4	26.8			6.1	8.1	4.0	4.0	3.5	3.4		2.2	1.5	
NPV of debt to revenue			155.6			134.8	113.7	114.7	115.8	119.3	121.2		140.9	143.0	
DS to revenue			5.7			14.8	11.0	9.7	10.1	7.5	8.5		10.5	13.6	
Key macroeconomic assumptions															
Real GDP growth (in percent)	9.1	10.2	10.6	4.2	7.6	8.0	7.0	6.0	6.0	6.0	6.0	6.5	5.0	5.0	5.0
GDP deflator in U.S. dollar terms (change in percent)	-7.2	35.0	20.5	8.8	30.4	7.3	2.7	2.0	2.0	2.0	2.0	3.0	1.7	1.7	1.7
Effective interest rate (percent) 7/	3.7	5.1	3.9	4.4	1.4	2.0	1.4	1.7	1.8	1.8	1.8	1.7	1.9	1.7	1.8
Growth of exports of G&S (U.S. dollar terms, in percent)	8.6	23.2	20.9	8.4	18.6	3.3	5.7	4.6	5.4	6.2	6.7	5.3	9.1	10.8	9.5
Growth of imports of G&S (U.S. dollar terms, in percent)	9.7	22.9	27.1	7.8	13.7	12.3	10.1	6.6	6.3	7.0	6.9	8.2	8.2	8.8	8.2
Grant element of new public sector borrowing (in percent)	...	...	...	...	...	33.3	28.4	27.2	27.2	27.2	27.2	28.4	27.2	27.2	27.2
Memorandum item:															
Nominal GDP (billions of U.S. dollars)	1.0	1.6	2.1			2.4	2.6	2.9	3.1	3.3	3.6		5.0	9.7	

Source: Staff simulations.

1/ Includes both public and private sector external debt.
2/ FDI in 2004 included $242 million resulting from debt-equity swap with Russia.
3/ Derived as [r - g - ρ(1+g)]/(1+g+ρ+gρ) times previous period debt ratio, with r = nominal interest rate; g = real GDP growth rate, and ρ = growth rate of GDP deflator in U.S. dollar terms.
4/ The large changes in 2003 and 2004 are due to depreciation of U.S. dollar wr.t. to Euro and Russian ruble, as well as increase in commodity prices during those years, reflected in the GDP deflators.
5/ Includes exceptional financing (i.e., changes in arrears and debt relief); changes in gross foreign assets; and valuation adjustments. For projections also includes contribution from price and exchange rate changes.
6/ Assumes that NPV of private sector debt is equivalent to its face value.
7/ Current-year interest payments divided by previous period debt stock.
8/ Historical averages and standard deviations are generally derived over the past 10 years, subject to data availability.

Table 3. Country: Sensitivity Analyses for Key Indicators of Public and Publicly Guaranteed External Debt, 2005–25
(In percent)

	Estimate	Projections						
	2005	2006	2007	2008	2009	2010	**2015**	2025
NPV of debt-to-GDP ratio								
Baseline	24	24	23	23	24	24	**28**	30
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2006-25 1/	24	21	19	17	15	14	**7**	5
A2. New public sector loans on less favorable terms in 2006-25 2/	24	24	25	26	27	28	**37**	47
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2006-07	24	24	24	24	24	24	**28**	30
B2. Export value growth at historical average minus one standard deviation in 2006-07 3/	24	29	38	37	37	37	**37**	32
B3. U.S. dollar GDP deflator at historical average minus one standard deviation in 2006-07	24	29	36	36	36	37	**43**	45
B4. Net non-debt creating flows at historical average minus one standard deviation in 2006-07 4/	24	33	43	42	42	41	**40**	32
B5. Combination of B1-B4 using one-half standard deviation shocks	24	36	53	52	52	51	**49**	39
B6. One-time 30 percent nominal depreciation relative to the baseline in 2006 5/	24	33	33	33	34	34	**39**	42
NPV of debt-to-exports ratio								
Baseline	52	52	54	55	57	58	**63**	49
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2006-25 1/	52	46	43	40	36	33	**15**	9
A2. New public sector loans on less favorable terms in 2006-25 2/	52	54	58	61	65	69	**85**	78
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2006-07	52	52	54	55	57	58	**63**	49
B2. Export value growth at historical average minus one standard deviation in 2006-07 3/	52	76	120	121	123	124	**116**	73
B3. U.S. dollar GDP deflator at historical average minus one standard deviation in 2006-07	52	52	54	55	57	58	**63**	49
B4. Net non-debt creating flows at historical average minus one standard deviation in 2006-07 4/	52	73	98	99	100	100	**91**	54
B5. Combination of B1-B4 using one-half standard deviation shocks	52	79	118	118	120	120	**107**	62
B6. One-time 30 percent nominal depreciation relative to the baseline in 2006 5/	52	52	54	55	57	58	**63**	49
Debt service ratio								
Baseline	5.7	6	5	5	3.9	5	**5**	5
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2006-25 1/	5.7	6	5	5	3	4	**2**	1
A2. New public sector loans on less favorable terms in 2006-25 2/	6	6	6	6	5	5	**6**	6
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2006-07	6	6	5	6	4	5	**5**	5
B2. Export value growth at historical average minus one standard deviation in 2006-07 3/	6	7	8	9	7	8	**10**	8
B3. U.S. dollar GDP deflator at historical average minus one standard deviation in 2006-07	6	6	5	6	4	5	**5**	5
B4. Net non-debt creating flows at historical average minus one standard deviation in 2006-07 4/	6	6	6	7	5	6	**8**	6
B5. Combination of B1-B4 using one-half standard deviation shocks	6	6	7	8	6	7	**9**	7
B6. One-time 30 percent nominal depreciation relative to the baseline in 2006 5/	6	6	5	6	4	5	**5**	5
Memorandum item:								
Grant element assumed on residual financing (i.e., financing required above baseline) 6/	25	25	25	25	25	25	**25**	25

Table 3. Country: Sensitivity Analyses for Key Indicators of Public and Publicly Guaranteed External Debt, 2005–25 (Concluded)
(In percent)

	Estimat	Projections						
	2005	2006	2007	2008	2009	2010	2015	2025
NPV of Debt to Revenue'								
Baseline	134.8	128.7	126.1	124.2	125.7	125.6	**140.9**	143.0
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2006-25 1/	134.8	113.2	99.9	89.8	80.6	71.0	**33.3**	25.2
A2. New public sector loans on less favorable terms in 2006-25 2/	135	133	135	138	144	148	**190**	228
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2006-07	135	131	128	126	128	128	**143**	146
B2. Export value growth at historical average minus one standard deviation in 2006-07 3/	135	158	203	198	196	192	**186**	153
B3. U.S. dollar GDP deflator at historical average minus one standard deviation in 2006-07	135	160	194	191	193	193	**217**	220
B4. Net non-debt creating flows at historical average minus one standard deviation in 2006-07 4	135	179	231	224	221	217	**202**	156
B5. Combination of B1-B4 using one-half standard deviation shocks	135	199	286	278	274	268	**248**	188
B6. One-time 30 percent nominal depreciation relative to the baseline in 2006 5/	135	182	178	175	177	177	**199**	202
Debt Service-to-Revenue Ratio								
Baseline	14.8	14.3	12.6	12.8	9.1	10.3	10.5	13.6
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2006-25 1/	14.8	13.9	11.5	11.0	7.3	7.8	**4.2**	2.2
A2. New public sector loans on less favorable terms in 2006-25 2/	15	14	14	14	11	11	**13**	19
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2006-07	15	14	13	13	9	11	**11**	14
B2. Export value growth at historical average minus one standard deviation in 2006-07 3/	16	15	14	16	12	13	**15**	16
B3. U.S. dollar GDP deflator at historical average minus one standard deviation in 2006-07	15	18	19	20	14	16	**16**	21
B4. Net non-debt creating flows at historical average minus one standard deviation in 2006-07 4	15	14	14	16	12	13	**17**	17
B5. Combination of B1-B4 using one-half standard deviation shocks	15	16	17	19	14	16	**21**	21
B6. One-time 30 percent nominal depreciation relative to the baseline in 2006 5/	15	20	18	18	13	15	**15**	19

Sources: Staff projections and simulations.

1/ Variables include real GDP growth, growth of GDP deflator (in U.S. dollar terms), non-interest current account in percent of GDP, and non-debt creating flows.
2/ Assumes that the interest rate on new borrowing is by 2 percentage points higher than in the baseline, while grace and maturity periods are the same as in the baseline.
3/ Exports values are assumed to remain permanently at the lower level, but the current account as a share of GDP is assumed to return to its baseline level after the shock (implicitly assuming an offsetting adjustment in import levels).
4/ Includes official and private transfers and FDI.
5/ Depreciation is defined as percentage decline in dollar/local currency rate, such that it never exceeds 100 percent.
6/ Applies to all stress scenarios except for A2 (less favorable financing) in which the terms on all new financing are as specified in footnote 2.

Republic of Tajikistan—Letter of Intent

January 12, 2006

Mr. Rodrigo de Rato
Managing Director
International Monetary Fund
700 19th Street
Washington, D.C. 20431

Dear Mr. de Rato,

During November 8–16, 2005, the Government of Tajikistan held discussions with Fund staff for the sixth and final review under the Poverty Reduction and Growth Facility (PRGF). We also took this opportunity to discuss with Fund staff the results of the Ex Post Assessment of Longer-term Program Engagement (EPA) with Tajikistan.

I am pleased to report that during the past year we have made further progress in strengthening macroeconomic stability and alleviating poverty. Our economy continues to expand at a robust pace benefiting the population in general, with GDP growth projected to reach 7–8 percent in 2005. Inflation, after increasing early in 2005, has since fallen to more moderate levels and is projected to reach 7 percent for the year as a whole. Finally, the external current account deficit contracted relative to 2004, as continued strong growth in remittances more than offset the impact of a deterioration in our terms of trade. Our macroeconomic policy efforts have been anchored by a strong fiscal stance, with the 2005 fiscal position broadly in balance as a result of a strong revenue performance and expenditure restraint.

We have observed all quantitative and structural performance criteria, as well as all indicative targets, for end-September 2005 (Table 1). In line with our commitments in the June 6, 2005 Memorandum of Economic and Financial Policies, we have completed the implementation of all of the outstanding structural benchmarks for 2005 (Table 2). Specifically, a cash management unit was established at the ministry of finance; the Banking Law was amended to open the banking sector to foreign participation; and the National Bank of Tajikistan has recovered SM 10 million in credit to the private sector. In addition to these measures, we have used our budget resources to recapitalize the state savings bank, Amonatbank, to guarantee it meets the minimum capital requirements as of January 1, 2006.

Based on this performance and our commitment to pursue prudent macroeconomic policies in 2006 as outlined below, we hereby request the completion of the sixth review under the PRGF arrangement and the disbursement of the related last tranche in the amount of SDR 9.8 million. Moreover, we would like to reiterate our interest in starting discussions in March 2006 on a successor Fund arrangement. We believe such an arrangement will allow us to safeguard the macroeconomic achievements of the previous two arrangements, and provide a framework for implementing the outstanding structural reform agenda, including in the areas identified in the EPA. In this connection, we are in the process of completing a National Development Strategy for the period through 2015, which will serve as the basis for preparing our new Poverty Reduction Strategy Paper. In addition, we would like to express our appreciation to the international community for allowing Tajikistan to benefit from the Multilateral Debt Relief Initiative. In this regard, in the coming months, we will be discussing with Fund and World Bank staff possible strategies on how to best allocate the freed resources in support of our poverty reduction efforts.

The Government believes that the economic policies outlined below are appropriate to preserve macroeconomic stability in 2006 and set the basis for economic growth in the medium term. However, if warranted, the government, in consultation with Fund staff, will take any further measures that may become appropriate for this purpose. We will provide Fund staff with the information required for monitoring economic developments and progress in program implementation. In this regard, in line with our commitment to transparency, we hereby request that the staff report, the EPA background paper, and this letter of intent be published in full on the IMF website.

Our program for 2006

The macroeconomic outlook for 2006 is favorable, albeit not without risks**.** Strong economic growth in the region, a favorable outlook for aluminum and cotton export prices, and prospects for significant investment in our hydroelectricity sector should support growth in GDP of about 8 percent. At the same time, prudent fiscal and monetary policies will buttress exchange rate stability and limit CPI inflation to below 7 percent, despite uncertainty about energy prices (including on the price of gas imports from Uzbekistan) and potential upward pressures on nontraded goods prices coming from rising incomes, especially from remittances. We are also projecting the external current account deficit to widen to about 4.5 percent of GDP in 2006, as the growth in remittances is expected to slow down and FDI-related imports to grow. We will aim at keeping gross international reserves at about the current level of 2 months of imports.

Fiscal policy

In the 2006 budget, we will limit the fiscal deficit to 0.5 percent of GDP. We project tax revenues to increase to 16.4 percent of GDP in 2006 (compared to 16 percent of GDP in 2005). To allow us to reach this revenue goal, we have included in the Budget Law a provision to establish a 4 percent processing tax on aluminum exports, replacing the current 3 percent sales tax. We have also eliminated some tax exemptions. Furthermore, in order to increase the efficiency of our tax administration efforts and limit fraud, we have amended the Tax Code to raise the VAT threshold to $60 thousand. Finally, we will continue to implement the reform program along the lines of the recommendations made by the recent technical assistance mission from the International Monetary Fund.

The lion's share of the budgeted increase in fiscal expenditures is linked to a necessary adjustment in public sector wages. We feel that it is of the utmost importance to continue to increase spending on wages in the budget sector to ensure competitiveness of remuneration in civil service and basic public services, including health care, education, and national security. The wage increase envisaged in 2006 will bring the wage bill to 4.5 percent of GDP and allow us to (a) meet the requirements of a rapidly growing school-age population; (b) support the health sector's financing reforms (including to retain skilled staff); (c) raise compensation for law enforcement bodies and border guards; and (d) finance the cost of decompressing wages in the pilot ministries, where reforms are being supported by the World Bank. To offset some of the increase in the wage bill, we are planning to cut expenditures on certain discretionary items, such as new purchases of automobiles and equipment. Capital expenditures (including those financed from external sources) are set to stay about constant relative to GDP.

We remain committed to strengthening our public expenditure management system, along the lines of the technical assistance recommendations received from the Fund. In particular, once the cash management unit is fully functional early in 2006, the next task will be to consolidate all treasury accounts into a single account. We are also committed to improving the treasury's expenditure commitment control system. We will be seeking external financial support to allow us to extend these reforms to the local treasuries as soon as possible.

Monetary and exchange rate policy

Our indicative monetary program for 2006 envisages growth in reserve money of 18 percent. We will focus policies on achieving the program's reserve money targets—the key monetary anchor—and limit unscheduled foreign exchange interventions to smoothing operations only. Furthermore, the National Bank of Tajikistan will continue its loan recovery efforts and refrain from making new loans to the private sector and commercial banks.

We recognize that the effectiveness of monetary policy remains constrained by a lack of appropriate monetary policy instruments. We have asked Fund staff to provide technical assistance in this area, including in developing a strategy to recapitalize the central bank, designing an appropriate mutual settlements agreement between the central bank and the ministry of finance, and in developing a securities market.

Structural policies

In the structural area, we will press ahead with the implementation of reforms already underway. Specifically, we will continue to reform the civil service, education and health sectors, including through the adoption of a comprehensive public administration strategy, the submission of amendments to the Civil Service Law, the completion of restructuring plans for pilot public institutions, the redesigning of the per-capita funding system in education, and the introduction of a new wage grid for employees in primary health care. Furthermore, we will work with the World Bank in developing an appropriate framework for the development of the energy sector, to be supported by the design of a better focused social compensation system. We will also take further steps to strengthen external debt management and enhance our efforts to foster transparency and governance, including by upgrading the quality and dissemination practices of our national statistics. In this regard, we have recently appointed a national Special Data Dissemination Standard (SDDS) coordinator and plan to subscribe to the SDDS as soon as feasible. Finally, we will continue to seek a permanent solution to the cotton debt problem, as this issue remains an area of vulnerability for our economic program.

Please accept, Your Excellency, the assurances of my highest consideration.

/s/

Emomali Rakhmonov

Table 1. Tajikistan: Quantitative Performance Criteria and Indicative Targets for the Third Annual Program Under the PRGF Arrangement, October 2004–December 2005

(In millions of somoni, unless otherwise indicated)

	2004	End-Jun. 2/			End-Sept.		End-Dec. 2/
	Actual 1/	(IMF CR No. 05/132)	Adjusted	Actual 1/	(IMF CR No. 05/368)	Actual	(IMF CR No. 05/368)
Performance Criteria:							
1. Ceiling on net domestic assets of the NBT 3/	73	82	64	32	101	41	90
2. Ceiling on net credit of the banking system to general government 3/	-218	-196	-214	-281	-169	-255	-178
3. Floor on the cumulative overall fiscal balance of the general government (excluding foreign-financed public investment program) 4/	17	5	10	77	-27	56	20
4. Ceiling on general government wage, and nonworking pensioners' pension arrears 5/	0	0	...	0	0	0	0
5. Floor on tax collection of the ministry of state revenues and duties 4/	250	798	...	826	1,070	1,126	290
6. Floor on total net international reserves (in millions of U.S. dollars) 3/	67	58	64	74	59	78	71
7a. Ceiling on the contracting or guaranteeing of short-term nonconcessional external debt with original maturity of up to and including one year 6/	0	0	...	0	0	0	0
7b. Ceiling on the contracting or guaranteeing of medium and long-term nonconcessional external debt with original maturity of more than one year 6/	0	0	...	0	0	0	0
8. New external payments arrears 5/	0	0	...	0	0	0	0
Indicative targets:							
Ceiling on reserve money 2/	278	257	257	257	278	277	305
New arrears of budget entities and key state-owned enterprises to Naftrason, Barqui Tajik, and Tajikgas	24	0	...	0	0	0	0
Memorandum item:							
Cumulative disbursement of program loans and grants (in millions of U.S. dollars) 7/	0	0	6	6	6	...	6

Sources: Tajik authorities; and Fund staff estimates.

1/ Calculated using the 2005 program exchange rates.
2/ Indicative targets.
3/ On a cash basis, the ceiling will be adjusted for the deviation of actual program loans and grants disbursements compared to the projections. Adjustment for grants is with effect from end-June 2005.
4/ For March–September 2005, the targets are cumulative from October 1, 2004.
5/ A continuous performance criterion.
6/ By the government, NBT or any other agency acting on behalf of the government as defined in the Technical Memorandum of Understanding.
7/ Program loans and grants for March–September 2005 are cumulative from end-October 2004.

Table 2. Tajikistan: Structural Performance Under the Third Annual Program Under the PRGF Arrangement, January–September 2005

Measure	Status as of December 29, 2005
Continuous structural performance criteria	
Prohibit the NBT from issuing directed credits.	Observed
Prohibit the NBT from making expenditures not related to its core business.	Observed
Implement quarterly adjustments of all utility tariffs, equivalent to the depreciation in the nominal exchange rate in the previous quarter.	Observed
Structural benchmarks	
For end-June 2005	
Reduce NBT's claims on the private sector by SM 10 million from October 2004 to June 2005 through collateral sales or other loan recoveries.	Not observed
Remove the regulatory limits on foreign capital in the banking system and the requirement for a Tajik citizen to head commercial banks in the Banking Law.	Observed
Expand the register of the Large Taxpayer Inspectorate (LTI) to cover at least 60 percent of total tax collections.	Observed
Develop and continuously update a database at the NBT for monitoring private sector external debt (starting with cotton sector debt).	Observed
For end-September 2005	
Make operational a cash management unit in the ministry of finance and strengthen communication links between local branches of the central treasury with the headquarters to enhance fiscal management, cash control and forecasting.	Observed

Statement by the IMF Staff Representative
February 6, 2006

Since the issuance of the staff report, the following information has become available to staff. This information does not alter the thrust of the staff appraisal.

- **Growth in 2005 was somewhat lower than projected**. Preliminary data indicate that real GDP growth reached 6.7 percent in 2005 (compared to 7.5 percent in the program), owing mostly to electricity supply problems in the last quarter of the year and a weaker than projected cotton harvest.

- **The inflation outturn for 2005 was in line with the program**. Consumer prices rose by 7.1 percent in 2005, compared with the projected program target of 7.0 percent.

- **The authorities have completed the implementation of all outstanding structural benchmarks under the program**. On December 28, President Rahkmonov signed into law the amendments to the Banking Law eliminating major restrictions to foreign capital participation in the financial sector. In addition, staff has confirmed that as of end–2005 the National Bank of Tajikistan had completed the recovery of SM 10 million in loans to the private sector.

- **Monetary targets were met with a margin.** Preliminary data indicate that, in the monetary area, the authorities met all indicative quantitative targets for end-December 2005. Net international reserves exceeded the program floor by $17 million. Moreover, the net domestic assets of the central bank and reserve money were below their indicative ceilings, owing to the strong fiscal performance and as a result of sterilization operations undertaken in late December 2005.

Recent Monetary Indicators
(In millions of somoni; unless otherwise indicated. Using program exchange rates)

	End-September		End-December	
	Performance criteria	Actual	Indicative targets	Actual
Ceiling on net domestic assets of the NBT	101	41	90	36
Ceiling on net credit of the banking system to government	-169	-257	-178	-246
Floor on net international reserves (millions of U.S. dollars)	59	78	71	88
Reserve money (indicative target)	278	277	305	304

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

INTERNATIONAL MONETARY FUND
EXTERNAL RELATIONS DEPARTMENT

Press Release No. 06/24
FOR IMMEDIATE RELEASE
February 7, 2006

International Monetary Fund
Washington, D.C. 20431 USA

IMF Executive Board Completes Sixth and Final Review Under the Republic of Tajikistan's PRGF Arrangement and Approves US$14.1 million Disbursement

The Executive Board of the International Monetary Fund (IMF) has completed the sixth review of the Republic of Tajikistan's performance under its economic reform program supported by a three-year Poverty Reduction and Growth Facility (PRGF) arrangement. Completion of the review enables the Republic of Tajikistan to draw an amount equivalent to SDR 9.8 million (about US$14.1 million) under the arrangement.

The IMF's Executive Board approved the three-year arrangement on December 11, 2002 (see Press Release No. 02/54) for an amount equivalent to SDR 65 million (about US$93.7 million). The disbursement under the sixth review will result in the arrangement being fully drawn.

Following the Executive Board discussion on of Tajikistan, on February 6, 2006, Mr. Agustín Carstens, Deputy Managing Director and Acting Chair, stated:

“The Tajik authorities are to be commended for Tajikistan’s robust economic performance in recent years, in the context of strong implementation of the PRGF-supported program. Despite the negative impact of higher energy prices and a weak cotton harvest in 2005, the authorities’ macroeconomic policies, coupled with progress on structural reforms, have contributed to high economic growth, relatively low inflation, and a reduction in poverty. They have also helped to maintain a sustainable debt position.

“Looking ahead, the authorities remain committed to keeping fiscal policy consistent with the program’s medium-term objectives. The focus should be on strengthening tax administration and effectively enforcing the new tax and customs codes to preserve and expand the revenue base. Any revenue overperformance resulting from higher-than-expected export prices should be transparently used to augment social expenditure, with the ultimate goal of meeting the Millennium Development Goals. The authorities’ intention to further strengthen the management of monetary policy by taking steps to broaden the range of monetary instruments and developing a strategy for recapitalizing the central bank is welcome. The maintenance of a managed floating exchange rate regime, with intervention in the foreign exchange market limited to smoothing short-term exchange rate volatility, is appropriate.

"It is important that the authorities push ahead with key outstanding structural reforms. In particular, they should take steps to accelerate public sector reforms in the areas of education, health care, and civil service. Another key priority is the need to develop a market-based debt resolution strategy for the cotton sector, without recourse to budgetary support. Similarly, it will be important for the authorities to develop a consistent reform strategy for the electricity sector, which will be crucial in enhancing growth prospects in the medium term. The authorities should be commended for the recent action to remove impediments to the entry of foreign banks into Tajikistan, which is expected to enhance competition and the quality of banking services." Mr. Cartsens said.

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 the 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 5½-year grace period on principal payments.

Statement by Fritz Zurbrügg, Executive Director for Republic of Tajikistan and Djamoliddin Nuraliev, Advisor to Executive Director
February 6, 2006

1. Our Tajik authorities would like to express their appreciation for the continued very helpful and productive cooperation with the Fund. They concur with the thrust of the staff assessment under the sixth review of PRGF arrangement. This PRGF program has played a crucial role in providing the authorities with a framework, which guided their efforts in strengthening macroeconomic stability, taking forward structural reforms, and achieving the Millennium Development Goals (MDGs). As shown in the well-written Ex-Post Assessment (EPA), Tajikistan has benefited significantly throughout the long history of program engagement of the Fund. The authorities appreciated the frankness of the EPA and broadly agree with the assessment. They particularly welcomed the acknowledgment of overambitious conditionality under the first PRGF, given the post civil war reality and weak administrative capacities. The streamlining of conditionality was an important element for the significantly improved program performance. We fully share staff's assessment that the Fund relationship with Tajikistan is indeed "a success story".

2. We are pleased to report that since the last review program implementation has remained good. All the quantitative and structural performance criteria and benchmarks have been met, including the reduction of the National Bank of Tajikistan's (NBT) claims on the private sector.

3. Looking forward, my authorities would like to assure management and the Board of their continued commitment to implement the necessary structural reforms aimed at sustaining growth and reducing poverty over the medium and long run. To this end, my authorities believe that their request for a new PRGF arrangement could enhance their efforts in implementing the reform agenda identified in the PRSP and the new National Development Strategy (NDS). A successor program would help to safeguard the macroeconomic achievements and provide a framework for implementing the outstanding structural reform agenda. This program, together with the support from the Multilateral Debt Relief Initiative (MDRI), will also be crucial for achieving the MDGs. Our Tajik authorities would like to take this opportunity to express their appreciation to the Board for the assistance provided under the MDRI.

Macroeconomic Policies

4. Over the past year, the macroeconomic performance remained strong and all quantitative performance criteria were observed under the program review. For 2005, we expect real GDP to have grown at a healthy pace. While the cotton sector development weighed down on the economy, it was more than compensated by a pick up in the service sector and continued strong growth in remittances. Looking ahead, the favorable outlook for aluminum and cotton export prices, as well as the prospect for significant investment in the hydroelectricity sector, should keep the growth momentum intact.

5. On the fiscal side, the authorities are encouraged by the continued overperformance compared to program targets. Tax administration has been further improved with tax collections continuing to grow faster than nominal GDP, allowing tax revenues to exceed the target. To support the 2006 budget, which again limits the deficit at 0.5 percent, there are several fiscal measures underway to further increase tax revenues. Among others, the budget law includes a provision to establish a 4 percent processing tax on aluminum exports, replacing the current 3 percent sales tax. Furthermore, by eliminating some tax exemptions, the tax base for excise duties should be broadened and compliance strengthened.

6. As noted in the staff report, the 2006 draft budget includes an increase of the wage bill from an extremely low base. The adjustment aims at ensuring the competitiveness of remuneration in the civil service and adequate quality of basic public services, including health care and education. To partially compensate for the wage adjustment, a cut in nonessential expenditure items is planned.

7. Our authorities strive to further strengthen the public expenditure management system. Once the cash management unit is fully operational early this year, the next task is to consolidate all treasury accounts into a single account. Regarding the debt relief under the MDRI, the authorities are in the process of developing a strategy, with assistance from the Fund and the Bank, on how to make the best use of the resources to achieve the MDGs.

8. On monetary policy, the NBT reiterates its commitment to reserve money as the key nominal anchor and limit foreign exchange interventions to smoothing operations only. Furthermore, the monetary authorities will continue their loan recovery efforts and refrain from extending directed credits. They fully recognize that the effectiveness of monetary policy is constrained by lack of appropriate monetary policy instruments. In this regard, they have requested Fund technical assistance with the aim, among others, to design a strategy to recapitalize the central bank and develop a securities market.

9. To strengthen financial intermediation, progress has been made with the recent amendment to remove restrictions on foreign banking entry and limited ownership. The authorities' reform plan in the banking sector focuses on enhancing supervisory capacity, improving transparency and strengthening commercial banks' balance sheets by increasing the minimum capital base. They look forward to the planned FSAP assessment, which will be helpful in designing a reform plan, in order to take full advantage of the liberalized banking sector.

Structural Reforms

10. Our authorities are committed to press ahead with the implementation of structural reforms. In particular, they will continue to reform the civil sector, education and health sectors. To this end, the planned adoption of a comprehensive public administration strategy, and the introduction of a new wage grid for primary health care workers will be crucial. Regarding the resolution of the cotton sector debt issue, they fully share staff's concerns. In this area, they are working together with the World Bank in addressing the issue without damaging the financial position of the government. The donors' meeting upcoming this

month in Tajikistan will discuss further how to move forward. Given the importance of agriculture in the economy, resolving the cotton sector debt is an important objective for the authorities also in terms of reducing poverty in rural areas. To this end, they call for further support by the donor community and the IFIs in addressing this issue.

11. In the energy sector, the development of a reform strategy in a timely manner will be particularly important in light of the significant forthcoming investment in the hydroelectricity sector. The developments underway in this area will make a significant contribution to improve growth prospects in the medium term.

Ex-Post Assessment

12. The authorities concur broadly with the EPA's assessment. As outlined in the EPA report, the amount of structural conditionality was overwhelming, with close to 120 specific measures in the first PRGF program. As the report underlines, the performance improved significantly once conditionality was streamlined. The authorities take the weaknesses in data provision very seriously. The misreporting cases at the initial phase of the program relationship with the Fund were unfortunate and stemmed mainly from the limited experience with Fund procedures. The strengthening of debt management capacities has been very useful, and the authorities are keen to improve data provision by moving from the General Data Dissemination System to fulfilling the more demanding standard of the Special Data Dissemination System. Finally, on monetary policy, my authorities recognize the past weaknesses in the policy making framework. However, they feel that the EPA gives an erroneous view that these weaknesses will continue to impact the future activities of the NBT. In their view, a significant institutional strengthening has taken place and will help avoid the reoccurrence of past incidents. Overall, they concur with staff that the areas identified in the EPA will provide helpful guidance in the framework for implementing the outstanding structural reform agenda.