

Tajikistan: Second Review Under the Third Annual Arrangement Under the Poverty Reduction and Growth Facility and Request for Waiver of a Performance Criterion—Staff Report and News Brief on the Executive Board Discussion

In the context of the Second Review Under the Third Annual Arrangement Under the Poverty Reduction and Growth Facility, and Request for Waiver of a Performance Criterion, for Tajikistan, the following documents have been released and are included in this package:

- the staff report for the Second Review Under the Third Annual Arrangement Under the Poverty Reduction and Growth Facility and Request for Waiver of a Performance Criterion, prepared by a staff team of the IMF, following discussions that ended on **May 3, 2001**, with the officials of the Republic of Tajikistan on economic developments and policies. **Based on information available at the time of these discussions, the staff report was completed on June 26, 2001.** The views expressed in the staff report are those of the staff team and do not necessarily reflect the views of the Executive Board of the IMF.
- a News Brief summarizing the views of the Executive Board as expressed during its **July 11, 2001** discussion of the staff report that completed the review.

The document(s) listed below have been or will be separately released.

Letter of Intent*
Memorandum of Economic Policies*
Technical Memorandum of Understanding*

*Included in Staff Report.

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

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INTERNATIONAL MONETARY FUND

REPUBLIC OF TAJIKISTAN

**Staff Report for the Second Review Under the Third Annual Arrangement Under
the Poverty Reduction and Growth Facility, and Request
for Waiver of a Performance Criterion**

Prepared by European II and Policy Development and Review Departments

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June 26, 2001

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EXECUTIVE SUMMARY

Recent developments

Economic activity remains strong and the macroeconomic environment continues to show signs of greater stability. Real GDP expanded by over 7 percent during the first quarter of this year (compared with a year ago) and inflation has moderated. The likelihood of another drought this year, however, causes some uncertainty about prospects for the remainder of the year. The nominal exchange rate in the curb market has been broadly stable since late 2000.

All quantitative performance criteria for end-March 2001 under the third annual arrangement of the Poverty Reduction and Growth Facility were observed, with the exception of one pertaining to the accumulation of external arrears. All but one of the structural benchmarks for end-March 2001 were implemented. The overall progress in structural reform, however, remains uneven and end-June 2001 will be a critical test date.

The authorities continue to make good progress with the preparation of their Poverty Reduction and Strategy Paper. They have also developed a debt reduction strategy that calls for more effective debt monitoring and management; greater fiscal adjustment; earmarking privatization proceeds for debt reduction combined with the possibility of debt-for-equity swaps; pursuing bilateral debt restructuring; and limiting new financing to highly concessional terms.

Key policy issues

Thus far, the authorities have been successful in adhering to the quantitative performance criteria under the Fund-supported program. In the coming months, the authorities need to monitor carefully developments in the monetary sector to ensure that excess liquidity does not threaten progress to date with lowering inflation. While recent fiscal performance has been good, especially regarding revenue collection, it can be best sustained by pursuing structural reforms in the fiscal area. The authorities should move quickly to implement measures that would improve transparency (by reducing the quasi-fiscal deficit) and accountability (regularizing financial relations between the Ministry of Finance and the National Bank). Intensified efforts to improve the implementation of structural reforms, especially in the banking, fiscal and agricultural areas, and enhance governance would improve prospects for sustained economic growth and poverty reduction.

The adoption of a debt reduction strategy is welcomed, as it has the potential to reduce the burden of the external debt. Prospects for success are, however, unclear since Tajikistan's external debt and balance of payments outlook is uncertain. Several elements of the strategy (debt management, strengthening fiscal institutions, privatization) can and should be implemented quickly.

I. INTRODUCTION

1. **A staff team visited Dushanbe during April 23–May 3, 2001 to undertake the second review of the third annual arrangement under the Poverty Reduction and Growth Facility (PRGF).**¹ The third annual arrangement under the PRGF was approved on October 25, 2000 in support of the authorities' macroeconomic and structural adjustment program for the period October 2000–September 2001. The Executive Board completed the Article IV consultation and the first review under the arrangement on April 12, 2001, approving the release of a loan of SDR 6 million.² At that meeting, Directors expressed concern about the uneven implementation of the program, especially as regards structural reforms. Directors urged the authorities to adhere to the program's monetary and fiscal targets and to accelerate structural reforms.

2. **With the exception of a continuous performance criterion pertaining to the accumulation of external arrears, all of the performance criteria for end-March 2001 were observed.** In the attached Letter of Intent and Supplemental Memorandum of Economic Policies dated June 22, 2001 (Attachments I and II), the authorities report on implementation progress and planned measures to keep the program on track. They request completion of the second quarterly review under the arrangement and the disbursement (SDR 6 million) related to this review. The authorities are also requesting a waiver for the nonobservance of the continuous performance criterion with respect to the accumulation of arrears on a loan from Pakistan.³

¹ The staff team consisted of Messrs. Christiansen (head), York, Jafarov, Grigorian (all EU2), Jung (FAD), and Ms. Koliadina (PDR). Mr. Lorie, the Fund's Resident Representative in Dushanbe, assisted the mission. Mr. Thuronyi (LEG) joined the mission during April 27-May 3 to assist the authorities with the preparation of draft legislation pertaining to the auditing agency. The staff team met with the President, Prime Minister, Minister of Finance, the Chairman of the National Bank (NBT), other senior officials, the Chairman of the Parliamentary Committee on Economy and Budget, and representatives of the private sector.

² The current three-year PRGF arrangement was approved on June 24, 1998 with access of SDR 96 million (110 percent of quota), which was augmented by SDR 4.3 million to SDR 100.3 million (115 percent of quota) in December 1998. To date, total disbursements of SDR 72.3 million have been made under the three-year PRGF arrangement.

³ As reported in EBS/01/95, Tajikistan accumulated external arrears on a loan from Pakistan. The accumulation of these arrears (totaling US\$455,000) violated a continuous performance criterion under the program, and was not reported to staff at the time of the April 2001 loan disbursement. The April loan disbursement was a noncomplying purchase under the PRGF. The authorities have since cleared the arrears with Pakistan.

3. **The stage one safeguards assessment, which was conducted at headquarters based on documentation provided by the authorities, indicates that the NBT has taken significant steps in bringing its accounting and financial reporting framework in line with international standards.** Nevertheless, significant weaknesses remain in the Bank's financial reporting framework, internal auditing function, and internal control systems. These weaknesses need to be addressed to ensure the integrity of operations and security of resources, including Fund disbursements. To that effect, a stage two (on site) assessment will be conducted shortly to confirm or modify the findings in the NBT's safeguards areas identified during the stage one assessment. The recommendations from the stage two assessment will be available before the next review of the program.

4. **The authorities continue to make good progress with the preparation of their Poverty Reduction and Strategy Paper (PRSP).**⁴ During the consultative group meeting held in May 2001, several delegations commended the authorities for progress with the PRSP and especially for the consultation process with a wide range of local groups. It is expected that the authorities will be able to complete the PRSP by October 2001 as scheduled.⁵

5. **The quality and timeliness of Tajikistan's statistical data, although adequate for surveillance and program monitoring, continues to suffer from weaknesses, especially as regards the preparation of national income accounts.**⁶ The authorities have indicated their interest in accepting the obligations of Article VIII, Sections 2, 3, and 4 and have requested staff assistance in determining the precise measures needed to enable Tajikistan to accept these obligations.⁷

II. RECENT DEVELOPMENTS AND PERFORMANCE UNDER THE PROGRAM

6. **Policy performance under the program has improved in recent months, but some concerns persist.** At the time of the first quarterly review (EBS/01/46), the staff expressed concern about the sustainability of macroeconomic policy and progress with structural reforms. For end-March 2001, all of the quantitative performance criteria

⁴ The authorities completed an Interim PRSP in October 2000.

⁵ The medium term macroeconomic framework contained in the Interim PRSP has been revised and the program framework is consistent with that currently envisioned by the authorities.

⁶ The authorities are working with STA in order to include Tajikistan in the Fund's *International Financial Statistics* publication later this year.

⁷ Tajikistan's relations with the Fund are summarized in Appendix I, while relations with the World Bank and the Asian Development Bank (AsDB) are summarized in Appendices II and III.

(Table 1) were observed, except for the continuous performance criterion with respect to external arrears. During the first quarter of 2001, the strong fiscal performance continued with higher-than-expected revenue collection and current expenditures slightly less than projected.⁸ Monetary targets were met, in large part, because of the continued accumulation of government deposits at the NBT. The NBT did not issue any directed credits during the first quarter, but collection of overdue loans to the private sector was less than expected. With the exception of one measure, all of the structural benchmarks for end-March were implemented (Table 2). The process of privatizing 30 farms was not completed as the land use and land share certificates were not issued. The staff continues to have reservations about the quality of implementation, especially that pertaining to development of the treasury, enhanced tax administration, and farm restructuring.

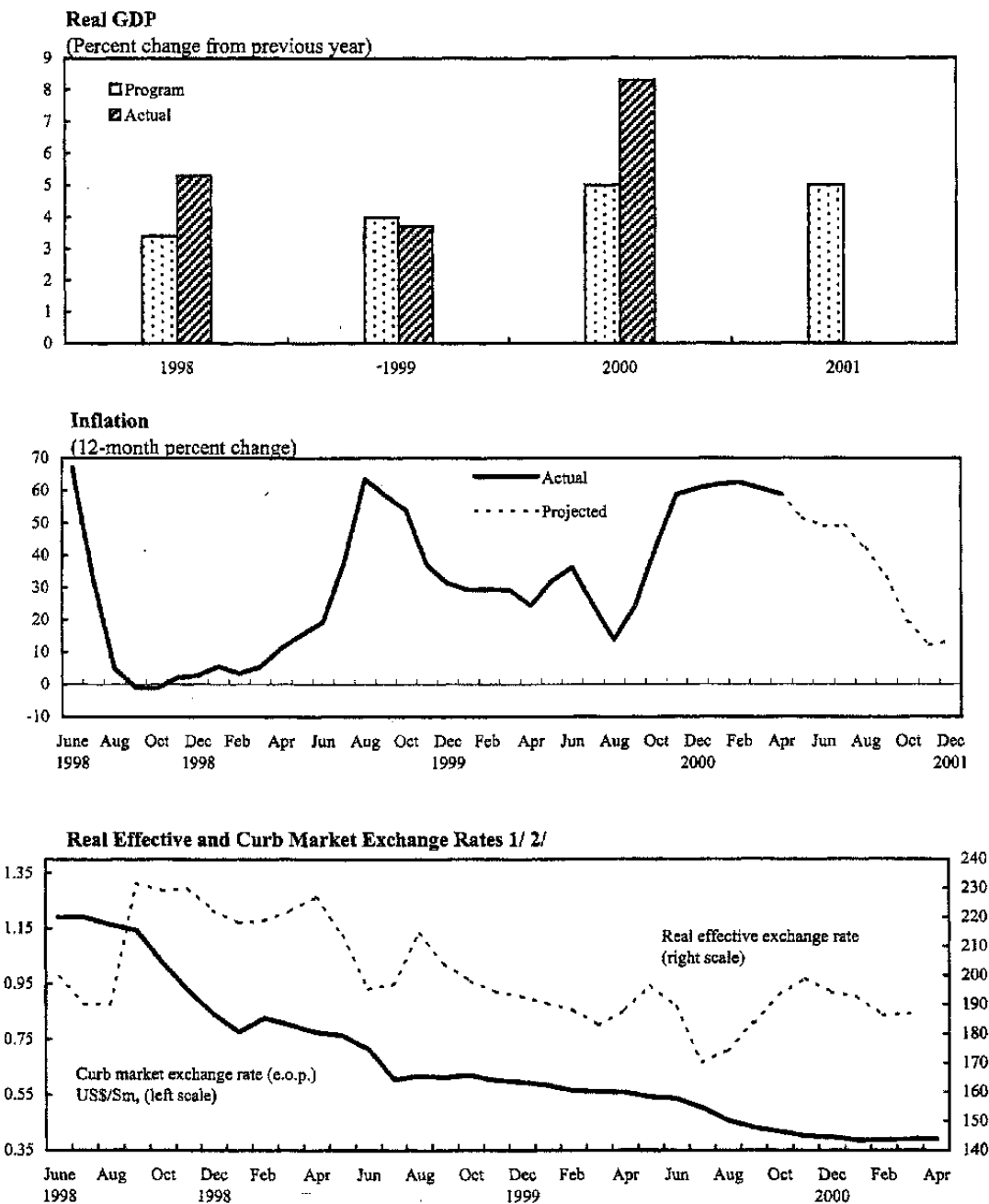
7. **Growth remains strong and the macroeconomic environment continues to show signs of greater stability.** Official statistics indicate that during the first quarter of this year, the strong growth of 2000 continued as real GDP increased by over 7 percent compared to the same period the previous year (Figure 1). Preliminary data suggest that growth is broader than in the past, with industrial growth in sectors other than just aluminum production. Construction, transport, and agricultural production also increased compared to the same period a year earlier.⁹ Inflation, which surged in the latter part of 2000, moderated significantly in the first four months of this year. Consumer prices increased by 30 percent during the last four months of 2000, compared with 7 percent during January-April 2001. Price increases for foodstuffs (potatoes, fruits, and vegetables) explain most of the recent price developments. This favorable performance is fragile, however, especially given concerns about a drought.¹⁰

⁸ Total expenditures were slightly more than programmed because capital expenditures were larger than programmed.

⁹ Quarterly national accounts data are still weak, being hampered by insufficient resources and the need to enhance technical expertise. In particular, the coverage of the emerging private sector is inadequate.

¹⁰ Rainfall levels have been lower than normal in some parts of the country causing the authorities to reduce their forecast for cereal (mainly rain fed winter wheat) production. The snowpack varies around the country suggesting that irrigated crops (cotton, fruits, and vegetables) in some areas may be adversely affected. The authorities are currently working with U.N. agencies to assess the potential impact of the drought.

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



Sources: Tajik authorities; and Fund Staff estimates.

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

2/ A decline in the value represents a depreciation.

8. **The nominal exchange rate in the curb market has remained broadly stable since late 2000, as has the official exchange rate.**¹¹ After some initial uncertainty during the conversion to a new currency in November 2000, confidence in the somoni has improved. The curb market exchange rate continues to be about 8 percent more depreciated vis-à-vis the U.S. dollar than the official exchange rate. This is partly explained by the fees charged by commercial banks and exchange bureaus on foreign currency cash transactions as well as restrictions on withdrawals of foreign currency from banks by enterprises.¹² Nominal short-term interest rates, as measured by the six-month treasury bill yield, have declined sharply from 40 percent in January 2001 to 22 percent at end-April 2001. The NBT issued a small quantity of certificates of deposit in the first quarter of 2001 with interest rates that were about 3 percentage points below the yield on comparable treasury bills.

9. **The external position continues to be weak with the first quarter current-account deficit larger than programmed.** The deterioration in the current account can be explained by three factors: (i) a deterioration in the terms of trade, due to higher than projected natural gas prices, and lower aluminum prices; (ii) higher than projected net electricity imports caused by the drought; and (iii) lower than projected cotton exports, as electricity shortages have slowed cotton ginning. The international competitiveness of Tajikistan's exports was broadly unchanged in the first few months of the year, as the somoni stabilized against both the U.S. dollar and Russian ruble and inflation subsided (Figure 1).

10. **Fiscal performance during the first quarter was better than expected.** Overall, the budget (cash basis) recorded a surplus of 6 percent of GDP compared with a programmed deficit of 3.7 percent. Higher-than-expected tax revenues explain the over performance. Tax collections exceeded program projections by nearly 3 ½ percentage points of GDP, which may reflect improved tax and customs administration including enhanced monitoring capacity by the Tax Committee. The Customs Committee strengthened its inspection capacity in order to reduce smuggling. As a result, internal taxes on goods and services (mainly VAT) totaled Sm 26.4 million at end-March, compared with a projection of Sm 11.9 million. The

¹¹ The official exchange rate should be calculated, according to the understandings under the program, as a weighted average of daily transactions in the interbank foreign exchange market. The authorities, however, have preferred to make larger and less frequent adjustments to the official rate. The mission stressed the importance of setting the official rate in accordance with the agreed definition. In conjunction with the authorities' interest in accepting the obligations of Article VIII (Sections 2, 3, and 4), LEG will conduct an assessment in collaboration with MAE on the foreign exchange system and exchange rate policy.

¹² Enterprises are not permitted to withdraw foreign currency from their commercial bank accounts except for use on official overseas travel.

collection of import duties and VAT on imports totaled Sm 36 million, compared with a projection of Sm 19 million.

11. Nominal budget execution during the first quarter was broadly as programmed.

Current expenditures were somewhat lower than budgeted due to a reorganization of the public sector that affected ten ministries. As a result, expenditures on goods and services by these ministries were delayed, but are expected to resume in coming quarters. Capital expenditures were sharply higher in the first quarter, relative to budget projections.¹³ The higher-than-expected level of nominal income, however, caused the ratio of expenditures-to-GDP to be lower than projected.¹⁴ Total expenditures were slightly more than projected, but no change in total spending for the year is anticipated. No new wage or pension arrears accrued during the quarter.¹⁵

12. The performance criteria relating to the monetary targets for end-March 2001 were met. During the first quarter, the Ministry of Finance (MOF) continued to accumulate deposits at the NBT, thereby helping the authorities to meet program targets for net domestic assets of the NBT and net credit to government. The NBT did not issue any directed credits during the first quarter, but collection of loans from the private sector (primarily loans to the cotton sector and Tajik Rail (TRR)) was less than projected. Larger-than-programmed net capital inflows resulted in an accumulation of net international reserves (NIR).¹⁶ The build-up of NIR during the first quarter caused reserve money (an indicative target) to be higher than projected, although it was still lower than at end-December 2000. Since the beginning of the year, (somon) broad money declined by around 8.5 percent.

13. Debt service to Russia, Kazakhstan, and India has been temporarily suspended pending the conclusion of debt restructuring negotiations. Negotiations with Russia are

¹³ Part of the increase reflects a change in classification rather than increased expenditures. In the 2000 budget, some capital expenditures were misclassified as transfers with the result that projections for transfers in 2001 were too high and projections for capital spending were too low.

¹⁴ In EBS/00/206, the projected level of nominal GDP for the March quarter 2001 was Sm 279 million and the outcome was Sm 401 million.

¹⁵ Wage payments were less-than-projected due to vacancies. The ratio of the actual wage allocation to the planned amount in the first quarter was 96.2 percent, compared to 86.3 percent for the same period in 2000. The amount of pension payments transferred to regional offices was larger than planned in the first quarter, with the excess amount used to reduce pension arrears. The authorities expect to eliminate pension arrears by May 2001.

¹⁶ Debt repayment to foreign creditors (P. Reinhardt, Inc.) of cotton sector enterprises was less than expected.

ongoing, although Tajikistan has rejected the proposed debt reduction in the amount of US\$49.8 million, and instead proposed a reduction of US\$127 million, under the so-called zero-option.¹⁷ With Kazakhstan, both sides have now reconciled the amount (US\$12.1 million) of Tajikistan's debt. The status of the debt to India was discussed during a visit of Tajikistan's President to India in mid-May, and further negotiations are expected. Negotiations with Uzbekistan occur annually and focus only on repayment estimates for the upcoming year.¹⁸ Tajikistan is servicing its debt to other bilateral and multilateral creditors in a timely fashion.

14. The structural reform process advanced selectively during the first quarter, and overall progress remains uneven. The authorities implemented the structural benchmarks for end-March 2001 (Table 2), i.e., the privatization of 282 medium and large enterprises, and in part, 30 state and collective farms; the establishment of an auditing agency, which is operational; and the preparation of a draft law on Public Finances. Progress with restructuring the four largest banks appears satisfactory, but an evaluation will only be done when the restructuring process concludes (end-June 2001). Nonetheless, progress with the implementation of structural reform in other areas continues to be slow (Box 1). For example, measures to address deficiencies in tax administration have not been adopted, although the authorities report some recent progress.¹⁹ Similarly, measures to improve the treasury system and enhance expenditure commitment control are progressing slowly. The benchmark pertaining to farm restructuring was only partially met, as neither the land share nor the land use certificates had been issued as of end-March. The authorities cite institutional weaknesses as the main reason for the delays with structural reform. Additionally, the quality of governance continues to be a concern.

III. POLICY DISCUSSIONS

15. As highlighted in the program approved by the Board (October 2000), the relevant constraints to macroeconomic stability and growth continue to be uneven policy implementation, weak governance, and the external debt burden. Implementation of macroeconomic policies, however, has been generally satisfactory during the first quarter

¹⁷ Under the zero-option, Soviet rubles in the amount of 67.5 billion, which were returned to Russia, would be recognized as a repayment of the two export credits disbursed to Tajikistan in 1992-93.

¹⁸ The debt to Uzbekistan was restructured twice (in 1997 and 1998), but the most recent agreement did not become effective, as Uzbekistan's parliament did not ratify it.

¹⁹ These include enforcing the use of tax invoices by taxpayers, and improved funding for the Tax Committee for producing tax-return forms and pamphlets required by the Large Taxpayer Inspectorate and to attract and retain suitably qualified staff.

Box 1. Tajikistan: Structural Conditionality

1. Coverage of Structural Conditionality in the Current Program

Structural conditions contained in the third annual arrangement of the PRGF are intended to address the main constraints to growth—weak governance, excessive state ownership of enterprises and farms, and a weak banking sector (Table 2). Establishing (end-March 2001) and developing (end-June 2001) a public auditing agency that, initially, concentrates on examining budget execution will contribute to improved governance as will an enhanced treasury system (end-December 2000). Rationalizing the regulatory environment for banks (end-June 2001) will encourage greater private sector involvement in the banking sector. Both treasury operations and banking are core areas for the Fund. Benchmarks for enterprise (end-December 2000 and end-March 2001) and farm (each quarterly review) privatization constitute a partial step toward reducing public sector involvement. Fund involvement in privatization of farms is predicated on its macroeconomic relevance.

2. Relevant Structural Conditions Not Included in the Current Program

Foremost among the relevant structural measures that are not included is broader treatment of quasi-fiscal deficits, most notably in the energy sector (Box 2). Presently, the AsDB is assisting the authorities to restructure the state-owned electricity utility. As the current program is drawing to a close, it is anticipated that the quasi-fiscal deficit will be addressed in future Fund-supported programs.

3. Status of Structural Conditionality from Earlier Programs

With two exceptions, the current program carries forward the structural measures that were either not completed, or ongoing, from earlier programs. The exceptions pertain to enterprise privatization and creation of a “black book” mechanism, both of which are currently being addressed in World Bank operations.

4. Structural Areas Covered by Bank Lending and Conditionality

As part of its second structural adjustment credit (SAC2) to Tajikistan, the World Bank has included conditionality on enterprise privatization, farm privatization, and financial sector reform. Staff from the Fund and Bank agreed on these measures in advance of their inclusion in the policy matrix for SAC2. At the time of the first review of the third annual arrangement under the PRGF, the structural conditions for enterprise privatization were dropped from the third and fourth reviews because they are included in SAC2. Structural conditions for farm privatization were modified to be consistent with the approach taken in SAC2, and retained in order to accommodate the timing of SAC2 conditions pertaining to agricultural privatization which have a November 2001 deadline.

of 2001 and the discussions focused on measures to improve the implementation of structural reforms and governance, and on formulating a debt reduction strategy. The authorities recognize the need for more consistent and disciplined demand management policies and remain committed to meeting the quantitative performance criteria outlined in the program. The authorities are well aware of the seriousness of the external debt situation and worked with the mission to develop a medium-term debt reduction strategy.

A. Fiscal Issues

16. **The overall fiscal deficit for 2001 under the program remains unchanged at 0.5 percent of GDP.** The authorities re-emphasized their commitment to maintain tight control over public expenditures, and to continue improvements in tax administration. The mission welcomed the recent improvement in revenue collections, but was uncertain about whether the increase in revenues, as a share of GDP, will be sustained. Consequently, little change in expenditures is projected at this time.²⁰ The mission urged that efforts to improve the efficiency and effectiveness of both the Tax and Customs Committees be continued. The mission also stressed the importance of better treasury management in order to control spending, particularly at the regional and local levels. In this regard, the mission underscored the importance of an effective commitment control system and the need to complete publication of the treasury manual.

17. **The authorities plan to provide Tajik Rail with compensation for its in-kind debt service on behalf of the government.** The staff emphasized the importance of addressing such quasi-fiscal issues in order to increase transparency and to strengthen the base for continued macroeconomic stabilization. Quasi-fiscal operations are a major issue in Tajikistan, especially given the numerous state-owned enterprises that play a large role in economic activity (Box 2). The original provision for TRR in the 2001 budget (Sm 8 million) was included prior to the annual negotiations (in February 2001) with Uzbekistan on the level of debt repayment for 2001. The authorities estimate that the total economic cost to TRR of providing in-kind debt service to Uzbekistan is about Sm 12 million. Therefore, the authorities plan to allocate a further Sm 4 million to TRR for 2001 in order to provide compensation for its debt service activities.²¹ A government budget resolution will be submitted to Parliament by end-June 2001 to reflect this change. In addition, the authorities

²⁰ Differences between the earlier and revised projections for interest expenditures mainly reflect the payments and receipts related to the regularization of MOF and NBT relations.

²¹ The authorities estimate that the cost to TRR of providing rail services to Uzbekistan to be Sm 65.5 million. Uzbekistan pays for these services by providing gas and petroleum products valued at Sm 53.6 million and crediting Tajikistan with debt service of Sm 12 million. The gas and petroleum products are sold to enterprises in Tajikistan and the budget will reimburse TRR for the remaining Sm 12 million.

Box 2. Tajikistan: Estimates of Quasi-Fiscal Activities in the Energy Sector

1. Quasi-fiscal activities are significant in Tajikistan as a result of the large number of un-restructured state-owned enterprises, especially in the energy sector. With the exception of oil products, where state-owned enterprises control only a small share of the market, all utilities (electricity, heat and natural gas) are owned by the state. Barqi Tajik (BT), the electric utility, is the monopoly provider of electricity and thermal power, while TajikKomunService (TKS), is the sole provider of natural gas. Poor infrastructure, tariffs below cost recovery and low collection rates lead to large losses for these enterprises. Although there is some direct budget financing of BT and TKS, most operations, including investment projects, have been financed through arrears and supplier credits.

2. The quasi-fiscal deficits of BT and TKS are defined as having three sources: technical and operating losses (due to theft and technological inefficiency), nonpayments, and provisions for bad debts. Including technical and operating losses in the quasi-fiscal deficit provides an assessment of current losses incurred by energy companies as a result of below-cost-recovery-tariff practices and technical losses. In addition, accounting for current nonpayments by energy consumers provides a complete picture of the cash-based financing gap of energy companies. Finally, including an estimate of bad debt provisions into the quasi-fiscal deficit accounts for non-performing assets of the energy sector, which are effectively foregone by energy companies because of low probability of their collection or recovery.

Table 1. Tajikistan: Quasi-Fiscal Subsidies for BT and TKS, 2000

	Electricity	Natural Gas 3/	Total
Total quasi-fiscal subsidy (mil. US\$) 1/	43.9	26.1	70.0
In percent of GDP	4.6	2.7	7.3
<i>Of which:</i>			
Technical and operating losses	1.0	0.5	1.5
Provision for bad debts	1.2	0.8	2.0
Non-collection in the current year	2.4	1.4	3.8
<i>Memorandum Item:</i>			
Accounts Payable (percent of GDP) 2/	6.0	4.9	10.9

Sources: Barqi Tajik; TajikKomunService; Asian Development Bank; and Fund staff estimates.
1/ Overall balance adjusted for bad debt provisioning. Operating costs include material expenses, depreciation allowance, administrative expenses, and customs duties (gas).

2/ As of April 1, 2001.

3/ No estimates of depreciation allowances are available.

3. The overall quasi-fiscal deficit of the consolidated energy sector is estimated to be approximately 7.3 percent of GDP for the year 2000 (Table 1). This can be decomposed between losses, provisions and non-collection; the effect of low tariffs and technical losses amount to around 1.5 percent of GDP, with that of provisions and current non-collection standing at 2.0 and 3.8 percent of GDP respectively.

1/ At present, tariffs for electricity and natural gas are set below cost recovery levels. In addition, the tariff structure is differentiated across various consumer categories leading to distorted consumption patterns.

2/ These primarily consist of accumulated non-payments by both residential and industrial consumers as well as budgetary organizations.

agreed to prohibit Tajik Rail from using tax offsets to meet its 2001 tax obligations, and to develop a plan to reduce Tajik Rail's stock of tax arrears. These measures are expected to increase the transparency of fiscal operations, and facilitate the ability of Tajik Rail to repay its loans to the NBT.

18. **An understanding was reached on the methodology for resolving outstanding claims of the NBT on the Ministry of Finance thereby allowing regularization of relations.** As of March 28, 2001, the authorities converted Sm 92 million of nonperforming NBT claims on the MOF into treasury bills in the amount of Sm 3 million and long term bonds totaling Sm 89 million held by the NBT.²² The NBT has begun paying a market interest rate on the MOF's deposits and will transfer 75 percent of its profits to the government. The NBT and the MOF will settle the matter of the remaining US\$32 million in loans made by the NBT to various enterprises on behalf of the MOF. Loans to enterprises that are commercially viable will be referred to the NBT's collection unit, while loans made for purely fiscal operations will be converted into long-term bonds issued by the MOF. The remaining loans will be divided between the NBT, in which case they will be written off, and the MOF, in which case long-term bonds will be issued. These transactions will be completed by end-June 2001.

19. **Preliminary discussions were held on tax policy measures that could be included in the 2002 budget.** The authorities intend to abolish the sales tax on both cotton and aluminum during 2002.²³ To compensate for the loss of revenues (estimated at around 3.3 percent of GDP), various additional measures are under consideration, including expanding coverage and increasing collection rates for excise taxes; adopting a presumptive tax system for profits in order to minimize leakages; implementing a uniform land tax (to replace all other taxes on agricultural producers); and reducing tax exemptions. The authorities agreed that they would consult with the mission before taking any final decisions on these measures.

B. Monetary and Exchange Rate Policies

20. **The mission reiterated the importance of meeting the monetary targets, collecting overdue loans and expanding the range of monetary instruments.** The target

²² The treasury bills have a three-month maturity and a market-determined interest rate. On June 27, 2001 the Ministry of Finance will refinance the Sm 3 million of maturing treasury bills, and settle with the NBT the first quarterly payment and receipt of accrued interest.

²³ The sales taxes on cotton and aluminum are being gradually phased out. For cotton, it was reduced from 25 percent to 20 percent as of September 2000. It is to be reduced to 15 percent by September 2001 and eliminated by September 2002. For aluminum, the rate was reduced from 3 percent to 2 percent as of January 2001 and is to be eliminated by January 2002.

for growth of reserve money, about 4 percent during 2001, should be achievable through adherence to the programmed ceilings on net domestic assets and net credit to general government of the NBT, and the floor on NIR. The mission stressed the need to intensify efforts to collect overdue loans²⁴ from the private sector in order to offset the expected reduction in MOF deposits (about Sm 19 million or 16 percent of end-March reserve money) and to meet the end-June monetary targets. This will require significantly greater reliance on monetary instruments (certificates of deposit and treasury bills) and market-determined interest rates to control liquidity. Broad money growth is projected to be around 6 percent for 2001.

21. **Larger-than-projected net foreign financing in 2001 will allow an additional increase in net international reserves.** A combination of larger-than-projected financing from the World Bank's second structural adjustment (SAC2) operation, combined with lower debt service requirements for the European Union (EU) is projected to result in an additional improvement in international reserves of about US\$10 million. This will lead to an improvement in the import coverage of gross international reserves to around 2 ½ months. With regard to exchange rate policy, the mission continued to support the current system of a floating exchange rate. It stressed that the NBT's intervention should be limited to smoothing out unwarranted fluctuations in the exchange rate, and to preserve its international reserves. The mission welcomed the authorities' intention to accept the obligations under Article VIII of the Fund's Articles of Agreement. A forthcoming mission will advise the authorities of the measures needed to enable them to accept these obligations.

C. External Debt

22. **External debt service requirements will pose a significant burden on the budget in the near term.** The end-2000 stock of external debt was revised upward to 129 percent of GDP to reflect the capitalization of unpaid interest to Russia in the amount of US\$24.8 million (2.6 percent of GDP). The net present value (NPV) of non-financial public sector debt was 94 percent of GDP at end-2000. Debt service payments, excluding those to the Fund, are projected to absorb 38 percent of fiscal revenue in 2001, compared with 25 percent in 2000. The increase is due mainly to the delay in repaying the European Union from late 2000 to early 2001.²⁵ The ratio of the NPV of debt to fiscal revenues for 2001 is projected to be 397 percent. Given the significant debt service burden, Tajikistan may face difficulties in its capacity to repay the Fund.

²⁴ The overdue private sector loans that are programmed for collection are separate from those under discussion with MOF as part of the regularization of relations between the NBT and MOF.

²⁵ The repayment amounted to US\$17.4 million, or 12.2 percent of fiscal revenue, of which US\$6.5 million (4.6 percent of fiscal revenue) was financed with an EU grant.

23. **In collaboration with the mission, the authorities developed the broad outline of a debt reduction strategy.** The strategy is based on five elements, more effective debt monitoring and management; greater fiscal adjustment; earmarking of privatization proceeds for debt reduction combined with the possibility of debt-for-equity swaps; bilateral debt restructuring; and new concessional financing. These measures have the potential to reduce Tajikistan's debt service burden and contribute to achieving fiscal sustainability earlier than under the current baseline projections. For example, earmarking US\$15 million annually in privatization proceeds to debt reduction during 2002-04 would reduce the ratio of debt service to fiscal revenue from 288 percent to 266 percent at the end of 2004.²⁶ The prospects for achieving these measures, however, remain uncertain. Of particular importance is the focus on resolving ongoing bilateral negotiations and improving debt management. In the latter case, the mission urged the authorities to develop clear guidelines to determine the appropriate level, terms and purpose of foreign borrowing; develop economic criteria for project selection for the foreign-financed public investment program; to vest authority for contracting new debt or to provide a sovereign guarantee in a single inter-agency Debt Management Committee; to prohibit all but the Ministry of Finance from undertaking any borrowing or providing government guarantees; and to develop and maintain a computerized loan-by-loan database of all external debt and government-guaranteed debt by end-September 2001. Debt management will also be facilitated by technical assistance provided by the Swiss government.

24. **With the exception of India, negotiations for rescheduling Tajikistan's bilateral debt are nearing completion.** Some of the agreements, however, including those with Russia, Kazakhstan, and Uzbekistan, have not been made effective. Rescheduling agreements reached thus far have raised the concessionality of debt, through the use of longer maturities, additional grace periods, and an interest rate that is below market levels.

D. Structural Reform

25. **The structural reform process remains uneven and may hinder compliance with the end-June 2001 structural benchmarks.** The authorities reiterated their commitment to further development of the treasury system, but acknowledge that progress has been slow.²⁷ They plan to complete implementation of the pilot project for commitment control by end-June and extend the system to all ministries by end-September. The first part of the treasury manual has been distributed and the second part will be available by end-June 2001. Finally, the authorities will, in consultation with Fund staff, finalize a strategy for restructuring the

²⁶ Appendix V assesses the impact of these individual measures on debt sustainability.

²⁷ In order to assess progress more fully, a FAD mission will visit Dushanbe later this year and provide recommendations on additional measures for enhancing the treasury system and on the need for a treasury adviser.

Tax and Customs Committees. As regards improving tax administration, the authorities plan to strengthen operations of the VAT by enforcing the use of tax invoices by taxpayers and ensure that funds are available for producing tax-return forms and pamphlets required by the Large Taxpayer Inspectorate. The lack of progress in many areas has created a backlog of measures to be completed by end-June 2001. Structural benchmarks for end-June 2001 that are not completed on time will become prior actions for completing the third review.

26. The authorities are finalizing proposed legislation that would provide a legal framework for the auditing agency. The agency, which was established in January 2001, plans to concentrate initially on audits of budget execution (Box 3). According to the draft of the proposed legislation that was prepared in consultation with Fund staff, the authorities plan to submit all such reports to parliament on a regular basis. The mission urged the authorities to enhance the independence of the agency by considering a five-year fixed term appointment for the Auditor General.

Box 3. Tajikistan: Audit of Public Finances

1. The government intends to submit to parliament a proposed law on state financial control by end-June 2001. This law would supplement the Presidential decree that established an audit agency which is operational under a provisional charter. The draft law requires submission of audit reports to parliament on the execution of the budget, and of a summary report on the other audits performed by the agency. The agency will report to the president, and the president will approve its audit plans.
2. The audit agency will generally replace the audit function of several other agencies relating to public finances. The Treasury, however, will continue to exercise control over the expenditure of public funds on a day-by-day basis through its internal audit division. Other agencies conducting audits or inspections of government agencies or state enterprises will be obliged to inform the audit agency of such activity.
3. The audit agency will have general responsibility for conducting financial and efficiency audits of all aspects of use of public funds and property. It will have inspection power over all government agencies, including office of the president, the parliament, and the NBT, as well as nongovernment agencies receiving public funds. It will conduct audits and examinations according to a two-year plan for audits and a one-year plan for examinations, but will have the power on its own initiative to conduct audits and examinations that are not included in the plan.
4. The audit agency will have the role of a statutory auditor in respect of the government's report on budget execution. This will provide for parliament an independent audit of this report in time for consideration of the next year's budget.

27. Restructuring and privatization of state-owned farms is progressing very slowly and with questionable effectiveness. The process of privatizing agricultural production, however, remains essential for enhancing growth and reducing poverty. The authorities are of the view that the complexity of the farm restructuring and privatization process combined

with limited institutional capacity at the State Land Reform Committee dictates a slower pace. In response to numerous complaints from farmers about the process, the authorities have, in collaboration with the World Bank, prepared a more elaborate restructuring methodology that is designed to ensure greater transparency and a more equitable distribution of land rights. This approach entails three key stages (a) conducting a general meeting at which the membership of the collective farm decides whether to restructure (b) subdividing the assets of the farm, and (c) finalizing the privatization by issuing the land use and share certificates for the newly created private farms. As part of the World Bank's SAC2, the authorities will hold 60 such general meetings by November 2001 and finalize the privatization of 40 state-owned farms by May 2002. Accordingly, the structural benchmarks in the current Fund-supported program have been revised to be consistent with the understandings between the World Bank and the authorities.

IV. STAFF APPRAISAL

28. The macroeconomic environment improved during the first quarter of 2001 with continued strong economic growth and low inflation, but progress with the structural reform process remains disappointing. All quantitative performance criteria were observed, with the exception of that prohibiting the accumulation of external arrears, as were all but one of the structural benchmarks. The staff, however, continues to be concerned about the slow pace and quality of the reform process in some areas. Despite some improvement in policy performance, weak institutions and strong vested interests continue to create a difficult environment for policy implementation and program ownership.

29. The staff welcomes the measures proposed by the authorities to improve the evaluation and monitoring of external debt obligations and commends the authorities for their preparation of a debt reduction strategy. Several elements of the strategy—enhancing debt management, and strengthening fiscal institutions—can and should be implemented quickly. Risks to the successful implementation of the debt reduction strategy include institutional weaknesses and lack of resources. Further, the staff wishes to stress the importance of strictly limiting non-concessional borrowing.

30. The staff commends the authorities for their continued strong fiscal performance, especially the better-than-projected collection of revenues as a share of GDP. This, along with continued expenditure restraint, should ensure that the fiscal targets for 2001 are met. Regarding the potential revenue loss from the planned abolishment of sales tax in 2002, the staff stresses that implementing appropriate tax measures will be critical for a follow-up program. The staff urges the authorities to exercise care and ensure that neither wage nor pension arrears increase.

31. The accumulation of MOF deposits at the NBT was instrumental in ensuring that the performance criterion on net domestic credit of the NBT was met in the first quarter. Given plans to reduce significantly these deposits during the second quarter of 2001, the staff urges the authorities to monitor developments carefully to ensure that as net credit to government

increases with the draw down of MOF deposits, other credit is reduced. This will require the NBT to intensify its efforts to collect loans from the private sector and to sell certificates of deposits and/or treasury bills.

32. The authorities understand the importance of implementing an effective structural reform program for achieving sustainable macroeconomic stability and the need to improve their performance in this regard. The staff welcomes the authorities' commitments to do so and urges them to act expeditiously to complete the specific measures needed to continue the development of the treasury system and to strengthen tax administration. The initial steps taken by the NBT to strengthen the banking sector are encouraging, but incomplete. End-June 2001 will be a critical test date for assessing progress in each of these areas.

33. As regards governance, the authorities are to be commended for establishing the auditing agency. The legal framework for the auditing agency is currently under preparation and is to be submitted to parliament by end-June 2001. An independent and effective auditing agency can make a significant contribution to the transparency and accountability of public administration. The staff urges the authorities to ensure that the reporting requirements for the auditing agency stipulate that all audit reports be available to parliament.

34. The slow pace of structural reform in the agriculture sector is disappointing. The authorities are currently in the process of redesigning the process by which state-owned farms are restructured and privatized. While reluctantly accepting the authorities' conclusion that it is necessary to proceed at a slower pace of reform in order to ensure greater transparency and equality, the staff urges the authorities to pursue this process aggressively.

35. The staff also wishes to commend the authorities for their continued good progress with the preparation of the PRSP, and especially the consultation process. As the preparation of the PRSP enters its final stages, it will be essential that decisions regarding expenditure priorities be consistent with the medium term fiscal framework.

36. Notwithstanding the uneven implementation of the structural reform program and the nonobservance of the performance criterion with respect to the accumulation of external arrears, overall performance was satisfactory during the first quarter of 2001 and the authorities remain firmly committed to the objectives of the program. In view of this and the corrective actions taken to prevent a recurrence of the accumulation of external arrears, the staff recommends that the requested waiver for the nonobservance of the performance criterion with respect to such arrears be granted and the second review under the third annual arrangement be completed.

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

	2000		2001				
	Dec.		Mar.		Jun.	Sep.	Dec.
	Actual		Perf. criteria	Actual	Perf. criteria	Perf. criteria	Proj.
I. Quantitative performance criteria							
	(In millions of somoni)						
1. Ceiling on net domestic assets of the NBT 1/	170.5	192.9	175.3	238.3	169.8	165.4	
2. Ceiling on NBT's net credit to general government 1/ 2/ 3/	112.0	150.2	94.2	119.6	112.9	103.7	
3. Ceiling on the cumulative overall deficit of the general government 4/ 5/	-1.3	-14.5	22.5	-4.5	-8.7	-13.7	
4. General government wage, and nonworking pensioners' pension arrears	0.0	0.0	0.0	0.0	0.0	0.0	
5. Tax collection of the STC and SCC 4/ 5/	49.5	80.2	102.3	146.5	203.7	262.4	
	(In millions of US dollars)						
6. Floor on total net international reserves 1/	-27.7	-50.2	-32.0	-52.8	-20.5	-17.0	
7. Ceiling on cumulative amount of non-concessional loans contracted or guaranteed 6/	0.8	10.0	0.8	10.0	10.0	10.0	
Sub-ceilings:							
With maturities of 1 to 5 years	0.8	10.0	0.8	10.0	10.0	10.0	
With maturities of less than 1 year	0.0	0.0	0.0	0.0	0.0	0.0	
8. New external payments arrears (continuous)	0.0	0.0	0.5	0.0	0.0	0.0	
II. Indicative targets							
1. Reserve money	117.9	97.5	114.6	111.5	120.5	124.5	
<i>Memorandum item:</i>							
Accounting exchange rate (Som/US dollar)	...	1.9	1.9	2.4	2.4	2.4	

Sources: Tajik authorities; and Fund staff estimates.

1/ The March 2001 targets for NIR, NDA, and net credit to government have been adjusted for the less than programmed disbursements from the AsDB (US\$0.85 million) and the World Bank (US\$0.5 million) and larger than programmed repayment to the EU (US\$2.96 million).

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

3/ In October 2000, the NBT wrote off Som23.2 million in credit to the government in line with the tentative agreement between the MOF and NBT on the regularization of financial relations.

4/ Cumulative from October 1, 2000.

5/ The March 2001 performance criteria are those established in EBS/00/206 while those for end-June are established in EBS/01/46, targets for end-September are revised projections.

6/ These limits exclude the extension of two government guarantees to the cotton sector totaling US\$83 million. These guarantees remained effective until end-1999, at which time the guarantees were called but not enforced as agreed between the government and the creditor. As of end-March 2001, the total outstanding government guaranteed debt to the cotton sector amounted to US\$18.4 million (including accrued interest). The room remaining under the guarantee will not be used for any additional external borrowing.

Table 2. Tajikistan: Structural Performance Criteria and Benchmarks Under the Third Annual Arrangement of the PRGF

Measures and Timing	Status
<p>Continuous Performance Criteria No directed credits will be issued by the NBT.</p>	Observed to date.
<p>Performance Criteria for End-June 2001</p>	
<p>Ensure that the agreement between the NBT and the MOF, including the issuance of long-term bonds and treasury bills and the payment of interest, is fully operational.</p>	
<p>Submit to parliament amendments to the existing law that will (1) eliminate the obligation of commercial banks to report automatically information on new deposits to the Tax Committee; (2) eliminate the 30 percent tax (specified in government resolution 583 dated November 29, 1993) on transfers from abroad; and (3) change the present practice such that the Tax Committee assesses the property tax on the fixed assets of the commercial banks instead of on the net worth of banks.</p>	
<p>Performance Criteria for End-September 2001</p>	
<p>Conduct at least 40 general meetings cumulative since April 1, 2001.</p>	
<p>Convert at least 20 state owned farms into private farms by issuing marketable land use certificates and land share certificates cumulative since April 1, 2001.</p>	
<p>Structural Benchmarks</p>	
<p>End-December 2000</p>	
<p>Set-up regional treasuries in the remaining 6 rayons.</p>	Done.
<p>Extend the treasury coverage of payments to all central and local government transactions.</p>	Completed with a delay.
<p>Sign contracts for the sale of at least 250 medium- and large-scale enterprises and receive full payments for at least 220 of these enterprises (cumulative since January 1998)</p>	<p>Done. Contracts have been signed for the sale of 268 enterprises and full payment has been received for 233 enterprises. However, benchmark dropped at the time of the first review (EBS/01/46).</p>

**Table 2. Tajikistan: Structural Performance Criteria and Benchmarks
Under the Third Annual Arrangement of the PRGF (continued)**

Measures and Timing	Status
Convert at least 30 state-owned farms into private farms by issuing marketable land use certificates and land share certificates to private farmers during the fourth quarter of 2000.	Not done.
Introduce a "black book" mechanism to reduce inappropriate government intervention in private enterprises.	Benchmark was dropped at the time of the first review, because it was handled under the World Bank's SAC2 operation.
End-March 2001	
Sign contracts for the sale of at least 280 medium- and large-scale enterprises, with full payments received for at least 250 of them (cumulative since January 1998).	Done. Contracts have been signed for the sale of 315 enterprises and full payment has been received for 282 enterprises.
Convert at least 30 state and collective farms into private farms by issuing marketable land use and land share certificates to private farmers (cumulative since October 1, 2000).	Partially implemented.
Establish an independent external audit institution to inspect public financial management systems.	Done.
Prepare a draft Law on Public Finances for review by IMF staff.	Done.
End-June 2001	
Convert at least 60 state-owned farms cumulative since October 2000 into private farms by issuing marketable land use certificates and land share certificates.	
Amend Article 104 of the Tax Code to prevent the tax authorities from conducting reviews of customer accounts while conducting corporate tax examinations of commercial banks.	
Complete implementation of the pilot project to enhance expenditure commitment control.	
Prepare, in consultation with the staff of the IMF and in line with Annex IV of the MEP of October 2000, a draft law on the Independent Audit Agency and submit it to parliament.	
Amend legislation to allow average foreign equity ownership of the banking system as a whole to increase to a maximum of 40 percent in 2001 and 50 percent in 2002.	

**Table 2. Tajikistan: Structural Performance Criteria and Benchmarks
Under the Third Annual Arrangement of the PRGF (concluded)**

Measures and Timing	Status
<p>Prepare, in consultation with the staff of the IMF, and approve a statute defining the responsibilities of the upgraded Land Reform Committee.</p> <p>End-September 2001</p> <p>Complete an assessment of the bank restructuring agreements with the four banks and develop a strategy for either privatizing, merging or closing those banks that fail to make satisfactory progress toward achieving the minimum capital requirement or fail to meet the loan recovery targets specified in their respective restructuring agreements.</p> <p>Phase out all charges and fees for land use and share certificates.</p> <p>Establish and make operational a computerized database for external debt data.</p> <p>Implement expenditure commitment control measures in all ministries based on the findings of the pilot project.</p>	

Table 3. Tajikistan: Selected Economic Indicators, 1997-2001

	1997	1998	1999	2000	2001
					Rev. Proj.
GDP					
Nominal GDP (in millions of somoni)	632	1,025	1,345	1,807	2,470
Nominal GDP (in millions of U.S. dollars)	1,945	1,307	1,048	955	1,035
Real GDP (percent change)	1.7	5.3	3.7	8.3	5.0
GDP per capita (in U.S. dollars)	324	214	171	154	167
Prices and wages					
GDP deflator (percent change)	101.3	52.4	26.5	24.0	34.5
Consumer prices (12-month changes, e.o.p.)	163.6	2.7	30.1	60.6	13.6
Consumer prices (year-on-year)	88.0	43.2	27.5	32.9	39.9
Real wage (e.o.p., Jan 1996=100)	158.0	235.0	248.0	218.0	...
(In percent of GDP)					
General government finances					
Total revenue and grants	13.9	12.0	13.5	13.6	14.1
<i>Of which:</i>					
Tax revenue	11.6	11.8	12.8	12.9	12.9
Total expenditure	17.0	15.8	16.6	14.2	14.6
<i>Of which:</i>					
Current expenditure	...	13.3	13.2	11.5	13.0
Overall fiscal balance	-3.3	-3.8	-3.1	-0.6	-0.5
External financing	1.1	1.7	2.5	0.4	1.1
Domestic financing	2.2	2.1	0.6	0.2	-0.6
Primary balance	-2.5	-3.1	-2.5	-0.2	0.5
Non-interest current expenditure	...	...	12.6	11.1	12.1
(Percent change, unless stated otherwise)					
Money and credit					
Reserve money (e.o.p.)	193.5	12.5	29.4	45.4	3.8
Broad money (e.o.p.)	110.7	29.3	39.0	52.3	6.3
Net domestic assets of financial system	156.0	194.8	44.6	25.2	2.0
<i>Of which:</i>					
Credit to the government	130.4	148.0	60.3	-22.3	-5.8
Credit to private sector	...	...	-6.0	39.4	5.4
Velocity (broad money)	40.4	11.9	0.3	-9.6	2.5
Velocity (somoni broad money)	36.2	21.9	7.9	-7.3	5.2
One-month treasury bill rate (annualized, e.o.p.)	...	52.9	84.7	40.0	...
External sector					
Export growth (goods, percent change)	-3.1	-21.4	13.7	18.5	11.2
Import growth (goods, percent change)	2.5	-10.0	-4.4	20.6	9.3
Current account balance (in percent of GDP)	-5.2	-8.3	-3.4	-6.5	-6.7
Gross international reserves (in months of imports)	0.6	1.5	1.7	2.1	2.5
External debt outstanding/GDP	...	...	117	129	109
NPV-of-external debt/exports (percent)	...	...	...	133	125
NPV-of-external debt/fiscal revenues (percent)	...	...	...	432	397
Debt service ratio (in percent of exports) 1/	...	...	11.9	13.6	16.2
Official exchange rate (average) 2/	564	777	1,238	1,823	...
External financing gap (in millions of U.S. dollars)	...	...	...	0	4

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

1/ Exports of goods and services less alumina and electricity; three-year moving average.

2/ On November 1, 2000 the somoni replaced the Tajik ruble at the rate of one somoni per 1000 Tajik rubles.

Table 4a. Tajikistan: General Government Operations, 1999-2001
(In thousands of somoni)

	1999	2000	2001						
			Q1		Q2		Q3	Q4	Year
			EBS/00/206	Actual	EBS/01/46	Rev. Proj.	Revised projections		
Overall revenues and grants	181,686	245,743	52,028	88,371	83,163	75,912	77,888	107,030	349,202
Tax revenues	171,627	232,350	49,366	84,728	80,057	69,625	70,770	94,095	319,218
Income and profit tax	31,569	33,263	8,688	10,746	12,103	11,600	10,770	11,777	44,894
Payroll taxes	13,383	28,871	5,246	8,106	8,274	7,800	10,488	13,907	40,302
Property taxes	9,803	11,494	2,868	2,630	4,898	4,511	4,568	3,909	15,619
Internal taxes on goods and services	47,941	70,404	11,879	26,361	24,665	23,644	27,028	29,255	106,288
Of which:									
VAT	30,561	44,466	9,485	18,206	12,335	11,882	15,874	20,230	66,192
Excises	8,002	9,010	1,982	2,804	6,349	5,380	4,849	3,326	16,359
International trade and operations tax	65,281	86,284	19,027	36,037	29,738	21,358	17,203	34,545	109,143
Of which:									
Total sales taxes	47,407	58,934	12,686	23,865	19,090	11,653	9,059	21,505	66,081
Import duties	17,873	27,351	6,341	12,172	10,648	9,705	8,144	13,040	43,062
Other taxes	3,651	2,033	1,657	847	379	711	713	701	2,973
Non-tax duties 1/	6,477	11,706	2,662	3,643	3,106	6,287	5,418	7,836	23,184
Grants	3,582	1,688	0	0	0	0	1,700	5,100	6,800
Total expenditures and lending minus repayments	223,625	257,084	62,318	64,590	81,014	89,806	95,170	112,035	361,602
Current expenditures	177,328	207,883	56,958	53,285	75,401	84,958	88,237	95,573	322,054
Expenditures on goods and services	133,506	148,130	34,384	38,806	55,914	60,902	64,098	65,403	229,210
Of which:									
Wages and salaries	47,821	66,527	19,284	17,910	20,597	25,690	25,170	25,319	94,090
Other	85,685	81,603	15,100	20,896	35,318	35,211	38,928	40,084	135,120
Interest payments 2/	7,939	6,518	8,400	971	4,084	8,776	6,233	7,866	23,846
Transfers to households	25,438	39,977	12,883	10,862	14,139	12,003	14,892	18,436	56,193
Subsidies and other current transfers	10,445	13,258	1,291	2,645	1,264	3,278	3,014	3,868	12,805
Capital expenditures	46,204	47,802	4,960	11,108	5,049	3,720	6,856	16,537	38,221
Lending minus repayments	93	1,399	400	197	0	1,128	77	-74	1,327
Overall balance (cash basis)	-41,939	-11,340	-10,290	23,781	2,149	-13,894	-17,281	-5,005	-12,400
Overall balance, excluding grants	-45,522	-13,028	-10,290	23,781	2,149	-13,894	-18,981	-10,105	-19,200
Total financing	41,939	11,340	10,290	-23,781	-2,149	13,894	17,281	5,005	12,400
Net external financing 3/	33,063	7,470	6,290	45	-12,147	-3,216	15,896	13,975	26,701
Of which:									
World Bank financing	24,248	8,590	10,000	30,535	2,253	0	14,312	17,191	62,038
EU financing	0	1,252	3,000	0	0	0	0	0	0
ADB financing	10,097	-14	1,650	0	7,200	0	4,800	0	4,800
Other financing	0	0	0	0	0	0	0	0	0
Principal repayments	-1,282	-2,358	-8,360	-30,490	-21,600	-3,216	-3,216	-3,216	-40,138
Net credit to government 4/	-1,922	-6,459	0	-24,172	10,400	21,010	469	-9,182	-11,875
Of which: NBT	-2,055	-64	0	-18,061	10,400	21,010	469	-9,182	-5,764
Net domestic nonbank financing	-7	-8,036	500	346	-3,450	-3,900	-3,900	-3,900	-11,354
Of which:									
Treasury bills	-7	233	500	346	550	100	100	100	646
Payment to Tajik Rail	0	-8,268	0	0	-4,000	-4,000	-4,000	-4,000	-12,000
Use of privatization proceeds	10,805	18,364	3,500	0	3,048	0	4,816	4,112	8,928
<i>Memorandum items:</i>									
GDP (in millions of somoni)	1,345	1,807	279	401	476	473	775	821	2,470

Sources: Ministry of Finance; and Fund staff estimates.

1/ The figures for 2001 include interest receipts and profit transfers related to the regularization of financial relations between MOF and NBT.

2/ MOF interest payments to NBT in accordance with the regularization of financial relations between MOF and NBT are included.

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

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

Table 4b. Tajikistan: General Government Operations, 1999-2001
(In percent of GDP)

	1999	2000	2001						
			Q1		Q2		Q3	Q4	Year
			EBS/00/206	Actual	EBS/01/46	Rev. Proj.	Revised projections		
Overall revenues and grants	13.5	13.6	18.6	22.0	17.5	16.0	10.0	13.0	14.1
Tax revenues	12.8	12.9	17.7	21.1	16.8	14.7	9.1	11.5	12.9
Income and profit tax	2.3	1.8	3.1	2.7	2.5	2.5	1.4	1.4	1.8
Payroll taxes	1.0	1.6	1.9	2.0	1.7	1.6	1.4	1.7	1.6
Property taxes	0.7	0.6	1.0	0.7	1.0	1.0	0.6	0.5	0.6
Internal taxes on goods and services	3.6	3.9	4.3	6.6	5.2	5.0	3.5	3.6	4.3
<i>Of which:</i>									
VAT	2.3	2.5	3.4	4.5	2.6	2.5	2.0	2.5	2.7
Excises	0.6	0.5	0.7	0.7	1.3	1.1	0.6	0.4	0.7
International trade and operations tax	4.9	4.8	6.8	9.0	6.3	4.5	2.2	4.2	4.4
<i>Of which:</i>									
Total sales taxes	3.5	3.3	4.5	5.9	4.0	2.5	1.2	2.6	2.7
Import duties	1.3	1.5	2.3	3.0	2.2	2.1	1.1	1.6	1.7
Other taxes	0.3	0.1	0.6	0.2	0.1	0.2	0.1	0.1	0.1
Non-tax duties 1/	0.5	0.6	1.0	0.9	0.7	1.3	0.7	1.0	0.9
Capital revenue	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Grants	0.3	0.1	0.0	0.0	0.0	0.0	0.2	0.6	0.3
Total expenditures and lending minus repayments	16.6	14.2	22.3	16.1	17.0	19.0	12.3	13.6	14.6
Current expenditures	13.2	11.5	20.4	13.3	15.9	18.0	11.4	11.6	13.0
Expenditures on goods and services	9.9	8.2	12.3	9.7	11.8	12.9	8.3	8.0	9.3
<i>Of which:</i>									
Wages and salaries	3.6	3.7	6.9	4.5	4.3	5.4	3.2	3.1	3.8
Other	6.4	4.5	5.4	5.2	7.4	7.4	5.0	4.9	5.5
Interest payments 2/	0.6	0.4	3.0	0.2	0.9	1.9	0.8	1.0	1.0
Transfers to households	1.9	2.2	4.6	2.7	3.0	2.5	1.9	2.2	2.3
Subsidies and other current transfers	0.8	0.7	0.5	0.7	0.3	0.7	0.4	0.5	0.5
Capital expenditures	3.4	2.6	1.8	2.8	1.1	0.8	0.9	2.0	1.5
Lending minus repayments	0.0	0.1	0.1	0.0	0.0	0.2	0.0	0.0	0.1
Overall balance (cash basis)	-3.1	-0.6	-3.7	5.9	0.5	-2.9	-2.2	-0.6	-0.5
Overall balance, excluding grants	-3.4	-0.7	-3.7	5.9	0.5	-2.9	-2.4	-1.2	-0.8
Total financing	3.1	0.6	3.7	-5.9	-0.5	2.9	2.2	0.6	0.5
Net external financing 3/	2.5	0.4	2.3	0.0	-2.6	-0.7	2.1	1.7	1.1
<i>Of which:</i>									
World Bank financing	1.8	0.5	3.6	7.6	0.5	0.0	1.8	2.1	2.5
EU financing	0.0	0.1	1.1	0.0	0.0	0.0	0.0	0.0	0.0
ADB financing	0.8	0.0	0.6	0.0	1.5	0.0	0.6	0.0	0.2
Other financing	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Principal repayments	-0.1	-0.1	-3.0	-7.6	-4.5	-0.7	-0.4	-0.4	-1.6
Net credit to government 4/	-0.1	-0.4	0.0	-6.0	2.2	4.4	0.1	-1.1	-0.5
<i>Of which:</i> NBT	-0.2	0.0	0.0	-4.5	2.2	4.4	0.1	-1.1	-0.2
Net domestic nonbank financing	0.0	-0.4	0.2	0.1	-0.7	-0.8	-0.5	-0.5	-0.5
<i>Of which:</i>									
Treasury bills	0.0	0.0	0.2	0.1	0.1	0.0	0.0	0.0	0.0
Payment to Tajik Rail	0.0	-0.5	0.0	0.0	-0.8	-0.8	-0.5	-0.5	-0.5
Use of privatization proceeds	0.8	1.0	1.3	0.0	0.6	0.0	0.6	0.5	0.4
<i>Memorandum items:</i>									
GDP (in millions of somoni)	1,345	1,807	279	401	476	473	775	821	2,470

Sources: Ministry of Finance; and Fund staff estimates.

1/ The figures for 2001 include interest receipts and profit transfers related to the regularization of financial relations between MOF and NBT.

2/ MOF interest payments to NBT in accordance with the regularization of financial relations between MOF and NBT are included.

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

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

Table 5. Tajikistan: Functional Classification of General Government Finances, 2000-2005
(In thousands of somoni; unless otherwise indicated)

	2000		2001		2002		2003		2004		2005	
	Actual	Percent of GDP	Proj.	Percent of GDP	Proj.	Percent of GDP	Proj.	Percent of GDP	Proj.	Percent of GDP	Proj.	Percent of GDP
Overall revenue and grants	245,743	13.6	349,202	14.1	419,219	14.7	479,155	14.9	554,879	15.4	640,206	15.8
Total expenditures and lending minus repayments	257,084	14.2	361,602	14.6	449,499	15.7	507,154	15.8	578,015	16.0	662,007	16.3
General administrative services	48,448	2.7	57,363	2.3	64,331	2.3	72,658	2.3	76,358	2.1	84,941	2.1
Protection services	42,084	2.3	63,569	2.6	74,426	2.6	85,319	2.7	95,919	2.7	105,885	2.6
Social services	116,690	6.5	170,804	6.9	213,212	7.5	247,057	7.7	299,092	8.3	360,124	8.9
Education	35,640	2.0	52,925	2.1	66,345	2.3	75,431	2.4	92,120	2.6	106,722	2.6
Health	15,304	0.8	24,030	1.0	31,227	1.1	36,443	1.1	45,259	1.3	60,457	1.5
Social security and welfare	41,651	2.3	58,132	2.4	71,456	2.5	83,982	2.6	102,339	2.8	122,885	3.0
Other social services	24,095	1.3	35,717	1.4	44,185	1.5	51,201	1.6	59,374	1.6	70,061	1.7
Economic services	37,041	2.0	36,649	1.5	42,505	1.5	47,458	1.5	52,045	1.4	55,460	1.4
Interest payments	6,983	0.4	23,846	1.0	43,344	1.5	40,872	1.3	38,332	1.1	35,936	0.9
Other services	5,838	0.3	9,371	0.4	11,681	0.4	13,790	0.4	16,268	0.5	19,662	0.5
Overall balance	-11,340	-0.6	-12,400	-0.5	-30,280	-1.1	-27,999	-0.9	-23,135	-0.6	-21,801	-0.5
Primary balance	-4,358	-0.2	11,446	0.5	13,064	0.5	12,873	0.4	15,197	0.4	14,135	0.3
Total financing	11,340	0.6	12,400	0.5	30,280	1.1	27,999	0.9	23,135	0.6	21,801	0.5
Domestic (net) 1/	3,870	0.2	-14,301	-0.6	-39,980	-1.4	-56,361	-1.8	-59,497	-1.7	-86,367	-2.1
Foreign (net)	7,470	0.4	26,700	1.1	70,260	2.5	84,360	2.6	82,632	2.3	108,168	2.7
Principal repayment	-2,358	-0.1	-40,138	-1.6	-86,040	-3.0	-90,840	-2.8	-91,368	-2.5	-93,432	-2.3
Memorandum item:												
Nominal GDP (in million Somoni)	1,807		2,470		2,856		3,209		3,605		4,051	

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

1/ Includes repayments to Tajik Rail.

Table 6. Tajikistan: Accounts of the National Bank of Tajikistan, 2000-2001
(In thousands of somoni; end-of-period stock unless otherwise specified)

	2000		2001						
	Dec.		Mar.	Apr.	Jun.	Jul.	Sep.	Dec.	
	Act.	Act 1/	Act. 1/ EBS/00/206	Act.	Prog. 2/ EBS/01/46	Rev. proj.	Rev. proj. 2/	Rev. proj.	
Net international reserves (NIR, millions of US dollars)	-23.8	-27.7	-32.0	-45.9	-28.9	-52.8	-39.5	-20.5	-17.0
Gross assets (GIR)	87.2	87.2	79.1	73.7	90.3	62.6	75.9	100.3	113.7
Gross liabilities	111.0	114.9	111.1	119.5	119.2	115.4	115.4	120.8	130.7
Accounting exchange rate (Sm/US\$)	...	1.900	1.900	1.900	...	2.400	2.400	2.400	2.400
Net foreign assets (NFA)	-52,403	-52,580	-60,722	-87,167	-69,342	-126,801	-94,865	-49,284	-40,836
Gross assets	191,867	165,704	150,353	139,945	216,717	150,206	182,142	240,743	272,913
Gross liabilities	244,270	218,284	211,074	227,112	286,059	277,007	277,007	290,027	313,750
Net domestic assets (NDA)	171,543	170,527	175,291	184,706	196,842	238,305	212,065	169,791	165,371
Net credit to general government 3/	46,750	56,303	57,527	123,076	52,647	101,305	68,387	29,667	37,876
Net credit to general government 4/	110,500	111,989	94,211	141,989	97,007	119,552	112,429	112,898	103,716
Of which:									
Somoni credits	128,933	128,933	130,906	31,146	127,906	126,933	126,933	126,933	126,933
Treasury bills	167	167	142	2,000	3,011	3,167	3,167	3,167	3,167
Deposits	-18,600	-17,111	-36,837	-13,879	-33,910	-10,548	-17,671	-17,202	-26,384
Counterpart deposits	-59,130	-51,067	-27,962	-14,369	-35,344	-15,068	-35,321	-76,209	-59,019
Privatization fund (-)	-7,438	-7,438	-11,540	-7,363	-11,836	-5,998	-11,540	-9,840	-9,640
Credit to the private sector	149,619	134,611	119,870	90,366	143,586	140,799	139,761	140,006	129,578
Of which:									
Claims on banks	148,656	133,648	34,171	52,598	36,208	139,835	33,233	33,477	32,777
Credit to the economy	963	963	1,006	37,768	1,090	963	963	963	963
ALCO 5/	...	...	84,693	...	106,288	...	105,564	105,566	95,838
Certificates of deposits	...	...	-2,002	...	-2,002	...	...	-3,800	-6,000
Other items, net	-24,827	-20,387	-104	-28,736	2,612	-3,798	3,917	3,917	3,917
Reserve money	119,140	117,947	114,570	97,539	127,501	111,504	117,199	120,506	124,535
Currency in circulation	96,211	96,211	90,082	77,272	94,582	85,342	87,522	90,596	95,521
Bank reserves	18,581	17,696	19,774	20,268	27,384	26,161	29,677	29,911	29,015
Required	9,853	9,550	10,010	11,674	10,948	12,331	15,632	16,415	16,757
Somoni	7,632	7,632	7,799	10,525	8,155	11,160	13,966	14,871	15,249
Foreign exchange	2,221	1,918	2,211	1,149	2,793	1,171	1,666	1,544	1,508
Other	8,728	8,146	9,764	8,594	16,436	13,830	14,045	13,496	12,258
Somoni	4,453	4,453	9,104	...	12,357	...	...	...	...
Foreign exchange	4,275	3,692	660	...	4,079	...	...	...	...
Other deposits	4,348	4,040	4,714	0	5,534	0	0	0	0
Somoni	2,095	2,095	1,431	0	1,144	0	0	0	0
Foreign exchange	2,253	1,946	3,283	0	4,390	0	0	0	0
<i>Memorandum items:</i>									
Net lending to government and credits to the priv. sec. (thousands of Sm)	262,938	249,419	216,900	235,174	240,593	263,170	252,190	255,723	236,113
GIR in months of imports 6/	2.1	2.1	2.0	1.8	2.3	1.5	1.8	2.3	2.5
Reserve money (quarterly percent change)	9.6	9.1	-2.9	0.0	...	-4.0	0.9	2.8	3.3
Reserve money (12-month percent change)	51.4	45.4	40.2	19.4	48.9	19.6	25.7	9.4	3.8

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

1/ Actual data based on program exchange rate of Sm1.9=US\$1 and SDR1=US\$1.35.

2/ NIR, NDA, and net credit to government targets for end-June and end-September 2001 are performance criteria.

3/ Including counterpart deposits, privatization fund, and bank restructuring.

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

5/ ALCO is the debt collection agency of the NBT.

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

Table 7. Tajikistan: Monetary Survey, 2000-2001
(In thousands of somoni; end-of-period stock unless otherwise specified)

	2000				2001				
	Dec.		Mar.		Jun.	Jun.	Sep.	Dec.	
	Act.	Act. 1/	Act. 1/	Act. 2/	Prog. EBS/00/206	Prog. EBS/01/46	Revised projections		
Net foreign assets	-187,015	-168,845	-208,449	-263,282	-115,666	-288,406	-269,450	-233,469	-210,621
National Bank of Tajikistan	-52,403	-52,580	-60,722	-76,698	-87,167	-126,801	-94,865	-49,284	-40,836
Commercial banks	-134,612	-116,265	-147,727	-186,584	-28,499	-161,605	-174,584	-184,184	-169,784
Net domestic assets	341,757	317,049	350,105	416,511	240,049	430,039	426,379	397,809	379,670
Net credit to general government 3/	37,136	46,689	41,802	31,651	119,065	91,691	58,773	20,053	28,262
Net credit to general government 4/	100,886	102,375	78,485	75,693	137,979	109,938	102,815	103,284	94,102
<i>Of which:</i>									
Somoni credits	129,736	129,736	131,682	131,682	34,182	127,736	129,736	129,736	129,736
Treasury bills	656	656	968	968	423	3,656	3,656	3,656	3,656
Deposits	-29,506	-28,017	-54,164	-56,956	-19,349	-21,454	-30,577	-30,108	-39,290
Counterpart deposits	-59,130	-51,067	-27,962	-35,321	-14,369	-15,068	-35,321	-76,209	-59,019
Privatization fund (-)	-7,438	-7,438	-11,540	-11,540	-7,363	-5,998	-11,540	-9,840	-9,640
Credit to the private sector	346,235	307,861	353,105	425,470	179,376	368,578	408,216	418,366	392,018
Other items, net	-41,614	-37,501	-44,802	-40,610	-58,393	-30,229	-40,610	-40,610	-40,610
Broad money	154,742	148,203	141,656	153,229	124,382	141,633	156,929	164,341	169,050
Somoni broad money	106,789	106,789	97,682	97,682	86,083	102,616	101,383	112,874	118,783
Currency outside banks	86,773	86,773	76,767	76,767	66,013	79,979	78,767	82,267	85,267
Deposits	20,016	20,016	20,915	20,915	20,071	22,637	22,616	30,607	33,516
Foreign currency deposits	47,953	41,414	43,975	55,547	38,299	39,017	55,547	51,467	50,267
<i>Memorandum items:</i>									
Quarterly velocity 5/	26.29	26.29	16.42	16.42	12.98	18.54	18.67	27.47	27.65
Forex deposits/broad money	0.31	0.28	0.31	0.36	0.31	0.28	0.35	0.31	0.30
Share of currency in broad money	0.56	0.59	0.54	0.50	0.53	0.56	0.50	0.50	0.50
Money multiplier 6/	1.30	1.26	1.24	1.32	1.19	1.27	1.34	1.36	1.36
Quarterly growth rate of somoni broad money	21.3	21.3	-8.5	-8.5	-3.5	5.1	3.8	11.3	5.2
Quarterly growth rate of broad money	21.7	19.3	-4.4	-3.7	-4.1	-7.6	2.4	4.7	2.9
Credit to the private sector (12-month percent change)	82.9	39.4	55.1	57.2	-21.2	48.1	64.1	50.6	5.4
Somoni broad money (12-month percent change)	48.7	48.7	46.3	46.3	29.0	41.2	39.6	28.2	11.2
Broad money (12-month percent change)	69.8	52.3	48.8	49.2	30.6	28.4	42.3	22.8	6.3
Accounting exchange rate (Sm/US\$)	...	1.900	1.900	2.400	1.900	2.400	2.400	2.400	2.400

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

1/ Actual data based on program exchange rate of Sm1.9=US\$1 and SDR1=US\$1.35.

2/ Actual data based on program exchange rate of Sm2.4=US\$1 and SDR1=US\$1.35.

3/ Including counterpart deposits, privatization fund, and bank restructuring.

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

5/ Annualized quarterly GDP divided by end-quarter somoni broad money.

6/ Total broad money divided by reserve money.

Table 8. Tajikistan: Balance of Payments, 1999-2001
(In millions of US dollars)

	1999	2000				2000	2001				2001
		Q1	Q2	Q3	Q4		Q1 Est.	Revised projections			
Current account	-36	-34	-3	-2	-23	-62	-38	-2	-26	-4	-70
Balance on goods and services	-16	-38	5	5	-13	-42	-34	10	-14	0	-38
Balance on goods	-27	-40	2	4	-12	-46	-38	15	-10	-5	-38
Exports	666	176	200	193	220	789	198	234	224	221	877
Of which: aluminum	284	98	92	100	102	393	98	118	116	118	452
cotton fiber	93	15	20	10	47	92	30	18	11	34	93
Imports	693	216	199	189	232	836	236	219	234	226	915
Balance on services	11	2	3	1	-1	5	4	-5	-4	5	0
Balance on income	-55	-14	-14	-14	-16	-57	-14	-15	-14	-14	-57
Balance on transfers	35	18	6	7	6	37	10	3	2	10	25
Capital and financial account	9	17	-2	1	24	40	32	-6	20	4	51
Capital transfers	0	0	0	5	0	5	6	0	0	0	6
Public sector (net)	5	3	-2	-4	14	11	-17	8	13	4	8
Disbursements	14	6	2	4	17	30	6	13	19	9	46
Amortization 1/	-9	-4	-4	-8	-4	-19	-22	-5	-5	-5	-38
FDI	21	13	4	4	1	22	0	13	3	7	22
Commercial bank NFA (- increase)	-35	-4	-8	8	26	21	17	-5	4	-6	10
Electricity credit	4	12	0	-9	19	21	35	-21	0	0	13
Other capital and errors and omissions	14	-6	4	-1	-36	-39	-10	0	0	0	-10
Overall balance	-26	-16	-6	-1	1	-22	-6	-7	-6	0	-20
Change in gross reserves (- increase)	7	-3	5	-2	-28	-29	8	3	-24	-13	-27
Financing items	20	20	1	3	27	51	-2	4	30	10	43
IMF (net)	4	15	-2	-2	5	16	-4	4	5	10	16
Purchases/disbursements	9	18	0	0	8	26	0	8	8	12	28
Repurchases/repayments	5	3	2	2	2	10	4	4	2	2	12
Other reserve liabilities	0	2	1	3	-3	3	0	0	0	0	0
World Bank	23	0	0	0	13	13	0	0	25	0	25
AsDB	10	0	0	0	9	9	0	0	0	0	0
Debt service account (- increase)	0	0	0	0	0	0	0	0	0	0	0
Arrears (+ increase) 2/	-18	2	2	3	3	10	-54	0	0	0	-54
Rescheduling and proposed rescheduling	1	0	0	0	0	0	55	0	0	0	55
Financing gap 3/	0	0	0	0	0	0	0	0	0	4	4
<i>Memorandum items:</i>											
GDP (in millions of U.S. dollars)	1,048	156	185	291	323	955	173	197	323	342	1,035
Current account balance in percent of GDP	-3.4					-6.5					-6.8
(excluding transfers)	-6.8					-10.4					-9.2
Net international reserves	-41	-53	-55	-50	-28	-28	-32	-40	-21	-17	-17
Gross reserves	58	62	57	59	87	87	79	76	100	114	114
(in months of imports) 4/	1.7	1.7	1.5	1.5	2.1	2.1	2.0	1.8	2.3	2.5	2.5
Total external debt service due	48					62					80
(in percent of exports) 5/	11.9					13.6					15.9
Total external debt	1,230					1,231					1,127
(in percent of GDP)	117					129					109

Sources: Tajik authorities; and Fund staff estimates.

1/ Reflects the amount of debt repayment agreed with Uzbekistan. The debt repayment takes the form of services provided by Tajik Rail.

2/ The increase in arrears includes debt service to Russia, Kazakhstan, Pakistan, and India; these debts are currently under negotiation. The reduction of arrears in 2001 reflects the repayment of debt to the European Union, leading to a significant increase in the debt-service ratio.

3/ In 2001, the financing gap in the fourth quarter is outside the PRGF program period.

The financing gap is expected to be covered with a grant from Japan.

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

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

Table 9. Tajikistan: Medium-term Balance of Payments, 2001-2010
(In millions of US dollars)

	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Current account	-70	-82	-75	-63	-74	-82	-93	-97	-99	-104
Balance on goods and services	-38	-50	-42	-29	-40	-45	-54	-55	-53	-53
Balance on goods	-38	-46	-38	-25	-34	-38	-46	-45	-42	-40
Exports	877	925	978	1,032	1,083	1,138	1,194	1,258	1,327	1,400
Of which : aluminium	452	468	485	504	523	543	564	586	609	632
cotton fiber	93	107	128	144	159	173	188	205	224	244
Imports	915	971	1,016	1,057	1,116	1,176	1,240	1,303	1,369	1,440
Balance on services	0	-4	-4	-4	-6	-8	-8	-10	-11	-12
Balance on income	-57	-56	-56	-56	-56	-59	-61	-65	-68	-72
Balance on transfers	25	24	23	22	22	22	22	22	22	21
Capital and financial account	51	43	53	55	66	66	77	83	83	81
Capital transfers	6	7	7	7	7	0	0	0	0	0
Public sector (net)	8	13	19	19	29	27	39	39	37	29
Disbursements	46	65	73	73	84	84	84	84	84	84
Amortization 1/	-38	-32	-54	-54	-55	-57	-45	-45	-47	-55
FDI	23	23	27	29	30	40	38	44	46	52
Commercial bank NFA (- increase)	10	0	0	0	0	0	0	0	0	0
Electricity credit	13	0	0	0	0	0	0	0	0	0
Other capital and errors and omissions	-10	0	0	0	0	0	0	0	0	0
Overall balance	-20	-38	-22	-8	-8	-16	-16	-15	-16	-23
Change in gross reserves (- increase)	-27	-13	-27	-31	-30	-15	-15	-15	-15	-15
Financing items	43	32	-5	-11	-9	-25	-27	-35	-33	-37
IMF (net)	16	7	-5	-11	-9	-25	-27	-35	-33	-37
Purchases/disbursements	28	17	0	0	0	0	0	0	0	0
Repurchases/repayments	12	10	5	11	9	25	27	35	33	37
Other reserve liabilities	0	0	0	0	0	0	0	0	0	0
World Bank	25	25	0	0	0	0	0	0	0	0
AsDB	0	0	0	0	0	0	0	0	0	0
Debt service account (- increase)	0	0	0	0	0	0	0	0	0	0
Arrears (+ increase) 2/	-54	0	0	0	0	0	0	0	0	0
Rescheduling and proposed rescheduling	55	0	0	0	0	0	0	0	0	0
Financing gap 3/	4	20	54	50	47	56	58	65	65	74
<i>Memorandum items:</i>										
Current account balance in percent of GDP	-6.7	-7.0	-5.8	-4.4	-4.7	-4.6	-4.7	-4.5	-4.1	-4.0
(excluding transfers)	-9.1	-9.1	-7.6	-6.0	-6.1	-5.8	-5.8	-5.5	-5.0	-4.8
Net international reserves	-17	-18	-20	-14	3	38	74	124	172	218
Gross reserves	114	152	178	206	216	226	236	251	266	276
(in months of imports) 4/	2.5	3.0	3.4	3.8	3.7	3.7	3.6	3.7	3.7	3.6
Total external debt service due	81	92	93	92	92	95	84	86	89	94
(in percent of exports) 5/	16.2	16.6	15.7	14.7	14.0	13.7	11.6	11.1	10.9	10.9
Total external debt	1,126	1,183	1,246	1,305	1,374	1,433	1,505	1,575	1,644	1,711
(in percent of GDP)	109	101	96	91	87	79	76	72	68	66

Sources: Tajik authorities; and Fund staff estimates.

1/ Reflects the amount of debt repayment agreed with Uzbekistan. The debt repayment takes the form of services provided by Tajik Rail.

2/ The increase in arrears includes debt service to Russia, Kazakhstan, Pakistan, and India; these debts are currently under negotiation. The reduction of arrears in 2001 reflects the repayment of debt to the European Union, leading to a significant in the debt-service ratio.

3/ In 2001, the financing gap in the fourth quarter is outside the PRGF program period.

The financing gap is expected to be covered with a grant from Japan. It was assumed that the stock of debt to Russia would be reduced by \$141 million in 2001, in line with the Primakov Protocol.

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

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

Table 10. Tajikistan: Debt Service Capacity, 2000-2010
(In millions of US dollars)

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
I. Current account minus interest	-12	-14	-32	-25	-13	-25	-33	-43	-46	-46	-49
Trade balance	-46	-38	-47	-39	-25	-34	-38	-46	-45	-42	-40
Services	5	0	-4	-4	-4	-6	-8	-8	-10	-11	-12
Income, excluding interest due	-7	-1	-5	-5	-6	-7	-9	-11	-13	-15	-18
Transfers	37	25	24	23	22	22	22	22	22	22	21
II. Financial and capital account minus principal	59	89	95	107	109	121	124	122	128	130	136
Capital transfers	5	6	7	7	7	7	0	0	0	0	0
Public sector disbursements	30	46	65	73	73	84	84	84	84	84	84
FDI	22	23	23	27	29	30	40	38	44	46	52
Other net capital	3	13	0	0	0	0	0	0	0	0	0
III. Financing items	51	46	51	48	39	38	31	31	30	31	38
IV. Total resources (I + II + III)	98	121	115	130	135	134	122	110	112	115	125
V. Change gross reserves (- increase)	-29	-27	-13	-27	-31	-30	-15	-15	-15	-15	-15
VI. Debt service payments	-69	-94	-101	-103	-104	-104	-107	-95	-97	-100	-110
Interest	-50	-56	-51	-51	-50	-50	-50	-50	-52	-53	-55
Non financial public sector	-14	-15	-14	-13	-12	-12	-12	-13	-15	-16	-18
Private sector	-35	-40	-36	-37	-37	-37	-36	-36	-36	-36	-36
National bank of Tajikistan (IMF)	-2	-2	-1	-1	-1	-1	-1	-1	-1	-1	0
Principal	-19	-38	-50	-52	-54	-55	-57	-45	-45	-47	-55
Non financial public sector	-19	-38	-50	-52	-54	-55	-57	-45	-45	-47	-55
VII. Total uses (V+VI)	-99	-121	-116	-130	-135	-134	-122	-110	-112	-115	-125
Financing gap	0	4	20	54	50	47	56	58	65	65	74

Sources: Tajik authorities; and Fund staff estimates.

Table 11. Tajikistan: External Debt and Debt Service of the Public Sector, 2000-2010
(In units indicated)

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
<i>NPV of external debt (in million of US dollars)</i>											
Total public sector and guaranteed	562	564	582	602	619	655	681	710	746	783	817
Non-Financial public sector	455	460	448	444	441	475	514	569	631	694	758
IMF	84	105	134	158	178	181	167	141	115	89	59
Private, guaranteed	22	0	0	0	0	0	0	0	0	0	0
<i>NPV of external debt</i>											
(in percent of GDP)	59	55	50	47	43	41	38	36	34	33	31
(in percent of exports) 1/	133	125	116	110	105	105	103	102	102	102	100
(in percent of fiscal revenue)	432	397	351	319	288	267	239	222	209	195	184
<i>Debt service due</i>											
(in percent of exports) 1/	10	15	15	13	13	12	14	13	13	13	13
(in percent of fiscal revenue) 2/	25	38	40	35	31	27	24	18	17	16	16
(in percent of fiscal revenue, incl. IMF)	34	48	47	39	36	31	34	27	27	24	24
<i>Memorandum items:</i>											
GDP (in millions of US dollars)	955	1,030	1,167	1,292	1,431	1,584	1,807	1,982	2,179	2,402	2,610
Exports (in millions of US dollars) 1/	424	451	503	549	592	627	661	695	731	771	816
Fiscal revenue (in millions of US dollars)	130	142	166	189	215	245	286	319	357	401	444
Debt service due (in millions of US dollars)	44	68	77	73	78	77	96	87	96	98	106
<i>Of which:</i>											
Nonfinancial public sector	32	54	66	67	66	66	69	59	60	64	69

Sources: Tajik authorities; and Fund staff estimates.

1/ Exports of goods and services less alumina and electricity; three-year moving average.

2/ Nonfinancial public sector.

Table 12. Tajikistan: Stock of Non-Financial Public Sector External Debt, 1993-2001
(In millions of US dollars)

	1993	1994	1995	1996	1997	1998	1999	2000	2001 Proj.
Total external debt	429.7	612.4	667.5	726.2	747.0	821.6	864.5	897.8	809.0
Bilateral	367.7	540.1	586.5	593.6	581.3	543.1	548.6	532.4	380.1
Uzbekistan	100.9	178.7	199.8	199.8	171.3	152.6	141.9	129.0	113.8
Russia 1/	208.6	280.6	292.0	287.7	291.3	287.7	304.0	312.5	180.3
United States	23.8	24.3	24.7	31.2	31.9	29.6	29.6	22.2	21.2
Turkey	0.0	20.0	23.0	23.2	25.7	25.7	25.7	25.7	23.1
Kazakhstan	17.6	18.5	19.0	19.0	18.5	18.3	18.3	18.8	18.8
Pakistan	0.0	0.0	6.0	12.0	14.2	14.4	14.4	15.5	15.5
China	5.3	5.3	5.4	5.3	6.1	6.4	6.4	0.0	0.0
India	0.0	0.0	4.0	4.4	5.8	6.1	6.1	6.7	5.6
Kyrgyz Republic	0.0	0.0	0.0	0.0	0.0	2.3	2.3	2.0	1.7
Switzerland	0.5	1.7	1.6	0.0	0.0	0.0	0.0	0.0	0.0
Other bilaterals	11.0	11.0	11.0	11.0	16.5	0.0	0.0	0.0	0.0
Multilateral	62.0	72.3	81.0	132.6	165.7	278.6	315.9	365.4	428.9
IMF	0.0	0.0	0.0	21.6	30.4	95.9	100.5	113.4	129.4
EU	62.0	72.3	81.0	81.0	82.9	89.4	76.3	72.6	55.8
World Bank	0.0	0.0	0.0	30.0	52.5	90.3	126.1	153.0	197.6
Islamic Development bank	0.0	0.0	0.0	0.0	0.0	3.0	3.0	7.4	12.6
Asian Development bank	0.0	0.0	0.0	0.0	0.0	0.0	10.0	19.0	33.5

Source: Tajik authorities; and Fund staff estimates.

1/ The stock of debt to Russia was revised to incorporate the capitalization of unpaid interest in 1999-2000. This debt would be reduced by US\$141 million, if the Primakov Protocol is implemented. The balance of US\$8 million is the capitalization of interest arrears accumulated in 2000.

Table 13. Tajikistan: Capacity to Repay the Fund, 2000-2010
(In units indicated)

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Existing and prospective Fund credit 1/											
In millions of SDRs 2/	85.0	97.0	126.2	146.5	162.5	155.8	137.0	117.0	91.4	67.2	41.0
In millions of US dollars	113.4	129.4	168.2	196.5	219.1	211.2	186.8	160.3	125.9	93.1	57.1
In percent of exports 3/	25.0	25.9	30.3	33.2	34.8	32.0	26.9	22.0	16.4	11.4	6.6
In percent of external debt	9.2	11.5	14.2	15.8	16.8	15.4	13.0	10.7	8.0	5.7	3.3
In percent of gross reserves	130.0	113.8	110.7	110.4	106.3	97.8	82.7	67.9	50.2	35.0	20.7
In percent of quota	97.7	111.5	145.0	168.4	186.7	179.0	157.5	134.4	105.0	77.3	47.1
Repurchases and charges due from existing and prospective drawings											
In millions of SDRs	8.9	10.6	8.5	4.5	8.9	7.5	19.5	20.8	26.2	24.6	26.6
In millions of US dollars	11.8	14.0	11.3	6.0	12.0	10.2	26.6	28.4	36.0	34.0	37.0
In percent of exports 2/	2.6	2.8	2.0	1.0	1.9	1.5	3.8	3.9	4.7	4.2	4.3
In percent of external debt	1.0	1.2	1.0	0.5	0.9	0.7	1.9	1.9	2.3	2.1	2.2
In percent of gross reserves	13.5	12.3	7.4	3.4	5.8	4.7	11.7	12.0	14.3	12.8	13.4
In percent of quota	10.2	12.2	9.7	5.1	10.2	8.7	22.4	23.9	30.1	28.3	30.6
Memorandum items:											
Net reserves	-28	-17	-18	-20	-14	3	38	74	124	172	218
Quota (in SDRs)	87	87	87	87	87	87	87	87	87	87	87
Gross reserves (months of imports) 4/	2.1	2.5	3.0	3.4	3.8	3.7	3.7	3.6	3.7	3.7	3.6
Net reserves (months of imports) 4/	-0.7	-0.4	-0.3	-0.4	-0.3	0.1	0.6	1.1	1.8	2.4	2.9

Sources: Tajik authorities; and Fund staff estimates.

1/ End of period.

2/ This table assumes SDR 72 million in Fund disbursements under a potential second three-year PRGF in 2001-2004.

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

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

Table 14. Tajikistan: Indicators of External Vulnerability, 1996-2001
(In units indicated)

	1996	1997	1998	1999	2000	2001 Proj.
Financial indicators						
Broad money (percent change) 1/	93.2	110.7	29.3	60.1	69.8	6.3
Private sector credit (percent change) 1/	...	...	...	32.3	82.9	5.4
31 day T-bill yield (percent)	...	...	...	...	...	23.4
External indicators						
Exports (in US dollars, percent change)	-1.1	0.6	-19.7	11.2	18.6	11.1
Imports (in US dollars, percent change)	-5.7	3.6	-11.5	-4.2	21.8	10.2
Current account balance (in millions of US dollars)	-75.5	-61.5	-120.1	-35.6	-62.5	-70.4
Capital and financial account balance (in millions of US dollars)	-98.8	30.8	80.6	9.3	40.1	50.6
Gross official reserves (in millions of US dollars)	14.0	29.7	65.3	58.1	87.2	113.7
Central bank short-term foreign liabilities (in millions of US dollars)	22.0	45.3	97.1	100.8	111.0	130.7
Official reserves (in months of imports of goods and services)	0.3	0.6	1.5	1.7	2.1	2.5
Ratio of broad money to reserves 1/	5.6	2.4	1.1	1.1	0.8	0.6
Total external debt (in millions of US dollars)	948	1,108	1,213	1,230	1,231	1,127
<i>Of which:</i>						
Public sector debt	726.2	747.0	821.6	864.5	897.8	809.0
Ratio of total external debt to exports of goods and services	1.7	2.2	2.9	3.1	2.7	2.3
External interest payments (as a percent of exports goods and services) 2/	11.8	7.2	10.2	9.6	9.6	8.4
External amortization payments (as a percent of exports of goods and services) 3/	22.4	7.9	5.5	2.4	4.0	7.5
Exchange rate (local currency units per US dollar, period average) 4/	293.3	563.6	776.6	1,237.7	1.8	...

Source: Tajik authorities; and Fund staff estimates.

1/ Calculated using the official exchange rate.

2/ Excluding interest paid on government-guaranteed debt.

3/ Including amortization to the IMF.

4/ On November 1, 2000 the somoni replaced the Tajik ruble at the rate of one somoni per 1000 Tajik rubles.

Table 15. Tajikistan: Review and Phasing of Disbursements
Under the Third Annual Arrangement of the PRGF

(In millions of SDRs)

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

Tajikistan: Fund Relations
(As of April 30, 2001)

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

II. General Resources Account:	<u>SDR Million</u>	<u>Percent of Quota</u>
Quota	87.00	100.0
Fund holdings of currency	102.94	118.3
Reserve position in Fund	0.00	0.0

III. SDR Department:	<u>SDR Million</u>	<u>Percent Allocation</u>
Holdings	9.01	N/A

IV. Outstanding Purchases and Loans:	<u>SDR Million</u>	<u>Percent of Quota</u>
Stand-by arrangements	1.88	2.2
ESAF/PRGF arrangements	72.28	83.1
First credit tranche	14.06	16.2

V. **Financial Arrangements:**

<u>Type</u>	<u>Approval Date</u>	<u>Expiration Date</u>	<u>Amount Approved (SDR Million)</u>	<u>Amount Drawn (SDR Million)</u>
ESAF/PRGF	06/24/1998	12/24/2001	100.30	72.28
Stand-by	05/08/1996	12/07/1996	15.00	15.00

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

	<u>Overdue</u>	<u>Forthcoming</u>				
	<u>04/30/2001</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>
Principal	0	6.6	7.5	3.7	8.1	10.7
Charges/Interest	0	0.8	0.7	0.4	0.3	0.3
Total	0	7.4	8.2	4.1	8.4	11.0

VII. Exchange Rate Arrangements

A currency conversion took place on October 31, 2000 replacing the Tajik ruble with the somoni, which was introduced in May 1995. Prior to July 1, 2000, the National Bank of Tajikistan quoted a twice weekly official representative exchange rate for the Tajik ruble, based on the selling rates for the ruble against the U.S. dollar in the Tajikistan Interbank Foreign Currency Exchange (TICEX). As of July 1, 2000 the TICEX was eliminated and the National Bank of Tajikistan began quoting a daily official exchange rate for the ruble (up to October 31, 2000) and somoni (beginning November 1, 2000) based on a weighted average of exchange rates in the interbank market. The official exchange rate is used for valuation of the National Bank's foreign currency reserves, for the calculation of customs duties, and for the National Bank's foreign exchange transactions. On April 30, 2001, the official exchange rate was Sm2.35 per U.S. dollar.

VIII. Article IV Consultation

The 2001 Article IV consultation mission was held during January 30–February 15, 2001. The 2001 Article IV report, dated March 29, 2001 was considered by the Executive Board on April 12, 2001. Tajikistan is on the 12-month consultation cycle.

- IX. **Resident Representative:** Mr. Lorie, Senior Resident Representative of the Fund, started his assignment in Dushanbe in September 1999. At the request of the authorities, his assignment was extended for one year, through September 2001.
- X. **Resident Advisor:** A fiscal resident advisor in the area of fiscal management was appointed for 15 months beginning August 1998. His contract was renewed for a second year, during which time he conducted four peripatetic visits by April 2001. His term was extended one additional year. A general policy adviser to the National Bank of Tajikistan started his one-year assignment in April 1999. A treasury advisor was re-assigned for another 12 months ending in April 2001, and her term was extended to end-May 2001. As part of the Swiss-Funded Tajikistan Tax Administration Reform Project, a general tax administration advisor, a VAT administration advisor, and a computer systems advisor started their peripatetic assignments in September 1999 and continued their peripatetic visits throughout May 2001.
- XI. **Technical Assistance:** The following list summarizes the technical assistance provided by the Fund to Tajikistan since 1992.

Fiscal Affairs:

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

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

Monetary and Exchange Affairs:

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

Statistics:

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

Treasury:

October 1995	Accounting of Fund transactions
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Legal:

April/May 2001	Tax Legislation and Audit Agency
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Tajikistan: Relations with the World Bank

1. Tajikistan became a member of the IBRD and IDA in 1993 and of the IFC in 1994. To date, World Bank Group assistance has consisted of policy advice, increased field presence, institutional capacity building, financing of post-conflict needs through rehabilitation and reconstruction operations, and resource mobilization.
2. A World Bank mission in August 1992 initiated an assessment of the economic situation, prospects and progress in reforms. The first Country Economic Memorandum (CEM) was issued in August 1994, followed by a second CEM issued in May 2001. A Poverty Assessment Report was prepared in May 2000. At the government's request, the World Bank organized the first Consultative Group (CG) meeting for Tajikistan in Tokyo on October 31, 1996, followed by a second CG meeting in Paris on May 20, 1998, and a third meeting was held in Tokyo on May 16, 2001. Two Country Assistance Strategies (CAS) were discussed by the Board of Directors of IDA in May 1996 and July 1998. The next CAS is expected to be presented to the Board during FY02.
3. The World Bank approved an Institutional Development Fund (IDF) grant in July 1993 to assist the government in managing and to make effective use of external assistance. In June 1996, the Bank provided another IDF grant for public procurement reform, and in April 1997, a third IDF grant to finance an external debt advisor to strengthen the Ministry of Finance's capacity for external debt management.
4. As of May 13, 2001, IDA had committed US\$211.3 million for the following 16 operations in Tajikistan: First Institutional Building Technical Assistance (US\$5 million, approved May 1996, fully disbursed and closed in December 2000); Agricultural Recovery and Social Protection (US\$50 million, approved September 1996, fully disbursed and closed in September 1997); Pilot Poverty Alleviation (US\$12 million, approved April 1997 and will close on April 30, 2001); Post-Conflict Rehabilitation Credit (US\$10 million, approved December 1997, fully disbursed and closed in December 1998); Post-Conflict Emergency Reconstruction (US\$10 million, approved January 1998, fully disbursed and closed in September 2000); First Structural Adjustment (US\$50 million, approved July 1998, fully disbursed and closed in December 2000); First Structural Adjustment Supplemental (US\$6.7 million, approved May 1999, fully disbursed and closed in December 2000); Emergency Flood Assistance (US\$5 million approved, August 1998); Emergency Flood Assistance Supplemental (US\$2 million, approved December 1999); Farm Privatization Support (US\$20 million, approved June 1999); Education LIL (US\$5 million, approved May 1999); Second Institution Building Technical Assistance (US\$6.7 million, approved June 1999); Primary Health Care (US\$5.4 million, approved March 2000); Rural Infrastructure Rehabilitation (US\$20 million, approved June 2000); Lake Sarez Risk Mitigation (US\$0.5 million, approved June 2000); and Farm Privatization Support Supplemental (emergency drought assistance for US\$3 million, approved February 2001). As of May 13, 2001, disbursements for the 16 operations totaled approximately US\$153.1 million.

5. Projects under preparation are, for the current fiscal year, structural adjustment (Second Structural Adjustment); and for FY02: infrastructure (Dushanbe Water Supply); capacity building (Financial Institution and Enterprise Support); and poverty alleviation (Second Poverty Alleviation).

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

Tajikistan: Relations with the Asian Development Bank

1. Tajikistan became a member of the Asian Development Bank (AsDB) on April 20, 1998. After conducting an initial mission in June 1998, AsDB staff completed an Economic Report and Interim Operational Strategy that detailed the economic structure and recent economic developments in the country and identified three areas (i) agriculture, (ii) infrastructure rehabilitation (especially energy sector), and (iii) social sector, in which AsDB assistance would have the greatest development impact. The report was endorsed by AsDB's Board of Directors in October 1998. The Board also approved Tajikistan's country classification, which provides the basis for Tajikistan's access to concessional financing.

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

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

4. Currently, a Rural Financial Systems Development Project Loan (US\$5 million) and an Agriculture Rehabilitation Project Loan (US\$35 million) are being processed and expected to be approved in May and October 2001, respectively. At the third Consultative Group Meeting, AsDB announced that it would consider supporting the ongoing reform agenda through quick disbursing assistance in 2001 and 2002.

Tajikistan: Statistical Issues

Data Weaknesses

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

National Accounts Statistics

2. The compilation of national accounts remains at a preliminary stage. Annual GDP estimates are derived from the production side by supplementing net material product data with rough estimates for the nonmaterial sectors. Initial attempts were made to use an expenditure approach to measuring GDP. The quality of data is undermined by coverage and valuation problems. Private sector economic activity is poorly covered due to the inadequacies of the survey methods. Coverage is therefore heavily biased towards state-owned enterprises. The value of production is also distorted because enterprises often report accounting or wholesale prices instead of actual transaction prices, which tend to be higher.

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

Price Statistics

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

Government Finance Statistics

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

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

Monetary and Banking Statistics

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

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

Balance of Payments Statistics

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

Tajikistan: Core Statistical Indicators
(As of May 20, 2001)

	Exchange Rates	International Reserves	Central Bank Balance Sheet	Reserve Money	Broad Money	Interest Rates ^{1/}	Consumer Price Index	Exports/Imports	Current Account Balance	Overall Government Balance	GDP/ GNP	External Debt/ Debt Service
Date of Latest Observation	5/20/01	5/11/01	5/11/01	5/1/01	3/31/01	3/31/01	4/30/01	Q1/01	Q1/01	3/31/01	3/31/01	Q1/01
Date Received	5/20/01	5/20/01	5/20/01	5/20/01	4/30/01	5/15/01	5/14/01	4/30/01	4/30/01	4/30/01	4/24/01	4/30/01
Frequency of Data	D	D	D	D	M	M	M	Q	Q	M	Q	Q
Frequency of Reporting	D	D	D	D	M	M	M	Q	Q	M	M	Q
Source of Update	A	A	A	A	A	A	A	A	A	A	A	A
Mode of Reporting	RR	RR	RR	RR	RR	RR	RR	RR	RR	RR	RR	RR
Confidentiality	-	-	-	-	-	-	-	-	-	-	-	-
Frequency of Publication	W	W	W	W	M	V	M	V	V	M	V	V

^{1/} Annual interest rate on treasury bills.

Notes:

Explanation of abbreviations:

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

Source of updating: A-Authorities.

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

Tajikistan: The Potential Impact of the Debt Reduction Strategy

1. Much of Tajikistan's external debt (US\$1.23 billion at end-2000, or about 129 percent of GDP) was incurred in the years immediately following independence (1991). Since 1995, the authorities have been able to restructure most bilateral debt as well as that owed to the European Union (Table 1). In general, the terms specified in the restructuring agreements have increased the concessionality of the credits by extending maturities, introducing or lengthening grace periods, and/or reducing interest rates to below market levels. In the case of the agreement with the European Union, there is also provision for a substantial grant. The agreements with the Kyrgyz Republic and Turkey are being serviced, while China agreed to convert Tajikistan's debt into a grant. Rescheduling agreements with Russia, Kazakhstan, and Uzbekistan have not become effective. Negotiations with India are ongoing.

Table 1. Tajikistan: The Terms of Official Bilateral Debt, End-2000¹

	Stock of Debt		Years to maturity	Grace period (in years)	Interest rate (in percent)	Grant element (in percent)
	In millions of U.S. dollars	In Percent of total				
India	6.7	1.3	8	2	7.0	1
Kazakhstan	18.8	3.5	10	2	2.8	20
Kyrgyz Republic	2.0	0.4	12	2	2.8	23
Pakistan	15.5	2.9	15	5	2.8	30
Russia ²	312.5	58.7	9	2	2.8	19
Turkey	25.7	4.8	10	3	2.8	22
United States ³	22.2	4.2	30	6	2.0/3.0	40
Uzbekistan	129.0	24.2	15	5	2.8	29

Sources: Tajik authorities; and Fund staff estimates.

¹ The authorities do not acknowledge any government liabilities to Turkmenistan; instead they view that claim as having been accumulated by commercial entities and not guaranteed by the government.

² The stock of debt to Russia was revised to include the capitalization of unpaid interest.

³ According to the repayment schedule, an interest rate of 2 percent was charged on the entire debt during the period 1993-1999. Beginning on November 7, 1999, the interest rate was increased to 3 percent on US\$9.7 million of the debt stock. Beginning on November 11, 2000 an interest rate of 3 percent was charged on US\$13.9 million of the debt stock.

2. More recently, the pressure of the external debt burden prompted the authorities to develop a debt reduction strategy (Attachment II). The strategy includes five elements: (a) improve debt monitoring and management; (b) develop better guidelines for external borrowing and project selection; (c) pursue further bilateral debt restructuring and new concessional financing; (d) implement further fiscal adjustment; and (e) earmark privatization proceeds for debt reduction and consider debt-for-equity swaps. This appendix, which extends an earlier analysis (Appendix IV, EBS/01/46), examines the potential impact

of some of these measures on debt sustainability.¹ The earlier analysis suggested that under standard Naples terms for flow restructuring followed by a stock restructuring (in 2004), the ratio of the net present value (NPV) of debt to fiscal revenue would fall below 250 percent in 2004, and the ratio of debt service to fiscal revenue would be below 20 percent initially, but gradually increase to 20 percent by the end of the projection period.

3. The assumptions used in this baseline are the same as used in the macroeconomic framework for the program (EBS/01/46), but reflect the end-2000 debt stock. No Paris Club restructuring has been assumed in the baseline. The baseline assumes:

- annual average GDP growth of 4 percent in 2001-2010;
- average annual real exchange rate appreciation of 3 percent (nominal depreciation by 1½ percent per annum, and inflation rate of 7 percent);
- average annual export and import growth rates of 6 percent and 5.8 percent, respectively;
- average annual current-account deficit of 5 percent of GDP financed largely by multilateral lending;
- an increase in the ratio of fiscal revenue to GDP from 13.8 percent in 2001 to 17 percent in 2010 along with modest fiscal consolidation; and
- a reduction in the stock of debt owed to Russia of US\$141 million in 2001 in accordance with the proposals contained in the Primakov Protocol.²

4. Under this baseline, the NPV of debt-to-exports peaked at 133 percent in 2000, and is projected to decline thereafter (Table 2). The NPV of debt-to-fiscal revenue is projected to remain above 250 percent until 2006, and the ratio of debt service-to-fiscal revenue is projected to stay above 20 percent over the longer term.

5. The debt reduction strategy envisages that all privatization receipts be dedicated to debt reduction. Assuming such receipts amount to US\$15 million per annum (around 1.3

¹ External debt sustainability is assessed on the basis of HIPC benchmarks, although Tajikistan does not presently qualify for HIPC treatment. External debt is considered to be unsustainable in terms of the balance of payments, if the ratio of the NPV of debt to exports of goods and services exceeds 150 percent. Debt service costs are defined as being fiscally unsustainable when the ratio of the NPV of debt to fiscal revenue exceeds 250 percent, if fiscal revenue is at least 15 percent of GDP and the share of exports of goods in GDP is greater than 30 percent. The latter benchmark cannot be formally applied to Tajikistan, since the revenue-to-GDP ratio is below 15 percent, and is expected to reach this level only in 2005. For HIPC countries, and after HIPC assistance, the NPV of debt-to-exports is estimated (SM/01/94) at around 143 percent, and debt service as a share of fiscal revenues at around 13 percent.

² The Primakov Protocol was signed in 1999, but has not been implemented because of disagreement over technical issues. Depending on the resolution of these issues, the reduction in Tajikistan's debt to Russia would be between US\$141 million and US\$50 million.

percent of GDP) over the period 2002-2004, the debt burden would become fiscally sustainable in 2005, which is one year earlier than under the baseline scenario.³

6. If further fiscal consolidation occurred, in terms of maintaining tight control over current expenditures (zero growth in real terms), and enhancing tax revenues⁴ over the medium term (2002-2004), fiscal sustainability would be achieved two years earlier than in the baseline scenario.

7. In summary, a number of measures contained in the debt reduction strategy could reduce Tajikistan's debt burden and contribute to achieving fiscal sustainability earlier than under the current baseline projections. The prospects for achieving these measures, however, remain uncertain. Nonetheless, the authorities should pursue as many of the options as possible in the near term, including bilateral restructuring.

³ In 1999-2000, privatization revenues averaged 1 percent of GDP.

⁴ The tax revenue-to-GDP ratio in Tajikistan is among the lowest of the CIS countries, at around 13 percent. A number of measures are being taken to raise this ratio, including through improved tax administration and customs collection, and reducing tax offsets and tax arrears. It might further be raised through changes in the tax structure.

Table 2. Tajikistan: Factors Moderating the Debt Burden 1/

	2002	2003	2004	2005	2006	2007	2008	2009	2010
Baseline scenario 2/									
NPV of external debt									
(in percent of exports)	116	110	105	105	103	102	102	102	100
(in percent of fiscal revenue)	351	319	288	267	239	222	209	195	184
Debt service due									
(in percent of exports)	15	13	13	12	14	13	13	13	13
(in percent of fiscal revenue)	47	39	36	31	34	27	27	24	24
Privatization proceeds in the amount of US\$15 million in 2002-04 per annum reduce the financing gap									
NPV of external debt									
(in percent of exports)	111	100	95	96	97	96	96	96	97
(in percent of fiscal revenue)	335	293	266	250	226	209	195	182	173
Debt service due									
(in percent of exports)	15	12	12	11	14	12	13	12	13
(in percent of fiscal revenue)	47	36	34	29	32	26	26	23	23
Improved tax administration: fiscal revenue is 1 percent of GDP higher than programmed for 2002-2004									
NPV of external debt									
(in percent of exports)	116	110	105	105	103	102	102	102	100
(in percent of fiscal revenue)	315	285	264	248	225	209	195	182	173
Debt service due									
(in percent of exports)	15	12	12	11	14	12	13	12	13
(in percent of fiscal revenue)	44	34	32	28	30	25	24	22	22
Rationalization of government spending									
NPV of external debt									
(in percent of exports)	115	108	102	100	97	94	93	91	89
(in percent of fiscal revenue)	345	311	278	253	222	203	188	173	161
Debt service due									
(in percent of exports)	15	13	13	12	14	12	13	12	12
(in percent of fiscal revenue)	45	37	35	30	32	26	25	23	22

Sources: Tajik authorities; and Fund staff estimates.

1/ The discount rate is 7.2 percent.

2/ The stock of debt was revised upward to reflect the capitalization of unpaid interest to Russia.

June 22, 2001

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

Dear Mr. Köhler,

The Government of Tajikistan is implementing a program of economic reform with support from the IMF's Poverty Reduction and Growth Facility (PRGF). The Executive Board of the IMF approved a third annual arrangement under the PRGF on October 25, 2000. The first quarterly review of this program was concluded on April 12, 2001, and the Executive Board approved a disbursement of SDR 6 million.

Together with an IMF mission that visited Dushanbe during April 23–May 3, 2001, we conducted the second quarterly review of the Fund-supported program, based on quantitative performance criteria and structural benchmarks at end-March 2001. Except for the accumulation of external arrears, we observed all of the quantitative performance criteria, and implemented all of the structural benchmarks. We are requesting a waiver for the non-compliance with the performance criterion on external arrears.

The attached Supplemental Memorandum of Economic Policies (MEP), which augments the MEP of October 11, 2000 and the Supplemental Letter of Intent of March 2001, sets out a number of additional measures that we will take to further strengthen our macroeconomic stabilization efforts and, in particular, our structural reform program. It also outlines a debt reduction strategy that we developed, in consultation with Fund staff, that should help us achieve external debt sustainability over the medium term.

The Government believes that the policies described in the supplemental MEP will enhance the prospects for achieving the objectives of our economic program for 2001. We intend to remain in close consultation with the IMF in accordance with IMF policies on such consultation and will provide the IMF with any information it requests for monitoring economic developments and implementation of policies under the program. The Government stands ready to take any further measures, in consultation with the IMF staff, which might be necessary to ensure that the overall objectives of the program can be attained.

Finally, to enhance transparency, we request that the Supplemental Memorandum of Economic Policies and the staff report for the second review of the third annual arrangement under the PRGF be published on the IMF's web site.

Very truly yours,

//s//

Emomali Rakhmonov
President of the Republic of Tajikistan

Attachments

REPUBLIC OF TAJIKISTAN

SUPPLEMENTAL MEMORANDUM OF ECONOMIC POLICIES

I. INTRODUCTION

1. The Government of Tajikistan is implementing a program of economic reform with support from the IMF's Poverty Reduction and Growth Facility (PRGF). The Executive Board of the IMF approved a third annual arrangement under the PRGF on October 25, 2000, covering the period October 1, 2000 through September 30, 2001. The first quarterly review of this program was concluded on April 12, 2001, and the Executive Board approved a disbursement of SDR 6 million.
2. During the first quarter of this year, the strong growth achieved during 2000 continued as real GDP expanded by over 7 percent. Inflation, which surged in the latter part of 2000, moderated significantly in the first four months of this year, with consumer prices increasing by 7.2 percent. Reflecting our improved inflation performance, the nominal exchange rate has remained broadly stable since late 2000.
3. Underlying our improved economic performance has been our adherence to the Fund-supported financial and economic program. During the first quarterly review of our program, the IMF's Executive Board expressed support for our efforts, although the need to strengthen structural reforms were also stressed. Progress on structural reform during late 2000 did not proceed as expected and some of the benchmarks were not met. At end-March 2001, however, we observed all of the quantitative performance criteria except for the accumulation of external arrears, and implemented all but one of the four structural benchmarks.
4. We intend to continue our macroeconomic adjustments efforts and to accelerate the implementation of structural reforms. These reforms are required to accelerate economic growth, which is the best means of reducing poverty. In this memorandum we outline the specific measures we will take to achieve these objectives. We also outline a debt management and reduction strategy that we have developed, in consultation with Fund staff, that should achieve external debt sustainability over the medium term.

II. PROGRAM MEASURES

A. Macroeconomic Policy

5. We believe that the macroeconomic objectives for 2001, as outlined in the Memorandum of Economic Policies (MEP) of October 2000 and the Supplemental Letter of Intent of March 2001 can be achieved. Real GDP growth is expected to be around 5 percent, with inflation falling to about 14 percent by year-end. This relatively favorable outlook reflects our ongoing efforts at macroeconomic stabilization.

6. **Fiscal policy.** Our overall fiscal target continues to be guided by the budget for 2001 approved by Parliament last December, that provided for a deficit of Sm12.4 million (0.5 percent of GDP). To achieve this goal, we will maintain tight control over public expenditures, and will continue to make improvements in tax administration to ensure that our tax revenue projection (Sm320 million, excluding grants) is realized. In this regard, by end-June 2001 we plan to: improve operation of the VAT by enforcing the use of tax invoices by taxpayers, for which return forms will be made available by the Tax Committee; ensure that funds are available for producing tax-return forms and pamphlets required by the Large Taxpayer Inspectorate and to retain and attract suitably qualified staff; and give priority to recruiting and retaining the computer programmers necessary to complete the computerization project at the Tax Committee. Our fiscal performance will also be strengthened by enhancing the treasury system, in particular, by implementing the pilot project of commitment control, and by publishing and distributing the second part of the treasury manual by end-June 2001. By end-September, we will, in consultation with Fund staff, finalize a strategy for enhancing the effectiveness and efficiency of the Tax and Customs Committees, including their interactions with the Ministry of Finance.

7. The 2001 budget includes, a 40 percent increase (beginning April 1) in wages and salaries of public sector employees in the education and health sectors, as well as for social security and pension benefits. This increase is intended to raise the level of income in these areas to address poverty.

8. The budget for 2001 currently includes Sm 8 million to compensate partially TRR for servicing the government of Tajikistan's debt to the government of the Republic of Uzbekistan. We will allocate a further Sm 4 million in the 2001 budget to compensate fully TRR for these services. TRR will pay its 2001 tax obligations without the use of offsets. In addition, TRR will reduce its stock of tax arrears by 10 percent this year, and we will develop a plan to eliminate the remaining stock in future years. These measures will facilitate the ability of TRR to repay its loans to the National Bank of Tajikistan (NBT) in accordance with a schedule set forth in the agreement between TRR and NBT. The government budget resolution that will be submitted to Parliament by end-June 2001 will reflect this change. In addition, we plan to submit a draft law on public finances to Parliament by end-July 2001.

9. We will also complete implementation of the agreement between the National Bank of Tajikistan and the MOF concerning the regularization of their financial relations. The last step involves (a) ensuring that the agreement is fully operational, including the issuance of long-term government bonds and treasury bills, and the payment of interest and profit transfers, and (b) resolving, by end-June 2001, the status of the remaining US\$32 million of NBT loans to commercial entities by either transferring these loans to the NBT's debt recovery agency, or converting them into long-term bonds, or writing them off. On June 27, 2001 the MOF will refinance the Sm3 million of maturing treasury bills, and settle with the NBT the first quarterly payment and receipt of accrued interest.

10. We are now in the process of developing tax policy measures for the 2002 budget. We will abolish the sales tax on both cotton and aluminum (which have a 20 percent and 2 percent rate currently applied, respectively) by September 2002. To compensate for the loss of revenues (around 3.3 percent of GDP), we are examining a number of different measures, including: increasing the coverage and collection rate of excise taxes; adopting a presumptive tax system for profits, in order to minimize tax collection leakages; implementing a uniform land tax (to replace all other taxes on agricultural producers); and reducing tax exemptions. We will consult with Fund staff before finalizing these proposals.

11. **Monetary policy.** A tight monetary policy will be maintained, in order to further reduce inflation. Reserve money growth, which is projected to be about 8 percent during 2001, will be kept under tight control through the programmed ceilings on net domestic assets and net credit to general government of the NBT. Recent progress in this regard is important both to increase confidence in our national currency, and to help maintain the stability of the exchange rate. We intend to enhance the efficacy of monetary policy by greater reliance on a broader range of instruments to control liquidity, including expanding the sales of certificates of deposit and treasury bills, expanding efforts to collect loans, and to allow interest rates to respond to market forces. Consistent with our obligations under the program, the NBT will not provide any directed credits, which is a continuous performance criterion. With regard to the exchange rate, the NBT will set the official exchange rate as the weighted average of actual daily transactions in the interbank foreign exchange market. We are planning to accept the obligations under Article VIII of the Fund's Articles of Agreement and would like to request assistance from the Fund in ascertaining the additional measures in order to fulfill this obligation.

B. Structural Policies

12. We remain fully committed to implementing a thorough structural reform program as the key element in achieving broad based, sustainable growth and poverty reduction. Recognizing the problems with implementation of our structural reform program, we intend to intensify and extend our efforts in this area. To this end, we will take a number of additional measures that should help in this regard.

13. As regards our efforts to enhance performance of the banking sector, we have prepared several amendments for submission to parliament that would eliminate the obligation of commercial banks to report automatically information on new deposits to the tax committee; eliminate the 30 percent tax on transfers from abroad; and change the present practice that allows the tax committee to assess the property tax on net worth of the commercial banks, instead of on their fixed assets. By end-June 2001, we will take the necessary steps to allow average foreign equity ownership of the banking system as a whole to increase to a maximum of 40 percent in 2001 and 50 percent in 2002. Finally, by end-June 2001 we will amend Article 104 of the tax code to prevent the tax authorities from reviewing customer accounts when conducting corporate reviews of the commercial banks. By end-

September 2001, we will complete a strategy for rationalizing the banking sector in light of our experience with the restructuring of the four largest banks.

14. We have begun to address the delays in our efforts at farm restructuring by upgrading the committee responsible for implementing this program, to create the State Land Reform Committee (SLRC). A statute defining the responsibilities of the SLRC and our farm restructuring methodology will be in effect by end-June this year. Thus far, less than 30 percent of restructured farms have been issued land share and use certificates. In order to expedite the issuance of these certificates, we will phase out all fees and charges for certificates to be issued to restructured farms by end-September 2001. In order to cover the cost of issuing these certificates and other expenses associated with the new responsibilities of the SLRC, we will increase the budget allocation to the SLRC by 7 percent in real terms for the second half of the year.

15. As regards governance, we are working closely with Fund staff to prepare and submit to parliament a draft law defining the responsibilities of the auditing agency that was created in January 2001. This law will include provisions requiring submission of audit reports to parliament on the execution of the budget, and of a summary report on the other audits performed by the agency. This agency has already become operational under its provisional charter. In order to enhance the transparency of the budget, we plan to begin quarterly publication of data on the public sector's external debt including total debt, terms and amount of new debt, and the nature of project for which foreign financing was obtained. Additionally, we plan to continue to publish the quarterly budgetary planned and execution data.

III. EXTERNAL DEBT STRATEGY

16. We recognize the severity of our external debt situation and the risks it poses for macroeconomic stability. At end-2000, the total stock of public sector external debt (including state-owned enterprises) was estimated at 129 percent of GDP (US\$1,231 million), as compared with 77 percent of GDP in 1993. Debt service as a share of tax revenues is projected to be 44 percent in 2001, leaving little room for pursuing measures to alleviate poverty. Thus, we have developed a comprehensive medium-term debt reduction strategy. The strategy incorporates, at least, the following seven elements.

- **Effective debt monitoring:** We will strengthen the debt-monitoring department within the MOF, and transfer all external debt management responsibilities to this department. This department will maintain a comprehensive computerized loan-by-loan database of all external debt of the government, government-guaranteed debt, and state-owned enterprises. This computerized database will be operational by end-September 2001. The department will monitor operations relating to loan commitments, disbursements and debt servicing on all borrowings on a loan-by-loan basis. It will also provide analytical support, in the form of preparing projections of debt and debt service levels to facilitate domestic cost budgeting and foreign exchange management.

- **Effective debt management:** We will establish clear policy guidelines (supported by the debt department in the Ministry of Finance) to determine the appropriate level, terms and purpose of foreign borrowing. In this context, we will develop economic criteria for project selection for the foreign-financed public investment program, and undertake on a regular basis a portfolio review of projects. In such reviews, it will be possible to make decisions on canceling those which are not performing, and to stop new loan disbursements (if legally permissible), thus containing future debt servicing costs. In order to effectively manage our debt, the authority to contract new debt or to provide a sovereign guarantee will be vested in a single inter-agency Debt Management Committee, chaired by the Minister of Finance. With the exception of the Ministry of Finance, all line ministries, departments, or government agencies will be prohibited from contracting or providing government guarantees.
- **Improving our credit worthiness:** We will work to enhance our credibility with our creditors, both to increase the probability of success in future debt rescheduling negotiations and to heighten our ability to borrow on favorable terms. We will continue to work with our creditors, including Turkmenistan, on the reconciliation of our liabilities. We will refrain from accumulating new debt service arrears. To increase transparency of debt management, we will include the entire amount of debt service due in the budget, and we will issue a resolution prohibiting any new public or publicly guaranteed non-concessional debt (with the exception of the US\$9.2 million envisioned for the EBRD under the current program). This leaves no room for future drawings under the US\$25 million credit line opened with Iran. In addition, Agroinvestbank plans to repay the government-guaranteed debt to Credit Swiss First Boston in the amount of US\$18.4 million by end-June 2001.
- **Fiscal adjustment:** We will pursue a medium-term fiscal strategy, that will be based on increasing the ratio of tax revenue-to-GDP. We will also seek grants, instead of foreign borrowing to finance poverty alleviation initiatives as part of the interim Poverty Reduction Strategy Paper (PRSP). Proposals for further rationalizing expenditures will also be evaluated, although room for expenditure reduction is limited. Consistent with the medium-term fiscal framework in the interim-PRSP and the PRSP that is under preparation, social spending will be increased in real terms. In addition, loans on highly concessional terms only will be considered for financing the public investment. With a view to facilitating assessment of the proper fiscal policy stance for achieving a sustainable balance of payment and debt position, all foreign-financed expenditures for the public investment program (including debt which is to be on-lent to commercial entities) will be included in the budget for 2002.
- **Earmarking privatization proceeds for debt reduction:** We will continue to pursue privatization of state-owned enterprises, including through the planned case-by-case privatization program that is being prepared with the support of the World Bank, and we will earmark all privatization receipts for debt reduction. These privatization

receipts will be deposited into a special privatization account at the NBT to monitor their use. In addition, we will review the current list of state-owned enterprises that are not subject to privatization, with a view to reducing the number of such entities by half.

- **Bilateral debt restructuring and new concessional financing:** We intend to intensify our debt-restructuring negotiations with Russia and Kazakhstan by end-June 2001 with a view to reaching an early agreement, and will continue our negotiations with India with the hope of concluding a rescheduling by end-September 2001. We have paid our arrears to Pakistan and will service this debt in a timely manner.
- **Debt-for-equity swaps:** We will actively seek debt-for-equity swaps to alleviate the debt burden. By end-September 2001, we will compile a list of assets which we could offer for such transactions.

IV. PROGRAM MONITORING

17. To help monitor the implementation of our stabilization and structural reform program, we will rely on quarterly performance criteria, quarterly reviews and quarterly disbursements. The quantitative performance criteria and structural benchmarks for both end-June and end-September 2001 are specified in Annexes I and II, and are further specified in the Technical Memorandum of Understanding, Annex III.

18. In aid of transparency, we hereby request that the letter of transmittal, Supplemental Memorandum of Economic Policies, and the staff report for the second review of the third annual arrangement under the PRGF be published on the IMF web site.

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

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

	2000		2001			
	Dec.		Mar.		Jun.	Dec.
	Actual		Perf. criteria	Actual	Perf. criteria	Perf. criteria
(In millions of somoni)						
I. Quantitative performance criteria						
1. Ceiling on net domestic assets of the NBT 1/	170.5	192.9	175.3	238.3	169.8	165.4
2. Ceiling on NBT's net credit to general government 1/ 2/ 3/	112.0	150.2	94.2	119.6	112.9	103.7
3. Ceiling on the cumulative overall deficit of the general government 4/ 5/	-1.3	-14.5	22.5	-4.5	-8.7	-13.7
4. General government wage, and nonworking pensioners' pension arrears	0.0	0.0	0.0	0.0	0.0	0.0
5. Tax collection of the STC and SCC 4/ 5/	49.5	80.2	102.3	146.5	203.7	262.4
(In millions of US dollars)						
6. Floor on total net international reserves 1/	-27.7	-50.2	-32.0	-52.8	-20.5	-17.0
7. Ceiling on cumulative amount of non-concessional loans contracted or guaranteed: 6/	0.8	10.0	0.8	10.0	10.0	10.0
Sub-ceilings:						
With maturities of 1 to 5 years	0.8	10.0	0.8	10.0	10.0	10.0
With maturities of less than 1 year	0.0	0.0	0.0	0.0	0.0	0.0
8. New external payments arrears (continuous)	0.0	0.0	0.5	0.0	0.0	0.0
II. Indicative targets						
1. Reserve money	117.9	97.5	114.6	111.5	120.5	124.5
<i>Memorandum item:</i>						
Accounting exchange rate (Sm/US dollar)	...	1.9	1.9	2.4	2.4	2.4

Sources: Tajik authorities; and Fund staff estimates.

1/ The March 2001 targets for NIR, NDA, and net credit to government have been adjusted for the less than programmed disbursements from the AsDB (US\$0.85 million) and the World Bank (US\$0.5 million) and larger than programmed repayment to the EU (US\$2.96 million).

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

3/ In October 2000, the NBT wrote off Sm23.2 million in credit to the government in line with the tentative agreement between the MOF and NBT on the regularization of financial relations.

4/ Cumulative from October 1, 2000.

5/ The March 2001 performance criteria are those established in EBS/00/206 while those for end-June are established in EBS/01/46, targets for end-September are revised projections.

6/ These limits exclude the extension of two government guarantees to the cotton sector totaling US\$83 million. These guarantees remained effective until end-1999, at which time the guarantees were called but not enforced as agreed between the government and the creditor. As of end-March 2001, the total outstanding government guaranteed debt to the cotton sector amounted to US\$18.4 million (including accrued interest). The room remaining under the guarantee will not be used for any additional external borrowing.

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

Continuous Performance Criteria

The National Bank of Tajikistan will issue no directed credits.

Performance Criteria for end-June 2001

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

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

Performance Criteria for end-September 2001

Conduct at least 40 general meetings cumulative since April 1, 2001.

Convert at least 20 state owned farms into private farms by issuing marketable land use certificates and land share certificates cumulative since April 1, 2001.

Structural Benchmarks

By end-June 2001

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

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

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

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

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

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

By End-September 2001

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

Phase out all charges and fees for land use and share certificates.

Establish and make operational a computerized database on external debt data.

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

TAJIKISTAN: TECHNICAL MEMORANDUM OF UNDERSTANDING¹

I. QUARTERLY PERFORMANCE CRITERIA

1. Fiscal deficit

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

(In millions of somoni)	
Cumulative deficit from end-September 2000 to:	
March 31, 2001 (performance criterion)	14.5
June 30, 2001 (performance criterion)	4.5
September 30, 2001 (performance criterion)	8.7

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

Adjustors

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

Definitions

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

(i) Net claims of the NBT on the general government are defined as all claims of the NBT on the general government (including holdings of government securities), less claims

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

on the government as regard bank restructuring, and all deposits of the general government with the NBT, excluding counterpart deposits of loans received from the World Bank and from other official creditors, and privatization account where proceeds from the privatization state property is held.

(ii) Net claims on the general government of the rest of the domestic banking system are defined to comprise (i) the net asset position arising from operating balances and current accounts of the general government with domestic commercial banks; and (ii) the net position of the general government in regard with other domestic commercial bank assets (loans, overdrafts, cash advances, holdings of treasury bills or other securities) and liabilities (deposits, etc.).

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

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

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

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

Monthly data on net claims of the domestic banking system on the general government are taken from the balance sheets of the NBT and commercial banks. The Ministry of Finance shall provide information on, and confirm the amounts of general government deposits held abroad, disbursements of foreign loans to the general government, net sales of treasury bills and other securities, borrowing from the nonbank sector, as well as gross receipts and expenditures of the central government privatization account. It shall furthermore provide

detailed monthly data on (i) revenues, expenditures and lending operations of the state and local budgets, as well as all budgetary and extra budgetary funds; (ii) quasi-fiscal operations; (iii) estimates of the outstanding stock of wage and pension and all other domestic expenditure arrears; and (iv) estimates of the outstanding stock of tax and other revenue arrears to the general government.

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

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

(In millions of somoni)	
Cumulative from end-September 2000 to:	
March 31, 2001	3.7
June 30, 2001	0.5
September 30, 2001	16.4

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

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

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

(In millions of somoni)	
Cumulative revenues from end-September 2000 to:	
March 31, 2001 (performance criterion)	80.2
June 30, 2001 (performance criterion)	146.5
September 30, 2001 (performance criterion)	203.7

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

Definitions

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

Fund, any proceeds from loans, or other banking system credits, the issuance of securities, or from the sale of state assets. Custom revenues are defined to include import duties, export duties and taxes, customs duties, exchange taxes, and other taxes (including VAT) on international trade and transactions.

II. Targets for Monetary Aggregates

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

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

	(In millions of somoni)
March 31, 2001 (performance criterion) 1/	184.7
June 30, 2001 (performance criterion)	238.3
September 30, 2001 (performance criterion)	169.8

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

Adjustors

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

Definitions

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

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

$$NDA = rB_0 + r_0\Delta B + \Delta r\Delta B$$

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

2. Limits on the NBT's Net Credit to General Government²

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

	(In millions of somoni)
March 31, 2001 (performance criterion) 1/	142.0
June 30, 2001 (performance criterion)	119.6
September 30, 2001 (performance criterion)	112.9

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

Adjustors

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

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

Definitions

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

3. Net international reserves

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

	(In millions of U.S. dollars)
March 31, 2001 (performance criterion)	-45.9
June 30, 2001 (performance criterion)	-52.8
September 30, 2001 (performance criterion)	-20.5

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

Adjustors

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

Definitions

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

For the purpose of program monitoring, U.S. dollar denominated components of the balance sheet will be valued at the program exchange rate, and other foreign currency denominated items will be valued at cross rates between the program exchange rate of the U.S. dollar and current official exchange rates of the U.S. dollar against those currencies. Official gold holdings shall be valued at US\$265 per troy ounce.

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

III. Limits on External Debt and Arrears

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

Table 7. Cumulative Ceiling on Public and Publicly Guaranteed External Debt

	Cumulative Net	Cumulative Contracting and	
	Disbursements	Guaranteeing of External Debt	
	(In millions of U.S. dollars)		
	0-1 year	1-5 year	Total
	Maturity	Maturity	
During the period from end-			
September 2000 to:			
March 31, 2001	0	10	10
June 30, 2001	0	10	10
September 30, 2001	0	10	10

Definitions

The ceilings specified in Table 7 shall apply exclusively to external debt to the EBRD in the amount of US\$9.2 million and to other creditors in the amount of US\$0.8 million. No other non-concessional external debt is permitted. The contracting or guaranteeing of external debt by the government of Tajikistan, the NBT, or any other agency acting on behalf of the government, is understood to mean a current, i.e., not contingent, liability, created under a contractual arrangement which requires the obligor to make one or more payments in the form of assets (including currency) or services, at some future points in time; these payments will discharge the principal and/or interest liabilities under the contract. Included are also commitments contracted or guaranteed for which value has not been received. Debts can take a number of forms, the primary ones being as follows: (i) loans, i.e., advances of money to obligor by the lender made on the basis of undertaking that the obligor will repay the funds in the future (including deposits, bonds, debentures, commercial loans, and buyers' credits) and temporary exchanges of assets that are equivalent to fully collateralized loans under which the obligor is required to repay the funds and usually pay interest, by repurchasing the collateral from the buyer in the future (such as repurchase agreements and official swap arrangements); (ii) suppliers' credits, i.e., contracts where the supplier permits the obligor to defer payments

until some time after the date on which the goods are delivered or services are provided; and (iii) leases, i.e., under which property is provided the lessee has the right to use one or more specified periods of time that are usually shorter than the total expected service life of the property, while the lessor retains the title to the property. For the purpose of the program, the debt is the present value (at the inception of the lease) of all lease payments expected to be made during the period of the agreement excluding those payments that cover the operation, repair or maintenance of the property.

Under the definition of debt above, arrears, penalties, and judicially awarded damages arising from the failure to make payment under a contractual obligation that constitutes debt are debt. Failure to make payment on an obligation that is not considered debt under this definition will not give rise to debt. Excluded from this performance criterion are two government guarantees extended to the cotton sector totaling US\$83 million which remained effective until end-1999, when the guarantees were called but not enforced as agreed between the government and CSFB. As of end-2000, the total outstanding government guaranteed debt amounted to US\$18.5 million. The room remaining under extended guarantee will not be used for any additional external borrowing.

External debt limits³ apply to the **net disbursement of short term external debt** (with an original maturity of up to and including one year); **and contracting or guaranteeing of nonconsessional medium- and long-term external debt** (with original maturities of more than one year) with sublimits on the contracting and/or guaranteeing of such debt with maturities of up to and including five years.

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

The medium- and long-term debt includes all loans with maturities more than one year. Debt falling within these limits that are denominated in currencies other than the U.S. dollar shall be valued in U.S. dollars at the exchange rate prevailing at the time of contracting or guaranteeing takes place or at the exchange rate stipulated in the contract.

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

³ In line with the August 24, 2000 Board Decision, contained in EBS/00/128.

the NBT or any other agency acting on behalf of the government to finance a shortfall incurred by the loan recipient.

Concessionality will be based on currency-specific discount rates based on the OECD commercial interest reference rates (CIRRs). For loans of a maturity of an original maturity of at least 15 years, the average of CIRRs over the last 10 years will be used as the discount rate for assessing the concessionality of these loans, while the average of CIRRs of the preceding six-month period will be used to assess the concessionality of loans with original maturities of less than 15 years. To the ten-year and six month averages of CIRRs, the following margins will be added: 0.75 percent for repayment periods of less than 15 years; 1 percent for 15-19 years; 1.15 percent for 20-30 years; and 1.25 percent for over 30 years. Under this definition of concessionality, only loans with grant element equivalent to 35 percent or more will be excluded from the borrowing limits. The debt limits will not apply to loans classified as international reserve liabilities of the NBT, or to loans contracted for debt rescheduling or refinancing.

IV. CONTINUOUS PERFORMANCE CRITERIA

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

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

2. Continuous performance criterion relating to external arrears

No new external arrears shall be accumulated at any time under the arrangement. External arrears are defined as overdue debt service arising in respect of obligations incurred directly, guaranteed, or converted into interstate debt by the government of Tajikistan or the NBT, including penalties or interest charges.

3. Continuous performance criterion relating to exchange and payments arrangements

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

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

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

For purposes of the performance criterion, expenditure arrears shall be defined as any shortfall in monthly disbursements on wages and in transfers from the Social Protection Fund to its regional offices related to the planned payments. A monthly disbursement plan will be presented to the Fund staff by the 15th day of the month preceding the month of actual wage and pension payments.

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

V. QUARTERLY INDICATIVE TARGETS

1. Reserve money

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

	(In millions of somoni)
March 31, 2001 (indicative target) 1/	97.5
June 30, 2001 (indicative target)	111.5
September 30, 2001 (indicative target)	120.5

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

Definition

Somoni reserve money of the NBT is defined as the sum of (i) domestic currency issued by the NBT, (ii) deposits of commercial banks and other financial institutions held with the NBT, and (iii) deposit liabilities of the NBT with respect to the public. Deposits of the general government are excluded from reserve money, but are included under NDA. NBT reserve money liabilities with respect to commercial banks and other financial institutions comprise all deposits held by these institutions at the NBT, including required reserves and excess reserves held in the correspondent accounts, but excluding NBT liabilities held by commercial

banks and other financial institutions in the form of short term NBT notes. Deposit liabilities of the NBT to the public include all deposits placed at the NBT, in domestic or foreign currency, by the nonbank public.

NEWS  **BRIEF**

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International Monetary Fund
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IMF Approves US\$8 Million Loan for Tajikistan Under Third Annual PRGF Program

The Executive Board of the International Monetary Fund (IMF) today concluded the second review of the Republic of Tajikistan's economic program supported by the third annual arrangement under the Poverty Reduction and Growth Facility (PRGF)¹. Following the completion of today's review, Tajikistan will be able to draw an amount equivalent to SDR 6 million (about US\$8 million) from the IMF. The request for a waiver concerning the accumulation of new external arrears during the agreement was also approved by the Executive Board.

Tajikistan's three-year program, originally supported under ESAF, was first approved on June 24, 1998 (see Press Release No. 98/25), in an amount

¹On November 22, 1999, the IMF's concessional facility for low-income countries, the Enhanced Structural Adjustment Facility (ESAF), was replaced by the Poverty Reduction and Growth Facility (PRGF), and its purposes were redefined. It was intended that PRGF-supported programs will in time be based on country-owned poverty reduction strategies adopted in a participatory process involving civil society and development partners, and articulated in a poverty reduction strategy paper (PRSP). This is intended to ensure that each PRGF-supported program is consistent with a comprehensive framework for macroeconomic, structural, and social policies to foster growth and reduce poverty. At this time for the Republic of Tajikistan, pending the completion of a PRSP, a preliminary framework has been set out in an interim PRSP, and a participatory process is underway. It is understood that all policy undertakings in the interim PRSP beyond the first year are subject to reexamination and modification in line with the strategy that is to be elaborated in the PRSP. Once completed and broadly endorsed by the Executive Boards of the IMF and World Bank, the PRSP will provide the policy framework for future reviews under this PRGF arrangement. 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.

of SDR 96 million (about US\$120 million), which was increased in December 1998 to an amount of SDR 100 million (about US\$125 million), of which Tajikistan has drawn SDR 72.3 million (about US\$90 million).

Following the Executive Board's discussion, Eduardo Aninat, Deputy Managing Director and Acting Chairman, said:

"Tajikistan's real GDP grew strongly during the first quarter of 2001, and inflation moderated. All but one of the quantitative performance criteria for the second review under the third annual arrangement of the PRGF were met. Nevertheless, determined policy efforts will be needed to achieve lasting growth and external debt sustainability.

"Concerning an incident of misreporting relating to a performance criterion on external arrears, Directors urged the authorities to ensure that in the future relevant information is provided to the Fund in an accurate and timely manner. Directors have granted a waiver for the nonobservance of this performance criterion.

"Tajikistan's fiscal and monetary performance during the first quarter of 2001 was favorable. To ensure that the fiscal objectives for the whole year are met, the authorities need to further develop the treasury system, improve control of expenditures, and improve the efficiency and effectiveness of both the Tax and Customs Committees. Careful monitoring of monetary developments is necessary to ensure that excessive liquidity does not threaten progress with reducing inflation. To this end, the National Bank of Tajikistan will need to intensify its efforts to collect overdue loans from the private sector and to expand its open market operations.

"The authorities have taken the welcome step of establishing an audit agency, but need to continue to make progress to improve governance and increase fiscal transparency. They also need to accelerate structural reforms in the banking and agricultural sectors. Progress in restructuring and privatizing state-owned farms is important.

"The authorities' efforts to elaborate a medium-term strategy to reduce Tajikistan's very high external debt are welcome. This strategy should be implemented without delay. Intensified efforts to conclude debt rescheduling agreements with bilateral creditors and improved debt management and monitoring will be particularly important in this regard. Further fiscal adjustment will also be essential to achieve debt sustainability.

“The authorities have continued to progress in preparing a Poverty Reduction Strategy Paper (PRSP). It will be important to ensure that the PRSP is consistent with the medium-term fiscal framework.

“The authorities’ intention to accept the obligations under Article VIII sections 2, 3, and 4 of the Fund’s Articles of Agreement is welcome,” Mr. Aninat said.