

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

In the context of the third review of the three-year arrangement under the Poverty Reduction and Growth Facility, and request for a waiver of a performance criterion with the Republic of Tajikistan, the following documents have been released and are included in this package:

- the staff report for the third review of the three-year arrangement under the Poverty Reduction and Growth Facility, and request for waiver of performance criterion, prepared by a staff team of the IMF, following discussions that ended on May 14, 2004, 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 July 8, 2004. The views expressed in the staff report are those of the staff team and do not necessarily reflect the views of the Executive Board of the IMF.
- a staff statement of July 21, 2004 updating information on recent developments.
- a Press Release summarizing the views of the Executive Board as expressed during its July 21, 2004 discussion of the staff report that completed the review and request.
- a statement by the Executive Director for the Republic of Tajikistan.

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

Letter of Intent sent to the IMF by the authorities of the Republic of Tajikistan*
Supplemental Memorandum of Economic and Financial Policies by the authorities of the Republic of Tajikistan*
Technical Memorandum of Understanding*
*May also be included in the Staff Report

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

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INTERNATIONAL MONETARY FUND

REPUBLIC OF TAJIKISTAN

**Third Review of the Three-Year Arrangement
Under the Poverty Reduction and Growth Facility,
and Request for Waiver of Performance Criterion**

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

Approved by Mohammad Shadman-Valavi and Juha Kähkönen

July 8, 2004

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Tajikistan: Basic Data, 1996–2003

| Physical and social indicators (2002) | | | | | | | | | |
|---|------------------------|---|-------|-------|-------|-------|-------|-------|------|
| Area | 43,100 km ² | | | | | | | | |
| Arable land | 7,155 km ² | | | | | | | | |
| Population (in thousand) | 6,376 | | | | | | | | |
| Rate of population growth (in percent) | 2.0 | | | | | | | | |
| Life expectancy at birth (in years) | 67 | | | | | | | | |
| Infant mortality (per thousand live births) | ... | | | | | | | | |
| Birth rate, crude (per thousand people) | 23 | | | | | | | | |
| Death rate, crude (per thousand people) | 7 | | | | | | | | |
| Fertility rate (in births per woman) | 2.9 | | | | | | | | |
| Age dependency ratio (in percent) | 0.7 | | | | | | | | |
| Rural population (in percent of population) | 72.0 | | | | | | | | |
| Urban population (in percent of population) | 28.0 | | | | | | | | |
| Poverty rate (in percent) 1/ | 56.6 | | | | | | | | |
| | | 1996 | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 | 2003 |
| Nominal GDP (in millions of somoni) | 309 | 632 | 1,025 | 1,345 | 1,807 | 2,512 | 3,345 | 4,758 | |
| Real GDP growth (in percent) | -4.4 | 1.7 | 5.3 | 3.7 | 8.3 | 10.2 | 9.1 | 10.2 | |
| GDP per capita (in U.S. dollars) | 176.9 | 175.1 | 214.0 | 171.0 | 155.4 | 165.8 | 183.7 | 235.9 | |
| Inflation (in percent, end of period) | 40.5 | 163.6 | 2.7 | 30.1 | 60.6 | 12.5 | 14.5 | 13.7 | |
| Inflation (in percent, average) | 418.3 | 88.0 | 43.2 | 27.5 | 32.9 | 38.6 | 12.2 | 16.4 | |
| | | (In percent of GDP; unless otherwise specified) | | | | | | | |
| Sectoral distribution of GDP | | | | | | | | | |
| Agriculture | 36.0 | 27.1 | 24.9 | 25.4 | 27.0 | 26.7 | 28.3 | 28.1 | |
| Industry | 25.7 | 19.7 | 20.1 | 21.7 | 23.9 | 22.6 | 23.0 | 23.0 | |
| Trade | 14.6 | 10.2 | 22.1 | 19.7 | 18.3 | 19.3 | 19.4 | 20.3 | |
| Construction | 2.6 | 2.1 | 3.9 | 5.4 | 3.4 | 4.1 | 4.4 | 3.1 | |
| Other | 21.1 | 40.9 | 29.0 | 27.8 | 27.5 | 27.4 | 24.9 | 25.4 | |
| Balance of payments | | | | | | | | | |
| Current account balance | -7.3 | -5.2 | -8.3 | -3.4 | -6.5 | -6.7 | -2.7 | -1.3 | |
| Gross official reserves (in months of imports) 2/ | 0.3 | 0.6 | 1.5 | 1.7 | 2.1 | 1.9 | 1.8 | 1.9 | |
| Consolidated government finances | | | | | | | | | |
| Revenue | 13.2 | 13.7 | 12.0 | 13.5 | 13.6 | 15.2 | 16.7 | 17.2 | |
| Expenditure 3/ | 19.0 | 17.0 | 15.8 | 16.6 | 14.2 | 15.3 | 16.8 | 16.3 | |
| Overall balance 3/ | -5.8 | -3.3 | -3.8 | -3.1 | -0.6 | -0.1 | -0.1 | 0.9 | |
| | | (Percent change from previous period) | | | | | | | |
| Money and credit | | | | | | | | | |
| Somoni broad money | 142.6 | 117.2 | 18.8 | 29.3 | 48.4 | 31.5 | 38.8 | 32.9 | |
| Credit to private sector 4/ | ... | ... | ... | -6.0 | 90.2 | 54.3 | 20.2 | 10.9 | |
| Interest rate (in percent) 5/ | 116.0 | 85.0 | 49.7 | 30.6 | 34.4 | 18.5 | 21.6 | 16.0 | |

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

1/ World Bank estimate for 2003; based on a per capita purchasing power parity expenditure level of \$2.15 per day.

2/ Goods and nonfactor services.

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

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

5/ End-period lending rate for 3–6 months loans denominated in local currency.

EXECUTIVE SUMMARY

Performance under the PRGF has been generally satisfactory. All quantitative performance criteria, two of the three structural performance criteria, and two of the three structural benchmarks were met through end-May 2004. The continuous structural performance criterion prohibiting directed credit by the National Bank of Tajikistan (NBT) was not observed in May 2004, but this credit was repaid/reversed by late June and a waiver is requested on this basis. The benchmark for audit of the State Financial Control Committee (SFCC) was not met because of a change in the reform strategy to now utilize a twinning arrangement financed by the World Bank.

Economic conditions remain favorable. Relatively high commodity export prices, domestic political and economic stability, and economic restructuring are contributing to these conditions. Reflecting these factors, growth is expected to reach 8½ percent in 2004. Inflation has fallen sharply to 5½ percent in May 2004 and is projected to remain below the 7 percent target through end-2004. International reserves have increased considerably in nominal terms and import coverage is expected to reach 2.3 months by end-2004.

Key elements of the program for the remainder of 2004 include:

- Restraining reserve money growth to keep inflation under 7 percent. This will require a tighter stance by offsetting the impact of drawdowns of government deposits and reducing foreign exchange purchases from the market.
- Improving tax administration, especially to reach more of the new private sector, to reduce the dependence of revenue on favorable commodity prices.
- Ensuring the projected excess of nominal revenue from the original 2004 budget estimate is used efficiently and transparently for additional social spending.
- Continuing the reform of the budget system to improve the alignment and prioritization of expenditure with PRSP policies.
- Applying prudential banking regulations more strictly and reducing the entry barriers for foreign banks to encourage new investment and expertise.
- Finalizing the debt restructuring agreement with Russia and completing the inventory of government-guaranteed external debt.
- Revising foreign exchange regulations with a view to accepting the obligations under Article VIII, Sections 2, 3, and 4 by end-2004.

I. INTRODUCTION

1. **The Executive Board completed the second review under Tajikistan's three-year Poverty Reduction and Growth Facility Arrangement (PRGF) on January 16, 2004.**¹ At that time, Directors welcomed the continued strong growth, increased diversification of economic activity, and continued fiscal prudence. They urged the authorities to reduce inflation and intensify structural reform and, in particular, to bring the monetary program back on track.
2. **Discussions on the third review under the PRGF arrangement took place in Dushanbe during May 4–14, 2004.**² In the attached Letter of Intent and the Supplemental Memorandum of Economic and Financial Policies (MEFP) (Attachments I and II), the authorities report on progress made under the Fund-supported program, describe further measures to be taken through end-December 2004, and request completion of the third review under the PRGF arrangement.
3. **All quantitative performance criteria for end-March 2004 were met.** Also, two of the three structural performance criteria were met, but the prohibition on directed credit by the NBT was not observed. The credit has since been repaid and a waiver is being requested on this basis. Of the three structural benchmarks for end-March 2004, only the completion of the audit of the SFCC was not met because the audit has been superceded by a twinning arrangement financed by the World Bank.

II. RECENT DEVELOPMENTS AND PERFORMANCE UNDER THE PROGRAM

A. Recent Macroeconomic Developments

4. **Economic developments over the past year have continued to be favorable.** Supported by the confluence of increasing domestic political and economic stability, favorable commodity prices, and buoyant conditions in neighboring countries (especially Russia and Kazakhstan), real GDP grew by 10 percent in 2003 and is expected to grow by 8½ percent in 2004. In addition to steady growth in the traditional cotton and aluminum sectors, agriculture and nontraditional manufacturing and services (mainly trade and construction) have contributed to the ongoing recovery and diversification of economic

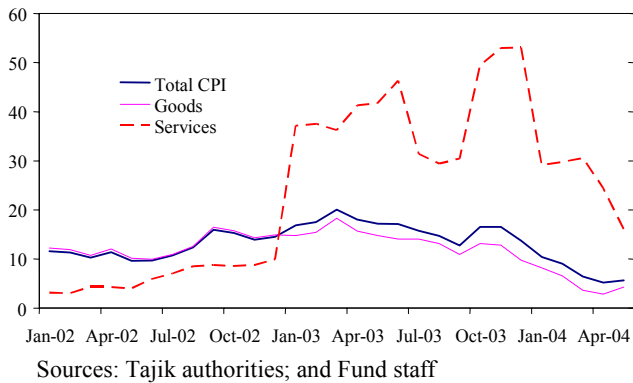
¹ The PRGF arrangement was approved on December 11, 2002 in the amount of SDR 65 million (75 percent of quota). As of end-May 2004, Tajikistan's outstanding use of Fund resources was SDR 76.96 million (88.5 percent of quota).

² The staff team comprised P. Winglee (head), R. Zyttek, F. Kumah, J. Matovu (all MCD), A. Kireyev (PDR), and V. Thuronyi (LEG). Mr. Khawaja, the Fund's resident representative in Dushanbe, assisted the mission. Mr. Christiansen, the outgoing mission chief, participated in early discussions.

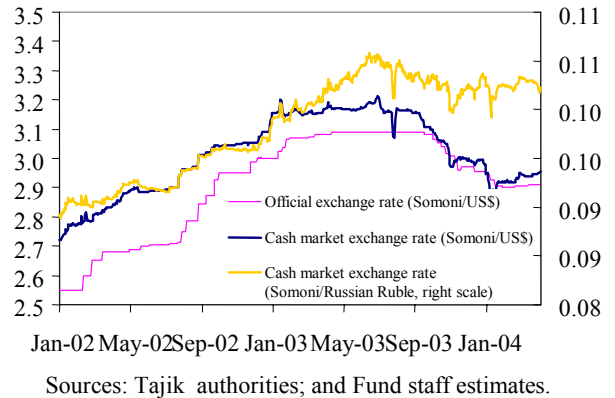
activity. The continued rapid growth of workers' remittances from neighboring countries has also boosted domestic demand. This sustained growth contributed to the decline in poverty since 1999, although it is still widespread with 57 percent of the population in 2003 living below the PPP US\$2.15 per day poverty line.

5. **Inflationary pressures moderated in early 2004.** End-period inflation of 14 percent (12-month basis) in 2003 was double the authorities' target. The high inflation reflected large increases in administratively determined prices of selected services (mainly gas and electricity), and weak monetary policy implementation that resulted in a 10 percent depreciation of the cash somoni-dollar exchange rate in mid 2002–early 2003. In late 2003, the authorities took measures to reduce monetary expansion and allowed the somoni to appreciate. As a result, inflation fell to 5½ percent in May 2004 and should remain below the 7 percent target through end-2004.

**Inflation, 2002–04
(12-month percent change)**

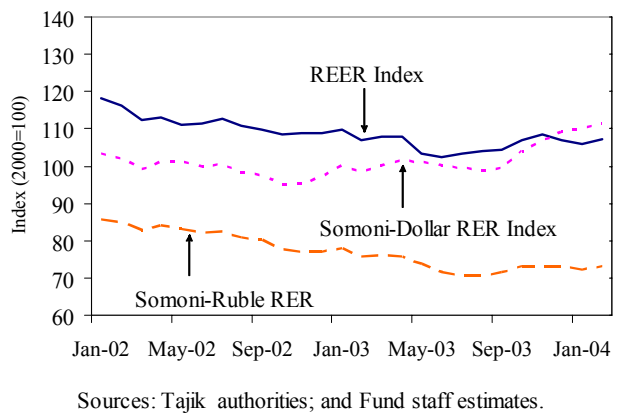


Exchange Rates, 2002–04



6. **Despite rapid import growth, the external current account deficit narrowed to 1.3 percent of GDP in 2003 from 2.7 percent in 2002,** reflecting higher commodity export prices and migrants' remittances. Gross international reserves increased sharply from 1.9 months of imports at end-2003 to 2.2 months in March 2004, US\$20 million over the March 2004 program floor. The real effective exchange rate remained relatively stable during this period.

Real Exchange Rate Indices, 2002-04



7. **Monetary policy in most of 2003 was undermined by large unsterilized foreign exchange purchases, but these began to be phased out late in the year.** Unsterilized intervention to resist a nominal appreciation of the somoni contributed to excess liquidity and

higher-than-projected inflation. Beginning in late 2003, the NBT strengthened policy implementation by concentrating on the program targets for reserve money and inflation. With the turnaround in the foreign exchange intervention strategy that resulted in a modest appreciation of the somoni, and substantially assisted by the fiscal surplus, reserve money growth fell from its peak of 41 percent in September 2003 to 30 percent in March 2004. This latter level was consistent with the end-March 2004 target allowing for the higher nominal GDP in 2003. During late April–May, while reclassifying some accounts, the NBT provided US\$10 million credit to Kredit-Invest (K-I), some of which was used for tax payments and lending for cotton (in advance of receiving foreign financing), thus not observing this performance criterion. The transactions were reversed and K-I repaid the funds by end June.

8. **Fiscal performance in 2003 and early 2004 was strong.** Although the original program (IMF Country Report No. 03/222) and budget for 2003 allowed for an overall fiscal deficit (excluding the foreign-financed public investment program (PIP)) of 0.9 percent of GDP, expenditure discipline and higher commodity prices led to an overall budget surplus of 0.9 percent of GDP. Although tax revenue in 2003 remained at 15 percent of GDP, receipts from most taxes declined as a ratio of GDP with relatively poor collection rates from the rapidly growing nontraditional areas such as internal trade and services. However, VAT collections rose relative to GDP because of the application of VAT on petroleum products (under the destination principle). Current expenditure declined substantially in relation to GDP because the authorities resisted increasing nominal allocations in many categories, despite higher growth and inflation. In particular, the wage bill declined from 3.2 percent of GDP in 2002 to 2.7 percent in 2003. The budget surplus continued in the first quarter of 2004.

B. Performance Under the Program

9. **All quantitative performance criteria for March 2004 were met by very large margins,** adjusted for the delay in the disbursement of the second tranche of the World Bank's SAC (US\$29 million).³ End May data for the banking system, and late June data for the NBT show that the financial program is on track for the June benchmarks. Two of the three structural performance criteria were met, but the one relating to the prohibition of directed credits by the NBT was not observed. As explained above, this was fully reversed after 8 weeks. The financial position of Tajikgas has been strengthened. After large tariff increases in 2003, Tajikgas raised collection rates further, to 70 percent, and met the end-March 2004 structural benchmark for the installation of gas meters. Although the external audit of Tajikgas (structural benchmark for end-June 2004) was delayed because of problems in arranging funding, the audit will now go ahead utilizing its own funds if necessary.

³ The authorities recently provided additional information for the audit of the aluminum plant TADAZ, that permitted the disbursement of the Bank's SAC 2 program loan in June 2004.

The field work for the audit will start by end-June and the report will be finalized by end-end-September. Box 1 summarizes the performance under the program.

| Box 1. Tajikistan: Performance Under the Second Annual Program of the PRGF Arrangement, October 2003–June 2004 | | |
|--|----------------|---|
| Measure | Target Date | Status |
| <i>Quantitative Performance Criteria</i> | | |
| Ceiling on net domestic assets of the NBT. | End-March 2004 | Met |
| Ceiling on net credit of the banking system to general government. | End-March 2004 | Met |
| Ceiling on the cumulative overall fiscal balance of the general government. | End-March 2004 | Met |
| Ceiling on general government wage, and nonworking pensioners' pension arrears. | Continuous | Met |
| Floor on tax collection of the Ministry of State Revenues and Duties. | End-March 2004 | Met |
| Floor on total net international reserves. | End-March 2004 | Met |
| Ceiling on the contracting or guaranteeing of short, medium and long term non-concessional external debt. | End-March 2004 | Met |
| New external payments arrears. | Continuous | Met |
| <i>Indicative targets</i> | | |
| Ceiling on reserve money. | End-March 2004 | Not met, but deviation consistent with higher nominal GDP. |
| New arrears of budget entities and key state-owned enterprises to utility companies. | End-March 2004 | Met |
| <i>Structural Performance Criteria</i> | | |
| Prohibit the NBT from issuing directed credits. | Continuous | Not met. Noncomplying credit in late April-May 2004 repaid after 8 weeks. |
| Prohibit the NBT from making expenditures not related to its core business. | Continuous | Met |
| Implement quarterly adjustments of all utility tariffs, equivalent to the depreciation in the nominal exchange rate in the previous quarter. | Continuous | Met |
| <i>Structural Benchmarks</i> | | |
| Install 15,000 gas meters in households from October 1, 2003. | End-March 2004 | Met |
| Issue an additional 5,000 land use/share certificates. | End-March 2004 | Met |
| Complete an external audit of the State Financial Control Committee by a reputable international audit company. | End-March 2004 | Not met. Replaced by prospective World Bank supported twinning arrangement starting in fall 2004. |
| Complete an external audit of Tajikgas by a reputable international audit company. | End-June 2004 | Delayed, to be completed by September 2004 |

10. **In other program areas, particularly involving governance and transparency, progress has been slow.** The audit of the SFCC (structural benchmark) was not completed at end-March 2004, initially due to difficulties in obtaining funding and finding an appropriate company to perform a managerial audit as opposed to a financial audit. During this process, the World Bank agreed to support SFCC reform with a twinning arrangement using a

reputable western audit agency starting in fall 2004. Compared to an audit, this arrangement will provide more hands-on diagnostics and implementation support (the SFCC was created as part of SAC 2). Although the structural benchmark for land privatization was met, local vested interests have slowed the effective transfer of land ownership and the involvement of NGOs.

III. POLICY DISCUSSIONS

11. **Buoyed by the recent macroeconomic successes, the authorities reiterated their commitment to the PRGF objectives.** They intend to solidify macroeconomic stability and move ahead with structural reforms to strengthen the environment for growth and poverty alleviation. For the macro-related areas, discussions focused on improving the implementation of monetary policy, tax administration, the efficiency of fiscal expenditure, and strengthening the governance and transparency of the budget. In support of poverty reduction, reforms in agriculture and education will continue, closely coordinated with the World Bank, other donors, and interested NGOs. In acknowledging the slow implementation of some reforms, the authorities pointed to capacity limitations, including the need to reconcile advice from various stakeholders.

A. Macroeconomic Outlook

12. **Economic conditions for the remainder of 2004 and 2005 are projected to remain favorable,** based on strong economic growth in Russia and relatively high cotton and aluminum prices. Growth in 2004 is projected to reach at least 8½ percent, and this expansion is expected to continue in 2005, albeit at a slightly lower rate of 7½ percent. The impetus to demand from the post-conflict recovery is expected to be replaced over the medium term by demand financed by remittances, and investment in agro-processing and services. In accordance with the Spring 2004 WEO projections, cotton and aluminum prices are projected to increase by 4 percent and 6½ percent (annual averages) in 2004 respectively.⁴ As Box 2 illustrates, Tajikistan is vulnerable to a fall in both commodity prices. For example, a 10 percent decline in both prices would directly increase the current account deficit by 2.4 percent of GDP and reduce budget revenue by 0.4 percent of GDP. Higher petroleum prices have a modest dampening effect, but the impact on income growth in the CIS region, which will boost exports of goods and labor, is likely to offset this effect. Inflation is expected to remain below 7 percent in 2004 and should decline further to about 5 percent in 2005. Stronger import growth in 2004 is projected to slightly widen the current account deficit to 2 percent of GDP. The import coverage of reserves is expected to remain at 2.3 months of imports and the program for 2004 is fully financed.

⁴ Although the latest summer 2004 WEO projections show significantly higher commodity price paths, the program projections have not been revised, to keep the projections conservative.

Box 2. Tajikistan: Vulnerability to Commodity Price Shocks

Although the program prices for Tajikistan’s main exports—cotton and aluminum—are based on the Spring 2004 WEO projections (more recent WEO projections are slightly higher), the macroeconomic framework is vulnerable to a sharp fall in these prices. Cotton prices are currently 30 percent above their 10-year trend and aluminum prices at their 10-year trend level. This box quantifies the sensitivity of the program’s main variables to lower commodity prices.

Tax receipts would shrink in response to a negative cotton price shock. Cotton fiber exports are subject to a 10 percent sales tax on the value of shipments. It is estimated that a 10 percent decline in cotton prices would reduce annual export receipts by 1.2 percent of GDP, leading to a 0.2 percent of GDP decline in tax receipts. Lower cotton receipts would dampen household incomes and overall consumer confidence (especially among the rural poor), and could lead to further deterioration in farm indebtedness.

The fiscal impact of a decline in aluminum prices would be similar to that of cotton. Under the current tax regime, imports of alumina are subject to a 5 percent customs duty and aluminum exports attract a 1 percent sales tax. A fall in aluminum prices would primarily affect the profitability of TADAZ and fiscal revenues, but there would

not be any output change. Nonetheless, fiscal revenues derived directly from aluminum processing (customs duties, sales taxes and dividends from TADAZ) would fall by 0.2 percent of GDP. Although a 10 percent decline in the average aluminum price would cut export receipts by 2.7 percent of GDP, about 50 percent of this decline would be offset by lower alumina prices, the net effect on the current account would be a worsening of about 1.2 percent of GDP.

Overall, unfavorable commodity price shocks could trim incomes and fiscal revenues, and generate depreciation pressures on the domestic currency. The total loss to budget revenues would be around 0.4 percent of GDP and the external current account would deteriorate by 2.4 percent of GDP. The deterioration in the external current account could put depreciation pressures on the domestic currency, especially in the short term when import response to price shocks is sluggish.

Impact of Commodity Price Shocks
(In percent of GDP; unless otherwise indicated)

| | Effect of a 10 percent decline in: | | Total Impact |
|---------------------------------------|------------------------------------|----------------|--------------|
| | Cotton Price | Aluminum Price | |
| Exports | -1.2 | -2.7 | -3.9 |
| Imports | 0.0 | -1.5 | -1.5 |
| Current account balance | -1.2 | -1.2 | -2.4 |
| Change in terms of trade (in percent) | -0.7 | -0.9 | -1.6 |
| Budget revenues | -0.2 | -0.2 | -0.4 |
| Change in nominal GDP (in percent) | -0.4 | -0.4 | -0.9 |

Source: Tajik authorities; and Fund staff estimates.

B. Monetary and Exchange Rate Policies

13. **The authorities will follow closely the program's reserve money targets to reduce inflation to under 7 percent in 2004.** The authorities stressed that financial programming with MOF had improved markedly and that the NBT will not issue any domestic credit, except to counter systemic shocks to the banking system. Nevertheless, significant challenges to controlling reserve money remained. First, although initially cautious, the authorities agreed to phase out foreign exchange purchases from large exporters. However, they continue to have concerns about the impact on the exchange rate of lumpy transactions initiated by large exporters. Second, the reduction in inflation and increased confidence in the banking system could significantly increase the demand for money, and the impact of this remonetarization needed to be addressed flexibly. Third, the NBT's range of monetary policy instruments needs to be broadened. Staff discussed the conversion of some of the NBT's current holdings of government securities into marketable ones. Although the MOF expressed caution because of higher interest costs,⁵ they agreed to review the issue using technical assistance from the Fund.

14. **Given the imperative of sustaining the recent improvement in monetary discipline, the staff considered replacing the indicative program target for reserve money with a performance criterion.** However, the unpredictability of both money demand and monetary transmission suggests a need for some discretion, providing compelling arguments against such a move.⁶ Accordingly, the staff underscored the importance of the NBT being prepared to closely review price developments and adjust monetary policy as necessary to ensure that underlying inflation remains below 7 percent.

15. **The authorities also recognized the importance of maintaining their flexible exchange rate policy to stabilize reserve money.** Thus the authorities agreed to end foreign exchange purchases from large exporters and limit intervention to smooth excessive exchange rate volatility. Such exchange rate flexibility would also be important to permit adjustment to structural and commodity price changes.

⁵ The NBT's holdings of the government debt now earn 1 percent real return.

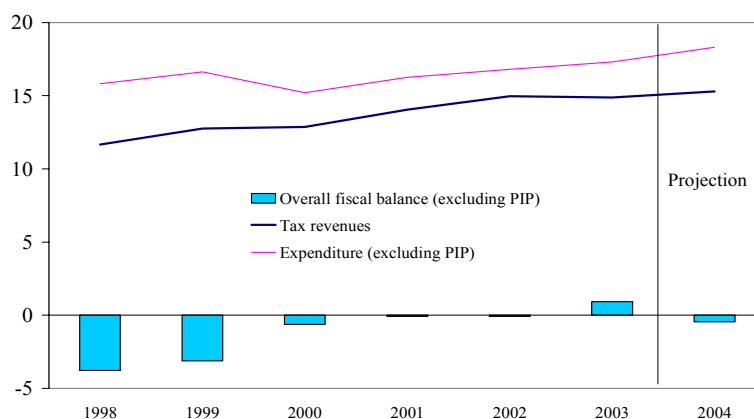
⁶ The quarterly monetary program for 2004 exhibits strong seasonality and has been substantially revised since the last staff report. First, the disbursement of foreign credit to the cotton sector—which is channeled through, and dominates, overall credit of the banking sector—was larger than projected previously and occurred in May rather than the third quarter. Repayment of these credits is reflected in a reduction in overall credit to the private sector starting in September. Second, the float from this credit resulted in a temporary decrease in other items net in May, which should be unwound by the third quarter.

16. **NBT policies to strengthen the banking system were discussed.** The liquidity ratio for banks that comply with prudential requirements was reduced to 30 percent in March 2004 as planned.⁷ While over the medium term further reductions were envisaged in the liquidity ratio, this and the required reserve ratio would not be reduced further during 2004. During this period the impact of the first round of cuts in the liquidity ratio on the amount and quality of lending would be assessed.

C. Fiscal Policy

17. **The authorities are committed to limiting the overall budget deficit (excluding the foreign-financed PIP) for 2004 to SM 25 million, 0.4 percent of GDP.** Nominal tax revenue is now estimated to be 1 percent of GDP above the budget estimate, mainly due to high commodity prices. This additional revenue will be used for spending on the education and health and other poverty-reducing programs (such as flood relief) in a supplementary budget proposed for July but will not be built into the spending base as a precaution against lower commodity prices. External loan disbursements under the PIP will continue to be limited to 3 percent of GDP. In the meantime, efforts will continue to strengthen the Aid Coordination Unit, improve project implementation, and align the PIP with the objectives in the PRSP. Given the large projected disbursement of program loans, the government's net deposit position at banks will increase by 2 percent of GDP in 2004.

**Fiscal Developments, 1998-2004
(In percent of GDP)**



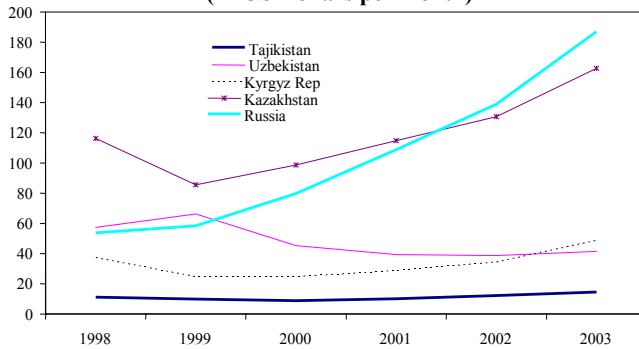
Sources: Tajik authorities; and Fund staff estimates.

⁷ The liquidity ratio (liquid assets, including short-term loans, to demand deposits) was 70 percent to ensure banks' liquidity. This is being phased out because of stricter implementation of prudential requirements (but remains at this level for noncomplying banks).

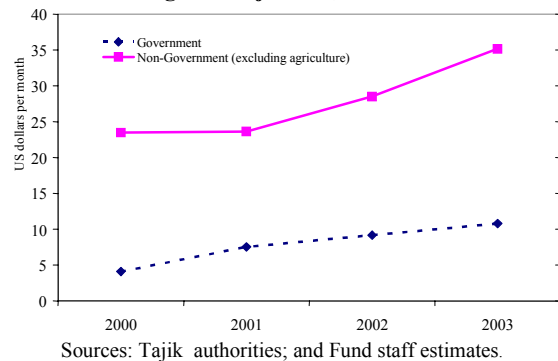
18. **Reforms are underway to improve tax administration but the results will take time to materialize.** Although the revenue in 2004 is expected to increase to 15.3 percent of GDP compared to 2003, this reflects relatively favorable commodity prices, rather than underlying improvements in tax administration. To start to address this problem, the Ministry of State Revenues and Duties (MSRD) is being reorganized along functional lines, and the tax code is being revised for implementation starting in 2005 to improve the efficiency of the tax system by simplifying it and eliminating nuisance taxes. This will be offset by small increases in certain tax rates, as well as tightening up on tax holidays and tax concessions. Despite these and other measures, the MSRD underscored the difficulty in quickly raising tax yields from the rapidly growing nontraditional sectors.

19. **The mission discussed the authorities' general government wage policy for 2005, although no agreement was reached because the authorities' plans on this issue and civil service reform were not sufficiently advanced.** The wage bill has declined in relation to GDP over the past two years and the average government wage is lagging farther behind those in the private sector and in neighboring countries. The World Bank reports a continued large loss of skilled staff, especially in the education and health sectors (75 percent of recorded government workers). The authorities agree that wage increases should be accompanied by civil service reforms, but they are now under pressure to sharply increase real wages in the general government and are having difficulty coordinating these tasks. Nevertheless, despite some delays, progress is being made in key sectors. The fully costed education sector reform strategy has been delayed from the end-March deadline to end-July 2004, and would reduce the number of employees in the sector by 5 percent by September (a

Wages in CIS Countries, 1998–2003
(In US Dollars per month)



Wages in Tajikistan, 2000-2003



structural benchmark for end July 2004).⁸ The staff emphasized the need for moving ahead with reforms in the social sector to improve the quality of services, and to progressively address the operational problems of specific central government ministries. Wage policy and further reform of the civil service will be discussed in the context of the 2005 budget as well as the fourth PRGF review and the third annual program, in September 2004.

D. External Policies and Debt Management

20. **WTO accession proceedings started in March 2004.** This process will need to be coordinated with the commitment under the Euro-Asian Economic Community (EAEC) to form a customs union by end-2006. The authorities are now developing their approach to increase the degree of tariff harmonization within the EAEC (which may involve some tariff rate increases) while also conducting individual negotiations for WTO accession. The staff urged the authorities to carefully review any tariff rate increase for consistency with national growth priorities.

21. **The authorities intend to revise their legal framework to be consistent with the obligations under Article VIII, Sections 2, 3, and 4.** Since this will, inter alia, require a change to the Law on Foreign Exchange Control and Regulation, this work is expected to be completed late in 2004. If this amendment is passed by parliament on that schedule, the authorities should be in a position to accept the above Sections of the Article VIII by end-2004.

22. **External debt management is being strengthened.** The MOF now submits quarterly and annual reports on public debt to parliament and is upgrading the debt inventory, including a list of external debts of public enterprises with government and NBT guarantees. To ensure that the accounting for enterprise debts is comprehensive,⁹ the government will complete the inventory of such debts (structural benchmark for September 2004) and will require debtor entities to start good-faith negotiations for resolving outstanding debts.

23. **The authorities will continue debt restructuring discussions with major bilateral creditors.** The authorities have recently agreed in principle on a \$299 million debt-asset swap with the Russian Federation. Although not yet ratified (and not incorporated into the projections), this agreement would significantly reduce the total debt-service ratio over the next three years from an average of 14½ percent to 11 percent of exports. The authorities also plan to continue discussions on restructuring debt to Uzbekistan and other creditors.

⁸ This reduction is likely to be met mainly by attrition compared to the same period in 2003.

⁹ As economic conditions improve, some creditors are bringing out claims dating from the early 1990s that may involve government guarantees.

E. Structural Reform

24. **In the banking sector, the authorities continue to focus on strengthening supervision.** With the assistance from external consultants, the NBT is progressively introducing international accounting, capital adequacy, and supervision standards. In early 2004, the NBT withdrew licenses from the three weakest banks. Although the remaining banks mostly report compliance with the prudential regulations, the NBT will now apply the rules more strictly, especially for loan classification and loan loss provisioning. By end-September, the NBT expects to reach agreements with noncomplying banks on plans to correct identified deficiencies (structural benchmark for September 2004). The authorities are also in the process of revising the calculation of the capital adequacy indicators to meet the Basel capital standards and will start to phase in the new commercial bank reporting system in 2005.

25. **To improve competition and the investment climate, the authorities will be more open to the entry of foreign banks with established expertise.** Currently foreign participation in Tajik banks is mainly by smaller regional operations. The NBT has requested Fund technical assistance to review the legal framework for impediments (such as limits on foreign ownership) to the entry of more established foreign banks and address other deficiencies (such as weaknesses in the Law on Collateral), that limit lending opportunities.

26. **Reforms in the energy sector, in coordination with the World Bank, continue to focus on improving cost recovery.** The authorities plan to strengthen the financial position of Tajikgas by maintaining tariffs (now at cost recovery levels) at their real end-2003 level and improving collections by installing additional gas meters in households.¹⁰ The external audit of Tajikgas (structural benchmark for end-June 2004) will now be completed by end-September. The World Bank is discussing with the government the need to continue to raise electricity prices (the main source of the quasi-fiscal deficit) over the next few years to bring them to cost recovery levels. To limit the impact of higher energy prices on the poor, the authorities will improve the targeting of low-income households by the recently introduced energy compensation mechanism (ECM).¹¹ To this end, the SFCC will review the ECM's operations and, together with other agencies, make recommendations (by end-December 2004) for improving them.

27. **The authorities will address two key bottlenecks in the agricultural sector—the external debt of the cotton sector and farm privatization.** To restructure cotton sector debt

¹⁰ Cost recovery is based on actual import costs under barter agreements with neighboring countries, rather than world market prices.

¹¹ The ECM, introduced in 2003, provides targeted subsidies to reduce the impact of energy price increases.

and remove this constraint on farm privatization, an acceptable package is needed that balances the preservation of financing and market contacts with farm viability. By end-July 2004, the authorities will finalize their strategy for addressing this debt, which will not involve a government guarantee. Regarding the privatization of state farms, the authorities plan to increase NGO involvement in monitoring this process to enhance transparency and dilute the influence of local officials.

28. **The authorities recognize the importance of improving governance and transparency for the investment climate.** They will develop by October 2004, a comprehensive strategy for addressing key governance problems to (i) strengthen the SFCC by implementing the reforms under the World Bank-funded twinning arrangement; (ii) enhance the management and financial accountability in the budget sector; and (iii) reduce regulations and bureaucratic obstacles for the establishment and operation of businesses, and develop avenues to address specific concerns. The resultant policy recommendations will be included in the program for the third year of the PRGF arrangement.

29. **Of particular concern is the pressing need for greater fiscal accountability and transparency.** With fiscal control becoming more entrenched, attention needs to be turned to improving the efficiency and transparency of the budget's allocative function (see Box 3). In particular, improvements are needed in both the amount and quality of information and the operation of the budget process to better align the annual budgets with the PRSP. First steps in strengthening the prioritization will be to re-establish a high-level Budget Commission to strengthen the policy orientation of the 2005 budget and to augment the expenditure classifications to identify key budget organizations, which would make them accountable for their spending. The authorities will work with the World Bank and Fund staffs to incorporate reforms in the budget system and project implementation during the 2005 budget cycle.

F. Poverty Reduction

30. **Strong economic growth has benefited the poor.** In the first annual progress report on the PRSP, the authorities consider rapid economic growth in the environment of falling inflation as the main factor contributing to the decline in poverty and improvement in living standards (Box 4). They admit that much remains to be implemented in the PRSP's extensive agenda, and the Joint Staff Assessment observed the weak progress in incorporating PRSP priorities into the state budget. Going forward, reforms to the budgetary process will become an increasing focus of the PRGF .

G. Program Monitoring, Data, and Risks

31. Program implementation for the fourth review under the PRGF arrangement will be monitored with quantitative and structural performance criteria through end-September 2004 set out in the attached MEFP. Structural benchmarks have also been established for end-September (see Box 5) as well as indicative targets for end-December 2004.

Box 3. Tajikistan: Fiscal Governance and Transparency

Enhancing fiscal governance, transparency, and accountability is required in order to use the government's limited resources more efficiently. Such reforms can also contribute to the overall improvement in the business environment. To this end, the government has established a treasury system, enacted and implemented the Law of State Finance with obligations for public reporting, and created the State Financial Control Committee (SFCC).

After the recent success at fiscal consolidation, the budgetary process should be strengthened to better reflect the priorities of the government. Expenditure allocations across sectors have been slow to reflect the government priorities; for example, in the Poverty Reduction Strategy Paper (PRSP). Also, within sectors such as the social sector, inadequate attention is given to the relative contribution and effectiveness of programs. The proposal to implement a Budget Commission which will provide a forum for stakeholders (not just government ministries) to discuss various policy trade-offs, resource constraints, and priorities during the formulation of the budget would assist this process. This approach could also be applied to the prioritization of the Public Investment Program (PIP). To make broader participation more effective, improved data on expenditures by key budget units and a medium-term budget framework (MTBF) are needed. World Bank assistance has been provided in this area and it will be important to apply this framework.

Serious weaknesses remain in budget execution. Under the treasury single account, all budgetary expenditures and revenues are required to pass through this system. However, the lack of computerization and other weaknesses limit the amount of information for higher level monitoring, and results in delays in reporting and incomplete coverage. The persistence of some high profile projects outside the budget framework also undermines attempts to make the budget comprehensive. Difficulties in meeting donor fiduciary standards have been cited a reason for slow project implementation.

Establishment of the SFCC in 2002 filled an important gap to address governance issues. The SFCC audits currently focus on identifying and quantifying misuse of public funds rather than broader problem issues, such as weaknesses in internal controls or potential areas for improvements in operational efficiency. Also, there is a need to better coordinate with the Internal Audit Department of the MOF and the SFCC. The twinning arrangement financed by the World Bank will provide an a mechanism to adapt the operations to the SFCC to that of a modern audit agency.

Box 4. Tajikistan: Recent Trends in Poverty and Inequality, 1999-2003

Tajikistan, with a poverty rate of 57 percent, remains one of the poorest countries in the CIS region. By comparison, in the Kyrgyz Republic the poverty rate was 44 percent in 2001, and poverty rates were far lower in Armenia (37 percent), Azerbaijan (33 percent) and Georgia (24 percent in 2000). Poverty has been steadily declining in Tajikistan, however. The results of the Tajikistan Living Standards Survey (TLSS) of 2003 indicate that the PPP expenditure-based poverty rate (measured as the proportion of the population living below \$2.15 per day) declined to 57 percent in 2003 from 65 percent in 1999. At the same time, there are indications that inequality has worsened, for example as measured by the Gini coefficient (see Table below) and the level of inequality is high by low-income country standards.

The decline in poverty reflects the recent post-conflict rebound of growth. In its recent *Tajikistan Poverty Assessment Update*, the World Bank estimates the implied poverty elasticity to PPP-based real GDP growth at -1.6 in 1999-2003. **Donor-supported aid programs have also helped to reduce poverty, especially in narrowing regional discrepancies in poverty.** Also, while poverty fell significantly in the main cotton-growing regions (benefiting from recent high international cotton prices), it fell only slightly in the others and remained unchanged in Dushanbe.

Tajikistan: Poverty and Inequality Indicators, 1999-2003

| | 1999 | 2000 | 2001 | 2002 | 2003 |
|--|-------|-------|-------|-------|-------|
| Poverty rate (in percent) 1/ | 65.4 | ... | ... | ... | 56.6 |
| GINI coefficient 2/ | 0.33 | ... | ... | ... | 0.36 |
| Memorandum items: | | | | | |
| Real GDP growth (in percent) | 3.7 | 8.3 | 10.2 | 9.1 | 10.2 |
| Growth of Domestic Demand (in nominal terms, in percent) | 39.5 | 27.9 | 47.2 | 52.7 | 47.5 |
| Per capita GDP (in US dollars) | 171.0 | 155.4 | 165.8 | 183.7 | 235.9 |

Sources: Tajik authorities; World Bank; and Fund staff estimates.

1/ Based on per capita PPP-based expenditures (poverty line) of \$2.15 per day.

2/ Based on per capita expenditure. The Gini coefficient ranges from 0 (total equality with everyone accounting for the same amount of expenditures) to 1 (where one person accounts for all expenditures—total inequality).

Despite the progress in poverty reduction, challenges remain. Tajikistan has made good progress towards increasing the coverage of basic education and reduced infant and maternal mortality. Nevertheless, provision of basic services (e.g. safe water supply and health services) remains poor. Access to these services has declined especially among the poor while the incidence of new diseases such as TB and HIV/AIDS has increased.

Box 5. Tajikistan: Proposed Revisions to Structural Conditionality

The structural conditionality under the program (IMF Country Report No. 03/10) has been strengthened and re-focused on macro-relevant measures for the second year of the arrangement. Specifically, two new structural benchmarks are added for end-September 2004 (Attachment II, Annex II), aimed at strengthening external debt management and the banking system. These measures are critical for program goals and implementation because of the high debt service burden, and the central role of the banking system for private sector development and growth. The authorities recognize the importance of these measures and included them in the PRSP.

The structural benchmarks on completing an external audit of Tajikgas (end-June 2004) and staff reductions in the education sector (end-July 2004) are delayed, but are now targeted for end-September 2004. These measure are critical for fostering reductions in quasi-fiscal activities and improving the efficiency of the civil service.

The end-March 2004 structural benchmark on the completion of a financial audit of the SFCC was not met, and is being replaced by a twinning arrangement financed by the World Bank which took the lead in the establishment of the SFCC.

The structural performance criteria remain unchanged.

Although macroeconomic policy objectives remain unchanged, the quantitative performance criteria for the remainder of the second-year program (IMF Country Report No. 04/17) have been revised. The floor on tax revenue collections was revised upward on account of higher commodity prices. However, the ceiling on the cumulative fiscal balance of the general government remains unchanged, allowing for additional social expenditure. The ceiling on banking sector net credit to the general government has been lowered to account for the fiscal overperformance in late 2003. A waiver is being requested for the non-observance of the structural performance criterion prohibiting the NBT from providing directed credits. This was an isolated incident, which the NBT blamed on an accounting error. Remedial actions have been taken by repaying the funds (completed 8 weeks after the original credit), and strengthening the NBT management oversight of credit operations. The fourth review under the arrangement is scheduled to take place on or after December 15, 2004.

32. **The reported fiscal and monetary data are acceptable for program monitoring.** As part of their ongoing improvements, the authorities will implement the recommendations of the recent Report on Observance of Standards and Codes (data module).

33. **Notwithstanding the progress under the program, significant risks remain.** The economy is vulnerable to commodity and regional shocks. Despite the favorable performance of some CIS countries, other neighboring countries (especially Afghanistan) remain unstable, limiting trade opportunities and risking a spillover of instability. Risks also stem from the slow pace of institutional development to meet the needs of a diversified market economy, and needs to be addressed by accelerating reform.

IV. STAFF APPRAISAL

34. **The robust broad-based growth and moderation of inflation are welcome signs that the Tajik economy is strengthening.** Favorable commodity prices and increased linkages with the buoyant regional economies have underpinned these results, together with some improvements in policy performance and the growing domestic private sector.

3 Nevertheless, progress at structural reforms, especially in relation to governance, continue to be slow as accommodating vested interests has been one mechanism to sustain political stability. In particular, while there has generally been compliance with the specific program measures, in some important areas such as agriculture, underlying changes have been harder to achieve. For growth to be durable and make a sustained impact on poverty reduction, the authorities will need to use the available assistance and the current favorable circumstances to deepen the reform process.

35. **The NBT has made significant progress at strengthening monetary policy.** By shifting to a clearer reserve money target and allowing a modest appreciation of the somoni, the NBT has sharply slowed inflation. The recent case of directed credit, being the first case in some time, appears to reflect insufficient oversight and is regrettable. Implementation of the corrective measures to repay this debt and strengthen the oversight of NBT credit operations are critical for monetary control. With this and other measures, the NBT should focus on strictly managing reserve money to keep inflation low, while carefully monitoring re-monetization. Maintaining the flexible exchange rate system will facilitate this.

36. **Recent favorable commodity prices, some gains in tax administration, and tight control of expenditures have contributed to fiscal stability.** The additional revenue in 2004 will provide resources to boost social spending. At the same time, the authorities will need to strengthen the implementation of tax administration reforms to bring the non-traditional sectors into the tax base to reduce the sizeable vulnerability of the fiscal position to lower commodity prices.

37. **More concerted progress should be made to improve governance and enhance the business climate.** Within the core areas of the PRGF, the authorities need to improve fiscal governance and transparency, especially for prioritizing expenditure according to the PRSP and ensuring that expenditures are appropriately executed. Remedying the underlying severe administrative weaknesses will be a major contribution to improving governance.

38. **The government needs to expedite civil service reform to enhance the provision of public services.** Initial reforms in the education and health sectors should be deepened and reforms to the core civil service, especially in key parts of the ministerial structure, should be launched in the context of the 2005 budget. At the same time, government wages may have to be increased to retain high quality employees in the public sector.

39. **Staff welcomes authorities' steps towards acceptance of obligations under Article VIII** and looks forward to the completion of these steps, including the revision to the Law on Foreign Exchange Control, by end-2004.

40. **The authorities need to address upcoming challenges for debt sustainability.** The staff welcomes the recent restructuring agreement on the debt to Russia as a major element of this effort and urges the parties to promptly finalize this. The Tajik authorities will also need to complete the inventory of government-guaranteed debt, and to take action to resolve the outstanding obligations.

41. **The authorities have made important progress in banking system reform, and the remonetization suggests that confidence is increasing.** Going forward, the NBT needs to apply prudential standards more rigorously and to remove impediments to the entry of reputable foreign banks in order to improve competition in the sector and the business climate more generally.

42. **Further cuts in the quasi-fiscal deficit of the energy sector are critical to ensure maintenance and to develop reliable energy supplies.** After increasing gas prices to cost-recovery levels in 2003, Tajikgas needs to improve collection rates and complete the external audit. Implementing the audit recommendations will be important to strengthen the company's financial management. The authorities should also quickly reach an agreement with the World Bank on electricity price adjustments and collection improvements to reduce the large quasi-fiscal deficit.

43. **Tajikistan's performance under the program has been satisfactory.** The recent improvement in economic performance is building a constituency for reform. This will be needed to deepen reforms and overcome delays in key measures. Risks remain from the vulnerability of the economy to negative external shocks, and from regional instability. Nevertheless, given the progress made so far, and the authorities' commitment to the program, the staff recommends completing the third review under the PRGF arrangement and granting the waiver for the non-observance of the structural performance criterion prohibiting directed credits on the basis of the remedial actions taken.

Table 1. Tajikistan: Selected Economic Indicators, 2001-04

| | 2001 | 2002 | 2003 | 2004 | | |
|---|-------|-------|-------------|---|-------------|-----------------------|
| | | | Preliminary | Projection (IMF Co. Rep. No. 04/17) | Q1 Prel. | Revised Projection |
| National income and prices | | | | | | |
| Nominal GDP (in millions of somoni) | 2,512 | 3,345 | 4,758 | 5,100 | 1,123 | 5,750 |
| Nominal GDP (in millions of U.S. dollars) 1/ | 1,051 | 1,193 | 1,556 | 1,594 | 351 | 1,797 |
| Real GDP (percent change) | 10.2 | 9.1 | 10.2 | 6.0 | 9.1 | 8.5 |
| GDP per capita (in U.S. dollars) | 165.8 | 183.7 | 235.9 | 236.3 | ... | 268.5 |
| GDP deflator (annual percent change) | 29.3 | 21.9 | 29.1 | 11.9 | 36.3 | 11.4 |
| Consumer prices (12-month change, e.o.p.) | 12.5 | 14.5 | 13.7 | 7.0 | 5.6 2/ | 7.0 |
| Consumer prices (year-on-year average) | 38.6 | 12.2 | 16.4 | 8.9 | 13.8 | 7.3 |
| Poverty rate (in percent) 3/ | 65.4 | ... | 57.0 | ... | ... | ... |
| (In percent of GDP) | | | | | | |
| General government finances | | | | | | |
| Total revenue and grants | 15.2 | 16.7 | 17.2 | 18.7 | 23.0 | 17.7 |
| <i>Of which:</i> | | | | | | |
| Tax revenue | 14.1 | 15.0 | 14.9 | 16.2 | 20.9 | 15.3 |
| Total expenditure | 17.4 | 19.2 | 19.0 | 22.2 | 20.3 | 21.2 |
| <i>Of which:</i> | | | | | | |
| Current expenditure | 13.2 | 13.7 | 12.4 | 15.8 | 16.5 | 15.0 |
| Overall fiscal balance (excluding PIP) | -0.1 | -0.1 | 0.9 | -0.5 | 5.0 | -0.4 |
| Overall fiscal balance (including PIP) | -2.2 | -2.4 | -1.8 | -3.5 | 2.7 | -3.4 |
| Primary balance | 0.5 | 1.8 | 2.2 | 1.2 | 6.0 | 0.8 |
| Non-interest current expenditure | 11.7 | 11.8 | 11.1 | 14.1 | 15.5 | 13.3 |
| (12-month percent change; unless otherwise specified) | | | | | | |
| Money and credit | | | | | | |
| Reserve money (e.o.p.) 4/ | 28.9 | 20.5 | 36.5 | 18.5 | 30.0 | 8.7 |
| Broad money (e.o.p.) 4/ | 33.4 | 37.4 | 44.4 | 19.9 | 42.3 | 26.2 |
| Net domestic assets of the financial system 4/ | 31.8 | 20.1 | 6.3 | -10.2 | -6.4 | -18.3 |
| Credit to the private sector 4/ | 54.3 | 20.2 | 10.9 | -1.1 | 10.2 | 0.8 |
| Velocity (broad money) 5/ | 12.6 | 12.2 | 12.0 | 10.6 | ... | 11.2 |
| Interest rates (annualized, e.o.p.) 6/ | 18.1 | 23.1 | 4.9 | ... | 7.0 | ... |
| External sector | | | | | | |
| Growth of exports of goods (percent change) | -17.3 | 7.3 | 14.2 | 6.2 | 34.4 | 8.8 |
| Workers' remittances (in millions of US dollars) | 48 | 65 | 189 | 207 | 17 | 225 |
| Growth of imports of goods (percent change) | -7.3 | 6.5 | 22.0 | 2.6 | 0.4 | 9.1 |
| Current account balance (in percent of GDP) | -6.7 | -2.7 | -1.3 | -2.9 | ... | -2.0 |
| Gross international reserves (in months of imports) | 1.9 | 1.8 | 1.9 | 2.7 | 2.2 | 2.3 |
| Total external debt (in percent of GDP) | 100.6 | 82.3 | 64.7 | 69.0 | ... | 61.0 |
| NPV-of-external debt/exports (percent) 7/ 8/ | 171 | 149 | 142 | 139 | ... | 139 |
| NPV-of-external debt/fiscal revenues (percent) 7/ | 476 | 351 | 320 | 274 | ... | 274 |
| Total debt service due (in percent of exports) 9/ | 25.6 | 22.9 | 18.2 | 14.5 | ... | 13.4 |
| Official exchange rate (average, in somoni per U.S. dollar) | 2.38 | 2.76 | 3.06 | ... | 2.92 | ... |
| External financing gap (in millions of U.S. dollars) | ... | ... | ... | ... | ... | ... |

Sources: Tajik authorities; and Fund staff estimates.

1/ For 2001-03, the figures are converted using weighted average official exchange rates. For 2004, the program exchange rate is used.

2/ 12-month inflation rate as of end-May 2004.

3/ World Bank estimates for 1999 and 2003 respectively, based on purchasing power parity per capita expenditure of \$2.15 per day.

4/ Historical data are based on actual exchange rates. The revised projections for 2004 are based on average accounting exchange rates of SM 3.2 = US\$1 and SDR 1 = US\$1.388.

5/ Defined as annual GDP divided by end-year broad money.

6/ Three-month treasury bill rate for 2001; and 28-day NBT bill rate for 2002 onwards.

7/ Non-financial public sector debt.

8/ Computed as a three-year moving average of exports of goods and services adjusted for alumina and electricity imports traded on barter terms.

9/ Excluding trade in alumina and electricity, which are on barter terms.

Table 2. Tajikistan: Basic Social Indicators, 1970–2002

| | Tajikistan | | | | Europe & Central Asia 3/ | Low-income countries 3/ |
|---|------------|---------|---------|---------|--------------------------|-------------------------|
| | 1970–75 | 1980–85 | 1990–99 | 2000-02 | | |
| Population 1/ | | | | | | |
| Life expectancy at birth (in years) | 64 | 66 | 69 | 67 | 69 | 59 |
| Infant mortality (per thousand live births) | ... | 58 | 19.9 | ... | 30.7 | 76.0 |
| Birth rate, crude (per thousand people) | ... | ... | 22.0 | 22.6 | 12.7 | 28.6 |
| Death rate, crude (per thousand people) | ... | ... | 5.2 | 6.7 | 11.8 | 10.8 |
| Fertility rate (in births per woman) | 6.3 | 5.6 | 3.3 | 2.9 | 1.6 | 3.5 |
| Age dependency ratio (in percent) | ... | 0.90 | 0.80 | 0.73 | 0.48 | 0.69 |
| Rural population (in percent of population) | 64.5 | 66.0 | 72.5 | 72.4 | 36.4 | 69.4 |
| Urban population (in percent of population) | 35.5 | 34.0 | 27.5 | 27.6 | 63.7 | 30.6 |
| Health indicators | | | | | | |
| Child immunization: Measles (in percent of children under 12 months) 2/ | ... | ... | 79 | 84 | 93 | 65 |
| Child immunization: DPT (in percent of children under 12 months) 2/ | ... | ... | 81 | 84 | 92 | 65 |
| Physicians (per thousand people) | ... | 2.4 | 2.0 | 2.1 | 3.1 | ... |
| Hospital beds (per thousand people) | ... | 10.0 | 8.8 | 6.4 | 8.9 | ... |
| Education 1/ | | | | | | |
| Gross primary school enrollment rate (in percent of age group) | ... | ... | 95 | 107 | 99 | 94 |
| Gross secondary school enrollment rate (in percent of age group) | ... | ... | 78 | 82 | 86 | 46 |

Source: World Development Indicators, WDI On-Line, World Bank.

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

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

3/ Latest data available.

Table 3. Tajikistan: General Government Operations, 2002-04
(In millions of somoni; on cash basis)

| | 2002 | | 2003 | | | | 2004 | | | | | | Revised Program | |
|---|-------|--------|-------|-------|-------|---------------------------|-------|-------|-------|-------|-------------|-------|----------------------------|-------|
| | Year | Q1 | Q2 | Q3 | Q4 | Year | | Q1 | Q2 | Q3 | Q4 | Year | | |
| | | Actual | | | Prel. | IMF Co. Rep. No. 04/17 | Prog. | Prel. | Proj. | Prel. | Projections | | Prog. IMF Co. No. 04/17 | |
| Overall revenues and grants | 560 | 176 | 201 | 201 | 240 | 770 | 818 | 234 | 258 | 248 | 247 | 264 | 953 | 1,018 |
| Tax revenues | 501 | 164 | 173 | 173 | 197 | 667 | 707 | 197 | 235 | 205 | 215 | 224 | 825 | 880 |
| Income and profit tax | 60 | 18 | 19 | 18 | 18 | 72 | 72 | 20 | 23 | 21 | 19 | 18 | 88 | 81 |
| Payroll taxes | 65 | 17 | 22 | 24 | 24 | 81 | 85 | 18 | 26 | 25 | 28 | 24 | 97 | 103 |
| Property taxes | 19 | 7 | 6 | 7 | 8 | 25 | 27 | 8 | 7 | 7 | 8 | 11 | 31 | 32 |
| Internal taxes on goods and services | 231 | 74 | 89 | 91 | 98 | 315 | 351 | 92 | 109 | 111 | 119 | 120 | 406 | 458 |
| VAT | 159 | 50 | 61 | 63 | 70 | 223 | 244 | 62 | 77 | 69 | 79 | 81 | 293 | 305 |
| International trade and operations tax | 123 | 48 | 36 | 33 | 47 | 167 | 165 | 57 | 69 | 42 | 41 | 50 | 199 | 202 |
| Sales taxes | 63 | 26 | 20 | 12 | 30 | 92 | 88 | 27 | 40 | 20 | 14 | 33 | 78 | 107 |
| Import duties | 60 | 22 | 16 | 21 | 17 | 75 | 76 | 30 | 29 | 22 | 27 | 18 | 120 | 95 |
| Other taxes | 3 | 1 | 2 | 2 | 2 | 6 | 6 | 2 | 2 | 1 | 1 | 1 | 4 | 4 |
| Non-tax duties | 51 | 12 | 26 | 25 | 28 | 70 | 90 | 27 | 16 | 18 | 25 | 38 | 85 | 97 |
| Grants | 8 | 1 | 3 | 2 | 15 | 33 | 21 | 11 | 8 | 25 | 6 | 2 | 42 | 41 |
| Total expenditures and lending minus repayments | 642 | 167 | 232 | 240 | 263 | 872 | 902 | 272 | 228 | 330 | 339 | 319 | 1,131 | 1,216 |
| Current expenditures | 459 | 116 | 153 | 142 | 176 | 605 | 588 | 220 | 185 | 229 | 208 | 191 | 808 | 813 |
| Expenditures on goods and services | 290 | 80 | 89 | 90 | 114 | 359 | 373 | 155 | 132 | 149 | 129 | 124 | 516 | 533 |
| Wages and salaries | 108 | 25 | 35 | 31 | 39 | 121 | 129 | 29 | 37 | 47 | 39 | 32 | 155 | 155 |
| Others | 182 | 55 | 55 | 59 | 75 | 239 | 244 | 126 | 95 | 102 | 90 | 92 | 360 | 378 |
| Interest payments | 63 | 12 | 16 | 17 | 12 | 85 | 58 | 33 | 11 | 13 | 34 | 11 | 86 | 69 |
| External | 44 | 12 | 4 | 12 | 5 | 0 | 34 | 28 | 11 | 5 | 26 | 7 | 70 | 50 |
| Domestic | 17 | 0 | 13 | 5 | 7 | 0 | 24 | 5 | 0 | 8 | 7 | 4 | 16 | 19 |
| Transfers to households | 89 | 21 | 38 | 27 | 41 | 123 | 126 | 24 | 38 | 55 | 32 | 40 | 148 | 164 |
| Subsidies and other current transfers | 17 | 3 | 10 | 8 | 10 | 38 | 30 | 8 | 5 | 12 | 13 | 16 | 58 | 46 |
| Compensation scheme for energy tariff increases | ... | ... | 3 | 4 | 5 | 12 | 12 | 5 | 5 | 5 | 5 | 5 | 20 | 20 |
| Capital expenditures | 181 | 50 | 78 | 83 | 86 | 265 | 297 | 52 | 42 | 100 | 131 | 127 | 321 | 400 |
| Externally financed PIP | 79 | 30 | 35 | 34 | 29 | 128 | 128 | 43 | 26 | 46 | 49 | 51 | 153 | 173 |
| Domestically financed | 102 | 20 | 44 | 48 | 57 | 137 | 169 | 9 | 15 | 54 | 82 | 77 | 169 | 228 |
| Lending minus repayments | 1 | 0 | 0 | 0 | 0 | 2 | 2 | 1 | 1 | 1 | 1 | 0 | 2 | 3 |
| Overall balance (incl. externally financed PIP) | -82 | 9 | -31 | -39 | -23 | -101 | -84 | -38 | 30 | -81 | -92 | -55 | -178 | -198 |
| Overall balance (excl. externally financed PIP) | -3 | 39 | 4 | -5 | 6 | 27 | 44 | 5 | 57 | -35 | -43 | -4 | -26 | -25 |
| Total financing (incl. externally financed PIP) | 82 | -9 | 31 | 39 | 23 | 101 | 84 | 38 | -30 | 81 | 92 | 55 | 178 | 198 |
| Net external | 86 | 36 | 33 | 43 | 22 | 135 | 134 | 127 | 31 | 123 | 86 | 57 | 203 | 298 |
| Disbursements | 94 | 30 | 35 | 34 | 29 | 128 | 128 | 122 | 26 | 125 | 81 | 67 | 201 | 300 |
| Program loans | 15 | 0 | 0 | 0 | 0 | -15 | 0 | 123 | 0 | 79 | 32 | 16 | 111 | 127 |
| Project loans | 79 | 30 | 35 | 34 | 29 | 0 | 128 | 124 | 26 | 46 | 49 | 51 | 90 | 173 |
| Amortization | -18 | -5 | -2 | -2 | -6 | 0 | -16 | -6 | -6 | -2 | -6 | -9 | -20 | -24 |
| Arrears (+ increase) | -69 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Drawdown of Tajikistan's claim on CBR | 80 | 11 | 0 | 11 | 0 | 22 | 22 | 11 | 11 | 0 | 11 | 0 | 22 | 22 |
| Net domestic | -5 | -45 | -2 | -4 | 0 | -34 | -50 | -89 | -62 | -42 | 6 | -3 | -25 | -100 |
| NBT 1/ | -25 | -45 | -7 | -5 | -5 | -35 | -63 | -88 | -63 | -41 | 3 | -9 | -32 | -109 |
| Commercial banks | -1 | -5 | -1 | -7 | 3 | -19 | -10 | -5 | -7 | -5 | -1 | 2 | -9 | -11 |
| Gross proceeds from privatization | 31 | 6 | 6 | 8 | 3 | 20 | 22 | 4 | 8 | 4 | 4 | 4 | 16 | 20 |
| <i>Memorandum items:</i> | | | | | | | | | | | | | | |
| Nominal GDP | 3,345 | 755 | 1,039 | 1,374 | 1,590 | 4,300 | 4,758 | 885 | 1,123 | 1,235 | 1,577 | 1,815 | 5,100 | 5,750 |

Sources: Tajik authorities; and Fund staff estimates.

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

Table 4. Tajikistan: General Government Operations, 2002-04
(In percent of GDP)

| | 2002 | | 2003 | | | | 2004 | | | | | | | |
|---|-------|--------|-------|-------|---------------------------|-------|-------|-------|-------|-------------|-------|-----------------------------------|-------|---------|
| | Year | Q1 | Q2 | Q3 | Q4 | Year | | Q1 | | Q2 | Q3 | Q4 | Year | |
| | | Actual | | | Prel. | Prog. | Prel. | Proj. | Prel. | Projections | | | Prog. | Revised |
| | | | | | IMF Co. Rep. No. 04/17 | | | | | | | IMF Co. Program Rep. No. 04/17 | | |
| Overall revenues and grants | 16.7 | 23.3 | 19.4 | 14.6 | 15.1 | 17.9 | 17.2 | 26.5 | 23.0 | 20.1 | 15.7 | 14.6 | 18.7 | 17.7 |
| Tax revenues | 15.0 | 21.7 | 16.6 | 12.6 | 12.4 | 15.5 | 14.9 | 22.3 | 20.9 | 16.6 | 13.7 | 12.4 | 16.2 | 15.3 |
| Income and profit tax | 1.8 | 2.3 | 1.8 | 1.3 | 1.1 | 1.7 | 1.5 | 2.3 | 2.0 | 1.7 | 1.2 | 1.0 | 1.7 | 1.5 |
| Payroll taxes | 1.9 | 2.2 | 2.1 | 1.7 | 1.5 | 1.9 | 1.8 | 2.1 | 2.3 | 2.0 | 1.8 | 1.3 | 1.9 | 1.8 |
| Property taxes | 0.6 | 0.9 | 0.5 | 0.5 | 0.5 | 0.6 | 0.6 | 0.9 | 0.6 | 0.5 | 0.5 | 0.6 | 0.6 | 0.6 |
| Internal taxes on goods and services | 6.9 | 9.8 | 8.6 | 6.6 | 6.1 | 7.3 | 7.4 | 10.4 | 9.7 | 9.0 | 7.5 | 6.6 | 8.0 | 7.5 |
| VAT | 4.8 | 6.6 | 5.9 | 4.6 | 4.4 | 5.2 | 5.1 | 7.0 | 6.9 | 5.6 | 5.0 | 4.4 | 5.7 | 5.2 |
| International trade and operations tax | 3.7 | 6.3 | 3.5 | 2.4 | 3.0 | 3.9 | 3.5 | 6.4 | 6.1 | 3.4 | 2.6 | 2.8 | 3.9 | 3.7 |
| Sales taxes | 1.9 | 3.4 | 2.0 | 0.9 | 1.9 | 2.1 | 1.9 | 3.1 | 3.6 | 1.6 | 0.9 | 1.8 | 1.5 | 1.7 |
| Import duties | 1.8 | 2.9 | 1.5 | 1.5 | 1.1 | 1.7 | 1.6 | 3.4 | 2.6 | 1.8 | 1.7 | 1.0 | 2.4 | 2.1 |
| Other taxes | 0.1 | 0.2 | 0.2 | 0.1 | 0.1 | 0.1 | 0.1 | 0.2 | 0.2 | 0.1 | 0.0 | 0.0 | 0.1 | 0.1 |
| Non-tax duties | 1.5 | 1.5 | 2.5 | 1.8 | 1.7 | 1.6 | 1.9 | 3.0 | 1.4 | 1.5 | 1.6 | 2.1 | 1.7 | 1.7 |
| Grants | 0.2 | 0.1 | 0.3 | 0.2 | 0.9 | 0.8 | 0.4 | 1.2 | 0.7 | 2.0 | 0.4 | 0.1 | 0.8 | 0.7 |
| Total expenditures and lending minus repayments | 19.2 | 22.1 | 22.4 | 17.5 | 16.5 | 20.3 | 19.0 | 30.8 | 20.3 | 26.7 | 21.5 | 17.6 | 22.2 | 21.2 |
| Current expenditures | 13.7 | 15.4 | 14.8 | 10.3 | 11.1 | 14.1 | 12.4 | 24.9 | 16.5 | 18.5 | 13.2 | 10.5 | 15.8 | 15.0 |
| Expenditures on goods and services | 8.7 | 10.6 | 8.6 | 6.5 | 7.1 | 8.4 | 7.8 | 17.5 | 11.7 | 12.0 | 8.2 | 6.8 | 10.1 | 8.9 |
| Wages and salaries | 3.2 | 3.3 | 3.3 | 2.3 | 2.4 | 2.8 | 2.7 | 3.3 | 3.3 | 3.8 | 2.5 | 1.7 | 3.0 | 2.7 |
| Others | 5.5 | 7.3 | 5.3 | 4.3 | 4.7 | 5.5 | 5.1 | 14.2 | 8.4 | 8.2 | 5.7 | 5.1 | 7.1 | 6.2 |
| Interest payments | 1.9 | 1.7 | 1.6 | 1.2 | 0.8 | 2.0 | 1.2 | 3.7 | 1.0 | 1.1 | 2.1 | 0.6 | 1.7 | 1.7 |
| External | 1.3 | 1.7 | 0.4 | 0.9 | 0.3 | 0.0 | 0.7 | 3.1 | 1.0 | 0.4 | 1.7 | 0.4 | 1.4 | 1.2 |
| Domestic | 0.5 | 0.0 | 1.2 | 0.4 | 0.4 | 0.0 | 0.5 | 0.5 | 0.0 | 0.7 | 0.5 | 0.2 | 0.3 | 0.4 |
| Transfers to households | 2.7 | 2.8 | 3.7 | 2.0 | 2.6 | 2.9 | 2.7 | 2.8 | 3.3 | 4.4 | 2.0 | 2.2 | 2.9 | 2.9 |
| Subsidies and other current transfers | 0.5 | 0.4 | 0.9 | 0.6 | 0.6 | 0.9 | 0.6 | 0.9 | 0.4 | 1.0 | 0.8 | 0.9 | 1.1 | 1.5 |
| Compensation scheme for energy tariff increases | ... | ... | 0.3 | 0.3 | 0.3 | 0.3 | 0.3 | 0.6 | 0.5 | 0.4 | 0.3 | 0.2 | 0.4 | 0.4 |
| Capital expenditures | 5.4 | 6.7 | 7.5 | 6.0 | 5.4 | 6.2 | 6.2 | 5.9 | 3.7 | 8.1 | 8.3 | 7.0 | 6.3 | 6.2 |
| Externally financed PIP | 2.4 | 4.0 | 3.3 | 2.5 | 1.8 | 3.0 | 2.7 | 4.8 | 2.3 | 3.8 | 3.1 | 2.8 | 3.0 | 3.0 |
| Domestically financed | 3.1 | 2.6 | 4.2 | 3.5 | 3.6 | 3.2 | 3.5 | 1.0 | 1.4 | 4.4 | 5.2 | 4.2 | 3.3 | 3.2 |
| Lending minus repayments | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.1 | 0.1 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Overall balance (incl. externally financed PIP) | -2.4 | 1.2 | -3.0 | -2.8 | -1.4 | -2.4 | -1.8 | -4.3 | 2.7 | -6.6 | -5.8 | -3.0 | -3.5 | -3.4 |
| Overall balance (excl. externally financed PIP) | -0.1 | 5.2 | 0.4 | -0.3 | 0.4 | 0.6 | 0.9 | 0.5 | 5.0 | -2.8 | -2.7 | -0.2 | -0.5 | -0.4 |
| Total financing (incl. externally financed PIP) | 2.4 | -1.2 | 3.0 | 2.8 | 1.4 | 2.4 | 1.8 | 4.3 | -2.7 | 6.6 | 5.8 | 3.0 | 3.5 | 3.4 |
| Net external | 2.6 | 4.8 | 3.1 | 3.2 | 1.4 | 3.1 | 2.8 | 14.3 | 2.8 | 10.0 | 5.5 | 3.2 | 4.0 | 5.2 |
| Disbursements | 2.8 | 4.0 | 3.3 | 2.5 | 1.8 | 3.0 | 2.7 | 13.8 | 2.3 | 10.2 | 5.1 | 3.7 | 3.9 | 5.2 |
| Program loans | 0.4 | 0.0 | 0.0 | 0.0 | 0.0 | -0.3 | 0.0 | 8.9 | 0.0 | 6.4 | 2.0 | 0.9 | 2.2 | 2.2 |
| Project loans | 2.4 | 4.0 | 3.3 | 2.5 | 1.8 | 0.0 | 2.7 | 4.8 | 2.3 | 3.8 | 3.1 | 2.8 | 1.8 | 3.0 |
| Amortization | -0.5 | -0.7 | -0.2 | -0.2 | -0.4 | 0.0 | -0.3 | -0.7 | -0.5 | -0.2 | -0.4 | -0.5 | -0.4 | -0.4 |
| Arrears (+ increase) | -2.1 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Drawdown of Tajikistan's claim on CBR | 2.4 | 1.4 | 0.0 | 0.8 | 0.0 | 0.5 | 0.5 | 1.3 | 1.0 | 0.0 | 0.7 | 0.0 | 0.4 | 0.4 |
| Net domestic | -0.1 | -5.9 | -0.2 | -0.3 | 0.0 | -0.8 | -1.1 | -10.0 | -5.5 | -3.4 | 0.4 | -0.1 | -0.5 | -1.7 |
| NBT 1/ | -0.7 | -6.0 | -0.7 | -0.4 | -0.3 | -0.8 | -1.3 | -9.9 | -5.6 | -3.3 | 0.2 | -0.5 | -0.6 | -1.9 |
| Commercial banks | 0.0 | -0.7 | -0.1 | -0.5 | 0.2 | -0.4 | -0.2 | -0.6 | -0.6 | -0.4 | -0.1 | 0.1 | -0.2 | -0.2 |
| Gross proceeds from privatization | 0.9 | 0.8 | 0.6 | 0.6 | 0.2 | 0.5 | 0.5 | 0.5 | 0.7 | 0.3 | 0.3 | 0.2 | 0.3 | 0.4 |
| <i>Memorandum items:</i> | | | | | | | | | | | | | | |
| Nominal GDP (in millions of somoni) | 3,345 | 755 | 1,039 | 1,374 | 1,590 | 4,300 | 4,758 | 885 | 1,123 | 1,235 | 1,577 | 1,815 | 5,100 | 5,750 |

Sources: Tajik authorities; and Fund staff estimates.

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

Table 5. Tajikistan: Functional Classification of General Government Operations, 2002-10
(In millions of somoni; unless otherwise indicated)

| | 2002 | | 2003 | | 2004 | | 2005 | | 2006 | | 2007 | | 2008 | | 2009 | | 2010 | |
|---|----------------|-------|----------------|-------|----------------|-------|----------------|-------|----------------|-------|----------------|-------|----------------|-------|----------------|-------|----------------|-------|
| | Percent of GDP | Proj. | Percent of GDP | Proj. | Percent of GDP | Proj. | Percent of GDP | Proj. | Percent of GDP | Proj. | Percent of GDP | Proj. | Percent of GDP | Proj. | Percent of GDP | Proj. | Percent of GDP | Proj. |
| Overall revenue and grants | 560 | 16.7 | 818 | 17.2 | 1,018 | 17.7 | 1,155 | 17.9 | 1,296 | 18.2 | 1,432 | 18.2 | 1,596 | 18.4 | 1,807 | 18.9 | 2,009 | 19.1 |
| Tax revenues | 501 | 15.0 | 707 | 14.9 | 880 | 15.3 | 1,001 | 15.5 | 1,119 | 15.7 | 1,247 | 15.9 | 1,392 | 16.1 | 1,555 | 16.3 | 1,731 | 16.5 |
| Total expenditures and lending minus repayments | 642 | 19.2 | 902 | 19.0 | 1,216 | 21.1 | 1,385 | 21.4 | 1,509 | 21.2 | 1,668 | 21.2 | 1,856 | 21.4 | 2,093 | 21.9 | 2,325 | 22.1 |
| General administrative services | 91 | 2.7 | 109 | 2.3 | 121 | 2.1 | 148 | 2.3 | 168 | 2.4 | 231 | 2.9 | 324 | 3.7 | 359 | 3.8 | 398 | 3.8 |
| Protection services | 71 | 2.1 | 106 | 2.2 | 134 | 2.3 | 157 | 2.4 | 152 | 2.1 | 172 | 2.2 | 187 | 2.2 | 230 | 2.4 | 265 | 2.5 |
| Social services | 233 | 7.0 | 315 | 6.6 | 492 | 8.6 | 590 | 9.1 | 663 | 9.3 | 749 | 9.5 | 831 | 9.6 | 937 | 9.8 | 1,050 | 10.0 |
| Education | 87 | 2.6 | 118 | 2.5 | 180 | 3.1 | 218 | 3.4 | 255 | 3.6 | 295 | 3.8 | 325 | 3.8 | 362 | 3.8 | 397 | 3.8 |
| Health | 30 | 0.9 | 48 | 1.0 | 78 | 1.4 | 105 | 1.6 | 115 | 1.6 | 130 | 1.7 | 153 | 1.8 | 187 | 2.0 | 202 | 1.9 |
| Social security and welfare | 67 | 2.0 | 91 | 1.9 | 117 | 2.0 | 144 | 2.2 | 160 | 2.2 | 173 | 2.2 | 190 | 2.2 | 207 | 2.2 | 250 | 2.4 |
| Other social services | 49 | 1.5 | 59 | 1.2 | 116 | 2.0 | 123 | 1.9 | 134 | 1.9 | 151 | 1.9 | 163 | 1.9 | 181 | 1.9 | 200 | 1.9 |
| Economic services | 64 | 1.9 | 84 | 1.8 | 123 | 2.1 | 131 | 2.0 | 169 | 2.4 | 179 | 2.3 | 176 | 2.0 | 196 | 2.1 | 235 | 2.2 |
| Interest payments | 63 | 1.9 | 85 | 1.8 | 69 | 1.2 | 78 | 1.2 | 77 | 1.1 | 75 | 1.0 | 71 | 0.8 | 82 | 0.9 | 65 | 0.6 |
| Other services | 41 | 1.2 | 85 | 1.8 | 105 | 1.8 | 85 | 1.3 | 66 | 0.9 | 26 | 0.3 | 7 | 0.1 | 3 | 0.0 | -4 | 0.0 |
| Externally financed PIP | 79 | 2.4 | 128 | 2.7 | 173 | 3.0 | 194 | 3.0 | 214 | 3.0 | 236 | 3.0 | 260 | 3.0 | 286 | 3.0 | 316 | 3.0 |
| Overall balance (incl. externally financed PIP) | -82 | -2.4 | -84 | -1.8 | -198 | -3.4 | -229 | -3.5 | -214 | -3.0 | -236 | -3.0 | -260 | -3.0 | -286 | -3.0 | -316 | -3.0 |
| Overall balance (excl. externally financed PIP) | -3 | -0.1 | 44 | 0.9 | -25 | -0.4 | -35 | -0.5 | 0 | 0.0 | 0 | 0.0 | 0 | 0.0 | 0 | 0.0 | 0 | 0.0 |
| Primary balance (excl. externally financed PIP) | 59 | 1.8 | 102 | 2.2 | 44 | 0.8 | 42 | 0.7 | 77 | 1.1 | 75 | 1.0 | 71 | 0.8 | 82 | 0.9 | 65 | 0.6 |
| Total financing | 82 | 2.4 | 84 | 1.8 | 198 | 3.4 | 229 | 3.5 | 214 | 3.0 | 236 | 3.0 | 260 | 3.0 | 286 | 3.0 | 316 | 3.0 |
| Net external | 86 | 2.6 | 134 | 2.8 | 298 | 5.2 | 150 | 2.3 | 103 | 1.5 | 73 | 0.9 | 93 | 1.1 | 109 | 1.1 | 129 | 1.2 |
| Net domestic | -5 | -0.1 | -50 | -1.1 | -100 | -1.7 | 79 | 1.2 | 110 | 1.5 | 163 | 2.1 | 167 | 1.9 | 177 | 1.9 | 187 | 1.8 |
| <i>Memorandum item:</i> | | | | | | | | | | | | | | | | | | |
| Nominal GDP | 3,345 | | 4,758 | | 5,750 | | 6,461 | | 7,122 | | 7,852 | | 8,657 | | 9,544 | | 10,523 | |

Sources: Tajik authorities; and Fund staff estimates.

Table 6. Tajikistan: Accounts of the National Bank of Tajikistan, 2002-04
(End-of-period stock; unless otherwise specified)

| | 2002 | | | 2003 | | | 2004 | | | Dec. Prog. | | |
|---|---------|---------|--------------------------|--------------------------|--------------------------|--------------------------|-----------------------------|-----------------------------|--------------------------|------------|-------|-------|
| | Dec. | Jun. | Dec. | Dec. | Jun. | Dec. | Jun. | Dec. | | | | |
| | Act. 1/ | Act. 1/ | Act. 2/ Report No. 04/17 | Act. 3/ Report No. 04/17 | Act. 3/ Report No. 04/17 | Act. 3/ Report No. 04/17 | Rev. proj. Report No. 04/17 | Rev. proj. Report No. 04/17 | IMF Co. Report No. 04/17 | | | |
| Net international reserves | 3 | 25 | 39 | 28 | 49 | 54 | 43 | 66 | 59 | 76 | 74 | 80 |
| Gross assets | 96 | 111 | 134 | 123 | 156 | 161 | 150 | 168 | 161 | 191 | 189 | 189 |
| Gross liabilities | 93 | 87 | 95 | 95 | 107 | 107 | 107 | 101 | 101 | 115 | 115 | 109 |
| Official actual/program exchange rate (SM/US\$) | 3.00 | 3.09 | 3.20 | 3.20 | 3.20 | 3.20 | 3.20 | 3.20 | 3.20 | 3.20 | 3.20 | 3.20 |
| (In millions of U.S. dollars; unless otherwise specified) | | | | | | | | | | | | |
| (In millions of somoni) | | | | | | | | | | | | |
| Net foreign assets | 8 | 77 | 124 | 90 | 156 | 174 | 137 | 212 | 190 | 242 | 236 | 255 |
| Gross assets | 289 | 344 | 428 | 393 | 499 | 516 | 480 | 537 | 514 | 610 | 604 | 605 |
| Gross liabilities | 280 | 268 | 304 | 304 | 343 | 342 | 343 | 324 | 324 | 368 | 368 | 350 |
| Net domestic assets | 177 | 127 | 132 | 135 | 73 | 41 | 107 | 35 | 32 | 23 | 14 | 23 |
| Net credit to general government 4/ | -9 | -72 | -87 | -35 | -142 | -137 | -137 | -182 | -130 | -179 | -149 | -188 |
| Credit to the private sector | 205 | 206 | 214 | 183 | 214 | 181 | 245 | 209 | 179 | 204 | 177 | 199 |
| <i>Of which:</i> Claims on banks | 34 | 33 | 40 | 42 | 43 | 42 | 88 | 41 | 42 | 39 | 42 | 37 |
| Claims on private sector | 85 | 86 | 174 | 141 | 172 | 139 | 157 | 169 | 137 | 166 | 135 | 163 |
| Other items, net | -19 | -6 | 4 | -13 | 0 | -3 | -1 | 8 | -17 | -3 | -14 | 11 |
| <i>Of which:</i> NBT bills | -9 | -12 | -9 | -22 | -8 | -10 | -3 | 0 | -16 | -13 | -11 | 0 |
| Reserve money | 185 | 204 | 256 | 225 | 228 | 215 | 244 | 247 | 222 | 265 | 251 | 278 |
| Currency in circulation | 141 | 159 | 172 | 146 | 147 | 150 | 167 | 188 | 170 | 191 | 189 | 228 |
| Bank reserves | 36 | 33 | 65 | 73 | 69 | 61 | 64 | 52 | 48 | 67 | 57 | 42 |
| <i>Of which:</i> | | | | | | | | | | | | |
| Required reserves | 12 | 14 | 25 | 38 | 37 | 21 | 39 | 30 | 20 | 33 | 29 | 33 |
| Somoni | 6 | 6 | 10 | 9 | 16 | 19 | 16 | 4 | 17 | 6 | 24 | 8 |
| Foreign exchange | 6 | 9 | 16 | 17 | 21 | 2 | 23 | 26 | 3 | 27 | 5 | 26 |
| Other deposits | 8 | 12 | 18 | 6 | 13 | 4 | 12 | 7 | 4 | 7 | 5 | 8 |
| (12-month change as a percent of initial reserve money stock) | | | | | | | | | | | | |
| <i>Memorandum items:</i> | | | | | | | | | | | | |
| Net international reserves | 29.4 | 90.9 | 69.4 | 51.0 | 66.4 | 76.8 | 40.1 | 64.2 | 53.0 | 52.0 | 49.6 | 51.3 |
| Net domestic assets | -8.9 | -56.2 | -32.2 | -30.2 | -36.4 | -54.6 | -4.2 | -43.3 | -44.6 | -44.4 | -47.8 | -42.6 |
| Reserve money | 20.5 | 34.8 | 37.1 | 20.8 | 30.0 | 22.2 | 35.9 | 20.9 | 8.5 | 7.6 | 1.9 | 8.7 |

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

1/ Data are based on official SDR/U.S. dollar and somoni/U.S. dollar exchange rates.

2/ Data are based on program exchange rates of SM 3.2 = US\$1 and SDR 1 = US\$1.41 for Q4 2003.

3/ Data are based on the following program exchange rates: SM 3.2=US\$1 and SDR 1=US\$1.388.

4/ The figures for 2003 include deposits related to undischarged project financing.

Table 7. Tajikistan: Monetary Survey, 2002-04
(End-of-period stock; in millions of somoni, unless otherwise specified)

| | 2002 | | 2003 | | 2004 | | IMF Co. Report No. 04/17 | IMF Co. Report No. 04/17 | IMF Co. Report No. 04/17 | IMF Co. Report No. 04/17 |
|--|---------|---------|-----------|-----------|-----------|-----------|--------------------------|--------------------------|--------------------------|--------------------------|
| | Dec. | Jun. | Dec. | Jun. | Mar. | May | | | | |
| | Act. 1/ | Act. 1/ | Act 2/ | Act. 3/ | Act. 3/ | Act. 3/ | Act. 3/ | Rev. proj. | Rev. prog. | Prog. |
| | | | Report | Report | Report | Report | Report | Report | Report | Report |
| | | | No. 04/17 | No. 04/17 | No. 04/17 | No. 04/17 | No. 04/17 | No. 04/17 | No. 04/17 | No. 04/17 |
| Net foreign assets | -267 | -286 | -185 | -175 | -179 | -68 | -65 | -122 | -75 | -34 |
| National Bank of Tajikistan | 8 | 77 | 124 | 90 | 156 | 174 | 190 | 212 | 242 | 255 |
| Commercial banks | -275 | -363 | -309 | -264 | -334 | -242 | -255 | -334 | -318 | -289 |
| Net domestic assets | 541 | 686 | 591 | 575 | 554 | 426 | 460 | 542 | 559 | 547 |
| Net credit to general government 4/ | -16 | -86 | -104 | -61 | -165 | -168 | -166 | -211 | -209 | -215 |
| Credit to the private sector | 627 | 798 | 728 | 690 | 802 | 651 | 691 | 895 | 848 | 842 |
| Other items net | -70 | -27 | -33 | -54 | -84 | -57 | -64 | -143 | -81 | -80 |
| Broad money | 274 | 400 | 407 | 400 | 375 | 358 | 395 | 420 | 483 | 513 |
| Somoni broad money | 195 | 215 | 259 | 205 | 215 | 215 | 241 | 267 | 301 | 340 |
| Currency outside banks | 136 | 147 | 158 | 141 | 125 | 142 | 162 | 148 | 175 | 194 |
| Deposits | 59 | 68 | 101 | 64 | 90 | 73 | 80 | 119 | 127 | 146 |
| Foreign currency deposits | 79 | 185 | 148 | 195 | 161 | 142 | 154 | 153 | 182 | 174 |
| <i>Memorandum items:</i> | | | | | | | | | | |
| Year-to-year average of quarterly velocity 5/ | 3.3 | 3.4 | 3.2 | 2.9 | 3.2 | 2.8 | 2.9 | 3.2 | 3.2 | 3.1 |
| Money multiplier 6/ | 1.5 | 2.0 | 1.6 | 1.8 | 1.6 | 1.7 | 1.8 | 1.9 | 1.8 | 1.8 |
| Broad money (12-month percent change) | 37.4 | 73.2 | 45.7 | 43.3 | 42.3 | 35.8 | 33 | 3.3 | 12.9 | 26.2 |
| Credit to the private sector (12-month percent change) | 20.2 | 16.8 | 11.3 | 5.5 | 8.7 | 9.5 | -16.6 | 9.5 | 0.8 | 15.7 |

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

1/ Data are based on official SDR/U.S. dollar and somoni/U.S. dollar exchange rates.

2/ Data are based on program exchange rates of SM 3.2=US\$1 and SDR 1 = US\$1.41 for Q4 2003.

3/ Data are based on the following program exchange rates: SM 3.2=US\$1 and SDR 1=US\$1.388.

4/ The figures for 2003 include deposits related to undischarged project financing.

5/ Quarterly GDP divided by end-quarter broad money; four-quarter average.

6/ Total broad money divided by reserve money.

Table 8. Tajikistan: Balance of Payments, 2002-04
(In millions of U.S. dollars)

| | 2002 | 2003 | | | | 2003 | 2004 | | | | 2004 |
|--|-------|--------|-------|-------|-------|---------|-------------|-------|-------|-------|---------|
| | | Q1 | Q2 | Q3 | Q4 | | Q1 | Q2 | Q3 | Q4 | |
| | | Actual | | | | | Projections | | | | |
| Current account | -32 | -44 | 23 | -1 | 1 | -20 | -6 | -18 | -3 | -9 | -36 |
| Balance on goods and services | -160 | -85 | -21 | -82 | -71 | -259 | -21 | -49 | -103 | -116 | -290 |
| Balance on goods | -124 | -64 | -13 | -75 | -53 | -205 | -6 | -36 | -88 | -96 | -226 |
| Exports | 699 | 174 | 189 | 167 | 268 | 799 | 234 | 214 | 185 | 236 | 869 |
| <i>Of which:</i> aluminum | 399 | 94 | 106 | 104 | 126 | 430 | 136 | 122 | 114 | 112 | 484 |
| cotton fiber | 128 | 41 | 41 | 18 | 93 | 193 | 60 | 50 | 21 | 90 | 221 |
| Imports | 823 | 239 | 201 | 242 | 322 | 1,004 | 240 | 250 | 273 | 331 | 1,095 |
| Balance on services 1/ | -36 | -21 | -8 | -7 | -18 | -54 | -15 | -13 | -15 | -20 | -64 |
| Balance on income | -57 | -27 | -19 | -26 | -19 | -90 | -26 | -19 | -26 | -20 | -91 |
| Balance on transfers | 184 | 68 | 63 | 107 | 91 | 329 | 41 | 51 | 126 | 126 | 344 |
| <i>Of which:</i> migrants' remittances, net 2/ | 65 | 22 | 35 | 71 | 61 | 189 | 17 | 19 | 94 | 94 | 225 |
| Capital and financial account | 53 | 54 | -10 | 8 | 3 | 55 | 10 | 35 | 8 | 14 | 66 |
| Capital transfers | 5 | 9 | 1 | 1 | 3 | 14 | 0 | 8 | 0 | 0 | 8 |
| Public sector (net) | 2 | -11 | 11 | 10 | 7 | 16 | -1 | 14 | 13 | 13 | 39 |
| Disbursements | 28 | 10 | 12 | 11 | 9 | 41 | 8 | 14 | 15 | 16 | 54 |
| Amortization | -25 | -22 | -1 | -1 | -2 | -25 | -10 | -1 | -2 | -3 | -15 |
| World Bank | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 25 | 10 | 0 | 35 |
| AsDB | 5 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 5 | 5 |
| FDI | 36 | 6 | 4 | 8 | 14 | 32 | 4 | 3 | 5 | 9 | 20 |
| Commercial bank NFA (- increase) | 8 | 48 | -22 | -2 | -21 | 3 | 11 | -1 | -5 | -9 | -4 |
| Electricity credit | 4 | 3 | -2 | -5 | 5 | 0 | 6 | -5 | -6 | 5 | 0 |
| Other capital and errors and omissions | -7 | 0 | -3 | -4 | -4 | -10 | -9 | -9 | -9 | -9 | -36 |
| Overall balance | 21 | 10 | 13 | 8 | 4 | 35 | 4 | 16 | 5 | 4 | 30 |
| Use of international reserves (- increase) | -1 | -4 | -12 | -22 | -2 | -39 | -22 | -10 | -23 | 2 | -54 |
| Financing items | -21 | -6 | -1 | 15 | -3 | 4 | 18 | -6 | 18 | -6 | 24 |
| IMF (net) | -24 | -10 | -1 | 11 | -3 | -3 | 15 | -6 | 14 | -6 | 17 |
| Purchases/disbursements | 11 | 0 | 0 | 11 | 0 | 11 | 15 | 0 | 14 | 0 | 29 |
| Repurchases/repayments | 35 | 10 | 1 | 0 | 3 | 14 | 0 | 6 | 0 | 6 | 12 |
| Other reserve liabilities | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Debt service account (- increase) | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Arrears (+ increase) 3/ | -23 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Drawdown on Tajikistan's claim on the CBR | 27 | 4 | 0 | 4 | 0 | 7 | 4 | 0 | 4 | 0 | 7 |
| Rescheduling | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Financing gap | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| As a share of GDP | 0 | ... | ... | ... | ... | 0 | ... | ... | ... | ... | 0 |
| <i>Memorandum items:</i> | | | | | | | | | | | |
| Current account balance in percent of GDP | -2.7 | ... | ... | ... | ... | -1.3 | ... | ... | ... | ... | -2.0 |
| (excluding transfers) | -18.1 | ... | ... | ... | ... | -22.5 | ... | ... | ... | ... | -21.2 |
| Real GDP growth | 9.1 | ... | ... | ... | ... | 10.2 | ... | ... | ... | ... | 8.5 |
| Domestic demand | 4.5 | ... | ... | ... | ... | 18.8 | ... | ... | ... | ... | 10.0 |
| Exports (g&s) | 13.8 | ... | ... | ... | ... | 5.3 | ... | ... | ... | ... | 5.0 |
| Imports (g&s) | 6.8 | ... | ... | ... | ... | 18.7 | ... | ... | ... | ... | 8.2 |
| Terms of trade | -8.4 | ... | ... | ... | ... | 5.2 | ... | ... | ... | ... | 2.8 |
| Net international reserves | 2.7 | 15.3 | 24.8 | 35.9 | 36.0 | 36.0 | 44.0 | 66.4 | 75.7 | 79.7 | 79.7 |
| Gross reserves | 96.2 | 99.7 | 111.5 | 133.8 | 135.4 | 135.4 | 157.4 | 167.8 | 190.7 | 189.1 | 189.1 |
| (in months of imports) | 1.8 | 1.8 | 1.9 | 2.1 | 1.9 | 1.9 | 2.2 | 2.2 | 2.4 | 2.3 | 2.3 |
| Total debt service due | 113 | ... | ... | ... | ... | 111.2 | ... | ... | ... | ... | 91.2 |
| (in percent of exports) 4/ | 22.9 | ... | ... | ... | ... | 18.2 | ... | ... | ... | ... | 13.4 |
| Total external debt | 982 | ... | ... | ... | ... | 1,007.0 | ... | ... | ... | ... | 1,097.0 |
| (in percent of GDP) | 82.3 | ... | ... | ... | ... | 64.7 | ... | ... | ... | ... | 61.0 |

Sources: Tajik authorities; and Fund staff estimates.

1/ Beginning in 2002, transportation and insurance costs were revised upward to reflect international prices.

2/ May include some income transfers and export receipts, which are misclassified.

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

4/ Excluding trade in alumina and electricity, which are on barter basis.

Table 9. Tajikistan: Medium-Term Balance of Payments, 2002-10
(In millions of US dollars)

| | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 |
|--|-------|-------|-------------|-------|-------|-------|-------|-------|-------|
| | Act. | Prel. | | | | | | | |
| | | | Projections | | | | | | |
| Current account | -32 | -20 | -36 | -43 | -50 | -60 | -65 | -63 | -53 |
| Balance on goods and services | -160 | -259 | -290 | -311 | -333 | -358 | -383 | -401 | -419 |
| Balance on goods | -124 | -205 | -226 | -248 | -269 | -289 | -308 | -322 | -337 |
| Exports | 699 | 799 | 869 | 943 | 991 | 1059 | 1132 | 1211 | 1296 |
| <i>Of which:</i> aluminum | 399 | 430 | 484 | 508 | 524 | 557 | 592 | 630 | 670 |
| cotton fiber | 128 | 193 | 221 | 231 | 249 | 268 | 288 | 311 | 337 |
| Imports | 823 | 1004 | 1095 | 1192 | 1260 | 1348 | 1440 | 1533 | 1633 |
| Balance on services 1/ | -36 | -54 | -64 | -63 | -64 | -69 | -74 | -78 | -83 |
| Balance on income | -57 | -90 | -91 | -92 | -93 | -96 | -95 | -105 | -110 |
| Balance on transfers | 184 | 329 | 344 | 360 | 376 | 394 | 413 | 442 | 476 |
| <i>Of which:</i> migrants' remittances 2/ | 65 | 189 | 225 | 251 | 278 | 308 | 341 | 377 | 416 |
| Capital and financial account | 53 | 55 | 66 | 68 | 64 | 61 | 69 | 80 | 89 |
| Capital transfers | 5 | 14 | 8 | 8 | 0 | 0 | 0 | 0 | 0 |
| Public sector (net) | 2 | 16 | 39 | 26 | 29 | 21 | 26 | 30 | 35 |
| Disbursements | 28 | 41 | 54 | 59 | 63 | 68 | 73 | 79 | 85 |
| Amortization | -25 | -25 | -15 | -33 | -34 | -47 | -47 | -49 | -50 |
| World Bank | 0 | 0 | 35 | 13 | 0 | 0 | 0 | 0 | 0 |
| AsDB | 5 | 0 | 5 | 0 | 0 | 0 | 0 | 0 | 0 |
| FDI | 36 | 32 | 20 | 39 | 42 | 46 | 49 | 55 | 59 |
| Commercial bank NFA (- increase) | 8 | 3 | -4 | -17 | -7 | -6 | -6 | -5 | -5 |
| Electricity credit | 4 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Other capital and errors and omissions | -7 | -10 | -36 | 0 | 0 | 0 | 0 | 0 | 0 |
| Overall balance | 21 | 35 | 30 | 26 | 14 | 2 | 4 | 17 | 37 |
| Use of international reserves (- increase) | -1 | -39 | -54 | -55 | -35 | -20 | -20 | -40 | -50 |
| Financing items | -21 | 4 | 24 | 22 | 1 | -16 | -15 | -10 | -14 |
| IMF (net) | -24 | -3 | 17 | 15 | -1 | -16 | -15 | -10 | -14 |
| Purchases/disbursements | 11 | 11 | 29 | 29 | 15 | 0 | 0 | 0 | 0 |
| Repurchases/repayments | 35 | 14 | 12 | 14 | 16 | 16 | 15 | 10 | 14 |
| Other reserve liabilities | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Debt service account (- increase) | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Arrears (+ increase) 3/ | -23 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Drawdown on Tajikistan's claim on the CBR | 27 | 7 | 7 | 7 | 2 | 0 | 0 | 0 | 0 |
| Rescheduling | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Financing gap | 0 | 0 | 0 | 7 | 21 | 34 | 32 | 33 | 27 |
| As a share of GDP | 0.0 | 0.0 | 0.0 | 0.4 | 1.0 | 1.5 | 1.3 | 1.2 | 1.0 |
| <i>Memorandum items:</i> | | | | | | | | | |
| GDP (in millions of U.S. dollars) | 1,193 | 1,556 | 1,797 | 1,960 | 2,109 | 2,270 | 2,443 | 2,629 | 2,830 |
| Current account balance in percent of GDP (excluding transfers) | -2.7 | -1.3 | -2.0 | -2.2 | -2.4 | -2.6 | -2.7 | -2.4 | -1.9 |
| Net international reserves | 2.7 | 36.0 | 79.7 | 115.4 | 151.6 | 186.5 | 221.0 | 270.3 | 333.0 |
| Gross reserves (in months of imports) | 96.2 | 135.4 | 189.1 | 244.1 | 279.1 | 299.1 | 319.1 | 359.1 | 409.1 |
| Total debt service due (in percent of exports) 4/ | 113 | 111 | 91 | 108.7 | 110.6 | 121.6 | 120.2 | 115.7 | 120.5 |
| Total external debt (in percent of GDP) | 22.9 | 18.2 | 13.4 | 14.8 | 14.3 | 14.7 | 13.6 | 12.3 | 11.9 |
| | 982 | 1,007 | 1,097 | 1,158 | 1,206 | 1,246 | 1,287 | 1,337 | 1,381 |
| | 82.3 | 64.7 | 61.0 | 59.1 | 57.2 | 54.9 | 52.7 | 50.9 | 48.8 |

Sources: Tajik authorities; and Fund staff estimates.

1/ Beginning in 2002, transportation and insurance costs were revised upward to reflect international prices.

2/ May include some income transfers and export receipts, which are misclassified.

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

4/ Excluding trade in alumina and electricity, which are on barter basis.

Table 10. Tajikistan: Medium-Term Macroeconomic Projections, 2002-10

| | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 |
|---|--------|--------|-------------|-------|-------|-------|-------|-------|--------|
| | Actual | Actual | Projections | | | | | | |
| National income and prices | | | | | | | | | |
| Nominal GDP (in millions of somoni) | 3,345 | 4,758 | 5,750 | 6,461 | 7,122 | 7,852 | 8,657 | 9,544 | 10,523 |
| Nominal GDP (in millions of U.S. dollars) | 1,193 | 1,556 | 1,797 | 1,960 | 2,109 | 2,270 | 2,443 | 2,629 | 2,830 |
| Real GDP (annual percent change) | 9.1 | 10.2 | 8.5 | 7.5 | 6.0 | 5.0 | 5.0 | 5.0 | 5.0 |
| GDP per capita (in U.S. dollars) | 183.7 | 235.9 | 268.5 | 288.5 | 305.9 | 324.4 | 344.0 | 364.7 | 386.7 |
| GDP deflator (annual percent change) | 21.9 | 29.1 | 11.4 | 4.5 | 5.0 | 5.0 | 5.0 | 5.0 | 5.0 |
| Consumer prices (12-month percent change, e.o.p.) | 14.5 | 13.7 | 7.0 | 5.0 | 5.0 | 5.0 | 5.0 | 5.0 | 5.0 |
| Consumer prices (year-on-year percent change, average) | 12.2 | 16.4 | 7.3 | 5.6 | 5.0 | 5.0 | 5.0 | 5.0 | 5.0 |
| (In percent of GDP) | | | | | | | | | |
| General government finances | | | | | | | | | |
| Total revenue and grants | 16.7 | 17.2 | 17.7 | 17.9 | 18.2 | 18.2 | 18.4 | 18.9 | 19.1 |
| <i>Of which:</i> | | | | | | | | | |
| Tax revenue | 15.0 | 14.9 | 15.3 | 15.5 | 15.7 | 15.9 | 16.1 | 16.3 | 16.5 |
| Total expenditure | 19.2 | 19.0 | 21.1 | 21.4 | 21.2 | 21.2 | 21.4 | 21.9 | 22.1 |
| <i>Of which:</i> | | | | | | | | | |
| Current expenditure | 13.7 | 12.4 | 14.1 | 14.2 | 13.8 | 14.0 | 14.1 | 14.9 | 15.0 |
| Fiscal balance (excluding the PIP) | -0.1 | 0.9 | -0.4 | -0.5 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Primary balance | 1.8 | 2.2 | 0.8 | 0.7 | 1.1 | 1.0 | 0.8 | 0.9 | 0.6 |
| Public investment program (PIP) | 2.4 | 2.7 | 3.0 | 3.0 | 3.0 | 3.0 | 3.0 | 3.0 | 3.0 |
| Savings/investment balances | | | | | | | | | |
| Current account balance | -2.7 | -1.3 | -2.0 | -2.2 | -2.4 | -2.6 | -2.7 | -2.4 | -1.9 |
| Overall fiscal balance (including the PIP) | -2.4 | -1.8 | -3.4 | -3.5 | -3.0 | -3.0 | -3.0 | -3.0 | -3.0 |
| Net savings (S-I) of the private sector 1/ | -0.2 | 0.4 | 1.4 | 1.4 | 0.6 | 0.4 | 0.3 | 0.6 | 1.1 |
| (In millions of U.S. dollars; unless otherwise specified) | | | | | | | | | |
| External sector | | | | | | | | | |
| Exports of goods | 699 | 799 | 869 | 943 | 991 | 1,059 | 1,132 | 1,211 | 1,296 |
| Imports of goods | 823 | 1,004 | 1,095 | 1,192 | 1,260 | 1,348 | 1,440 | 1,533 | 1,633 |
| Current account balance | -32 | -20 | -36 | -43 | -50 | -60 | -65 | -63 | -53 |
| Gross international reserves | 96 | 135 | 189 | 244 | 279 | 299 | 319 | 359 | 409 |
| Gross international reserves (in months of imports) | 1.8 | 1.9 | 2.3 | 2.8 | 3.0 | 3.0 | 3.0 | 3.2 | 3.4 |

Sources: Tajik authorities; and Fund staff estimates.

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

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

| | 1990 | 1995 | 2001 | 2002 | 2015 Target |
|--|-------|-------|-------|-------|----------------|
| Goal 1. Eradicate extreme poverty and hunger | | | | | |
| Target 1: Halve, between 1990 and 2015, the proportion of people whose income is less than one dollar a day. | | | | | |
| 1. Population below \$1 a day (%) | .. | .. | .. | .. | .. |
| 1a. Population below \$2 a day (%) 2/ | .. | .. | 65.4 | .. | .. |
| 2. Poverty gap at \$1 a day (%) | .. | .. | .. | .. | .. |
| 3. Percentage share of income or consumption held by poorest 20% | .. | .. | .. | .. | .. |
| Target 2: Halve, between 1990 and 2015, the proportion of people who suffer from hunger. | | | | | |
| 4. Prevalence of child malnutrition (% of children under 5) | .. | .. | .. | .. | .. |
| 5. Population below minimum level of dietary energy consumption (%) | .. | .. | .. | .. | .. |
| Goal 2. Achieve universal primary education | | | | | |
| Target 3: Ensure that, by 2015, children everywhere, boys and girls alike, will be able to complete a full course of primary schooling. | | | | | |
| 6. Net primary enrollment ratio (% of relevant age group) | .. | .. | 102.6 | .. | 100.0 |
| 7. Percentage of cohort reaching grade 5 (%) | .. | .. | .. | .. | 100.0 |
| 8. Youth literacy rate (% ages 15-24) | 99.8 | 99.8 | 99.8 | 99.8 | 100.0 |
| Goal 3. Promote gender equality | | | | | |
| Target 4: Eliminate gender disparity in primary and secondary education preferably by 2005 and to all levels of education no later than 2015. | | | | | |
| 9. Ratio of girls to boys in primary and secondary education (%) | .. | .. | 87.2 | .. | 100.0 |
| 10. Ratio of young literate females to males (% ages 15-24) | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 |
| 11. Share of women employed in the nonagricultural sector (%) | .. | .. | .. | .. | .. |
| 12. Proportion of seats held by women in national parliament (%) | .. | 3.0 | 15.0 | 13.0 | .. |
| Goal 4. Reduce child mortality | | | | | |
| Target 5: Reduce by two-thirds, between 1990 and 2015, the under-five mortality rate. | | | | | |
| 13. Under 5 mortality rate (per 1,000) | 127.0 | 122.0 | 116.0 | .. | 42.3 |
| 14. Infant mortality rate (per 1,000 live births) | 98.0 | 95.0 | 91.0 | .. | 32.7 |
| 15. Immunization, measles (% of children under 12 months) | 77.0 | 88.0 | 86.0 | .. | 100.0 |
| Goal 5. Improve maternal health | | | | | |
| Target 6: Reduce by three-quarters, between 1990 and 2015, the maternal mortality ratio. | | | | | |
| 16. Maternal mortality ratio (modeled estimate, per 100,000 live births) | .. | 120.0 | .. | .. | 30.0 |
| 17. Births attended by skilled health staff (% of total) | .. | 79.0 | 71.3 | .. | 100.0 |
| Goal 6. Combat HIV/AIDS, malaria and other diseases | | | | | |
| Target 7: Have halted by 2015, and begun to reverse, the spread of HIV/AIDS. Have halted by 2015, and begun to reverse, the incidence of malaria and other major diseases. | | | | | |
| 18. Prevalence of HIV, female (% ages 15-24) | .. | .. | 0.0 | .. | .. |
| 19. Contraceptive prevalence rate (% of women ages 15-49) | .. | .. | .. | .. | .. |
| 20. Number of children orphaned by HIV/AIDS | .. | .. | .. | .. | .. |

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

| | 1990 | 1995 | 2001 | 2002 | 2015 Target |
|---|-------|-------|-------|-------|----------------|
| Target 8: Have halted by 2015, and begun to reverse, the incidence of malaria and other major diseases. | | | | | |
| 21. Incidence of tuberculosis (per 100,000 people) | .. | .. | 159.6 | .. | .. |
| 22. Tuberculosis cases detected under DOTS (%) | .. | .. | .. | .. | .. |
| Goal 7. Ensure environmental sustainability | | | | | |
| Target 9: Integrate the principles of sustainable development into country policies and programs and reverse the loss of environmental resources. | | | | | |
| 23. Forest area (% of total land area) | 2.7 | .. | 2.8 | .. | .. |
| 24. Nationally protected areas (% of total land area) | .. | 4.2 | 4.2 | 4.2 | .. |
| 25. GDP per unit of energy use (PPP \$ per kg oil equivalent) | 0.8 | 1.4 | 1.7 | .. | .. |
| 26. CO2 emissions (metric tons per capita) | 3.7 | 0.9 | 0.8 | .. | .. |
| Target 10: Halve, by 2015, the proportion of people without sustainable access to safe drinking water. | | | | | |
| 27. Access to an improved water source (% of population) | .. | .. | 60.0 | .. | .. |
| Target 11. Achieve by 2020 significant improvement for at least 100 million slum dwellers. | | | | | |
| 28. Access to improved sanitation (% of population) | .. | .. | 90.0 | .. | .. |
| 29. Access to secure tenure (% of population) | .. | .. | .. | .. | .. |
| Goal 8. Develop a Global Partnership for Development | | | | | |
| Target 12: Develop and implement strategies for decent and productive work for youth. | | | | | |
| 30. Youth unemployment rate (% of total labor force ages 15-24) | .. | .. | .. | .. | .. |
| Target 12: Develop further an open, rule-based, predictable, non-discriminatory trading and financial system. Address the Special Needs of the Least Developed Countries. Address the Special Needs of landlocked countries and small island developing states. Deal comprehensively with the debt problems of developing countries through national and international measures in order to make debt sustainable in the long term. In cooperation with developing countries, develop and implement strategies for decent and productive work for youth. In cooperation with pharmaceutical companies, provide access to affordable, essential drugs in developing countries. In cooperation with the private sector, make available the benefits of new technologies, especially information and communications. | | | | | |
| 32. Fixed line and mobile telephones (per 1,000 people) | .. | 41.6 | 36.2 | .. | .. |
| 33. Personal computers (per 1,000 people) | .. | .. | .. | .. | .. |
| 34. General indicators | | | | | |
| 35. Population (In millions) | 5.3 | 5.8 | 6.2 | 6.3 | 6.3 |
| 36. Gross national income (In billions of \$'s) | 4.5 | 2.3 | 1.1 | 1.1 | 1.1 |
| 37. GNI per capita (In \$'s) | 840.0 | 390.0 | 180.0 | 180.0 | 180.0 |
| 38. Adult literacy rate (% of people ages 15 and over) | 98.2 | 98.8 | 99.3 | 99.3 | 99.3 |
| 39. Total fertility rate (births per woman) | 5.1 | 3.7 | 3.0 | 2.9 | 2.9 |
| 40. Life expectancy at birth (years) | 69.3 | 68.3 | 66.9 | 66.6 | 66.6 |
| 41. Aid (% of GNI) | 0.5 | 2.9 | 15.5 | .. | .. |
| 42. External debt (% of GNI) | 0.4 | 28.2 | 105.9 | .. | .. |
| 43. Investment (% of GDP) | 24.8 | 28.7 | 11.6 | .. | .. |
| 44. Trade (% of GDP) | 63.0 | 143.4 | 139.6 | 132.4 | 132.4 |

Source: World Development Indicators database, April 2002

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

2/ World Bank estimate for 1999; based on purchasing power parity expenditure level of \$2.15 per day.

Preliminary estimates indicate that poverty declined to 57 percent in 2003.

Table 12. Tajikistan: Fund Position During the Period of the PRGF Arrangement, October 2002-September 2005
(In millions of SDR; unless otherwise specified)

| | 2002 | | | | 2003 | | | | 2004 | | | | 2005 | | |
|--|--------------------------|-------|-------|-------|-------|-------|-----------------------|-------|-------|-------|-------|-------|--------|-------|--------|
| | Outstanding on 30-Sep-02 | | | | Q1 | Q2 | Q3 | Q4 | Q1 | Q2 | Q3 | Q4 | Q1 | Q2 | Q3 |
| Disbursements | | | | | | | | | | | | | | | |
| PRGF | ... | 8.00 | 0.00 | 0.00 | 8.00 | 0.00 | 0.00 | 0.00 | 9.80 | 0.00 | 9.80 | 0.00 | 9.80 | 0.00 | 9.80 |
| Repurchases/repayments | ... | 8.21 | 7.27 | 0.94 | 0.00 | 1.80 | 0.00 | 4.03 | 0.00 | 4.03 | 0.00 | 4.03 | 0.67 | 4.03 | 0.67 |
| Ordinary resources | ... | 1.88 | 0.94 | 0.94 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| PRGF | ... | 6.33 | 6.33 | 0.00 | 0.00 | 1.80 | 0.00 | 4.03 | 0.00 | 4.03 | 0.00 | 4.03 | 0.67 | 4.03 | 0.67 |
| Charges and interests | ... | 0.20 | 0.00 | 0.16 | 0.00 | 0.17 | 0.00 | 0.19 | 0.00 | 0.21 | 0.00 | 0.21 | 0.00 | 0.22 | 0.00 |
| Ordinary resources | ... | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| PRGF | ... | 0.20 | 0.00 | 0.16 | 0.00 | 0.17 | 0.00 | 0.19 | 0.00 | 0.21 | 0.00 | 0.21 | 0.00 | 0.22 | 0.00 |
| SDR charges | ... | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| Total Fund credit outstanding (e.o.p.) | 69.37 | 69.17 | 61.90 | 60.96 | 68.96 | 67.16 | 76.96 | 72.93 | 76.96 | 72.93 | 82.73 | 78.70 | 87.83 | 83.80 | 92.94 |
| Ordinary resources | 3.75 | 1.88 | 0.94 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| PRGF | 65.62 | 67.29 | 60.96 | 60.96 | 68.96 | 67.16 | 76.96 | 72.93 | 76.96 | 72.93 | 82.73 | 78.70 | 87.83 | 83.80 | 92.94 |
| | | | | | | | (In percent of quota) | | | | | | | | |
| Total Fund credit outstanding (e.o.p.) | 79.74 | 79.50 | 71.15 | 70.07 | 79.26 | 77.20 | 88.46 | 83.83 | 88.46 | 83.83 | 95.09 | 90.46 | 100.96 | 96.33 | 106.83 |
| PRGF disbursements | ... | 9.20 | 0.00 | 0.00 | 9.20 | 0.00 | 11.26 | 0.00 | 11.26 | 0.00 | 11.26 | 0.00 | 11.26 | 0.00 | 11.26 |
| Repurchases/repayments | ... | 9.43 | 8.35 | 1.08 | 0.00 | 2.07 | 0.00 | 4.63 | 0.00 | 4.63 | 0.00 | 4.63 | 0.77 | 4.63 | 0.77 |
| Charges and interests | ... | 0.23 | 0.00 | 0.19 | 0.00 | 0.20 | 0.00 | 0.22 | 0.00 | 0.22 | 0.00 | 0.24 | 0.00 | 0.25 | 0.00 |

Sources: International Monetary Fund.

Table 13. Tajikistan: Number of Banks Complying with Prudential Requirements, June 2002-March 2004

| | Prudential requirements | Jun-02 | Sep-02 | Dec-02 | Mar-03 | Jun-03 | Sep-03 | Dec-03 | Mar-04 |
|---|-------------------------|--------|--------|--------|--------|--------|--------|--------|--------|
| Total capital | US\$1.5 million | 5 | 6 | 6 | 6 | 6 | 8 | 8 | 11 |
| Total capital / Risk Weighted Assets | Min. 12 percent | 10 | 12 | 12 | 12 | 12 | 12 | 12 | 14 |
| Total capital / Total Assets | Min. 10 percent | 10 | 11 | 11 | 11 | 11 | 11 | 12 | 13 |
| Liquid Assets / Demand Liabilities | Min. 75 percent 1/ | 11 | 11 | 11 | 10 | 12 | 12 | 11 | 14 |
| Liquid Assets / Total Capital | Min. 25 percent | 9 | 9 | 11 | 12 | 9 | 10 | 11 | 8 |
| Single Borrower Loans / Total Capital | Max. 25 percent | 7 | 9 | 10 | 10 | 11 | 10 | 9 | 10 |
| Large Credit Exposure / Total Capital | Max. 5 times | 13 | 13 | 13 | 10 | 13 | 12 | 13 | 14 |
| Single Shareholder Borrowing / Total Capital | Max. 10 percent | 10 | 10 | 10 | 10 | 10 | 10 | 10 | 13 |
| All Shareholder's Borrowing / Total Capital | Max. 50 percent | 11 | 11 | 11 | 11 | 12 | 11 | 11 | 13 |
| Single Insider Borrowing / Total Capital | Max. 2 percent | 12 | 13 | 13 | 14 | 14 | 14 | 13 | 14 |
| All Insider Borrowing / Total Capital | Max. 3 percent | 12 | 13 | 14 | 14 | 14 | 14 | 14 | 14 |
| Stocks of Other Legal Entities/ Total Capital | Max. 20 percent | 14 | 14 | 14 | 14 | 14 | 14 | 14 | 14 |
| Total number of banks | | 14 | 14 | 14 | 14 | 14 | 14 | 14 | 14 |

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

1/ With effect from February 1 2004, this requirement was revised to a minimum 30 percent for banks that meet all prudential requirements, and a minimum of 50 percent for all other banks.

Table 14. Tajikistan: Reviews and Disbursements Under the
Three-Year PRGF Arrangement, 2002-05

| Date | Action/Status | Disbursement |
|-------------------------------|--|-----------------|
| December 20, 2002 1/ | Board approval of a three-year arrangement (December 11, 2002). | SDR 8 million |
| July 18, 2003 | Completed first review based on end-March 2003 performance criteria. | SDR 8 million |
| January 16, 2004 | Completed second review based on end-September 2003 performance criteria, and adopted conditions and disbursements for the second year of the arrangement. | SDR 9.8 million |
| Expected July 21, 2004 | Complete third review based on end-March 2004 performance criteria. | SDR 9.8 million |
| On or after December 15, 2004 | Complete fourth review based on end-September 2004 performance criteria, and adopt conditions and disbursements for the third year of the arrangement. | SDR 9.8 million |
| On or after June 2005 | Complete fifth review based on end-March 2005 performance criteria. | SDR 9.8 million |
| On or after December 15, 2005 | Complete sixth review based on end-September 2005 performance criteria. | SDR 9.8 million |

1/ Executive Board approval was on December 11, 2002, but the first disbursement was made on December 20, 2002.

TAJIKISTAN: FUND RELATIONS
(As of May 31, 2004)

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

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

| | | | |
|------|------------------------|--------------------|--------------------|
| III. | SDR Department: | <u>SDR Million</u> | <u>%Allocation</u> |
| | Holdings | 0.58 | N/A |

| | | | |
|-----|---|--------------------|---------------|
| IV. | Outstanding Purchases and Loans: | <u>SDR Million</u> | <u>%Quota</u> |
| | PRGF arrangements | 76.96 | 88.46 |

V. **Latest Financial Arrangements:**

| <u>Type</u> | <u>Approval Date</u> | <u>Expiration Date</u> | <u>Amount Approved (SDR Million)</u> | <u>Amount Drawn (SDR Million)</u> |
|-------------|--------------------------|----------------------------|--|---------------------------------------|
| PRGF | Dec 11, 2002 | Dec 10, 2005 | 65.00 | 25.80 |
| ESAF/PRGF | Jun 24, 1998 | Dec 24, 2001 | 100.30 | 78.28 |
| Stand-by | May 08, 1996 | Dec 07, 1996 | 15.00 | 15.00 |

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

| | Forthcoming | | | | |
|------------------|-------------|-------------|-------------|-------------|-------------|
| | <u>2004</u> | <u>2005</u> | <u>2006</u> | <u>2007</u> | <u>2008</u> |
| Principal | 8.06 | 9.39 | 10.59 | 10.59 | 10.39 |
| Charges/Interest | 0.37 | 0.33 | 0.28 | 0.23 | 0.17 |
| Total | 8.43 | 9.72 | 10.87 | 10.82 | 10.56 |

VII. **Implementation of HIPC Initiative:**

Not Applicable.

VIII. Safeguards Assessments:

Under the Fund's safeguards assessment policy, the National Bank of Tajikistan (NBT) is subject to a full safeguards assessment with respect to the PRGF arrangement approved on December 11, 2002. The assessment was completed on July 23, 2003, and included specific measures to address a number of weaknesses, mainly in the areas of financial accounting and reporting and auditing procedures. The NBT is implementing the recommendations of the safeguards assessment according to plan. These measures are being monitored by staff under the current PRGF arrangement.

IX. Exchange Rate Arrangements:

The NBT maintains a managed floating exchange rate regime with no pre-announced path for the exchange rate. There are restrictions on current international transactions, which the authorities plan to remove by end-2004 to pave the way for acceptance of obligations under Article VIII, Sections 2(a), 3, and 4. On August 12, 2002, the NBT revised the calculation of the official exchange rate to include all inter-bank transactions in foreign exchange. Since November 2001, the authorities have been setting the official exchange rate once a week based on a weighted average of exchange rates in the official interbank market. Since July 1, 2000 the NBT has been quoting a daily official exchange rate for the Tajik ruble (up to October 31, 2000) and somoni (beginning November 1, 2000). Prior to July 1, 2000, the NBT quoted twice weekly the official representative exchange rate for the Tajik ruble, based on the selling rates for the Tajik ruble against the U.S. dollar in the Tajikistan Interbank Foreign Currency Exchange (TICEX). A currency conversion took place on October 30, 2000 replacing the Tajik ruble, which was introduced in May 1995. The official exchange rate is used for valuation of the NBT's foreign currency reserves, for the calculation of customs duties, and for the NBT's foreign exchange transactions.

X. Article IV Consultation:

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

XI. Resident Representative:

Mr. Khawaja, Resident Representative of the Fund, started his assignment in Dushanbe in March 2003.

XII. Resident Advisors:

A resident debt management expert, financed by the Swiss Secretariat for Economic Affairs, began his assignment in May 2003. A bank restructuring expert conducted peripatetic visits during 2002. A fiscal resident advisor in the area of fiscal management was appointed for 15 months beginning August 1998. His contract was renewed for a second year, during which time he conducted four peripatetic visits, and ended on April 2001. A general policy advisor to the National Bank of Tajikistan started his one-year assignment in April 1999, and the assignment was extended for three months to July 1999. A treasury advisor was re-assigned for another 12 months beginning in April 2000. As part of a Swiss-Funded Tajikistan Tax Administration Reform Project, a general tax administration advisor, a VAT administration advisor, and a computer systems advisor participated in peripatetic assignments from September 1999 onwards.

XIII. Technical Assistance:

The following list summarizes the technical assistance provided by the Fund to Tajikistan since 2001.

Fiscal Affairs:

| | |
|-------------|-------------------------------|
| July 2001 | Tax Administration |
| August 2002 | Tax Policy and Administration |

Monetary and Financial Systems:

| | |
|-----------------------|--------------------|
| January/February 2001 | Bank restructuring |
| August 2001 | Multi-topic |
| July 2002 | Multi-topic |

Statistics:

| | |
|-----------------------|--------------------------------|
| March 2002 | Balance of payments statistics |
| October/November 2002 | Money and banking statistics |
| January 2003 | Balance of payments statistics |
| February 2003 | Money and banking statistics |
| May 2003 | Balance of payments statistics |
| April 2004 | Data ROSC |

Finance:

| | |
|-----------|---------------------------------|
| July 2001 | Safeguards assessment stage two |
|-----------|---------------------------------|

May 2003 Safeguards assessment follow-up

Legal:

April/May 2001 Legislation on State Audit Agency, the Budget System and Taxation

March 2003 Tax Legislation

January 2004 Tax Legislation

May 2004 Tax Legislation

TAJIKISTAN: RELATIONS WITH THE WORLD BANK
(As of May 31, 2004)

Country Director: Mr. Dennis N. de Tray

Telephone: (202) 473 3544

A. Partnership in Tajikistan's Development Strategy

1. The government's poverty reduction strategy, embodied in its first full PRSP, was endorsed by the IDA and IMF Boards in December 2002. The strategy comprises four elements: sustainable growth, improved governance, better provision of basic social services, and targeted support for the poor. While the PRSP's overall direction was considered appropriate by the IMF and IDA Boards, lack of prioritization was identified as a major weakness. The Country Assistance Strategy, approved by the Bank's Board of Executive Directors on February 27, 2003, recognizes this concern by emphasizing selectivity.
2. Macroeconomic management aims at establishing a stable economic environment through appropriate fiscal, monetary, exchange rate, and sustainable debt policies. In support of these policies, the authorities are tightening payment discipline, especially in the energy sector, hardening budget constraints for state-owned enterprises, and pursuing enterprise and banking privatization and restructuring. Recent improvements in macroeconomic management have supported the current economic recovery, although maintaining strong growth will depend importantly on accelerating structural reform to enhance private sector development, and to encourage foreign and domestic investment.
3. The IMF has taken the lead in assisting Tajikistan in enhancing macroeconomic stability. In this regard, the Fund has encouraged the authorities to continue with fiscal consolidation, to maintain a restrictive monetary policy stance, and to restructure external debt to reduce the heavy burden and to enhance debt sustainability. The Fund has supported Tajikistan's economic reform program since 1996. During January–June 2002, the authorities successfully implemented a Staff Monitored Program, which formed the basis of a new Fund-supported program under the Poverty Reduction and Growth Facility (PRGF), approved by the Executive Board in December 2002. The program covers the period October 1, 2002–September 30, 2005; the first review was completed on July 18, 2003.
4. The World Bank has taken the lead in the policy dialogue on structural issues, including poverty reduction measures, agriculture sector reforms, private sector development, institution building and governance. A range of instruments is used to conduct the dialogue. The Second Structural Adjustment Credit (SAC 2) is supporting a multi-sectoral structural reform agenda with the Second Institutional Building and Technical Assistance Credit (IBTA 2) financing institutional capacity building of government budget preparation and execution, public administration reform, privatization and private sector development. This broad-based approach is combined with sector projects in rural infrastructure and power, agriculture, environment, health, education, and poverty alleviation. A Country Economic Memorandum (CEM) was completed in 2001. The Country Procurement Assessment Review

(CPAR), and the Country Financial Accountability Assessment (CFAA) have been finalized in collaboration with the Government of Tajikistan and were presented at the CG follow-up meeting in London in February 2004. Two studies are currently being prepared—the Public Expenditure and Institutional Review (PEIR) and a Trade Diagnostic Study (TDS), and the Bank is scheduled to complete an Investment Climate Assessment by mid-2004. Additionally, a Living Standards Survey was completed in early 2004 and a new Poverty Assessment Report is being prepared. A health sector note is also under preparation, and would identify priority areas for reform of the health sector and assess medium term investment needs of the sector.

Tajikistan: Collaboration of the World Bank and the IMF

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

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

B. World Bank Collaboration in Specific Areas

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

6. Areas in which the Bank leads and there is no direct IMF involvement are social sectors, infrastructure and environment. In the **social sphere**, the Bank has carried out regular *Poverty Assessments* to monitor poverty and develop programs to alleviate poverty. Based on the completed *Living Standards Assessment (FY04)*, a Poverty Assessment Report would be prepared to update the poverty data since the 1999 and identify policy options and strategies for strengthening the link between growth and poverty reduction. Two *Poverty Alleviation* Projects have supported capacity development at the national and local level to implement participatory approaches to poverty alleviation and improve the access of the poor to essential economic and social services. In addition, the second *Poverty Alleviation* Project has provided support to vulnerable people through micro-projects, micro-finance services, and community empowerment.

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

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

Community and Basic Health Project (FY05) (under preparation) are the main instruments for the implementation of this agenda.

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

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

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

11. The Bank leads the dialogue on structural reforms through the *SAC 2*, approved by the Bank's Board of Executive Directors in May 2001, and a number of sector-specific grants. Despite volatility in the policy environment caused by the situation in Afghanistan, initially good progress on the *SAC 2* conditions was made. However, progress then slowed with a few key conditions outstanding, including energy arrears especially of the aluminum smelter and the delivery of an IAS audit of the Aluminum Company, TADAZ. There are indications that both issues have now been addressed. Institution building and technical assistance in support of structural reforms under *SAC 2* are provided by *IBTA 2* and *Farm Privatization Support Project*. The Bank leads in areas of:

- (i) **Private Sector Development**, including new measures for financial transparency and hard budget constraints, establishment of a new agency to support the private sector and improvements in the regulatory framework, and reduction of taxes on the agricultural sector. The Bank is conducting an Investment Climate Review to determine the most important impediments to private sector development.
- (ii) **Privatization and Enterprise Reforms and Farm Privatization**, including acceleration of privatization of medium and large enterprises, development of a plan to engage the private sector in Tajikistan's strategic enterprises and adoption of a strategy to privatize these enterprises in a medium term context, improvements to the corporate governance framework public enterprises; upgrading of the status of the

Land Reform Committee to the equivalent of a ministry and acceleration of farm privatization and enforcement of procedures to ensure the transparency and equitable privatization of farm land; development of procedures and institutional mechanisms at the state level and selected regions to ensure fair and equitable transfer of land and other farm assets to private individuals or groups; creation of sustainable private family farming units and providing them with the enabling conditions to operate independently in a market economy.

- (iii) **Regulatory Reforms**, including separation of Tajik Air's organizational structure into three different business units in preparation for privatization of the airline.

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

Areas of shared responsibility

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

- (i) **Public Sector Management.** This area includes public administration reforms aimed at redefining the role of the state in line with the market economy needs, reorganizing key ministries, strengthening the Financial Control Office responsible for audit the budget, and supporting customs administration reforms. The Bank is involved in civil service reform while the Fund is providing technical assistance in support of tax and customs administration.
- (ii) **Budget Planning and Execution.** Both institutions work on providing support for a national Treasury, adoption of new Law on Public Finances introducing modern budgetary procedures and improved fiscal management; including Public Investment Program and switching from norm-based costing and allocation of expenditures to activity/population based in education and health sectors.
- (iii) **Financial Sector Reforms.** This area includes the acceleration of financial sector restructuring and closure of weak banks, new regulatory framework for the establishment of non-bank intermediaries; significant changes in the tax code making tax authorities' access to bank accounts conditional on a court authorization. In terms of banking supervision, the IMF is monitoring the closure and merger of banks that do not satisfy prudential requirements.

- (iv) **Utilities Reform.** The Fund has included in the PRGF arrangement conditionality related to energy tariff rates, energy arrears and collection rates with the aim to reduce quasi-fiscal activities and increase transparency. The Bank's program supports this objective, with a focus on enhancing market structures, improved enterprise operation, service delivery, as well as financial performance. The Bank completed an Energy Sector Utility Reform Review in early 2004 which describes the financial condition of the energy sector enterprises and details the Bank's energy sector development strategy into the medium term. It is also working closely together with the Asian Development Bank and the EBRD in the areas of utilities reform and restructuring of strategic enterprises such as the railways and airlines.

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

14. The Fund leads the dialogue on fiscal matters, setting the overall envelope for public expenditures. The World Bank's work in key sectors, such as health, education and infrastructure, necessitates close cooperation. In addition to the achievement of overall fiscal targets, the Fund-supported PRGF includes structural benchmarks and performance criteria prohibiting the National Bank of Tajikistan (NBT) from issuing directed credit, from making expenditures not related to its core business activities, and from paying dividends while it has negative net worth. This also includes finalization of an inventory of guarantees, pledges, and other contingencies of NBT.

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

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

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

17. The Fund takes the lead in the formulation and execution of fiscal and monetary policies, external policies, and issues involving economic and financial statistics. However, the World Bank has provided a grant (US\$350,000) financed by the Trust Fund for Statistical Capacity and Institutional Building to strengthen the National Statistics Service (Gozkomsatat). On trade issues, the Bank plans to complete a Trade Diagnostic Study which will lead to closer collaboration in this area.

C. World Bank Group Strategy

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

- building long-term institutions geared towards a market economy;
- generating growth with equity through private sector development; and
- addressing the pressing needs of the population through greater involvement at the local community level and support the efficient functioning of basic communal infrastructure (including schools, health facilities and other basic services).

19. Tajikistan is currently in the Base Case Scenario. Continued support under this scenario would depend on macroeconomic performance, particularly good external debt management, and continued progress with structural reforms supported by a SAC III in FY04 (US\$10 million). Under this case, IDA would provide up to US\$80 million. This level of lending is lower than in the past due to phasing out of Tajikistan's status as a transition country in a post-conflict situation. A move to the High Case Scenario would include an additional US\$20 million in lending and would depend on consistent implementation of the IMF's PRGF program as well as accelerated progress in fiduciary, human development, and institutional reforms. This scenario would include a proposed PRSC in FY05 (US\$20 million). If the country fails to show adequate progress in meeting the Base Case triggers, or the security situation deteriorates significantly, the country program would be downgraded to the Low Case Scenario with a lending program of up to US\$45 million with projects limited to basic social services.

TAJIKISTAN: RELATIONS WITH THE ASIAN DEVELOPMENT BANK
(As of May 31, 2004)

Country Director: Ms. Kazuko Motomura

Telephone: 992-91-901-5051/372-210558

1. Tajikistan became a member of the AsDB on April 20, 1998. The AsDB has participated in the Consultative Group Meeting for Tajikistan since 1998. Based on the first Economic Report and Interim Operational Strategy for Tajikistan endorsed by AsDB's Board of Directors in October 1998, the Board approved Tajikistan's country classification, which provides the basis for Tajikistan's full access to concessional resources from the Asian Development Fund.
2. In view of Tajikistan's urgent need for assistance in 1998, the interim strategy focused predominantly on the rehabilitation of infrastructure destroyed by the civil war, as well as creating a basis for a successful economic transition. Under this interim strategy, the AsDB Board approved a Postconflict Infrastructure Program Loan (US\$20 million) to support agriculture, energy, transport, and social sectors, and was designed to create a framework for the delivery of market-based transport and energy services. The loan was for two years and was fully disbursed by end-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 the Emergency Flood Rehabilitation Project Loan (US\$5 million). In 2000, a Road Rehabilitation Project Loan (US\$20 million) and a Power Rehabilitation Project Loan (US\$34 million) were approved based on the satisfactory progress of the Postconflict Infrastructure Program Loan conditionalities. In response to an urgent request of the Government, the Emergency Restoration of Yavan Water Conveyance System loan (US\$3.6 million) was approved in November 2001. Due to the war in Afghanistan in 2001, processing of other loans were delayed. In 2002, the Emergency Baipaza Landslide Stabilization Project loan (US\$5.3 million), the Regional Trade Facilitation and Customs Cooperation Program loan (US\$10 million) focused on customs reforms, the Agriculture Rehabilitation Project loan (US\$35 million) aimed at improving living conditions of the project area farming communities, and the Regional Power Transmission Modernization Project loan (US\$20 million) were approved. The last project loan is geared towards improving the reliability and the operation of the Central Asian power transmission system, enhancing the intercountry power trading between Tajikistan and Uzbekistan, and laying the foundation for a future wholesale regional power market. With the approval of the Rural Financial Systems Development Program loan in 2003, the total lending from AsDB to Tajikistan reached US\$180.9 million as of end-October 2003. A road rehabilitation project for improving transportation link between Dushanbe and the border with the Kyrgyz Republic, and two other loans for supporting reforms in education and health sectors are being processed.

4. AsDB also provided 31 technical assistance grants, totaling US\$15.1 million as of end-October 2003 to support policy reforms, capacity building, and project implementation. A Rural Poverty Reduction project (US\$2.9 million grant) financed by Japan Fund for Poverty Reduction was also approved in 2001.

5. Following the finalization of Tajikistan's Poverty Reduction Strategy (PRSP) in June 2002, AsDB concluded the Poverty Partnership Agreement (PPA) with the Government in December 2002, and proceeded to prepare a new Country Strategy and Program (CSP) for 2004–08 for Tajikistan, which was considered by the AsDB Board on October 22, 2003. In view of the current challenging circumstances for development, including the limited borrowing capacity of the country, the CSP will not be able to support all areas identified in the PRSP and the PPA. Its main objectives will be to strengthen (i) regional cooperation through improved customs services and transportation links; and (ii) rural development through institutional building that will support policy implementation and the private sector, and rehabilitate irrigation and rural infrastructure. Annual lending during 2004–08 is expected to be US\$30–35 million.

TAJIKISTAN: STATISTICAL ISSUES

1. The country page for Tajikistan was introduced in the *International Financial Statistics* (IFS) in February 2003. Methodological soundness is apparent in the areas of consumer prices, government finance statistics, and monetary statistics. However, an intensified effort is needed to strengthen the scope, classification/sectorization, and basis of recording of the national accounts, and to reconsider the concepts and the basis or recording the input data underlying compilation of the producer price index. Furthermore, there is need for consistency in applying the residency concept in the balance of payments statistics and for expanding their scope to better cover shuttle trade. Efforts to further improve the quality of economic statistics are limited by tight budgetary constraints. The authorities have requested significant Fund technical assistance which is currently being considered for inclusion in STA's RAP. A data ROSC mission visited Tajikistan during April 5–19, 2004.

National Accounts Statistics

2. Although Goskomstat has made serious efforts to improve the national accounts statistics, the compilation of GDP estimates needs to be strengthened. The national accounts concepts and definitions are based on the conceptual framework developed by the CIS Statistics Committee, which agree broadly with the *1993 System of National Accounts*, although there are some deviations from international standards in the scope of production and assets boundaries. Annual GDP estimates are derived from the production side by supplementing the net material product data reported by enterprises with estimates for services. Currently, no volume measures of GDP by expenditure have been compiled. The accuracy of the GDP estimates is undermined by inadequate coverage of new private sector activities and by improper valuation. Valuation of reported inventories and consumption of fixed capital do not agree with international standards and volume measures for net taxes and margins are inadequately estimated.

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

Price Statistics

4. Since January 1994, Goskomstat has compiled a consumer price index (CPI) on a monthly basis. The index was compiled with technical assistance from STA. A producer price index (PPI) is also compiled on a monthly basis. At present, the PPI suffers from a number of shortcomings including insufficient coverage of private sector activities (small enterprises) and inadequate concepts and basis for recording. Furthermore, the index compilation does not properly account for both domestic and export prices (not used currently) affecting, in particular, the most important product in the basket –aluminum (over 50 percent). The statistical techniques for the treatment of data for both CPI and PPI need to be improved.

Government Finance Statistics

5. Since January 2000, the classification of fiscal accounts follows the IMF's *Manual on Government Finance Statistics 1986 (GFSM 1986)*. The new accounts were developed with FAD technical assistance. There are no plans at present to migrate the basis of compilation to the new GFS standards based on the *Government Finance Statistics Manual 2001 (GFSM 2001)*. The 2002 budget follows GFS, and its execution is also reported with the GFS classification system. However, the weakness inherent in the accounting system and the poor quality of data limit the benefits from the GFS system. Statistics on state budget operations are available about two to three weeks after the end of the reference period.

6. Statistics are produced for the general government sector. GFS cover all the economic flows, and the stock of debt, of general government to the standard specified in *GFSM 1986*. Sectorization of government is consistent with general government in the 1993 SNA. Revenue, expenditure, lending minus repayments, and financing transactions, are classified using the methodology set out in *GFSM 1986*. All flow data are recorded on a cash basis, valued on the basis of the amount of actual payments and receipts in cash, as recommended in *GFSM 1986*. Data covering the consolidated central government as well as the consolidated local government for 1998–2001 have been reported by Tajikistan for publication in the *2002 GFS Yearbook*, an effort that was disrupted in 2003. Monthly data on the operations of central government are not reported for inclusion in *IFS*. In addition, further work could usefully target, in particular, improving the financing information (classification and valuation of transactions), consistent with the government debt. Steps should also be taken to ensure availability of information on the public sector as well as on quasi-fiscal operations.

Money and Banking Statistics

7. The procedures used by NBT for collecting and compiling monetary statistics are in line with the framework recommended by STA missions and the *Monetary and Financial Statistics Manual*. However, due to on-going revisions to the charts of account for the NBT

and commercial banks, the NBT staff need to routinely review and update the complementary computer program for compilation of monetary statistics by appropriately incorporating and classifying all new balance-sheet accounts in the monetary survey. Currently, some nonresident accounts are included in other assets and other liabilities rather than under foreign assets and foreign liabilities of the monetary survey.

8. The authorities and the USAID team assisting the NBT in improving banking supervision have indicated their desire for Fund assistance in revising the chart of accounts for commercial banks and monetary statistics report forms. The USAID team has identified a number of weaknesses in the existing chart of accounts for the commercial banks and proposed revisions to ensure suitability for monetary statistics and banking supervision purposes.

Balance of Payments Statistics

9. The balance of payments statistics have been compiled by the Balance of Payments Statistics Unit of the NBT since January 1997. The NBT is responsible for establishing the statistical methodology, reporting forms, data collection, verification, processing, compilation and dissemination of balance of payments data. Working arrangements among government agencies that provide statistical data for balance of payments compilation are consistent with their assignments of responsibility.

10. The authorities have made significant improvements in compiling the balance of payments statistics with assistance provided by STA. The ROSC mission found that most recommendations of previous missions had been implemented and that the NBT has adopted alternative statistical treatments for workers' remittances and clarified valuation for humanitarian aid and petroleum products. However several important pending issues need to be corrected: collection is based on two incompatible definitions for residency that hamper proper coverage and are a source for errors and omissions. In several instances, complete coverage is hampered by missing information. The NBT should liaise with other producing agencies, chiefly the Goskomstat, to review and supplement missing information, for instance to cover completely shuttle trade, transactions of foreign-owned direct investment enterprises, private debt and to adequately record forward contracts for cotton producing companies. Also, inadequate coordination between the NBT and the Goskomstat explain enduring discrepancies in trade series produced by both agencies.

11. Regarding the institutional environment for the compilation of balance of payments statistics, the ROSC mission noted that legal provisions are still missing to adequately protect the confidentiality of individual information. In addition, no documentation is made available to balance of payments statistics users, and no advance notice is given to users for major changes in the methodology, data sources, and statistical techniques. However, since May 2003, the main coordination body became a legal entity (Interagency Commission for Coordinating Balance of Payments Preparation and Compilation) and is entitled to adopt

executive decisions to carry out on all relevant tasks in balance of payments statistics, but has no representation for private users of statistics.

Tajikistan: Core Statistical Indicators
(As of July 1, 2004)

| | Exchange Rates | International Reserves | Central Bank Balance Sheet | Reserve Money | Broad Money | Interest Rates 1/ | Consumer Price Index | Exports/Imports | Current Account Balance | Overall Government Balance | GDP/ GNP | External Debt/ Debt Service |
|----------------------------|----------------|------------------------|----------------------------|---------------|-------------|-------------------|----------------------|-----------------|-------------------------|----------------------------|----------|-----------------------------|
| Date of Latest Observation | 6/25/04 | 6/22/04 | 6/22/04 | 6/22/04 | 5/31/04 | 6/15/04 | 5/31/04 | Q4/03 | Q4/03 | 5/31/04 | 5/31/04 | Q4/03 |
| Date Received | 7/1/04 | 6/28/04 | 6/28/04 | 6/28/04 | 6/24/04 | 6/18/04 | 6/15/04 | 5/08/04 | 5/08/04 | 6/24/04 | 6/23/04 | 5/08/04 |
| Frequency of Data | D | W | W | W | M | W | M | Q | Q | M | M | Q |
| Frequency of Reporting | W | W | W | W | M | W | M | Q | Q | M | M | Q |
| Source of Update | A | A | A | A | A | A | A | A | A | A | A | A |
| Mode of Reporting | RR | RR | RR | RR | RR | RR | RR | RR | RR | RR | RR | RR |
| Confidentiality | - | - | - | - | - | - | - | - | - | - | - | - |
| Frequency of Publication | W | W | W | W | M | V | M | V | V | M | V | V |

1/ Annual interest rate on NBT bills.

Notes:

Explanation of abbreviations:

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

Source of updating: A-authorities.

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

**President
of the Republic of Tajikistan**

July 7, 2004
Dushanbe

Mr. Rodrigo de Rato
Managing Director
International Monetary Fund

Dear Mr. de Rato:

Mr. Managing Director, permit me to take this opportunity to express my gratitude to the International Monetary Fund for its valued support for our economic reforms and development.

Based on the recent discussions between the Government of Tajikistan and Fund staff we have prepared a supplement to the Memorandum of Economic and Financial Policies of December 19, 2003. This supplement reflects the impact of recent economic developments on the macroeconomic framework, and proposes additional measures for the period April 1–December 31, 2004.

All of the quantitative performance criteria for end-March 2004 were observed. Additionally, the program's structural benchmarks for end-March 2004 were observed except for an external audit of the State Financial Control Committee (SFCC). Reflecting difficulties in identifying appropriate audit company, this action will be replaced by a World Bank-financed twinning arrangement to strengthen the SFCC. Also, the continuous performance criterion prohibiting issuance of directed credits by the NBT was not observed in late April and in May because of operational errors. We have, however, taken remedial actions that have reversed the transaction and strengthened central bank operational monitoring. On the basis of these actions we request a waiver for the non-observance of this structural performance criterion. To strengthen our reform process further, and consolidate our macroeconomic stability, we agreed with Fund staff on a revised financial program and two additional structural benchmarks for completion by end-September 2004. These benchmarks include completion of external debt inventory of state enterprises and strict enforcement of prudential regulations.

On the basis of performance during the period up to end-March 2004 and the policies set out in the attached supplemental Memorandum we request the completion of the third review under the PRGF arrangement, disbursement of the fourth loan, and scheduling of the fourth review on or after December 15, 2004.

The Government of Tajikistan believes that the policies described in the supplemental Memorandum achieve the objectives of our economic program for 2004. We intend to remain in close consultation with Fund staff on the adoption of any measures that may be appropriate, in accordance with IMF policies on such consultations, and will provide the staff with information it requests for monitoring economic developments and progress in the implementation of policies and in reaching the objectives of the program supported by the PRGF arrangement. In addition, we stand ready to take any further measures, in consultation with Fund staff, on economic and financial policies that might be necessary to ensure that the overall objectives of the program can be attained.

In order to enhance transparency of our economic policies, we request that this letter, the supplemental Memorandum of Economic and Financial Policies, the Technical Memorandum of Understanding, and the Staff Report be published on the Fund's website.

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

/s/

Emomali Rakhmonov

REPUBLIC OF TAJIKISTAN

**Supplemental Memorandum of Economic and Financial Policies
for the Period April 1, 2004 to December 31, 2004
Supported Under the Poverty Reduction and Growth Facility**

July 7, 2004

I. INTRODUCTION

1. Since December 2002, the International Monetary Fund has supported Tajikistan's economic reform program under the Poverty Reduction and Growth Facility (PRGF). The second review under this arrangement was completed in January 2004 and we have continued to make progress with implementing our reform program. All quantitative and two structural performance criteria for end-March 2004 were met. The continuous performance criterion prohibiting issuance of directed credits by the NBT was not observed in late April-May because of operational errors, but we have since taken corrective actions. Further, we have implemented two of the three structural benchmarks but the third, the audit of the State Financial Control Committee (SFCC), could not be implemented because of difficulties in finding a reputable audit company in the region that could carry out the operational audit. This audit will now be replaced by a World Bank-financed twinning arrangement, starting in fall 2004.

2. This supplemental Memorandum of Economic and Financial Policies (SMEFP) describes our economic strategy for the remainder of 2004. Revised targets for end-September and end-December 2004 and the quantitative performance criteria and structural conditionality for end-September 2004 are detailed in Annexes I and II.

II. RECENT DEVELOPMENTS AND PERFORMANCE UNDER THE PROGRAM

3. We have continued to solidify macroeconomic stability. Real GDP increased by 10.2 percent in 2003 and we project real GDP growth to be at least 8½ percent in 2004. Rapid growth of migrants' remittances and small-scale agricultural exports are continuing to support the expansion of domestic demand. In response to the disappointing inflation performance in 2003 (14 percent, year-on-year), we have tightened monetary policy and improved its operation by focusing on reserve money as the primary operational target. Twelve-month inflation fell to 5 ½ percent in May 2004 and we expect it to remain under 7 percent through end-2004. Exports remain buoyant and we project the current account deficit (including transfers) in 2004 to be 2 percent of GDP, and the gross international reserve coverage to reach 2.3 months of imports by year-end.

4. In the fiscal area, first quarter 2004 tax revenues were significantly above the target in nominal terms. While this result was boosted by revenues from last year's cotton harvest and some other taxes, difficulties continued in taxing the new faster growing sectors, in

particular services. The higher nominal revenues, together with the restrained disbursement of expenditures, resulted in a significant surplus in the quarter that facilitated the implementation of monetary policy.

5. We have made progress in structural reform. In the banking sector we have withdrawn banking licenses from the three weakest banks and strengthened both on-site and off-site banking supervision. Also, three specialists were proposed to the National Bank of Tajikistan (NBT) Executive Board in May 2004 and are awaiting Presidential nomination, as recommended by the Fund's safeguards assessment. In the energy sector, we have installed 16,200 gas meters in individual households during October 2003-March 2004. To promote land reform, we issued 5,665 land use certificates in October 2003-March 2004 and we are preparing a strategy for addressing the external debt of the cotton sector, although this has been delayed by the complexity of the issue and data weaknesses.

III. ECONOMIC POLICIES FOR THE REMAINDER OF 2004

A. Fiscal Policy

6. Our fiscal performance in 2004 remains on track to meet the program targets. In view of the strong revenue performance in the first quarter of 2004, and given the stronger underlying growth, we projected 2004 revenue to be SM 55 million above the budget target. We will submit a supplementary budget in July and will devote these additional resources to support health and education and other poverty related expenditure. However, if these resources cannot be efficiently spent, we would use them for deficit reduction. In view of the continued heavy debt burden we will continue to limit debt-financed disbursements under the PIP to 3 percent of GDP. We will, in consultation with IMF staff, reassess this ceiling later in 2004. At the same time, we have strengthened our project implementation capacity by strengthening the Aid Coordination Unit and will continue to improve the alignment of the PIP with the PRSP.

7. We will submit to parliament by end-September, 2004, a revised tax code that will become effective January 1, 2005. The new tax code will improve the legal basis for taxation, simplify tax administration, and contribute to a favorable environment for private sector activity and economic growth. Simplification includes eliminating nuisance taxes, increasing the VAT registration threshold, and providing simplified tax regimes for small business and agriculture. The tax code will reduce the list of tax concessions and exemptions and eliminate tax holidays, although taxpayers currently enjoying tax holidays will be grandfathered. The enforcement powers of the Ministry of State Revenues and Duties (MSRD) will be enhanced while protecting taxpayer rights by requiring the MSRD to obtain a court order under an expedited procedure before accessing bank accounts. Tax rates will be set so that projected revenues (as agreed with Fund staff) are consistent with program projections.

8. We will implement the reorganization of the MSRD along functional lines by end-2004, supported by forthcoming FAD technical assistance. By the start of 2005 we will adopt a standardized taxpayer registration document that will allow the introduction of a single taxpayer identification number for all tax, customs, and the social protection fund purposes.

9. We will continue with civil service reform both to improve civil service performance and release resources that can be used to increase real wages. We are starting with the education sector and are currently finalizing a reform strategy for this sector. Although this has been delayed by the complexity of the problem and consultations with many stakeholders, we will complete a fully-costed strategy by end-June 2004. The reform will include a 5 percent reduction in the number of employees in the education sector by September 2004 (structural benchmark for end-July 2004). We will also analyze two regional pilot reforms in the health sector to develop a national reform plan for this sector. In addition, we will start to rationalize key parts of the government administration. We will delay the announcement of a wage policy for 2005 until it can be set within a framework of the 2005 budget that has been agreed with Fund staff. In addition, specific actions will be identified to improve the efficiency and effectiveness of key ministries.

B. Monetary and Exchange Rate Policies

10. Better implementation of monetary policy should enable us to achieve the target of limiting inflation to under 7 percent in 2004. Our monetary program will continue to use reserve money as the operational target. However, we recognize that increasing confidence in the banking system and in the value of the somoni could increase the demand for money and we will monitor these developments closely. We will not intervene in the interbank foreign exchange market except to smooth excessive volatility. With a view to developing a transparent and efficient interbank market the NBT will not make direct or indirect foreign exchange purchases from large exporters. The NBT will more closely monitor its credit to banks and the private sector which should only increase in exceptional cases when the NBT has to act as the lender of last resort to address systemic risk in the financial sector. To improve the market sensitivity of the official exchange rate we will examine the feasibility of setting this on a daily rather than the current weekly basis. We will ensure that the quarterly settlement of interest due between the NBT and MOF is completed within six weeks of the end of the relevant quarter.

11. We expect the recent reduction in the liquidity requirement for banks and the projected increase in demand for bank deposits will facilitate further expansion of bank credit to the private sector in 2004. We will monitor the impact of these changes on lending and delay further reductions in the liquidity requirement until we can assess the impact of the reductions to date on the growth and quality of the banks' portfolios.

C. External Policies and Debt Management

12. We will accept the obligations of Article VIII, Sections 2(a), 3, and 4. In consultation with Fund staff, we have prepared revisions to the regulatory framework governing exchange rates, payments and convertibility, including amendments to the Law on Foreign Exchange Control and Regulation, to ensure full compliance with the requirements under Article VIII, Sections 2(a), 3, and 4. These amendments are expected to enter into effect in late 2004, after which we will advise the Fund of our acceptance of the obligations under this Article by end-2004.

13. We will continue to prohibit all non-concessional external borrowing, and we will not draw on any outstanding non-concessional credit facility. To ensure external debt sustainability, we will finalize the debt restructuring negotiations with Russia and accelerate negotiations with Uzbekistan. With technical assistance from the Fund, we will introduce the new debt management system and will make it fully operational by September 2004.

14. Over the past year we have been undertaking an inventory of public and government and NBT guaranteed external debt. Recent work has identified some unpaid obligations of state enterprises and their government successors. By September 2004, we will complete the inventory of the external debt of state enterprises, and for each debt we will identify the current status and develop proposals for settling each one, and report to the Fund on the steps taken to initiate good faith negotiations to this end (a structural benchmark, end-September 2004).

D. Structural Policies

15. Our structural reform program will continue to focus on the energy, banking, and agricultural sectors, and on improving governance, especially as regards the private sector business environment.

16. Structural reform in the banking sector will focus on strengthening the enforcement of prudential regulations. The Bank Supervision Department of the NBT will closely examine the compliance with the prudential regulations, especially for loan classification and provisioning. By end-September 2004, we will reach agreement with banks that do not comply with the prudential regulations on a time bound action plan to correct identified deficiencies (a structural benchmark for end-September 2004). We will revise the methodology for the calculation of capital adequacy indicators to meet the Basel standards. Specifically, starting January 1, 2005, we will implement a new reporting system to meet full compliance with the Basel I agreement. This will allow the commercial banks to improve their internal accounting system and strengthen the NBT's ability to monitor the soundness of the banking system. In line with the objective of developing the banking system, we will utilize the forthcoming technical assistance from the Fund to address the legal impediments to the entry of new banks and any other legal deficiencies that limit

lending opportunities, for example in the Law on Collateral. We will also expeditiously implement the recently passed Law on Micro-finance Organizations.

17. In the energy sector, we will continue strengthening the financial position of Tajikgas. We will build on recent efforts and install 60,000 gas meters in households between October 1, 2003 and end-2004 and make quarterly adjustments of all utility tariffs to account for depreciation of the nominal exchange rate, but will not lower nominal gas tariffs. Although we hoped to complete an external audit of Tajikgas by end-June 2004 (structural benchmark), progress was delayed because of problems in arranging financing. We will, however, ensure that the field work for the audit is completed by end-June and the report is finalized by end-September. To improve the targeting of financial support for low-income households in the energy compensation mechanism (ECM), the SFCC will review the ECM's operations. Based on the findings of this review and other information, the Ministry of Finance and other concerned ministries will make recommendations by end-December 2004 for improving the ECM.

18. Notwithstanding recent progress, we will continue our efforts to settle the external debt of the farm sector related to cotton production. The government and the NBT will discuss with the foreign financiers, cotton exporters, and farm managers to evaluate other options for restructuring this debt. We will finalize the strategy to reduce cotton sector external debt by end-July 2004 and plan to initiate discussions with creditors and debtors immediately thereafter. Under this framework, the government will not issue guarantees for this debt.

19. We will continue to enhance the transparency of the process of privatizing state farms. We will strengthen the NGOs' monitoring of the farm privatization process and invite them to monitor any stage of this process. By the end of the year we will invite the NGOs to monitor and assess the privatization of an additional 20 state farms. The invitations for monitoring these will be sent to the NGOs at least two months before the start of each privatization. Starting in July 2004 we will begin to progressively publish in national newspapers the lists of land-share and land-use certificates of reorganized farms. Further, we will also publish a bulletin that details the results of the stocktaking of land reorganization by end-July 2004.

20. Recognizing the importance of improving governance and transparency, by October 2004 we will consolidate the work being undertaken in several areas to develop a strategy for addressing key governance problems. This strategy would have three main components: (i) Strengthen the SFCC with a twinning arrangement supported by the World Bank and using a reputable international audit agency starting in fall 2004 to provide us a hands-on diagnostic and implementation support for reforming the SFCC. (ii) Enhance the management and financial accountability in the budget sector, including by upgrading the budget reporting to parliament and the public to improve expenditure tracking. For the 2005 budget preparations we will set up a Permanent Budget Committee to strengthen the link between government policy and budget expenditure. In addition, we will enhance the

presentation of the national budget to the parliament and the public by including allocations and outcomes of the expenditure by key budget organizations. (iii) Reduce regulations and bureaucratic obstacles for the establishment and operation of business, and develop fora and avenues to address specific concerns.

21. Other measures to promote transparency and governance are to complete a draft anti-money laundering legislation. Additionally, we plan to implement the recommendations of the IMF's Report on Observance of Standards and Codes (ROSC) data module. With Fund assistance we will complete the requirements for participation in the IMF's GDDS and submit the necessary documentation to the Fund by December 2004.

Table 1: Tajikistan: Quantitative Performance Criteria for the Second Annual Program
Under the PRGF Arrangement, October 2003 - March 2004

| | 2003 | | | 2004 | | |
|--|--|--------------------|--------|---|--------------------|-------|
| | End-Dec. | | Actual | End-Mar. | | Prel. |
| | Indicative Target (IMF Co. Rep. No. 03/222) | Adjusted Target 1/ | | Performance Criteria (IMF Co. Rep. No. 03/222) | Adjusted Target 1/ | |
| (In millions of somoni) | | | | | | |
| <i>Performance Criteria:</i> | | | | | | |
| 1. Ceiling on net domestic assets of the NBT | 117 | 196 | 132 | 41 | 120 | 73 |
| 2. Ceiling on net credit of the banking system to general government 2/ | -72 | 10 | -87 | -162 | -83 | -165 |
| 3. Ceiling on the cumulative overall fiscal balance of the general government 3/ 4/ (excluding foreign-financed public investment program) | -74 | ... | 3 | 9 | ... | 63 |
| 4. Ceiling on general government wage, and nonworking pensioners' pension arrears 5/ | 0 | ... | 0 | 0 | ... | 0 |
| 5. Floor on tax collection in the general government budget 3/ | 350 | ... | 372 | 339 | ... | 432 |
| (In millions of U.S. dollars) | | | | | | |
| 6. Floor on total net international reserves | 22 | 0 | 39 | 54 | 30 | 49 |
| 7a. Ceiling on the contracting or guaranteeing of short-term non-concessional external debt with original maturity of up to and including one year 5/ 6/ | 0 | ... | 0 | 0 | ... | 0 |
| 7b. Ceiling on the contracting or guaranteeing of medium and long-term nonconcessional external debt with original maturity of more than one year 5/ 6/ | 0 | ... | 0 | 0 | ... | 0 |
| 8. New external payments arrears 5/ | 0 | ... | 0 | 0 | ... | 0 |
| (In millions of somoni) | | | | | | |
| <i>Indicative targets:</i> | | | | | | |
| Ceiling on reserve money | 185 | ... | 256 | 215 | ... | 228 |
| New arrears of budget entities and key state-owned enterprises to Nafrason, Barqui Tajik and Tajikgas | 0 | ... | -14 | 0 | ... | 0 |
| (In millions of U.S. dollars) | | | | | | |
| <i>Memorandum items:</i> | | | | | | |
| Disbursement of program loans (in millions of U.S. dollars) 3/ | 25 | 0 | 0 | 25 | 0 | 0 |

Sources: Tajik authorities; and Fund staff estimates.

1/ For end-December 2003 and end-March 2004, the targets are adjusted for non-disbursement of the World Bank SAC (\$24.7 million).

For end-December 2003, the NIR is additionally adjusted for non-withdrawal of the US grant deposited at the NBT (\$2.4 million).

2/ Excludes deposits related to project financing.

3/ Targets for overall fiscal balance and tax revenues in IMF Country Report No. 03/222 were cumulative from April 1, 2003. In the IMF Country Report No. 04/17, these targets are cumulative from October 1, 2003 and the definition of tax revenues for 2004 has been broadened in the Technical Memorandum of Understanding to include all tax receipts.

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

5/ A continuous performance criterion.

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

Table 2: Tajikistan: Quantitative Performance Criteria for the Second Annual Program

| | 2004 | | | | |
|--|--|-------|--|------------------------------------|-----------------------|
| | End-Jun. | | End-Sep. | | End-Dec. |
| | Indicative Targets (IMF Co. Rep. No. 04/17) | Proj. | Performance Criteria (IMF Co. Rep. No. 04/17) | Revised Performance Criteria | Indicative Targets |
| <i>Performance Criteria:</i> | | | | | |
| | (In millions of somoni) | | | | |
| 1. Ceiling on net domestic assets of the NBT | 32 | 35 | 14 | 23 | 23 |
| 2. Ceiling on net credit of the banking system to general government 1/ | -162 | -211 | -184 | -209 | -215 |
| 3. Ceiling on the cumulative overall fiscal balance of the general government 2/ 3/ (excluding foreign-financed public investment program) | 7 | 28 | -15 | -15 | -4 |
| 4. Ceiling on general government wage, and nonworking pensioners' pension arrears 4/ | 0 | 0 | 0 | 0 | 0 |
| 5. Floor on tax collection in the general government budget 2/ | 551 | 638 | 753 | 853 | 224 |
| | (In millions of U.S. dollars) | | | | |
| 6. Floor on total net international reserves | 59 | 66 | 74 | 76 | 80 |
| 7a. Ceiling on the contracting or guaranteeing of short-term non-concessional external debt with original maturity of up to and including one year 4/ 5/ | 0 | 0 | 0 | 0 | 0 |
| 7b. Ceiling on the contracting or guaranteeing of medium and long-term nonconcessional external debt with original maturity of more than one year 4/ 5/ | 0 | 0 | 0 | 0 | 0 |
| 8. New external payments arrears 4/ | 0 | 0 | 0 | 0 | 0 |
| <i>Indicative targets:</i> | | | | | |
| | (In millions of somoni) | | | | |
| Ceiling on reserve money | 222 | 247 | 251 | 265 | 278 |
| New arrears of budget entities and key state-owned enterprises to Nafrason, Barqui Tajik and Tajikgas | 0 | 0 | 0 | 0 | 0 |
| <i>Memorandum items:</i> | | | | | |
| Disbursement of program loans (in millions of U.S. dollars) 3/ | 25 | 25 | 35 | 35 | 40 |

Sources: Tajik authorities; and Fund staff estimates.

1/ Excludes deposits related to project financing.

2/ For June-September 2004, the targets are cumulative from October 1, 2003 (IMF Country Report No. 04/17), and the definition of tax revenues for 2004 has been broadened in the Technical Memorandum of Understanding to include all tax receipts. The program exchange rates used are SM 3.2 per US dollar and US \$1.388 per SDR.

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

4/ A continuous performance criterion.

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

Tajikistan: Structural Performance Criteria and Benchmarks
for the Second Annual Program Under the PRGF Arrangement,
October 2003–September 2004

| Measure | Target Date | Status |
|---|-------------------------------------|---|
| Structural Performance Criteria | | |
| Prohibit the NBT from issuing directed credits. | Continuous | Not met. Noncomplying credit in late April-May 2004 repaid after 8 weeks. |
| Prohibit the NBT from making expenditures not related to its core business activities or paying dividends while it has negative net worth. | Continuous | Met. |
| Implement quarterly adjustments of all utility tariffs, equivalent to the depreciation in the nominal exchange rate in the previous quarter. | Continuous beginning end-March 2004 | Met. |
| Structural Benchmarks | | |
| Install 15,000 gas meters in households from October 1, 2003. | End-March 2004 | Met. |
| From October 1, 2003, issue an additional 5,000 land use/share certificates in connection with the privatization of state-owned farms. | End-March 2004 | Met. |
| Complete an external audit of the State Financial Control Committee by a reputable international audit company. | End-March 2004 | Not met. Replaced by prospective World Bank supported twinning arrangement starting in fall 2004. |
| Complete an external audit of Tajikgas by a reputable international audit company. | End-June 2004 | Delayed; field visit of external auditors now scheduled for June, and completion targeted for September 2004. |
| Reduce the number of employees in the education sector by 5 percent. | End-July 2004 | Delayed, now targeted for September 2004. |
| Complete an inventory of external public debts (especially of state enterprises) and government or NBT guaranteed debts, identify their status, propose settlement, and initiate good-faith negotiations. | End-September 2004 | ... |
| Reach agreement with commercial banks not complying with prudential regulations on a time-bound plan to correct these deficiencies. | End-September 2004 | ... |

REPUBLIC OF TAJIKISTAN

Technical Memorandum of Understanding for the PRGF Arrangement 2004–2005

1. This memorandum defines variables that constitute quantitative performance criteria and indicative targets under the Poverty Reduction and Growth Facility Arrangement (PRGF), and sets out the reporting requirements for the authorities and the National Bank of Tajikistan (NBT).¹²

IV. QUARTERLY TARGETS

A. Fiscal Balance of the General Government

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

| | (In millions of somoni) |
|---|-------------------------|
| Cumulative balance from October 1, 2003 to: | |
| December 31, 2003 (indicative target) | -73.8 |
| March 31, 2004 (performance criterion) | 9.0 |
| June 30, 2004 (indicative target) | 27.6 |
| September 30, 2004 (performance criterion) | -15.4 |
| Cumulative balance from October 1, 2004 to: | |
| December 31, 2004 (indicative target) | -4.0 |

Definitions

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

¹² Quantitative targets are based on a program exchange rate of SM 3.2 = US\$1 and SDR 1 = US\$1.388.

- (i) The change in net claims (transactions) of the NBT on the general government which includes all deposits of the general government with the NBT, counterpart deposits (which reflect balance of payment and/or general budget support from IFIs and other donors), NBT loans and advances to the general government, NBT holdings of government securities, bank restructuring costs, and the privatization account (where proceeds from the privatization of state property are held);
 - (ii) The change in net claims (transactions) on the general government of the rest of the domestic banking system which are defined to include the net position of the general government with respect to other domestic commercial bank assets (loans, overdrafts, cash advances, holdings of treasury bills or other securities) and liabilities (deposits, etc.);
 - (iii) The change in net claims (transactions) on the general government of domestic nonbank institutions and households is defined to include net sales of treasury bills, bonds or other government securities to nonbank institutions and households (including nonresidents and nonresident financial institutions), plus any other increase in liabilities of the general government to domestic nonbank institutions or households. Included in this item are also compensation payments (-) to Tajik Rail for its servicing of external debt to Uzbekistan;
 - (iv) Gross proceeds from the privatization of state property, which are kept in a separate account with the NBT, are defined as all receipts originating from the sale of state property; and
 - (v) Net foreign financing of the general government which is defined as the difference between gross disbursements of foreign financing excluding the externally-financed public investment program and amortization of government debt to foreign financial and nonfinancial institutions, plus principal arrears, debt rescheduling and the drawdown of Tajikistan's claim on the Central Bank of Russia.
3. The augmented Balance 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 Balance of the general government plus the counterparts (-) to increases in net credits or net claims on the general government from the NBT or commercial banks as a result of the resolution of the bad loans problem under the bank restructuring program. These counterparts consist of the full value of the loans taken over by the government.
4. Monthly data on net claims of the domestic banking system on the general government are taken from the balance sheets of the NBT and commercial banks. The Ministry of Finance shall provide information on, and confirm the amounts of general government deposits held abroad, disbursements of foreign loans to the general government, net sales of treasury bills and other securities, borrowing from the nonbank sector, as well as gross receipts and expenditures of the central government privatization account. It shall

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

Adjustors

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

B. Total Tax Collections under the Budget

Table 2. Floor on Total Tax Collections Under the Budget

| (In millions of somoni) | |
|--|-------|
| Cumulative revenues from October 1, 2003 to: | |
| December 31, 2003 (indicative target) | 349.5 |
| March 31, 2004 (performance criterion) | 339.2 |
| June 30, 2004 (indicative target) | 551.3 |
| September 30, 2004 (performance criterion) | 853.0 |
| Cumulative revenues from October 1, 2004 to: | |
| December 31, 2004 (indicative target) | 224.3 |

Definitions

6. **Tax collections** include all taxes collected under the budget. With regard to internal taxation excluded from the definition are any proceeds from loans, or other banking system credits, the issuance of securities, or from the sale of state assets. With regard to foreign taxes, custom revenues are defined to include import duties, export duties and taxes, customs duties, exchange taxes, and other taxes (including VAT) on international trade and transactions.

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

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

| (In millions of somoni) | |
|--|-------|
| December 31, 2003 (indicative target) | 117.3 |
| March 31, 2004 (performance criterion) | 40.7 |
| June 30, 2004 (indicative target) | 32.4 |
| September 30, 2004 (performance criterion) | 22.6 |
| December 31, 2004 (indicative target) | 22.7 |

Definitions

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

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

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

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

Adjustors

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

D. Limits on Net Credit of the Banking System to General Government¹³

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

| | (In millions of somoni) |
|--|-------------------------|
| December 31, 2003 (indicative target) | -71.5 |
| March 31, 2004 (performance criterion) | -162.1 |
| June 30, 2004 (indicative target) | -162.1 |
| September 30, 2004 (performance criterion) | -208.6 |
| December 31, 2004 (indicative target) | -215.2 |

Definitions

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

Adjustors

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

¹³ The change in net credit to general government in the NBT balance sheet may differ from the change in NBT net claims (transactions) on the general government shown in the fiscal accounts because the NBT balance sheet revalues the stocks of the net general government according to the program exchange rate.

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

| | (In millions of U.S. dollars) |
|--|-------------------------------|
| December 31, 2003 (indicative target) | 22.4 |
| March 31, 2004 (performance criterion) | 54.4 |
| June 30, 2004 (indicative target) | 59.2 |
| September 30, 2004 (performance criterion) | 75.7 |
| December 31, 2004 (indicative target) | 79.7 |

Definitions

12. Total **net international reserves of the NBT** are defined as the difference between total gross international reserves of the NBT and total reserve liabilities of the NBT. Total *gross international reserves* of the NBT are defined as the NBT's holdings of monetary gold, holdings of SDRs, any reserve position in the IMF, holdings of convertible currencies in cash or in nonresident banks that are readily available. Also included are holdings of foreign currency-denominated securities issued by governments or central banks of OECD member states. Excluded are capital subscriptions in foreign financial institutions, non-liquid assets of the NBT, convertible currency denominated claims on domestic banks and other residents, assets in non-convertible currencies, foreign assets pledged as collateral or otherwise encumbered and the net forward position, if any (defined as the difference between the face value of foreign currency denominated NBT off balance sheet claims on nonresidents and foreign currency obligations to both residents and non-residents). *Reserve liabilities* of the NBT are defined as outstanding IMF credit, and liabilities of the NBT to nonresidents with an original maturity of up to and including one year.

13. For the purpose of program monitoring, U.S. dollar denominated components of the balance sheet will be valued at the program exchange rate, and other foreign currency denominated items will be valued at cross rates between the program exchange rate of the U.S. dollar and current official exchange rates of the U.S. dollar against those currencies. Official gold holdings shall be valued at US\$370 per troy ounce.

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

Adjustors

15. The floor on net international reserves of the NBT will be adjusted:
(i) upward/downward by 100 percent for excesses/shortfalls of the disbursement of (non-project) foreign loans and cash grants; (ii) upward/downward by 100 percent for the

excesses/shortfalls of privatization receipts in foreign exchange; (iii) upward by 100 percent for any overdue or rescheduled debt service obligations; and (iv) downward by 100 percent for withdrawals from government project accounts at the NBT in excess of programmed levels and upward by 100 percent for disbursements in excess of programmed levels.

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

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

| | 0-1 Year Maturity | Over 1 Year Maturity |
|---|-------------------|----------------------|
| During the period from end-September 2003 to: | | |
| December 31, 2003 (indicative target) | 0 | 0 |
| March 31, 2004 (performance criterion) | 0 | 0 |
| June 30, 2004 (indicative target) | 0 | 0 |
| September 30, 2004 (performance criterion) | 0 | 0 |
| December 31, 2004 (indicative target) | 0 | 0 |

Definitions

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

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

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

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

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

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

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

22. Concessionalities will be based on currency-specific discount rates based on the OECD commercial interest reference rates (CIRRs). For loans of an original maturity of at least 15 years, the average of CIRRs over the last 10 years will be used as the discount rate for assessing the concessionalities of these loans, while the average of CIRRs of the preceding six-month period will be used to assess the concessionalities of loans with original maturities of less than 15 years. To the ten-year and six month averages of CIRRs, the following margins will be added: 0.75 percent for repayment periods of less than 15 years; 1 percent for 15–19 years; 1.15 percent for 20–30 years; and 1.25 percent for over 29 years. Under this definition of concessionalities, only loans with grant element equivalent to 35 percent or more will be excluded from the debt limits.

V. CONTINUOUS QUARTERLY TARGETS

A. No Directed Credits by the NBT

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

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

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

C. No New External Payments Arrears

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

D. Exchange and Payments Arrangements

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

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

27. For purposes of the performance criterion, expenditure arrears shall be defined as any shortfall in monthly disbursements of wages and pensions. The monthly disbursement plan will be a third of each quarter's budgeted wage and pension payments as in the general government budget and projections of the Social Protection Fund. These payments are defined as overdue if they have come due at the end of the month and remain unpaid thereafter for 30 days or more. The program ceilings on the stock of wage and pension arrears are presented in Table 7 below:

Table 7. Stock of Wage and Pension Arrears

| (In millions of somoni) | |
|--|---|
| Cumulative from October 1, 2003 to: | |
| December 31, 2003 (indicative target) | 0 |
| March 31, 2004 (performance criterion) | 0 |
| June 30, 2004 (indicative target) | 0 |
| September 30, 2004 (performance criterion) | 0 |
| Cumulative from October 1, 2003 to: | |
| December 31, 2004 (indicative target) | 0 |

28. To permit monitoring as defined above, the government will provide data on actual wage and pension payments (as part of the monthly budget execution statements submitted to Fund staff) and on transfers from the Social Protection Fund to its regional offices for the payment of minimum pensions. The latter information will be presented 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.

VI. QUARTERLY INDICATIVE TARGETS

A. Reserve Money

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

| (In millions of somoni) | |
|--|-------|
| December 31, 2003 (indicative target) | 184.6 |
| March 31, 2004 (performance criterion) | 214.8 |
| June 30, 2004 (indicative target) | 222.0 |
| September 30, 2004 (performance criterion) | 264.9 |
| December 31, 2004 (indicative target) | 277.8 |

Definition

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

Deposit liabilities of the NBT to the public include all deposits placed at the NBT, in domestic or foreign currency, by the nonbank public.

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

Table 9. Indicative Ceiling on New Arrears of Budget-Entities and Key State-Owned Enterprises to Barqui Tajik, Naftrason and Tajikgas

| | (In millions of somoni) |
|--|-------------------------|
| December 31, 2003 (indicative target) | 0 |
| March 31, 2004 (performance criterion) | 0 |
| June 30, 2004 (indicative target) | 0 |
| September 30, 2004 (performance criterion) | 0 |
| December 31, 2004 (indicative target) | 0 |

Definition

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

Statement by the IMF Staff Representative
July 21, 2004

The following information has become available since the staff report was issued on July 8, 2004. It shows that economic conditions in Tajikistan continue to be buoyant and that the financial program remains on track. This information does not alter the thrust of the staff appraisal.

- Real GDP grew by 11 percent in the first six months of 2004 (compared to the same period a year earlier). This is significantly above the 8 ½ percent annual growth projected for 2004 and appears to be due to the stronger-than-expected contribution of high commodity prices and remittances to domestic demand. However, cotton spot and future prices have declined sharply recently. Because cotton spot prices were higher than programmed in the first half of 2004, the implied annual average cotton price for 2004 remains in line with program projections. Consumer prices rose by 6.2 percent in June (12-month basis), in line with the objective of keeping annual inflation under 7 percent.
- Preliminary data indicate that the authorities met the key quantitative targets for end June, 2004. Reflecting the strong growth of remittances and the favorable fiscal position, net international reserves exceeded the revised program floor, and gross reserves reached 2.4 months of imports. The net domestic assets of the central bank were below the ceiling, possibly because the anticipated seasonal high in budget expenditures did not occur and the revenue performance continued to be strong. Also, the stock of reserve money at end-June was below the revised program target. The somoni exchange rate continues to be stable.
- On July 6, the respective governments agreed in principle on the specific terms of the restructuring of Tajikistan's \$299 million debt to the Russian Federation. This will exchange the debt for existing property valued at \$237 million, including the Nurek space tracking station, and the remainder as investment in the Sangtuda hydro-power plant under construction.
- On June 30, the authorities passed the "Plan for Implementing Education Reforms for 2004-09" (referred to in July 2004 MEFP paragraph 9, and December 2003 MEFP paragraph 17). This includes, starting September 1, increasing the teachers' class time per week, reducing the number of teachers by 5 percent (a structural benchmark, end-July 2004) and using the savings to increase teacher salaries by 25 percent, and setting out the itemized costing for reforms. The details of this plan will be reviewed by the World Bank and other stakeholders. Based on the aggregate information now available, the plan appears to be consistent with the 2004 fiscal framework and the PRSP objectives.



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FOR IMMEDIATE RELEASE
July 21, 2004

International Monetary Fund
Washington, D.C. 20431 USA

IMF Completes Third Review of the Republic of Tajikistan's Three-Year PRGF Arrangement and Approves US\$14.5 million Disbursement

The Executive Board of the International Monetary Fund (IMF) has completed the third review of the Republic of Tajikistan's economic performance under the three-year Poverty Reduction and Growth Facility Arrangement (PRGF). In doing so, the Board approved a request for a waiver for the non-observance of the continuous structural performance criterion prohibiting the National Bank of Tajikistan from issuing directed credits. The decision enables the Republic of Tajikistan to draw an amount equivalent to SDR 9.8 million (about US\$14.5 million) under the arrangement.

The IMF's Executive Board approved the three-year arrangement on December 11, 2002 (see [Press Release No. 02/54](#)) for amount equivalent to SDR 65 million (about US\$96 million). Completion of the latest review will bring total disbursements under the program to SDR 35.6 million (about US\$53 million).

The PRGF is the IMF's concessional facility for low-income countries. PRGF-supported programs are based on country-owned poverty reduction strategies adopted in a participatory process involving civil society and development partners and articulated in a [Poverty Reduction Strategy Paper \(PRSP\)](#). This is intended to ensure that PRGF-supported programs are consistent with a comprehensive framework for macroeconomic, structural, and social policies to foster growth and reduce poverty. PRGF loans carry an annual interest rate of 0.5 percent and are repayable over 10 years with a 5½-year grace period on principal payments.

Following the discussion of the Executive Board, Agustín Carstens, Deputy Managing Director and Acting Chair, said:

“Tajikistan's performance under the Poverty Reduction and Growth Facility arrangement has been satisfactory. As a result of program implementation and the favorable economic environment, growth has remained robust and inflation has fallen sharply. These developments have contributed to a decline in poverty.

“The authorities have made improvements in the overall implementation of monetary policy, especially the more effective management of reserve money, which have led to a significant reduction in inflation. Going forward, it will be important to sustain these improvements, while

adhering to the floating exchange rate system. The central bank's efforts in implementing bank supervision regulations have been welcome. These efforts should be accompanied by steps to promote greater competition in the sector, including from regional and international banks.

“The authorities are to be commended for their continued commitment to maintain fiscal discipline. In view of Tajikistan's heavy dependence on volatile international commodity prices for cotton and aluminum, the authorities are encouraged to take stronger actions to improve tax administration and broaden the tax base.

“Looking ahead, Tajikistan continues to face serious challenges, including the high poverty rate. In addressing these challenges, a key task will be to speed up the implementation of reforms, including measures to promote private investment, improve the civil service, and make the energy sector more efficient. It is also important to improve governance and transparency, especially in prioritizing the allocation and execution of government expenditure to better align these with Tajikistan's poverty reduction strategy.

“In light of Tajikistan's economic performance and its policies for the remainder of the program period, the Executive Board approved the waiver of the performance criterion on the central bank's use of directed credit and completed the third review under the PRGF arrangement. The First Progress Report of the PRSP was also endorsed by the Board as a sound basis for continued Fund concessional assistance,” Mr. Carstens said.

**Statement by Fritz Zurbrügg, Executive Director for Republic of Tajikistan
July 21, 2004**

1. My Tajik authorities would like to thank staff for the constructive discussions and the valuable report on Tajikistan's performance under the PRGF. As the report points out, the Tajik economy continues to strengthen. Strong macroeconomic performance has helped to reduce poverty and improve living standards. Important progress has also been made in some structural areas, notably in the energy and in the banking sector. My Tajik authorities remain fully committed to further strengthening the basis of the achieved macroeconomic stability and to advance structural reforms.

Macroeconomic Developments

2. Economic growth remains robust and is broad-based, inflation has been significantly reduced and international reserves increased. All quantitative performance criteria were met by large margins. At the last Board discussion, Directors urged the authorities to bring the monetary program back on track. Since then, the National Bank of Tajikistan (NBT) has taken the necessary measures. Reserve money growth and inflation have declined substantially and are now back in line with program targets. Unfortunately, due to operational errors, the NBT issued a directed credit in May, thereby breaching a continuous performance criterion. The NBT has taken remedial measures by reversing the credit and strengthening the management oversight of credit operations. My Tajik authorities are aware of the seriousness of this incident, given the history of such credits, and regret its occurrence. They request the Executive Board to grant a waiver of non-observance of the performance criterion based on the remedial measures taken.

3. Fiscal performance continues to be strong. Over the last years, the overall budget balance has continuously improved thanks to expenditure discipline and revenue increases. However, there is no room for complacency. The authorities are fully aware that the tax system needs to be further strengthened, particularly in order to reduce vulnerabilities stemming from possible price drops of the main export commodities. Reforms are underway to improve tax administration, reduce the list of tax concessions and exemptions, and improve the overall efficiency of the tax system.

4. As regards public debt, the authorities are continuing their efforts to improve the debt management capacity. They have also pushed ahead in their debt restructuring discussions with bilateral creditors. My Tajik authorities are grateful to Pakistan for transforming the US\$13 million loan into a grant. They are also very glad that an agreement in principle was reached on the US\$299 million debt-asset swap with Russia. They would like to thank the Russian authorities for their flexibility and are confident that the agreement can be finalized by the end of the year. The debt-asset swap will significantly reduce the debt stock and the debt service over the next three years.

5. While the steep decline in current expenditure in relation to GDP has contributed to the fiscal consolidation, my authorities are of the view that the decline in the wage bill to

only 2.7 percent of GDP in 2003 was disproportionate. Particularly, government wages are not only substantially lower than private sector wages, but the gap to the private sector has been increasing. This causes a continued drain of skilled civil sector staff, thereby aggravating existing capacity constraints for the implementation of structural reforms. It also has an adverse impact on the effectiveness of the civil service. While agreeing that civil service reform and wage policy are closely linked, my Tajik authorities look forward to achieving an agreement in the upcoming discussions with staff that would take into account the urgent need to increase government wages.

Structural Reforms

6. The authorities remain committed to civil service reform. They are currently working on a reform strategy for the education sector and intend to complete a fully-costed strategy by end-June. They will also assess two regional pilot reforms in the health sector to develop a national reform plan. Key parts of the government administration will be rationalized. With the help of FAD technical assistance, the Ministry of State Revenues and Duties will be reorganized along functional lines.

7. Banking supervision is further strengthened. International standards are progressively introduced and prudential regulations applied more strictly. In early 2004, the NBT withdrew the licenses from three banks and agreements are being worked out with remaining noncomplying banks on plans to correct identified deficiencies. Moreover, the NBT has requested Fund technical assistance to review the legal framework for impediments to the entry of more established foreign banks and address other deficiencies that limit lending opportunities.

8. After last year's large increases, gas tariffs will be maintained at cost recovery levels and collections rates further improved. The end-March structural benchmark for the installation of additional gas meters has been met. However, the external audit of Tajikgas was delayed because of problems in arranging the funding. Given the importance of this measure, Tajikgas has decided to finance the audit itself. A reputable firm has been chosen and has started the work. The authorities are confident that the external audit report will be finalized by end-September. The authorities are currently discussing with the World Bank strategies to raise electricity prices cost recovery levels. To improve the targeting of financial support for low-income households, the energy compensation mechanism (ECM) will be further improved.

9. Advancing the reform of the agricultural sector is very important but also quite complex. The authorities have issued an additional 5665 new land use certificates in connection with the privatization of state-owned farms, thereby exceeding the end-March structural benchmark of 5000. The authorities are currently finalizing their strategy for restructuring the external debt of the cotton sector. NGOs will be invited to monitor and assess the privatization of an additional 20 state farms, and lists of land-share and land-use certificates of reorganized farms as well as the results of the stocktaking of land reorganization will be published.

10. The authorities are developing a comprehensive strategy for addressing key governance problems to be included in the third year of the PRGF arrangement. A key measure is the strengthening of the State Financial Control Committee (SFCC). As noted by staff, financing and other issues have delayed the audit of the SFCC. However, my authorities are confident that the twinning arrangement, which will be supported by the World Bank, will provide more benefits in terms of strengthening the institution than the planned managerial audit. As noted in Box 3, the arrangement should provide a mechanism to move the SFCC in the direction of a modern audit agency.

11. Increasing fiscal transparency through improvements in budgetary management and financial accountability remains a high priority for the authorities. Measures building on past progress will be an important part of the third-year arrangement. The authorities also plan to implement the recommendations of the ROSC data module and to complete the requirements for participation in the GDDS. Furthermore, they are preparing revisions to the regulatory framework governing exchange rates, payments and convertibility in order to be in compliance with the requirements under Article VIII, Sections 2(a), 3 and 4.

Poverty Reduction Strategy

12. The Tajik authorities have completed the first PRSP progress report, including the 2003 Tajikistan Living Standards Survey. These first results are encouraging as poverty seems to have declined significantly. Good progress has also been made towards increasing the coverage of basic education and reduced infant and maternal mortality. Efforts will continue to better align the public investment program (PIP) with the objectives in the PRSP, and the authorities intend to address the shortcomings pointed out in the JSA of the PRSP.