

Republic of Tajikistan: 2004 Article IV Consultation and Fourth Review Under the Poverty Reduction and Growth Facility—Staff Report; Staff Statement; Public Information Notice and Press Release on the Executive Board Discussion; and Statement by the Executive Director for the Republic of Tajikistan

Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. In the context of a combined discussion of the 2004 Article IV consultation with the Republic of Tajikistan and fourth review under the Poverty Reduction and Growth Facility, the following documents have been released and are included in this package:

- the staff report for the combined 2004 Article IV consultation and fourth review under the Poverty Reduction and Growth Facility, prepared by a staff team of the IMF, following discussions that ended on December 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 March 2, 2005. 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 March 18, 2005 updating information on recent economic developments.
- a Public Information Notice (PIN) and Press Release, summarizing the views of the Executive Board as expressed during its March 18, 2005, discussion of the staff report on issues related to the Article IV consultation and the IMF arrangement, respectively.
- a statement by the Executive Director for the Republic of Tajikistan.

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

Letter of Intent sent to the IMF by the authorities of the Republic of Tajikistan*
Memorandum of Economic and Financial Policies by the authorities of the
Republic of Tajikistan*
Selected Issues Paper and Statistical Appendix
*May also be included in Staff Report

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

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INTERNATIONAL MONETARY FUND

REPUBLIC OF TAJIKISTAN

**Staff Report for the 2004 Article IV Consultation and Fourth Review
Under the Poverty Reduction and Growth Facility**

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

Approved by Juan Carlos Di Tata and Mark Plant

March 2, 2005

- Discussions for the Article IV consultation and fourth review under the Poverty Reduction and Growth Facility (PRGF) took place in Dushanbe during December 2–14, 2004. A PRGF arrangement in an amount equivalent to SDR 65 million (75 percent of quota) was approved on December 11, 2002. As of end-December 2004, Tajikistan's outstanding use of Fund resources was SDR 78.7 million (90.5 percent of quota).
- The staff team comprised P. Winglee (head), R. Zytek, F. Kumah, J. Matovu (all MCD), A. Kireyev (PDR), F. Fischer (MFD), and E. Amankwah (Assistant, MCD). The Fund's resident representative in Dushanbe, Mr. Khawaja, assisted the mission. Messrs. Zurbrügg and Nuraliev (OED) participated in the policy discussions.
- The mission met with President Rahmonov, Prime Minister Akilov, State Economic Advisor Kholboboev, Minister of Finance Nadjmiddinov, Minister of Economy and Trade Soliev, National Bank Chairman Alimardonov, other senior officials, members of parliament, and representatives of the civil society, the business community, NGOs, and the mass media.
- In the attached Letter of Intent and Memorandum of Economic and Financial Policies (MEFP) (Attachments I and II), the authorities report on the implementation of the program, set out their policies for the third year, and request the completion of the fourth review under the PRGF arrangement.
- Tajikistan accepted the obligations under Article VIII, Sections 2, 3, and 4 in December 2004 and maintains an exchange system that is free of restrictions on the making of payments and transfers for current international transactions.

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LIST OF ACRONYMS

AML/CFT	Anti-Money Laundering/Combating the Financing of Terrorism
AsDB	Asian Development Bank
CIS	Commonwealth of Independent States
CAS	Country Assistance Strategy
CPI	Consumer Price Index
DSA	Debt Sustainability Analysis
EBRD	European Bank for Reconstruction and Development
ECM	Energy Compensation Mechanism
FAD	IMF Fiscal Affairs Department
FDI	Foreign Direct Investment
GDP	Gross Domestic Product
IAS	International Accounting Standards
IDA	International Development Association
IFC	International Finance Corporation
MDG	Millennium Development Goals
MEFP	Memorandum of Economic and Financial Policies
MOF	Ministry of Finance
MOET	Ministry of Economy and Trade
NBT	National Bank of Tajikistan
NFA	Net Foreign Assets
NIR	Net International Reserves
NPL	Nonperforming Loan
NPV	Net Present Value
PIP	Public Investment Program
PRGF	Poverty Reduction and Growth Facility
PRSC	Poverty Reduction Support Credit
PRSP	Poverty Reduction Strategy Paper
SAC	Structural Adjustment Credit
SME	Small- and Medium-Size Enterprises
SOE	State-Owned Enterprises
STA	IMF Statistics Department
TadAZ	Tajik Aluminum Plant
VAT	Value Added Tax
WTO	World Trade Organization

EXECUTIVE SUMMARY

- Although Tajikistan's transition to a market economy has been protracted, the authorities' stabilization and reform efforts are bearing fruit. Real GDP growth averaged 10 percent a year in 2001–04, and inflation has declined steadily to 5½ percent by end-2004. The implementation of structural reforms has been slower, however, especially in the agricultural and public sectors.
- Performance under the PRGF-supported program has been satisfactory. All the quantitative performance criteria for end-September 2004 and the indicative targets for end-December 2004 were observed, the main exception being arrears to utility companies, which are being addressed. The structural performance criteria were observed, and the structural benchmarks have been implemented, although in some cases with delays.
- The program for 2005 is based on conservative growth of 8 percent; inflation is projected to remain at 6 percent, reflecting in part the impact of higher inflation in Russia, Tajikistan's major trading partner.
- Fiscal policy is set within a prudent framework, with a deficit of ½ percent of GDP projected for 2005 (excluding the foreign-financed public investment program). The fiscal program incorporates a significant increase in the wage bill, from 2.7 percent of GDP in 2004 to 3.9 percent in 2005. This is largely a catch-up for government employees, which the authorities deem necessary to retain qualified personnel. It will also provide the basis for reversing the deterioration in the delivery of social services and embarking on a comprehensive reform of government administration.
- Monetary policy will remain prudent with a modest increase in reserve money. The NBT will develop money market instruments to improve monetary management. The program also envisages measures to strengthen the banking sector, including the removal of impediments to the entry of foreign banks.
- Other structural reforms focus on improving the functioning of the public sector, creating a better business environment for the private sector, and reinvigorating the agricultural sector.

I. INTRODUCTION

1. **The Executive Board completed the 2002 Article IV consultation and approved a new three-year PRGF arrangement on December 11, 2002.** At that time, Executive Directors welcomed the steady economic progress made by Tajikistan based on strengthened ownership and commitment to reform, especially the good fiscal performance in 2001–02 and the focus of monetary policy on reducing inflation. Directors noted that the medium-term outlook could be complicated by the country’s external debt burden, and stressed the importance of improved debt management and a comprehensive debt restructuring.

2. **At the time of the third review under the arrangement, completed on July 21, 2004, Executive Directors commended the authorities for Tajikistan’s improved economic performance.** They also encouraged the authorities to take advantage of favorable economic conditions to speed up the implementation of key reforms. In particular, Directors emphasized the importance of expediting governmental reform, focusing on the education and health sectors. Directors recognized that an increase in real wages in the context of the 2005 budget would be needed to retain appropriately qualified government employees.

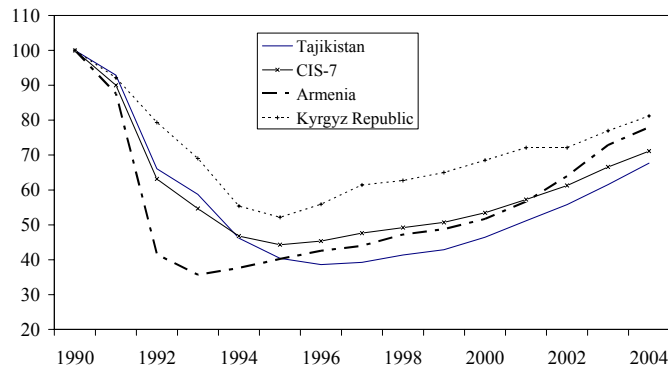
3. **Parliamentary elections are scheduled for late February and March 2005, and Presidential elections are scheduled for early 2006.** The elections are not expected to change the orientation of economic policies and reforms.

II. RECENT DEVELOPMENTS AND PERFORMANCE UNDER THE PRGF-SUPPORTED PROGRAM

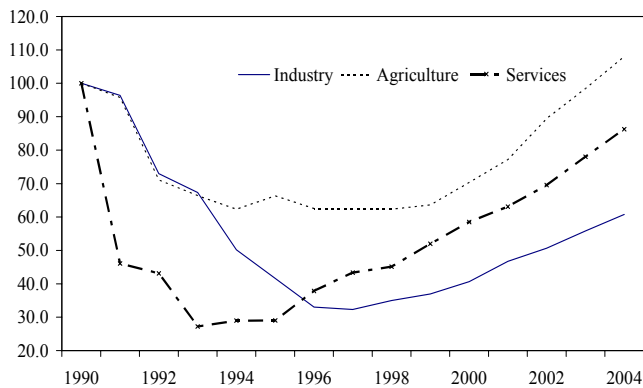
A. Overall Trends

4. **Tajikistan’s transition to a market economy has been protracted, but the government’s reform efforts are starting to pay off.** In addition to the disruptions associated with the breakup of the former Soviet Union, Tajikistan endured civil war during most of the 1990s. As a result, output dropped by 60 percent in 1990–97, one of the steepest declines in CIS countries, and inflation rose sharply. Domestic political stability, strong regional performance, economic liberalization, and favorable terms of trade contributed to real GDP growth averaging 10 percent a year

Real GDP in Tajikistan and CIS-7 Countries, 1990–2004
(100=1990)



Sectoral Real GDP, 1990–2004
(1990=100)



in 2000–04.¹ Output is now equivalent to 68 percent of the 1990 level. The agricultural and service sectors have regained their 1990 output level, reflecting rapid growth in total factor productivity (see Selected Issues paper), but the performance of industry has been weaker, with a rebound only in the aluminum sector. Fiscal discipline and a tighter monetary policy have contributed to a reduction in inflation from 40 percent in 2001 to single digits in 2004.

Recent Macroeconomic Developments, 2000–04

	2000	2001	2002	2003	<u>Prel.</u> 2004
(In percent change, unless otherwise indicated)					
Real GDP	8.3	10.2	9.1	10.2	10.6
GDP per capita (U.S. dollars)	155	166	184	236	310
GDP (in millions of U.S. dollars)	991	1,051	1,193	1,556	2,073
Non-farm wages excluding government (U.S. dollars per month)	19	16	20	28	50
Poverty rate (in percent of total population)	81.0	...	...	64.0	...
CPI inflation (average)	32.9	38.6	12.2	16.4	7.1
(In percent of GDP)					
Overall fiscal balance (excl. PIP)	-0.6	-0.1	-0.1	0.9	0.3
Budgetary social expenditure	6.6	6.9	7.0	6.6	7.1
External current account balance	-8.9	-6.7	-2.7	-1.3	-3.9

Sources: Tajik authorities; and Fund staff estimates.

1/ The poverty rate in the 2000 column is for 1999.

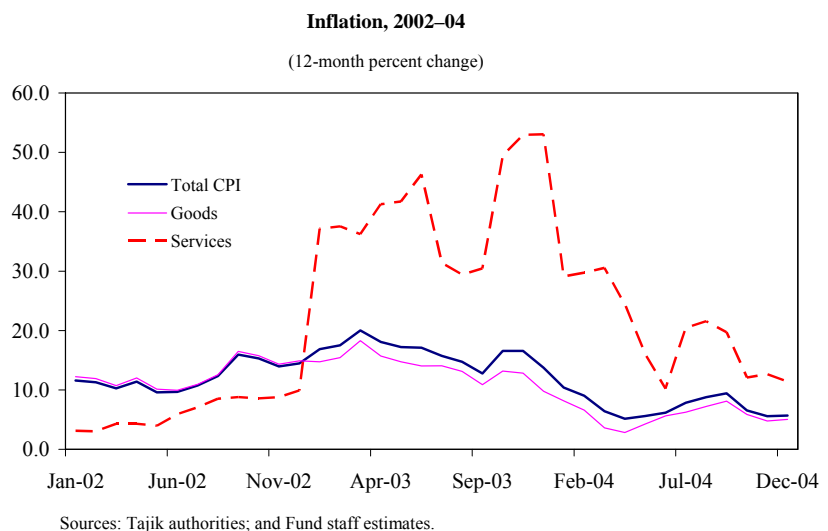
¹ Nominal GDP grew by a cumulative 70 percent in 2003–04, well above the growth in real GDP and CPI-inflation. The authorities attribute the rapid increase in the GDP deflator to increases in producer prices. Reviews by STA of the methodology used to compile nominal GDP found no major problems.

5. **Notwithstanding many obstacles, the private sector has grown considerably in recent years, and the banking system has been strengthened.** However, progress in a number of priority reform areas envisaged in the PRSP and the medium-term PRGF strategy (IMF Country Report No. 03/10) has been slow, especially land and cotton marketing reforms. More generally, the business environment needs to be improved in order to stimulate the development of formal private activities, as weak governance has contributed to continued presence of a large shadow economy.²

6. **There is evidence that poverty has declined significantly in recent years.** According to a recent World Bank update on the poverty situation, strong economic growth and labor migration have reduced the poverty rate from 81 percent of the population in 1999 to 64 percent in 2003.³ Tajik workers abroad, especially in Russia, Kazakhstan, and Iran, now account for 25 percent of the Tajik working age population, and have contributed to the reduction in poverty.

B. Recent Macroeconomic Developments

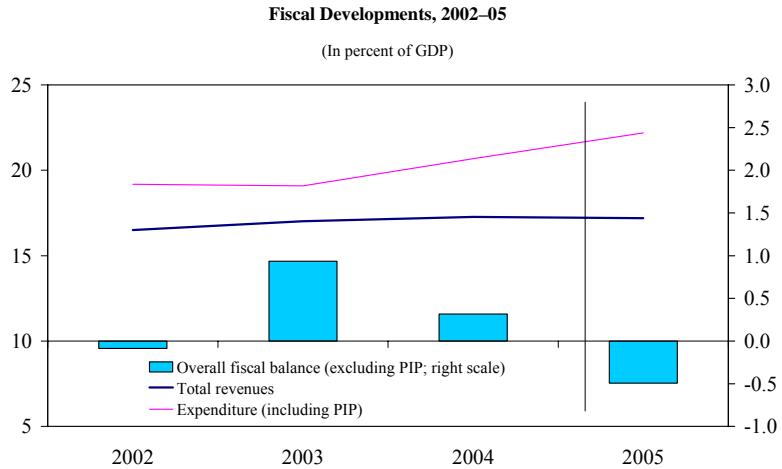
7. **Macroeconomic developments in 2004 were favorable.** Real GDP growth remained at about 10 percent and inflation fell significantly (Table 1). Economic activity continued to be fueled by the increase in domestic demand financed by the rapid growth in worker remittances and by strong external demand for Tajikistan's key exports. The expansion was particularly strong in the services sector, including trade, transport and communications, construction, and banking. Disciplined macroeconomic policies, a stable exchange rate, and a favorable harvest helped reduce inflation to 5½ percent by end-2004, 1½ percent below the official target.



² According to the World Bank's governance indicators, Tajikistan was in the tenth decile in four of six governance categories in 2002, and well below the average for former Soviet Union countries.

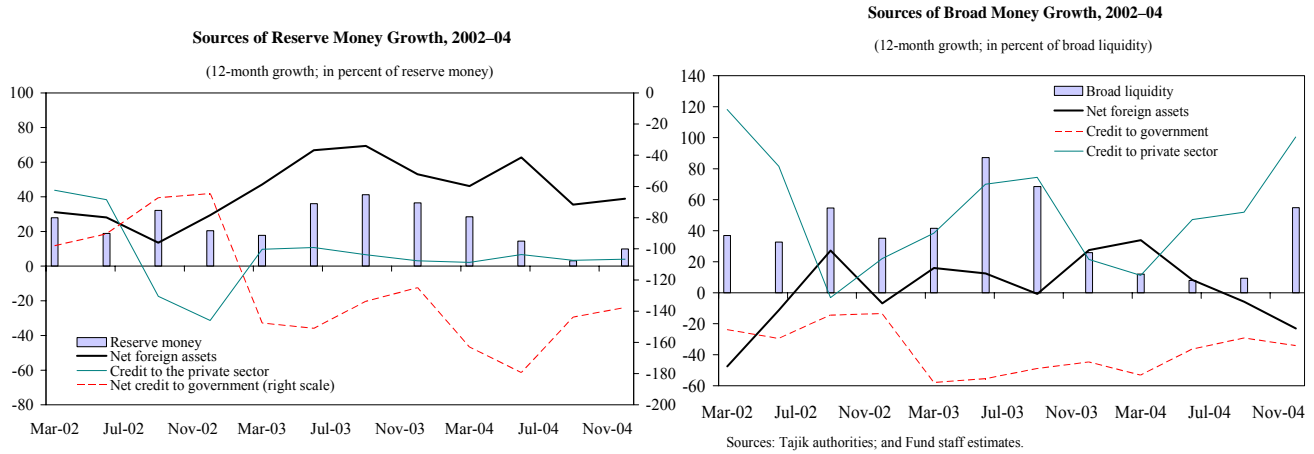
³ World Bank estimates based on the population with per capita spending below \$2.15 per day on a purchasing power parity basis.

8. **The general government (excluding the foreign-funded PIP) recorded a small surplus in 2004 (as in 2003), compared with a deficit of 0.4 percent of GDP envisaged in the program (Tables 3 and 4).** Tax revenue increased slightly to 15.2 percent of GDP in 2004, broadly in line with the program, owing to a good performance of the income tax and the VAT, and could have been even higher had cotton exports not been delayed. Current outlays were restrained, resulting in lower than programmed levels relative to GDP, while capital expenditure turned out somewhat higher than programmed because of an acceleration of spending in the second half of the year. The overall deficit (including the foreign-funded PIP) declined to 2.7 percent of GDP in 2004, and was more than covered by net external concessional borrowing.



Sources: Tajik authorities; and Fund staff estimates.

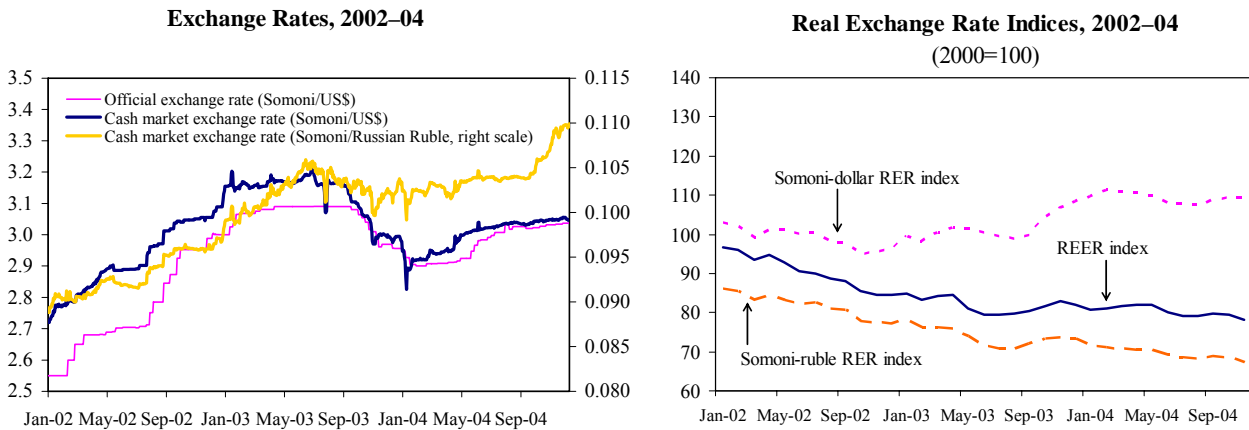
9. **The implementation of monetary policy continued to improve in 2004.** In 2003, the NBT was unable to control base money as it attempted to target the exchange rate by intervening in the foreign exchange market. Since late 2003, however, the NBT has successfully focused on stabilizing reserve money growth, which has contributed to reducing inflation. Externally financed cotton sector credit (75 percent of total private sector credit) rose rapidly in early 2004, fueled by high cotton prices. This seasonal expansion in credit, however, has not yet been repaid, partly because of delays in cotton shipments following the sharp drop in prices in late 2004, in anticipation of higher prices in 2005.



Sources: Tajik authorities; and Fund staff estimates.

Sources: Tajik authorities; and Fund staff estimates.

10. **The external current account deficit widened from 1.3 percent of GDP in 2003 to 3.9 percent in 2004**, mainly because of the high growth of the economy and delays in cotton shipments equivalent to 2 percent of GDP. Despite the sharp decline in cotton prices, the value of exports rose by 19 percent in 2004, reflecting a substantial increase in export volumes and high aluminum prices. Imports grew at an even faster pace (28 percent), owing in part to higher fuel costs and increases in inputs for cotton production. At the same time, workers' remittances inflows rose substantially, to about 20 percent of GDP. Gross international reserves increased markedly in dollar terms, but the rapid growth of imports has kept the import coverage at about 2.0 months.⁴ After appreciating significantly in late 2003, the somoni has remained relatively stable against the U.S. dollar. In real effective terms, the currency depreciated by 5 percent in 2004. Following the completion of legislative changes to eliminate a few remaining exchange restrictions on current transactions, on December 9, 2004, Tajikistan accepted the obligations under Article VIII, Sections 2, 3, and 4 of the Fund's Articles of Agreement.



11. **The authorities have taken determined measures to substantially improve the external debt profile.** As a result of a debt/asset swap with Russia, a debt write-off of \$13 million granted by Pakistan, restraint on new borrowing, and strong economic growth, the public sector external debt declined from its peak of 130 percent of GDP at end-2000 to 40 percent at end-2004. The debt/asset swap with the Russian Federation, which was signed in October 2004, reduced Tajikistan's stock of external debt by \$250 million. A further \$50 million will be paid through the budget, on behalf of Russia, as investment in the Sangtuda hydro-electric project.

⁴ The high value of aluminum exports in Q4 2004 should have resulted in larger tax payments and higher international reserves and tax payments. However, the aluminum smelter TadAZ incurred substantial tax and utility arrears which explain in part the large unidentified capital outflow that quarter. The government has now changed TadAZ management and is in the process of regularizing its finances.

C. Performance Under the Program

12. **Implementation of the second year program under the PRGF arrangement (October 1, 2003–September 30, 2004) was satisfactory.** All the quantitative performance criteria for end-September 2004 and all but two of the indicative targets for end-December were observed, some by significant margins, largely because of fiscal over-performance (Box 1). The indicative target reserve money was exceeded only by a negligible amount. However, the target for the avoidance of new arrears to utility companies by budget entities and SOEs was not met, resulting in arrears of about ½ percent of GDP accumulated in the December quarter, mainly by TadAZ.

Monetary Performance

(In millions of somoni; unless otherwise indicated)

	End-Sept. 2004		End-Dec. 2004	
	Performance criteria (adj.) 1/	Actual	Indicative targets (adj.) 1/	Actual
Ceiling on net domestic assets of the NBT	55	30	71	35
Ceiling on net credit of the banking system to government	-177	-237	-167	-227
Floor on net international reserves (millions of U.S. dollars)	66	70	65	76
Reserve money (indicative target)	265	255	278	279

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

1/ Adjusted for the non-disbursement of World Bank and Asian Development Bank loans (US\$10 million for September and December and \$5 million for December).

13. **Structural measures have been implemented, albeit with delays in some cases.** All of the structural performance criteria (which were continuous) were observed. The July 2004 structural benchmark on education reform was met in September with a 15 percent reduction in the number of positions (exceeding the 5 percent target). The September benchmark for enforcing compliance with prudential banking regulations was observed, although agreement with the state savings bank on a plan to address deficiencies has been delayed until the source of additional capital for the bank is identified (an injection of private capital has not been ruled out). However, the audit of Tajikgas (originally set for June 2004) was only completed in February 2005 owing to some difficulties in securing donor funding. Moreover, the audit has identified major accounting deficiencies that need to be addressed.

14. **The program has led to a marked improvement in financial sector soundness.** Enforcement of prudential regulations has improved following two years of intensive efforts that included the breakup and recapitalization of the largest commercial bank and closure of several small banks. While eight banks violated an average of almost four prudential ratios

**Box 1. Tajikistan: Performance Under the Second Annual Program
Under the PRGF Arrangement, July–December 2004**

Measure	Status
<i>Quantitative performance criteria (September 2004)</i>	
Ceiling on net domestic assets of the NBT.	Observed
Ceiling on net credit of the banking system to general government.	Observed
Ceiling on the cumulative overall fiscal balance of the general government.	Observed
Ceiling on general government wage, and nonworking pensioners' pension arrears.	Observed
Floor on tax collection of the ministry of state revenues and duties.	Observed
Floor on total net international reserves.	Observed
Ceiling on the contracting or guaranteeing of short-, medium-, and long-term nonconcessional external debt.	Observed
New external payments arrears.	Observed
<i>Indicative targets (September 2004)</i>	
Ceiling on reserve money.	Observed
New arrears of budget entities and key state-owned enterprises to utility companies.	Not observed
<i>Continuous structural performance criteria</i>	
Prohibit the NBT from issuing directed credits.	Observed
Prohibit the NBT from making expenditures not related to its core business.	Observed
Implement quarterly adjustments of all utility tariffs, equivalent to the depreciation in the nominal exchange rate in the previous quarter.	Observed
<i>Structural benchmarks</i>	
Complete an external audit of Tajikgas by a reputable international audit agency (end-June 2004).	Observed in February 2005
Reduce the number of employees in the education sector by 5 percent (end-July 2004).	Observed in 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).	Observed
Reach agreement with commercial banks not complying with prudential regulations on a time-bound plan to correct these deficiencies (end-September).	Observed for all but the state savings bank

each in December 2003, only three banks did not comply with some prudential regulations in December 2004. This improvement was supported by stepped-up offsite and on-site supervision. More importantly, bank capitalization has been strengthened significantly, and the sector continues to consolidate. Also, the authorities are taking steps to implement the recently approved AML/CFT legislation.

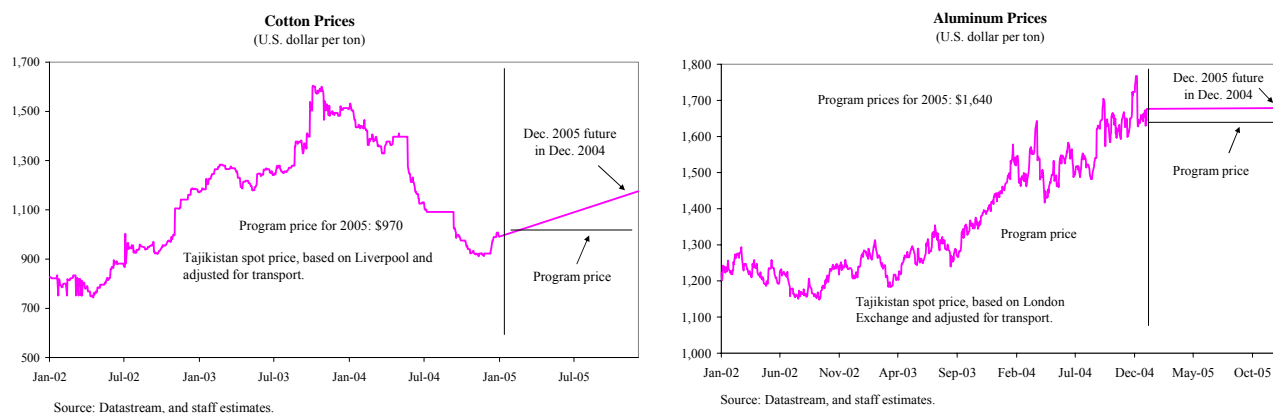
III. POLICY DISCUSSIONS

15. **The authorities stressed their desire to build on the gains made in recent years toward achieving macroeconomic stability and promoting growth.** They considered that the current policy strategy of financial discipline, especially in the fiscal, monetary, banking, and external debt management areas, in which they had been very responsive to Fund policy advice, had been effective at achieving macroeconomic stability and the restoration of growth. The authorities, however, acknowledged that underlying progress on other structural areas such as agriculture, energy, public sector management, and governance had been slower. They emphasized their commitment to completing Tajikistan's transition to a full market economy and attached utmost importance to addressing these issues. In particular, they recognized the need to reform the agricultural sector to reduce rural poverty, as well as to speed up the reform of the public sector in order to provide social services more effectively. The authorities cautioned, however, that these reforms needed to be carefully planned within a medium-term context, owing to the associated complexities and social sensitivities. They also indicated that they intended to move forward with measures to improve the business environment, strengthen regional linkages, and improve the country's infrastructure by restarting large hydroelectric projects that were initiated during the Soviet Union period (Box 2).

A. Overall Strategy and Macroeconomic Outlook

16. **Although the medium-term outlook looks favorable, the authorities are conscious of the many uncertainties ahead.** The 2005 program is based on conservative projections, and factors in the large decline in cotton prices from their peak in early 2004; aluminum prices are projected to remain buoyant.⁵ Real GDP growth is projected to remain robust at 8 percent in 2005, reflecting the start of work in the energy sector and road infrastructure, before slowing to 6–7 percent a year in 2006–07. Inflation is projected to remain at 6 percent in 2005, with lower domestic inflation being offset by the impact of Russian inflation (projected at 10 percent). Remittance income would remain strong, and improvements in the environment for domestic investment would contribute to diversifying the economy. The main risks to Tajikistan's growth prospects in 2005 are related to slower economic activity in its major economic partners (especially Russia) and, possibly, to lower prices for the country's major exports.

⁵ In any event, the program prices for both aluminum and cotton are below the January 2005 future prices for December 2005 delivery.



Box 2. Tajikistan—Reestablishing Regional Linkages

Tajikistan has made substantial progress in reestablishing economic relations with neighboring countries, including former Soviet Union countries, China, Iran, and Pakistan.

Investment. Energy and transport linkages could leverage Tajikistan's geographical position. In October 2004, the authorities signed a seven-year \$1.57 billion investment package with Russian interests involving: two large hydropower stations, Rogun (with projected investment of \$560 million) and Sangtuda I (\$480 million, including possible additional investment from Kazakhstan) with major construction expected to start in 2006–07; the reconstruction of the TadAZ aluminum smelter (\$160 million); and the construction of a new aluminum plant (\$600 million). In addition, Iran will develop the Sangtuda II power station (about \$250 million), and is also providing \$35 million in concessional assistance for the construction of the Anzob tunnel to link the central and northern parts of Tajikistan. The government is also cooperating with China and Pakistan on road links with these countries. The new roads will provide outlets for new agricultural exports.

Migration. In October 2004, Tajikistan signed an agreement on labor migration with the Russian Federation to regularize migration rules. The authorities estimate the share of migrant workers at about 17 percent of the economically active population, or 300–400 thousand, with up to 90 percent working in Russia. The inflow of labor remittances to Tajikistan through the banking system is estimated at \$433 million (21 percent of GDP) in 2004, but may include export proceeds. Remittances from Tajikistan are estimated at \$120 million (7 percent of GDP) and may include import payments.

Regional cooperation. Tajikistan has been actively participating in regional organizations, although many of these organizations are still at an incipient stage. The main one is the *Euro-Asian Economic Community* (Belarus, Kazakhstan, the Kyrgyz Republic, Russia, and Tajikistan), which aims to create a customs union by end-2006.

17. **The third-year program under the PRGF arrangement focuses on maintaining macroeconomic stability, accelerating public sector reform, and enhancing the business climate in line with the PRSP (see Box 3).** In the fiscal area, tax revenue is expected to strengthen as a result of the introduction of new tax and customs codes and improvements in revenue compliance, especially by the major SOEs. Monetary management will be enhanced

Box 3. Tajikistan—Structural Conditionality

Coverage of structural conditionality in the current program

Annex IV of the attached MEFP shows the structural conditionality in the program. The structural performance criteria cover central bank operations and utility price adjustments as in the earlier programs. Structural benchmarks for the third annual program relate to revenue administration, expenditure management, bank debt recoveries, and private external debt monitoring which are relevant to the macroposition since they should strengthen the fiscal and external positions. The benchmark for removal of impediments to the entry of foreign banks is intended to improve the sector's expertise and service to support investment and growth. The prior action on government reform and the benchmark for rationalizing strategic planning, while outside the core area of Fund expertise, draw on technical work by the World Bank. They were included in the program to give assurances that the wage increase is accompanied by appropriate reforms to increase efficiency in the government sector.

Status of structural conditionality from earlier programs

Almost all structural conditionality from previous annual programs was implemented. Although there were some delays, the measures were completed by the time of the subsequent review. The one exception was the benchmark for the audit of the State Financial Control Committee, which was replaced by a World Bank-funded twinning arrangement that is now close to being finalized.

Structural areas covered by world bank lending and conditionality

World Bank projects are in place in the agricultural, education, and health sectors and have policy components. Public administration, transport, and energy reforms are being discussed with the authorities in the context of prospective policy based and energy sector credits.

Other relevant structural conditions not included in current program

The resolution of the cotton sector debt is being addressed by the World Bank, AsDB, and other donors. While the amounts are macroeconomically relevant, the underlying reforms will have a fundamental effect on agriculture and, thus, these institutions are taking the lead. However, the program has a benchmark to establish a system to monitor the debt developments more closely. Specific private sector development issues are being taken up by an ongoing dialogue between the IFC, UNDP, other donors, and the government.

by introducing appropriate market instruments. In the structural area, the NBT will liberalize entry into the banking system with the objective of attracting reputable foreign banks. Moreover, reforms in education, health care, and the core civil service will seek to improve public administration, governance, and the delivery of social services.

B. Fiscal Policy and Public Sector Reform

The medium-term fiscal framework

18. **The fiscal framework for 2005–07 seeks to contain the overall budget deficit at 4½–5 percent of GDP (Table 5).** These deficits incorporate foreign-financed PIP spending of 4–4½ percent of GDP based on the utilization of higher external concessional assistance to support infrastructure investment, given the recent improvement in the debt profile. Excluding the PIP, the fiscal balance is targeted to shift from a small surplus in 2004 to deficits equivalent to ½ percent of GDP in 2005–07. The program aims to limit net domestic bank financing to a similar amount so as to allow for adequate credit to the private sector.

19. **Tax revenue is projected to increase from 15.2 percent of GDP in 2004 to 16.2 percent in 2007.** This improvement will be achieved by strengthening tax administration to broaden the tax base rather than by increasing tax rates, which are already quite high. **On the expenditure side,** the wage bill is projected to increase significantly, from 2.7 percent of GDP in 2004 to 4.3 percent in 2007, in line with the authorities' objectives of retaining appropriately qualified personnel and beginning to reform the government, and will be conditional on the availability of revenue. Reflecting these increases, social spending is expected to rise from 7 percent of GDP in 2004 to just under 10 percent in 2007 in line with the PRSP.

The fiscal program for 2005

20. **In formulating the budget for 2005, the authorities sought to maintain fiscal discipline while improving participation in defining budget priorities and strengthening the transparency of the budgetary process.** In this regard, the government utilized the Budget Commission⁶ to identify the main priorities while allowing for extensive discussions with parliamentary committees in anticipation of the elections. As a result, the composition of domestically funded spending was modified significantly relative to the 2004 program. In particular, savings on low priority capital projects and other current spending were redirected to allow for a large increase in the wage bill, to 3.9 percent of GDP, in line with the government's objectives of addressing the deterioration in governance and the provision of

⁶ The Budget Commission comprised senior ministers and representatives of the presidential administration.

social services. Although the revenue target is conservative, the authorities are prepared to delay some capital spending, if necessary, to ensure that the deficit and bank financing ceilings are met.

21. **Total revenue is projected to remain unchanged in 2005, with tax revenue increasing by ½ percentage point of GDP to 15.7 percent of GDP.** The increase in tax revenue is based on a substantial reduction in exemptions and the introduction of: (a) a minimum tax on enterprises; (b) a unified agricultural tax;⁷ and (c) the implementation of the new tax and customs codes (see the accompanying Selected Issues paper). Additional measures (not factored into the projections) include stricter implementation of the requirement that TadAZ remain current on its tax and electricity payments (and progressively pay off its arrears); this would provide additional resources to the electricity utility to meet its VAT obligations. The implementation of a mechanism to ensure that these funds are promptly transferred to the treasury is a structural benchmark for March 2005. Also, the large taxpayer inspectorate will be expanded to cover at least 60 percent of tax collections (structural benchmark for June 2005). Nontax revenue is projected to decline by ½ percent of GDP in 2005; this projection is conservative given the ongoing formalization of user charges in health and education.

22. **Current expenditure in 2005 will remain at the 2004 program level of 14 percent of GDP.**⁸ However, because the 2004 outturn was lower than programmed, there will be a catch-up factor compared to the actual outcome. Within this total, the projected increase in the wage bill will be partly offset by lower administrative expenses and interest payments. Higher foreign concessional loans to finance the PIP of 4 percent of GDP are justified in light of the improved debt outlook and the need to finance high priority projects, included in the PRSP. At the same time, domestically funded capital expenditures will return to their historical trend.

23. **The proposed wage bill of 3.9 percent of GDP in 2005 implies a 65 percent increase in nominal terms.**⁹ The average wage increase at the start of 2005 was 50 percent, but the budget envisages additional funding of 0.1 percent of GDP to cover the cost of Tajik border guards that will take over from Russian troops the patrolling of the Tajik-Afghan

⁷ Together, these two new taxes are expected to yield net revenues of 0.3 percent of GDP, stemming mainly from the application of the minimum tax to TadAZ, which in the past did not declare profits despite high aluminum prices. Another part of the expected increase in revenue is associated with the payment of cotton sales taxes that were delayed from 2004 (about 0.2 percent of GDP).

⁸ The 2005 budget was formulated based on the outcome of the first three quarters of 2004, while Tables 3–5 show the preliminary outcome for the full year 2004.

⁹ Even with this increase, the wage bill will only be at about the same level as in 2000 and significantly below the average 5 percent of GDP for PRGF countries.

border, and of 0.2 percent of GDP to provide selective wage increases in the second half of the year, conditional on the implementation of additional sector-specific reforms. For the civil service proper, the wage increases will seek to reduce wage compression. About 70 percent of the increase in the wage bill corresponds to the social sectors.¹⁰

24. **In parallel with the wage increase, the government is accelerating the reform of the public sector (Box 4). A presidential order formalizing this reform was issued in February 2005 as a prior action under the program.** In health and education, the reform will include a rationalization of resources by shifting the basis for payments to the volume of services provided rather than the previous level of inputs. These reforms constitute a key element of the World Bank's Policy Based Credit, which is expected to be approved in the third quarter of 2005.

25. **The staff stressed the importance of linking the adjustment in government wages with the medium-term reform of government administration.** It also cautioned the authorities on the need to avoid raising unrealistic expectations, and to make further increases conditional on the availability of resources and continued reforms. The authorities agreed with the staff's view but noted that, in the social sectors, the government's strategy of formalizing user fees and eliminating redundant facilities would provide resources for further wage increases.

26. **The program for 2005 also includes measures to improve public expenditure management (with FAD technical assistance).** Administrative measures will seek to enhance communication links between the central branch offices of the treasury in order to strengthen cash management and forecasting (structural benchmark for September 2005). In addition, commitment controls will be strengthened for nonroutine payments.

C. Monetary and Exchange Rate Policies

27. **The authorities are committed to maintaining low inflation.** Under the monetary program for 2005, broad money growth is projected at 18 percent, assuming broadly unchanged velocity. Consistent with a reduction in inflation, given the lower required reserve ratio, base money would increase by 10 percent, with gross international reserves rising by \$45 million to raise import coverage to 2.3 months of imports. There will be a small amount of central bank financing of the government, reflecting the utilization of external program loans disbursed in 2004. The NBT recognized that it could not rely on budget surpluses, as it did in 2003–04, to achieve its monetary objectives, and that it would need to monitor

¹⁰ The highest increase will apply to the health sector, where wages will rise by 100 percent from a very low base of about \$6 per month.

Box 4. Tajikistan—The Reform of Public Administration

The Tajikistan authorities recognize the importance of reforming public administration for the transition to a market-based economy. In particular, the distribution of ministerial portfolios as part of the peace agreement for the civil war, together with low wages, has fostered rent-seeking practices and patronage. A high-level presidential working group was formed in September 2004 to formulate a comprehensive reform strategy encompassing all elements of government operations. Recommendations are expected to be ready in the second half of 2005. In parallel, specific measures have been taken in certain high priority areas that will serve as pilot cases. This box outlines the near-term measures contained in the presidential order of February 4, 2005. The authorities' work in this area is being supported by the World Bank and bilateral donors.

Organization reforms to the civil service

- The ministry of labor and social protection will be a pilot case in the restructuring process. Following the merger of three entities, the ministry will take measures to rationalize its operations. The reforms are expected to yield some staff savings and better field services.
- The ministry of economy and trade will be rationalized to reduce duplication in development planning, phase out redundant operations, and refocus its operations in improving the policy environment for private sector development. The ministry of finance and the ministry of revenue will be subject to functional reorganization.

Information and management reforms

- The authorities are upgrading the *personnel management system*. The central register of civil service positions, which has been completed, identifies about 15,000 positions at the central and local government levels. The register of civil service staff is expected to be completed by April 2005. Competitive civil service recruitment has started and the new procedures will be reviewed in mid-2005.
- Budget and cash management will be strengthened. The treasury system will also be adapted to a more decentralized financial management for the social sectors.

Social sectors

- Funding reforms in the *education and health sectors* include formalizing fees (which became legal after a constitutional amendment in 2003), changing the funding formula away from the amount of inputs (workers, beds, etc.) to output in terms of the services provided (students or patients), and decentralizing decision-making.
- The reform strategy for the *education sector* is set out in the June 2004 reform plan for 2004–09. Cuts in positions, averaging 15 percent, were implemented in September 2004. However, as low wages had resulted in many vacancies, the cuts in positions did not produce many staff redundancies. Pilot programs have been initiated in five districts, including some large towns. These programs use school-based budgeting and mixed private and public funding.
- After adopting a *healthcare* reform strategy in 2003, the authorities are finalizing the health financing mechanism. This was piloted in two districts, which successfully boosted primary healthcare (as opposed to hospital-based treatment) and implemented a guaranteed benefits package, copayments for some services, and service-based funding. In 2005, the pilots will be extended to three larger districts, including Dushanbe, which are expected to lead to a rationalization of hospital facilities and related staff.

monetary developments closely to avoid a reemergence of inflationary pressures. Given the limited availability of instruments for withdrawing liquidity, the NBT will refrain from providing any financing to banks, except as lender of last resort, and only at penalty rates.

28. **The NBT identified the development of market instruments and an effective interbank market as a key structural objective for 2005.** The NBT agreed with the staff on the urgency of developing a securities market, including by converting some of the government securities held in its portfolio into marketable instruments. As a first step, MOF will issue SM 3 million of short-term treasury securities in the second quarter of 2005 that could be used in the secondary market to collateralize interbank loans.

29. **The monetary program provides sufficient room for credit to the private sector.** To support credit expansion, after relaxing liquidity requirements in 2004, the authorities will progressively reduce reserve requirements from the current level of 18 percent. Total private sector credit will be flat for the year because of the delayed repayment of cotton sector credits (Table 7). Other commercial bank credit, however, will grow strongly. Legal changes to facilitate the use of land as bank collateral are expected to facilitate access to credit by the rural sector.

30. **The staff considers appropriate the NBT's policy of maintaining a managed floating exchange rate regime, with intervention aimed at meeting the international reserve targets and smoothing short-term exchange rate volatility.** The staff is of the view that external competitiveness remains adequate, given the strong growth of exports and the relatively low level of wages in Tajikistan, even allowing for the lower productivity.

D. Financial Sector Issues

31. **The NBT is taking steps to further strengthen the financial system.** The authorities are raising the minimum capital requirements for banks to \$5 million in 2005–06, which is likely to encourage further consolidation of the system. The reductions in the liquidity and required reserve ratios are intended to release more resources for lending (following the more effective enforcement of prudential regulations), as well as to narrow the spread between lending and deposit rates (currently at 12 percent for short-term loans). The mission stressed the need for the NBT to review the existing infrastructure supporting commercial bank operations, including by strengthening the monitoring of credit quality. In particular, it encouraged the authorities to facilitate the establishment of a bankers' association and a credit bureau. To strengthen its balance sheet, the NBT intends to sell part of the collateral on nonperforming loans provided in the mid-1990s as directed credits (structural benchmark for June 2005).

32. **The authorities shared the staff's view that further strengthening of the banking system will require the entry of reputable foreign banks.** The existing banks are too small and inexperienced to cover the growing demand for financial services. In this regard, the

authorities plan to relax the remaining restrictions on the entry of foreign banks to the Tajik market (structural benchmark for June 2005), in particular, the elimination of the ceiling on foreign capital participation and the requirement that Tajik nationals head banks operating in the country.

33. **The accumulation of a high level of debt by the cotton sector is undermining the solvency of a large financial institution and stifling agricultural reform.** This situation arose because of poor incentives for state farms, collusion by creditors and cotton processors that resulted in farms being granted unfavorable terms, and expectations by some creditors that the government would eventually assume these debts. Indeed, during 2004 the external debt rose from \$92 million at the start of the year to \$150 million at end-2004 (7½ percent of GDP). Donors and the government are working on a mechanism to resolve this problem on a loan-by-loan basis without resorting to government guarantees, which is expected to be in place in the near future. Fund staff will monitor closely the outcome of the discussions. Other measures to reduce distortions in the cotton sector include the elimination of the allocation of land to cotton production and of sub-national cotton production plans, and the acceleration of farm privatization.

E. External Policies and Debt Management

34. **While recent debt reduction agreements have eased the external debt burden, the staff stressed the importance of preserving debt sustainability and ensuring an efficient use of external resources.** Under a medium-term baseline scenario with the PIP at 4½ percent of GDP, an updated debt sustainability analysis indicates that the public sector external debt would not exceed 40 percent of GDP over the medium term, and that the debt service-to-revenue ratio will stay at below 15 percent, a sustainable level based on historical experience (see Selected Issues for details). However, Tajikistan's debt position remains highly vulnerable to exogenous shocks, especially to exports, and requires sound macroeconomic policies to remain sustainable.

35. **The authorities agreed with the staff's assessment and indicated that they would restrain foreign-financed disbursements under the PIP and carefully evaluate projects to ensure their effectiveness, as well as their consistency with PSRP, absorptive capacity, and debt sustainability.** The authorities also intend to pursue further debt regularization and restructuring with the remaining bilateral creditors while ensuring a high degree of concessionality for new borrowing, in line with the program. They also undertook to refrain from issuing financial guarantees to foreign investors, in particular for large energy projects. In addition, the MOF will move expeditiously to start using a computerized system for debt tracking, forecasting, and budget planning. The NBT will start to monitor private sector external debt, focusing initially on the cotton sector.

36. **The authorities are seeking to reestablish regional trade linkages in parallel with fuller integration within the multilateral trade system.**¹¹ The mission supported the authorities' trade liberalization agenda and urged them to ensure that regional initiatives do not result in higher protection for imports from third countries. Despite many attempts at resolution, bottlenecks remain in trade and transit with Uzbekistan (about 95 percent of Tajikistan's trade is transported by railroad through Uzbekistan). The mission encouraged the authorities to continue searching for a mutually acceptable solution to this problem.

F. Other Structural Policies and Issues

37. **The weak business environment constitutes the main obstacle to economic diversification and sustained poverty reduction.** The authorities are committed to liberalizing key services, but concrete actions are also needed to permit reputable international airlines and telecommunication companies to enter the market, and to move ahead with the banking reforms referred to earlier. A recent IFC mission provided advice on reducing the scope of business regulations.

38. **Structural weaknesses in the energy sector continue to be a drag on growth.** Although natural gas prices are broadly consistent with cost recovery, electricity tariffs need to be increased by 400 percent (to \$0.02 per KWh) to reach cost recovery and make the electricity sector financially viable and lay the foundation the new large projects. A World Bank proposal, supported by the staff, for quarterly increases in electricity tariffs to reach this level over a period of about five years is being considered by the authorities as well as social safety nets (Box 5). They have also committed to reducing losses by extending metering of gas and electricity, and to improving collections by reforming the payment mechanism between TadAZ and the electricity utility to ensure TadAZ remains current on its electricity and tax payments.

39. **The authorities have responded positively to the proposals made in the Joint Staff Assessment of the First Annual Progress Report on the PRSP.** In particular, they have started to address deficiencies in public expenditure management and prioritization, including through the establishment of the Budget Commission. Steps have also been taken to reduce duplication in the government and provide better incentives for government workers. The authorities intend to develop a closer link between the next PRSP and the forthcoming five-year plan.

40. **The authorities are making progress in improving the quality and transparency of economic information.** Tajikistan subscribed to the GDDS and posted metadata on its key statistics in November 2004. Although the overall quality, periodicity, and timeliness of the data are sufficient for macroeconomic management, further improvements are needed in

¹¹ Tajikistan has a relatively open trade regime, with an average tariff of 8 percent and no significant nontariff barriers.

the national accounts, especially by developing the expenditure categories. In addition, the authorities need to do much more to improve fiscal accountability, including by increasing the availability of fiscal information and statistics to the general public, particularly the details of the 2005 budget and tax and business-related legislation.

Box 5. Tajikistan—Poverty and Social Impact of Electricity Tariff Increases

The poverty and social impact of electricity tariff increases is being analyzed in parallel with the policy discussion on tariff increases. In collaboration with the World Bank, an expert from the PSIA group in FAD prepared a preliminary analysis (summarized in Selected Issues) in advance of the Bank's more comprehensive study. Using existing information on the consumption basket, a 400 percent increase in electricity tariffs would directly reduce real income for the average household by 6.8 percent and by about 8.2 percent for the poorest quintile. There would also be some additional indirect effects, especially on the prices of food and services. At the same time, there would be income growth over the five-year implementation period, and welfare gains from a more stable electricity supply.

Various methods were reviewed to ameliorate the impact of the tariff increase on the poor. Two formulations of lifeline tariffs were examined, as well as cash transfers based on some standard criteria known to be associated with low income. The review found that lifeline tariffs would not be well targeted at the poor. However, while cash transfers can produce better targeting in the simulations, this has to be balanced against implementation constraints and the associated administrative costs, especially if the payment per household is likely to be relatively small. Given that improvements in the effectiveness of existing social safety net programs, including the Energy Compensation Mechanism, would be gradual, phased increases in prices and transitional lifeline tariffs could be part of a tariff reform package.

41. **During the late 1990s through 2001, Tajikistan received a significant amount of technical assistance in tax and expenditure administration, statistics, and financial sector operations.** Near-term implementation was relatively slow, partly because of institutional weaknesses and lingering instability at that time, and many recommendations are still being implemented. The authorities noted that use of separate short-term missions did not provide sufficient implementation assistance and they preferred longer-term resident or peripatetic advisers. They pointed to the successful assistance in the drafting of the new tax code provided by the Legal Department as an example of consistency of support over a three-year period. Also resident advisers funded by the USAID have been instrumental in strengthening the banking system.

IV. STAFF APPRAISAL

42. **Over the past two years, Tajikistan has made considerable progress in sustaining strong economic growth and securing a marked reduction in inflation.** Economic liberalization, strong fiscal discipline, and improved monetary management supported by the PRGF have underpinned this success. The authorities have also been successful at rebuilding relations with neighboring countries. This has improved the country's employment and investment prospects and contributed to poverty reduction and debt relief. Despite these positive developments, the authorities face major challenges in the transition process, especially to deepen structural reforms and improve governance. They should also be prepared to address negative shocks appropriately.

43. **A prudent fiscal policy will be key to maintaining macroeconomic stability.** Regarding tax revenue, the authorities will need to remain vigilant to ensure that the program targets are achieved. Prompt implementation of the new tax and customs codes, together with other revenue administration reforms, will be critical to improve compliance and broaden the tax base. Given the prospective expansion of the energy/aluminum sector, ensuring compliance with tax and utility payments by the current SOEs will be essential to boost revenue and establish an appropriate governance environment.

44. **The budget for 2005 incorporates a substantial increase in the wage bill within an appropriate overall expenditure framework.** The large wage increase reflects the authorities' objectives of retaining qualified staff and beginning to improve the quality of government services. While the staff considers that there are risks attached to this strategy, the wage increase is expected to have a positive impact on the performance of the civil service, as well as the health and education sectors, and would facilitate the implementation of deeper reforms. These reforms will need to ensure that staffing levels and facilities are rationalized to improve efficiency, and given their complexity and sensitive nature, should be carefully sequenced over the medium term. Measures envisaged in the program to strengthen the treasury and cash management will help increase accountability and improve expenditure management.

45. **Recent improvements in monetary policy have contributed to bringing inflation under control.** In the near term, the authorities should be vigilant to ensure that this success is continued, particularly in light of the need for some domestic financing of the government. In the medium term, the authorities should work toward deepening financial intermediation and further strengthening the banking system, especially by removing the impediments to the entry of reputable foreign banks and by gradually liberalizing restraints on credit growth as compliance with prudential regulations improves.

46. **The staff is of the view that the managed floating exchange rate regime is appropriate and the level of external competitiveness is adequate.** Tajikistan's acceptance of the obligations under Article VIII, Sections 2, 3, and 4 is welcome.

47. **The staff commends the authorities' success at reducing the external debt obligations to manageable levels through effective negotiations and prudent new borrowing.** The improved external debt profile provides some cushion but needs to be accompanied by a more transparent prioritization of the PIP and strengthened external debt management systems.

48. **The authorities need to accelerate structural reforms to sustain growth and poverty reduction.** The agriculture sector is in need of rapid modernization, including through the progressive elimination of distortions. In particular, interference by local governments into farm and enterprise activities should be discontinued. To complement these reforms, the debt overhang of the cotton sector should be addressed decisively. The staff supports the government's intention to do this without recourse to government guarantees.

49. **In the energy sector, further progress is needed to make the sector financially viable.** Improving collection rates for gas and electricity use are a start. Electricity rates should be increased in stages to long-term cost recovery levels in order to ensure adequate resources for maintenance and the expansion of electricity generation capacity. The expressions of interest in the energy/aluminum sector by foreign investors are welcome. Establishing the appropriate governance, financial, and fiscal frameworks for the sector will be key to ensuring additional budgetary revenue that could be used for poverty reduction.

50. **The ongoing reestablishment of regional economic links for goods, labor, and capital constitutes a major contribution to growth.** Further regional efforts to eliminate the remaining impediments to the transshipment of goods would contribute to expanding trade and improving growth prospects.

51. **The authorities should continue to strive to improve public sector transparency and governance.** Reflecting the spirit of the PRSP process, the government has taken positive steps to increase participation by parliamentarians and the business community during the discussions on the 2005 budget and the new tax and customs codes. Further progress could be made in this area by improving public access to key legislation, the detailed fiscal accounts, and other statistical data.

52. The staff recommends that the next Article IV consultation with Tajikistan take place on the 24-month cycle.

Table 1. Tajikistan: Selected Macroeconomic Indicators, 2002–05

(Quota: SDR 87 million)
(Population: 6.5 million)
(Per capita GDP: \$310; Per capita GNP: \$370)

	2002	2003	2004		2005
			Prog. (IMF CR No. 04/248)	Prel.	Proj.
(Annual percent change, unless otherwise indicated)					
National accounts					
Nominal GDP (in millions of somoni)	3,345	4,758	5,750	6,158	7,100
Norminal GDP (in millions of dollars)	1,197	1,556	1,797	2,073	2,338
Real GDP	9.1	10.2	8.5	10.6	8.0
CPI inflation (end-of-period)	14.5	13.7	7.3	5.6	6.0
Poverty rate (in percent)	...	64.0	...	...	...
(In percent of GDP)					
Investment and savings 1/					
Investment	13.9	13.1	13.1	14.9	16.5
Fixed capital investment	10.9	11.5	11.8	13.5	14.0
Government	5.4	6.5	7.0	8.1	8.1
Private	5.5	5.0	4.8	5.4	5.9
Gross national savings	11.2	11.8	11.1	11.0	12.3
Public	3.0	4.8	3.6	5.4	3.6
Private	8.3	7.1	7.5	5.6	8.7
Savings/investment balance	-2.7	-1.3	-2.0	-3.9	-4.2
(In percent of annual GDP)					
Budgetary operations					
Revenue and grants	16.7	17.3	17.7	17.9	17.7
<i>Of which:</i> Tax revenue	15.0	15.0	15.3	15.2	15.7
Expenditure and net lending	19.2	19.1	21.1	20.7	22.2
<i>Of which:</i> Current	13.7	12.6	14.1	12.5	14.1
Capital	5.4	6.5	7.0	8.1	8.1
Balance (excluding debt-financed PIP)	-0.1	0.9	-0.4	0.3	-0.5
Balance (including debt-financed PIP)	-2.4	-1.8	-3.4	-2.7	-4.5
Domestic financing	-0.1	-1.1	-1.7	-1.7	0.7
External financing	2.6	2.8	5.2	4.4	3.7
(12-month growth in percent of broad money, unless otherwise indicated)					
Monetary sector 2/					
Net foreign assets	24.1	37.0	37.1	-23.1	12.1
Net domestic assets	6.0	-8.8	-10.9	78.0	3.2
Broad money	39.7	29.2	26.2	14.3	18.4
Velocity of broad money (four-quarter average)	2.9	2.7	3.1	3.8	3.7
Interest rate (28-day NBT bill rate, in percent)	23.1	4.9	...	6.2	...
(In millions of U.S. dollars, unless otherwise indicated)					
External sector					
Exports of goods and services	768.0	883.5	975.3	1,046.8	1,131.6
Annual percent change	7.6	15.0	10.4	18.5	8.1
Imports of goods and services	928.2	1,141.8	1,265.1	1,445.9	1,575.6
Annual percent change	10.2	23.0	10.8	26.6	9.0
Current account balance	-32.4	-19.5	-36.2	-80.9	-97.5
In percent of GDP	-2.7	-1.3	-2.0	-3.9	-4.2
Total public sector external debt	1,010.0	1,030.7	1,097.0	822.2	899.1
In percent of GDP	84.4	66.2	61.0	39.7	38.5
Gross official reserves	96.2	135.4	189.1	189.3	235.3
In months of imports	1.8	1.9	2.3	2.0	2.2
Memorandum items:					
Nominal effective exchange rate (Index 1999=100)	58.92	49.36	48.15	46.9	...
Real effective exchange rate (Index 1999=100)	87.29	79.09	76.87	75.5	...
Average exchange rate (somon per dollar)	2.76	3.06	2.97	2.97	...

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

1/ Private investments and savings are estimates.

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

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 3/		
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 1993–99.

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

3/ Latest data available.

Table 3. Tajikistan: General Government Operations, 2002–05

(In millions of somoni; unless otherwise indicated)

	2002		2003		2004		2005			
	Year	Year	Year	Year	Prel.	Q1	Q2	Q3	Q4	Year
	Act.	Act.	Prog. (IMF CR No. 04/248)	Prog. (IMF CR No. 04/248)		Projections				Prog.
Overall revenues and grants	560	824	1,018	1,104	299	312	284	360	1,256	
Total revenues	552	810	977	1,064	299	287	284	350	1,221	
Tax revenues	501	713	880	934	276	273	271	296	1,115	
Income and profit tax	60	75	81	105	31	33	33	38	135	
Payroll taxes	65	87	103	120	37	35	40	30	142	
Property taxes	19	28	32	34	10	10	11	13	45	
Internal taxes on goods and services	231	356	458	482	132	144	143	140	559	
VAT	159	248	305	349	93	102	104	104	403	
Excises and other internal indirect taxes	72	108	153	133	39	42	39	37	157	
International trade and operations tax	123	161	202	185	63	49	43	64	220	
Sales taxes	63	88	107	87	39	22	18	30	110	
Import duties	60	72	95	98	24	27	25	34	110	
Other taxes	3	7	4	8	2	1	1	9	14	
Non-tax revenues	51	97	97	130	24	14	13	55	106	
<i>Of which: Extra-budgetary funds</i>	21	52	58	69	11	11	11	11	44	
Grants	8	15	41	41	0	25	0	10	35	
Total expenditures and lending minus repayments	642	908	1,216	1,273	342	421	385	428	1,575	
Current expenditures	459	597	813	770	239	234	260	267	1,001	
Expenditures on goods and services	290	393	533	538	163	160	188	167	677	
Wages and salaries	108	133	155	168	63	63	77	77	278	
Others	182	261	378	370	100	98	111	90	399	
Interest payments	63	59	69	43	10	13	11	21	56	
External	44	34	50	26	5	8	5	9	28	
Domestic	19	25	20	17	5	6	6	12	28	
Transfers and subsidies	106	145	210	189	66	61	62	80	268	
Transfers to households	89	126	164	166	56	51	52	67	227	
Subsidies and other current transfers	17	19	46	23	10	10	10	13	41	
<i>Of which: Compensation scheme for energy tariff increases</i>	...	12	19	20	6	6	6	6	22	
Capital expenditures	181	310	400	500	103	186	124	160	572	
Externally financed PIP	79	128	173	188	71	71	71	71	284	
Domestically financed	102	182	228	311	32	115	53	89	288	
Lending minus repayments	1	1	3	3	1	1	1	1	2	
Overall balance (including externally financed PIP)	-82	-84	-198	-169	-43	-109	-100	-67	-319	
Overall balance (excluding externally financed PIP)	-3	44	-25	19	28	-38	-29	4	-35	
Total financing (including externally financed PIP)	82	84	198	169	43	109	100	67	319	
Net external	86	134	298	271	50	68	84	64	266	
Disbursements	94	128	300	267	71	71	101	71	314	
Program loans	15	0	127	79	0	0	30	0	30	
Project loans	79	128	173	188	71	71	71	71	284	
Amortization	-18	-16	-24	-18	-21	-3	-17	-7	-48	
Drawdown of Tajikistan's claim on CBR	80	22	22	22	0	0	0	0	0	
Net domestic 1/	-5	-50	-100	-102	-7	41	16	4	53	
NBT	-25	-63	-109	-119	-13	34	10	-2	29	
Commercial banks	-1	-10	-11	-9	0	0	0	0	1	
Tajik Rail repayment	-10	0	0	0	0	0	0	0	0	
Gross proceeds from privatization	31	22	20	26	5	5	5	5	20	
Other nonbank	0.0	0	0	0	1	1	1	1	3	
Memorandum items:										
Nominal GDP	3,345	4,758	5,750	6,158	7,100	7,100	7,100	7,100	7,100	
Total domestic debt	157.5	154	154	152	152	153	154	155	155	
Commodity Prices (in US dollars per ton)										
Cotton prices	909	1,291	1,372	1,250	...	...	...	...	970
Aluminum prices	1,305	1,356	1,444	1,563	...	...	...	...	1,640

Sources: Tajik authorities; and Fund staff estimates.

1/ The historical financing figures for banks in this table are based on estimated flows, not differences between end-period stocks.

Table 4. Tajikistan: General Government Operations, 2002–05

(In percent of GDP; unless otherwise indicated)

	2002 Year Act.	2003 Year Act.	2004 Year		2005 Projections				Year Prog.
			Prog. (IMF CR No. 04/248)	Prel.	Q1	Q2	Q3	Q4	
Overall revenues and grants	16.7	17.3	17.7	17.9	4.2	4.4	4.0	5.1	17.7
Total revenues	16.5	17.0	17.0	17.3	4.2	4.0	4.0	4.9	17.2
Tax revenues	15.0	15.0	15.3	15.2	3.9	3.8	3.8	4.2	15.7
Income and profit tax	1.8	1.6	1.4	1.7	0.4	0.5	0.5	0.5	1.9
Payroll taxes	1.9	1.8	1.8	1.9	0.5	0.5	0.6	0.4	2.0
Property taxes	0.6	0.6	0.6	0.6	0.1	0.1	0.2	0.2	0.6
Internal taxes on goods and services	6.9	7.5	8.0	7.8	1.9	2.0	2.0	2.0	7.9
VAT	4.8	5.2	5.3	5.7	1.3	1.4	1.5	1.5	5.7
Excises and other internal indirect taxes	2.2	2.3	2.7	2.2	0.5	0.6	0.5	0.5	2.2
International trade and operations tax	3.7	3.4	3.5	3.0	0.9	0.7	0.6	0.9	3.1
Sales taxes	1.9	1.9	1.9	1.4	0.6	0.3	0.2	0.4	1.5
Import duties	1.8	1.5	1.7	1.6	0.3	0.4	0.4	0.5	1.6
Other taxes	0.1	0.1	0.1	0.1	0.0	0.0	0.0	0.1	0.2
Non-tax revenues	1.5	2.0	1.7	2.1	0.3	0.2	0.2	0.8	1.5
<i>Of which: Extra-budgetary funds</i>	0.6	1.1	1.0	1.1	0.2	0.2	0.2	0.2	0.6
Grants	0.2	0.3	0.7	0.7	0.0	0.4	0.0	0.1	0.5
Total expenditures and lending minus repayments	19.2	19.1	21.1	20.7	4.8	5.9	5.4	6.0	22.2
Current expenditures	13.7	12.6	14.1	12.5	3.4	3.3	3.7	3.8	14.1
Expenditures on goods and services	8.7	8.3	9.3	8.7	2.3	2.3	2.6	2.3	9.5
Wages and salaries	3.2	2.8	2.7	2.7	0.9	0.9	1.1	1.1	3.9
Others	5.5	5.5	6.6	6.0	1.4	1.4	1.6	1.3	5.6
Interest payments	1.9	1.2	1.2	0.7	0.1	0.2	0.2	0.3	0.8
External	1.3	0.7	0.9	0.4	0.1	0.1	0.1	0.1	0.4
Domestic	0.6	0.5	0.3	0.3	0.1	0.1	0.1	0.2	0.4
Transfers and subsidies	3.2	3.0	3.7	3.1	0.9	0.9	0.9	1.1	3.8
<i>Of which: Compensation scheme for energy tariff increase</i>	...	0.3	0.3	0.3	0.1	0.1	0.1	0.1	0.3
Capital expenditures	5.4	6.5	7.0	8.1	1.4	2.6	1.7	2.2	8.1
Externally financed PIP	2.4	2.7	3.0	3.1	1.0	1.0	1.0	1.0	4.0
Domestically financed	3.1	3.8	4.0	5.1	0.4	1.6	0.7	1.2	4.1
Lending minus repayments	0.0	0.0	0.0	0.1	0.0	0.0	0.0	0.0	0.0
Overall balance (including externally financed PIP)	-2.4	-1.8	-3.4	-2.7	-0.6	-1.5	-1.4	-0.9	-4.5
Overall balance (excluding externally financed PIP)	-0.1	0.9	-0.4	0.3	0.4	-0.5	-0.4	0.1	-0.5
Total financing (including externally financed PIP)	2.4	1.8	3.4	2.7	0.6	1.5	1.4	0.9	4.5
Net external	2.6	2.8	5.2	4.4	0.7	1.0	1.2	0.9	3.7
Disbursements	2.8	2.7	5.2	4.3	1.0	1.0	1.4	1.0	4.4
Program loans	0.4	0.0	2.2	1.3	0.0	0.0	0.4	0.0	0.4
Project loans	2.4	2.7	3.0	3.1	1.0	1.0	1.0	1.0	4.0
Amortization	-0.5	-0.3	-0.4	-0.3	-0.3	0.0	-0.2	-0.1	-0.7
Drawdown of Tajikistan's claim on CBR	2.4	0.5	0.4	0.4	0.0	0.0	0.0	0.0	0.0
Net domestic	-0.1	-1.1	-1.7	-1.7	-0.1	0.6	0.2	0.1	0.7
NBT 1/	-0.7	-1.3	-1.9	-1.9	-0.2	0.5	0.1	0.0	0.4
Commercial banks	0.0	-0.2	-0.2	-0.1	0.0	0.0	0.0	0.0	0.0
Gross proceeds from privatization	0.9	0.5	0.3	0.4	0.1	0.1	0.1	0.1	0.3
Memorandum items:									
Nominal GDP (in millions of somoni)	3,345	4,758	5,750	6,158	7,100	7,100	7,100	7,100	7,100
Total domestic debt	4.7	3.2	2.7	2.7	...	...	...	...	2.2
Commodity Prices (annual percent change)									
Cotton prices	...	42.0	6.2	-3.2	...	...	...	...	-22.4
Aluminum prices	...	3.9	6.5	15.2	...	...	...	...	4.9

Sources: Tajik authorities; and Fund staff estimates.

1/ The historical financing figures for banks in this table are based on estimated flows, not differences between end-period stocks.

Table 5. Tajikistan: Medium-Term Budget Framework, 2002-07
(In millions of somoni; unless otherwise indicated)

	2002		2003		2004		2005		2006		2007	
	Act.	Percent of GDP	Prel.	Percent of GDP	Prel.	Percent of GDP	Prog.	Percent of GDP	Proj.	Percent of GDP	Proj.	Percent of GDP
Overall revenue and grants	560	16.7	824	17.3	1,104	17.9	1,256	17.7	1,432	17.9	1,597	18.0
Tax revenues	501	15.0	713	15.0	934	15.2	1,115	15.7	1,285	16.1	1,442	16.2
Non-tax revenues	51	0.0	97	2.0	130	2.1	106	1.5	110	1.4	118	1.3
Grants	8	0.0	15	0.3	41	0.7	35	0.5	37	0.5	38	0.4
Total expenditures and lending minus repayments	642	19.2	908	19.1	1,273	20.7	1,575	22.2	1,805	22.6	2,045	23.0
General administrative services	91	2.7	132	2.8	117	1.9	157	2.2	179	2.2	203	2.3
Protection services	71	2.1	94	2.0	134	2.2	194	2.7	222	2.8	252	2.8
Social services	233	7.0	315	6.6	438	7.1	664	9.4	759	9.5	862	9.7
Education	87	2.6	112	2.4	161	2.6	250	3.5	286	3.6	324	3.7
Health	30	0.9	43	0.9	62	1.0	91	1.3	104	1.3	118	1.3
Social security and welfare	67	2.0	109	2.3	153	2.5	228	3.2	261	3.3	296	3.3
Other social services	49	1.5	51	1.1	61	1.0	95	1.3	109	1.4	124	1.4
Economic services	64	1.9	101	2.1	119	1.9	142	2.0	169	2.1	192	2.2
Interest payments	61	1.8	86	1.8	43	0.7	56	0.8	50	0.6	50	0.6
Other services	42	1.3	53	1.1	235	3.8	78	1.1	90	1.1	86	1.0
Externally financed PIP	79	2.4	128	2.7	188	3.1	284	4.0	335	4.2	400	4.5
Overall balance (including PIP)	-82	-2.4	-84	-1.8	-169	-2.7	-319	-4.5	-373	-4.7	-448	-5.0
Overall balance (excluding PIP)	-3	-0.1	44	0.9	19	0.3	-35	-0.5	-38	-0.5	-48	-0.5
Total financing	82	2.4	84	1.8	169	2.7	319	4.5	373	4.7	448	5.0
Net external	86	2.6	134	2.8	271	4.4	266	3.7	297	3.7	355	4.0
Disbursements	94	2.8	128	2.7	267	4.3	314	4.4	365	4.6	430	4.8
Program loans	15	0.4	0	0.0	79	1.3	30	0.4	30	0.4	30	0.3
Project loans	79	2.4	128	2.7	188	3.1	284	4.0	335	4.2	400	4.5
Amortization	-18	-0.5	-16	-0.3	-18	-0.3	-48	-0.7	-68	-0.9	-75	-0.8
Drawdown of Tajikistan's claim on CBR	11	0.3	22	0.5	22	0.4	0	0.0	0	0.0	0	0.0
Net domestic	-5	-0.1	-50	-1.1	-102	-1.7	53	0.7	76	1.0	93	1.0
Banking system	-26	-0.8	-73	-1.5	-128	-2.1	30	0.4	44	0.6	56	0.6
Non-bank	21	0.6	22	0.5	26	0.4	23	0.3	32	0.4	37	0.4
Memorandum item:												
Nominal GDP	3,345		4,758		6,158		7,100		7,977		8,882	
Wages and salaries	108	3.2	133	2.8	168	2.7	278	3.9	330	4.1	378	4.3
Capital expenditures	181	5.4	310	6.5	500	8.1	572	8.1	681	8.5	787	8.9
Of which: Domestically financed	102	3.1	182	3.8	311	5.1	288	4.1	346	4.3	387	4.4

Sources: Tajik authorities; and Fund staff estimates.

Table 7. Tajikistan: Monetary Survey, 2003-05

	2003				2004				2005				
	Dec.	Mar.	June	Sep.	Dec.	Mar.	June	Sep.	Dec.	Mar.	June	Sep.	Dec.
	Act. 1/ -179	Act. 1/ -177	Act. 1/ -246	IMF CR 3/ No. 4/248 -107	Act. 2/ -279	Act. 1/ -278	Act. 1/ -272	IMF CR 3/ No. 4/248 -82	Act. 2/ -258	Act. 1/ -272	Act. 1/ -313	Act. 1/ -362	Act. 1/ -315	Act. 1/ -218
Net foreign assets	106	128	204	210	225	198	207	205	244	194	175	192	228
National Bank of Tajikistan	-286	-305	-451	-318	-504	-476	-289	-477	-502	-507	-538	-507	-447
Commercial banks	580	560	775	591	877	864	595	893	888	886	976	989	907
Net domestic assets	-94	-153	-234	-177	-237	-227	-167	-218	-227	-231	-196	-186	-188
Net credit to general government	696	759	1,029	851	1,140	1,102	844	1,098	1,132	1,107	1,162	1,165	1,085
Credit to the private sector	376	342	586	...	605	649	...	626	604	657	687	657	596
of which: Cotton financing	-22	-45	-21	-83	-27	-11	-82	12	-17	11	10	10	10
Other items net	389	344	388	483	438	426	513	444	454	401	445	508	526
Broad money	251	196	210	301	230	230	340	265	265	231	243	277	317
Somoni broad money	158	125	144	175	158	158	194	175	175	146	162	183	133
Currency outside banks	93	71	65	127	72	72	146	89	89	85	81	93	184
Deposits	138	148	178	182	208	196	174	180	189	170	202	231	209
Foreign currency deposits	12	40	140	...	160	160	...	176	176	172	169	166	162
Bills payable 5/	Memorandum items:												
Exchange rate (Som/US\$)	2.96	2.91	2.98	3.20	3.20	3.03	3.20	3.04	3.20	3.04	3.04	3.04	3.04
Broad money (12-month percent change)	29.2	19.7	-9.6	12.9	-6.2	-7.0	16.8	14.3	16.8	11.9	10.8	16.1	18.4
Credit to the private sector (12-month percent change)	10.9	5.3	28.9	0.8	35.3	33.9	55.6	15.7	57.9	45.9	12.9	5.7	-1.2
Year-to-year average of quarterly velocity 6/	3.0	3.2	3.4	3.2	3.7	3.7	3.8	3.1	3.8	3.8	3.8	3.7	3.7
Money multiplier 7/	1.5	1.5	1.7	1.8	1.7	1.7	1.9	1.6	1.9	1.6	1.7	1.8	1.7

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 the following program exchange rates: SM 3.2=US\$1 and SDR 1=US\$1.388.

3/ Adjusted for the delay in disbursement of program loans.

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

5/ Liabilities to cotton financiers related to domestic cotton financing.

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

7/ Total broad money divided by reserve money.

Table 8. Tajikistan: Balance of Payments, 2003-05

(In millions of U.S. dollars)

	2004					2005					
	2003	Q1	Q2	Q3	Q4	Annual	Q1	Q2	Q3	Q4	Annual
	Act.	Act.	Act.	Act.	Prel.	Proj.	Projections				
Current account	-20	-19	-70	-15	23	-81	-40	-80	-13	35	-98
Balance on goods and services	-258	-38	-130	-116	-115	-399	-54	-138	-121	-132	-444
Balance on goods	-204	-23	-105	-106	-99	-332	-40	-112	-108	-116	-375
Exports	799	234	222	216	243	915	259	223	231	271	985
<i>Of which:</i> aluminum	430	136	138	146	154	573	145	146	152	164	607
cotton fiber	193	60	38	15	49	162	66	26	13	63	169
Imports	1,003	257	327	321	342	1,247	299	335	339	387	1,361
Balance on services	-54	-15	-25	-11	-16	-67	-14	-26	-13	-16	-69
Balance on income	-90	-22	-17	-19	-22	-80	-23	-24	-24	-23	-95
Balance on transfers	329	41	77	121	160	399	37	82	132	190	441
<i>Of which:</i> Migrants' remittances, net 1/	189	17	54	99	143	313	22	61	112	171	366
Capital and financial account	55	23	94	-6	-27	84	43	73	20	-23	112
Capital transfers	14	0	0	0	9	9	0	0	0	9	9
Public sector (net)	32	8	17	14	-249	-211	9	11	22	11	53
Disbursements	55	8	17	28	14	67	17	18	29	30	94
Amortization 2/	-23	-1	-1	-14	-263	-278	-7	-7	-7	-19	-40
World Bank	0	0	25	0	0	25	0	10	0	0	10
AsDB	0	0	0	0	0	0	0	0	0	0	0
FDI 2/	32	4	8	1	259	272	10	10	10	10	40
Commercial bank NFA (- increase)	3	11	49	4	-1	63	9	10	-10	-20	-10
Electricity credit	0	6	0	-5	4	6	-2	-5	-4	22	11
Other capital and errors and omissions	-26	-5	-5	-20	-50	-80	16	37	2	-55	0
Overall balance	35	4	24	-21	-4	3	3	-7	6	12	15
Use of international reserves (- increase)	-39	-22	-18	-12	-2	-54	-18	13	-20	-21	-46
Financing items	4	18	-5	32	6	51	15	-6	13	8	31
IMF (net)	-3	15	-6	14	-6	17	13	-6	13	8	29
Purchases/disbursements	11	15	0	14	0	29	14	0	14	14	43
Repurchases/repayments	14	0	6	0	6	12	1	6	1	6	14
Other reserve liabilities	0	0	1	1	5	7	2	0	0	0	2
Drawdown on Tajikistan's claim on the CBR	7	4	0	4	7	14	0	0	0	0	0
Exceptional financing 3/	0	0	0	13	0	13	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
Memorandum items											
GDP (in millions of U.S. dollars)	1,556					2,073					2,338
Current account balance in percent of GDP	-1.3	...	...	...	...	-3.9	...	...	...	...	-4.2
(excluding remittances)	-22.4	...	...	...	...	-23.1	...	...	...	...	-23.0
Terms of trade	5.1	...	...	...	...	-1.4	...	...	...	...	-2.7
Net international reserves	36	44	69	65	67	67	64	58	63	75	75
Gross reserves	135	157	176	188	189	189	207	195	215	235	235
(in months of imports)	1.9	1.7	1.9	2.0	2.0	2.0	1.9	1.8	2.0	2.2	2.2
Debt service on public debt	59	...	...	...	...	71	...	...	...	...	70
(in percent of exports) 4/	9.6	...	...	...	...	10.4	...	...	...	...	9.3
Total public sector external debt	1031	...	...	...	...	822	...	...	...	...	899
(in percent of GDP)	66.3	...	...	...	...	39.7	...	...	...	...	38.5

Sources: Tajik authorities; and Fund staff estimates.

1/ Includes small export receipts and import payments, which are misclassified.

2/ In Q4 2004 includes debt-for-equity swap with Russia.

3/ Debt cancellation by Pakistan.

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

Table 9. Tajikistan: Medium-Term Balance of Payments, 2003–10

(In millions of U.S. dollars)

	2003	2004	2005	2006	2007	2008	2009	2010
	Act.	Est.			Projections			
Current account	-20	-81	-98	-107	-119	-134	-151	-158
Balance on goods and services	-258	-399	-444	-475	-513	-557	-608	-652
Balance on goods	-204	-332	-375	-401	-432	-469	-511	-548
Exports	799	915	985	1,070	1,148	1,233	1,331	1,438
<i>Of which:</i> aluminum	430	573	607	641	683	726	773	822
cotton fiber	193	162	169	173	176	179	184	190
Imports	1,003	1,247	1,361	1,470	1,580	1,703	1,842	1,986
Balance on services	-54	-67	-69	-74	-80	-88	-97	-104
Balance on income	-90	-80	-95	-100	-106	-113	-121	-130
Balance on transfers	329	399	441	468	500	536	578	624
<i>Of which:</i> migrants' remittances 1/	189	313	366	402	440	482	527	576
Capital and financial account	55	84	112	142	145	159	187	201
Capital transfers	14	9	9	0	0	0	0	0
Public sector (net)	32	-211	53	74	89	96	119	128
Disbursements	55	67	94	107	124	134	145	157
Amortization 2/	-23	-278	-40	-33	-35	-38	-26	-29
World Bank	0	25	10	0	0	0	0	0
AsDB	0	0	0	0	0	0	0	0
FDI	32	272	40	84	69	76	79	83
Commercial bank NFA (- increase)	3	63	-10	-15	-13	-12	-11	-10
Electricity credit	0	6	11	0	0	0	0	0
Other capital and errors and omissions	-26	-80	0	0	0	0	0	0
Overall balance	35	3	15	36	26	25	36	43
Use of international reserves (- increase)	-39	-54	-46	-30	-30	-30	-30	-30
Financing items	4	51	31	-16	-16	-15	-10	-14
IMF (net)	-3	17	29	-16	-16	-15	-10	-14
Purchases/disbursements	11	29	43	0	0	0	0	0
Repurchases/repayments	14	12	14	16	16	15	10	14
Other reserve liabilities	0	7	2	0	0	0	0	0
Drawdown on Tajikistan's claim on the CBR	7	14	0	0	0	0	0	0
Exceptional financing 3/	0	13	0	0	0	0	0	0
Financing gap	0	0	0	10	20	20	4	1
As a share of GDP	0.0	0.0	0.0	0.4	0.7	0.7	0.1	0.0
Memorandum items:								
Current account balance in percent of GDP	-1.3	-3.9	-4.2	-4.2	-4.3	-4.5	-4.7	-4.5
(excluding transfers)	-22.4	-23.1	-23.0	-22.5	-22.5	-22.5	-22.6	-22.5
Net international reserves	36	67	75	127	173	218	258	302
Gross reserves	135	189	235	265	295	325	355	385
(in months of imports)	1.9	2.0	2.2	2.3	2.4	2.4	2.4	2.4
Debt service on public debt	59	71	69	63	65	70	54	63
(in percent of exports) 4/	9.6	10.4	9.3	7.8	7.6	7.6	5.4	5.8
Total public sector external debt	1031	822	899	930	985	1045	1130	1219
(in percent of GDP)	66.3	39.7	38.5	36.5	35.7	35.1	35.1	35.0

Sources: Tajik authorities; and Fund staff estimates.

1/ Includes small export receipts and import payments, which are misclassified.

2/ In Q4 2004 includes debt-for-equity swap with Russia.

3/ Debt cancellation by Pakistan.

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

Table 10. Tajikistan: Medium-Term Macroeconomic Projections, 2003–07

	2003	2004	2005	2006	2007
		Projections			
National income and prices					
Nominal GDP (in millions of somoni)	4,758	6,158	7,100	7,977	8,882
Nominal GDP (in millions of U.S. dollars)	1,556	2,073	2,338	2,550	2,757
Real GDP (annual percent change)	10.2	10.6	8.0	7.0	6.0
GDP per capita (in U.S. dollars)	236	310	344	370	394
GDP deflator (annual percent change)	29.1	16.6	7.8	5.0	5.0
Consumer prices (12-month percent change, e.o.p.)					
Consumer prices (12-month percent change, e.o.p.)	13.7	5.6	6.0	5.0	5.0
Consumer prices (year-on-year percent change, average)	16.4	7.1	5.9	5.5	5.0
(In percent of GDP)					
General government finances					
Total revenue and grants	17.3	17.9	17.7	17.9	18.0
<i>Of which:</i>					
Tax revenue	15.0	15.2	15.7	16.1	16.2
Total expenditure	19.1	20.7	22.2	22.6	23.0
<i>Of which:</i>					
Current expenditure	12.6	12.5	14.1	14.1	14.1
Fiscal balance (excluding the PIP)	0.9	0.3	-0.5	-0.5	-0.5
Primary balance	2.2	1.0	0.3	0.2	0.0
Public investment program (PIP)	2.7	3.1	4.0	4.2	4.5
Savings/investment balances					
External current account balance	-1.3	-3.9	-4.2	-4.2	-4.3
Overall fiscal balance (including the PIP)	-1.8	-2.7	-4.5	-4.7	-5.0
Net savings (S-I) of the private sector ^{1/}	0.4	-1.2	0.3	0.5	0.7
(In millions of U.S. dollars; unless otherwise specified)					
External sector					
Exports of goods	799	915	985	1,070	1,148
Imports of goods	1,004	1,247	1,361	1,470	1,580
Current account balance	-20	-81	-98	-107	-119
Gross international reserves	135	189	235	265	295
Gross international reserves (in months of imports)	1.9	2.0	2.2	2.3	2.4

Sources: Tajik authorities; and Fund staff estimates.

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

Table 11. Tajikistan: Public External Debt by Creditor, 2001–05

	2001	2002	2003	Est. 2004	Proj. 2005
(In millions of U.S. dollars)					
Total public debt	1,023	1,010	1,031	822	899
Bilateral	522	485	468	213	195
Uzbekistan	117	104	94	94	81
Russia	323	300	300	50	38
United States	21	20	19	18	17
Turkey	23	21	18	15	13
Kazakhstan	12	12	12	12	12
Pakistan	13	13	13	0	0
China	0	0	0	0	0
India	7	8	0	0	0
Kyrgyz Republic	2	1	1	1	1
Iran	4	4	4	4	4
Belarus	0	0	1	1	1
Kuwait Fund	0	1	5	11	30
Saudi Fund	0	0	1	7	0
Multilateral	383	406	460	552	643
IMF	110	92	100	116	152
European Union	53	52	48	44	38
World Bank	184	207	226	278	316
Islamic Development Bank	11	16	25	35	44
Asian Development Bank	25	33	53	70	89
OPEC Fund	0	5	7	9	5
Commercial credits 1/	117	119	103	58	60
Government guaranteed	53	53	63	25	24
Non-guaranteed	64	66	40	32	36
(In percent of total debt)					
Bilateral	51	48	45	26	22
Multilateral	37	40	45	67	72
Commercial credits	11	12	10	7	7
(In percent of GDP)					
Total debt	99	85	66	40	39
Bilateral	51	41	30	10	8
Multilateral	37	34	30	27	28
Commercial credits	11	10	7	3	3
(In percent of exports) 2/					
Total debt	219	204	168	120	122
Bilateral	112	98	76	31	26
Multilateral	82	82	75	81	87
Commercial credits	25	24	17	8	8

Sources: Tajik authorities; and Fund staff estimates.

1/ Credits to public enterprises in Tajikistan.

2/ Exports of goods and services, excluding barter trade in alumina and electricity.

Table 12. Tajikistan: Fund Position During the Period of the PRGF Arrangement, October 2002–December 2006

	Outstanding on 30 Sept. 2002	2004				2005				2006			
		Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
(In millions of SDR; unless otherwise specified)													
Disbursements													
PRGF	...	9.80	0.00	9.80	0.00	9.80	0.00	9.80	0.00	9.80	0.00	9.80	0.00
Repurchases/repayments	...	0.00	4.03	0.00	4.03	0.67	4.03	0.67	4.03	0.67	4.63	0.67	4.63
Ordinary resources	...	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
PRGF	...	0.00	4.03	0.00	4.03	0.67	4.03	0.67	4.03	0.67	4.63	0.67	4.63
Charges and interests	...	0.00	0.19	0.00	0.21	0.00	0.22	0.00	0.23	0.00	0.24	0.00	0.23
Ordinary resources	...	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
PRGF	...	0.00	0.19	0.00	0.21	0.00	0.22	0.00	0.23	0.00	0.24	0.00	0.23
SDR charges	...	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Total Fund credit outstanding (e.o.p.)	69.37	76.96	72.93	82.73	78.70	87.83	83.80	92.94	98.71	98.04	93.41	92.75	88.12
Ordinary resources	3.75	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	76.96	72.93	82.73	78.70	87.83	83.80	92.94	98.71	98.04	93.41	92.75	88.12
(In percent of quota)													
Total Fund credit outstanding (e.o.p.)	79.74	88.46	83.83	95.09	90.46	100.96	96.33	106.83	113.46	112.69	107.37	106.61	101.29
PRGF disbursements	...	11.26	0.00	11.26	0.00	11.26	0.00	11.26	11.26	0.00	0.00	0.00	0.00
Repurchases/repayments	...	0.00	4.63	0.00	4.63	0.77	4.63	0.77	4.63	0.77	5.32	0.77	5.32
Charges and interests	...	0.00	0.22	0.00	0.24	0.00	0.25	0.00	0.27	0.00	0.28	0.00	0.27

Sources: International Monetary Fund.

Table 13. Tajikistan: Reviews and Disbursements Under the
Three-Year PRGF Arrangement, 2002–05

Date	Action/Status	Disbursement
December 11, 2002	Board approval of a three-year arrangement.	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
July 21, 2004	Completed third review based on end-March 2004 performance criteria.	SDR 9.8 million
March 7, 2005	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
June 2005	Complete fifth review based on end-March 2005 performance criteria.	SDR 9.8 million
December 2005	Complete sixth review based on end-September 2005 performance criteria.	SDR 9.8 million

Table 14. Tajikistan: Indicators of External Vulnerability, 2000–05

(In units indicated)

	2000	2001	2002	2003	2004	<u>Prog.</u> 2005
Financial indicators						
Broad money (percent change) 1/	64.5	33.4	39.7	29.2	14.3	18.4
Private sector credit (percent change) 1/ 2/	90.2	54.3	20.2	10.9	57.9	-1.2
31 day treasury bill yield (percent) 3/	40.0	18.1	23.1	4.9	6.2	...
External indicators						
Exports of goods and services (in U.S. dollars, percent change)	18.3	-15.9	8	15	18	8
Imports of goods and services (in U.S. dollars percent change)	21.5	-5.5	10	23	27	9
Current account balance (in millions of U.S. dollars)	-62	-74	-32	-20	-81	-98
Capital and financial account balance (in millions of U.S. dollars)	63	64	53	55	84	112
Gross official reserves (in millions of U.S. dollars)	87.2	95.7	96	135	189	235
Central bank short-term foreign liabilities (in millions of U.S. dollars)	0.0	0.0	0.0	0.0	0.0	0.0
Official reserves (in months of relevant imports of goods and services)	2.1	1.9	1.8	1.9	2.0	2.2
Ratio of broad money to reserves 1/	0.8	0.8	1.1	1.0	0.8	0.8
Total external debt (in millions of U.S. dollars) 4/	...	...	...	...	...	...
<i>Of which:</i>						
Public sector external debt	895	906	1,010	1,031	822	899
Ratio of total external debt to exports of goods and services 5/	...	...	...	...	...	...
Public sector external interest payments (as a percent of exports goods and services) 5/ 6/	3.3	4.3	7.6	3.5	6.4	1.9
Public sector external amortization payments (as a percent of exports of goods and services) 5/ 6/	6.3	11.4	10.7	6.1	4.0	7.4
Exchange rate (In somoni per U.S. dollar, period average)	1.8	2.4	2.8	3.1	3.0	...

Source: Tajik authorities; and Fund staff estimates.

1/ For historical data at actual exchange rate, and program exchange rate of Sm 3.037=US\$1 and SDR 1=US\$1.54; for 2005,

2/ On February 11, 2002, Sm 64.348 million were reclassified from net credit to the private sector into long term government bonds.

3/ For 2001, the annualized three-month treasury bill rate is shown; for 2003–04 end-period rate on 28-day NBT certificate.

4/ No reliable data are available on the external debt of the private sector.

5/ Exports of goods and services excluding alumina and electricity which are traded on a barter basis.

6/ Including debt service to the IMF.

Table 15. Tajikistan: Financial Soundness Indicators, 2001–September 2004

(In percent, unless otherwise indicated)

	2001	2002	2003	Sept. 04
Capital adequacy				
Total net capital to unweighted assets 1/	12.1	14.9	17.8	25.9
Reported total capital to risk weighted assets (K1-1)	...	-10.9	-3.0	37.5
Asset quality 2/ 3/				
Nonperforming loans to gross loans	43.3	85.1	71.5	10.4
excluding Agroinvestbank	29.0	20.5	11.5	10.9
Nonperforming loans net of provisions to capital	n/a	-639.3	-2,006.8	1.2
excluding Agroinvestbank	n/a	2.3	2.3	3.6
Provisions to nonperforming loans	78.1	7.9	8.7	94.7
excluding Agroinvestbank	82.9	93.0	89.9	82.8
Banks exceeding maximum single borrower limit 4/	n/a	5 of 14	6 of 14	4 of 12
Earnings and profitability				
Reported return on assets (ROA)	12.3	18.0	10.6	3.4
Reported return on equity (ROE)	12.7	14.9	1.4	12.0
Interest margin to gross income	12.8	20.2	10.9	23.8
Non-interest expenditures to gross income	52.7	47.5	46.1	53.8
Salary expenditures to non-interest expenditures	24.8	29.4	28.2	26.7
Liquidity				
Liquid assets to total assets	15.7	14.6	22.1	37.3
Liquid assets to demand and savings deposits	89.6	88.1	124.7	136.9
Liquid assets to total deposits	75.6	75.6	75.6	75.6
Sensitivity to market risk				
Net open position in foreign exchange to capital	n/a	n/a	n/a	8.8

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

1/ Calculated on the basis of consolidated balance sheets for the banking system. Total net capital includes statutory capital, paid-in capital, reserves, retained earnings, fixed assets reserve and currency revaluation reserves.

2/ Non-performing loans include three loan classifications: substandard, doubtful and loss.

3/ Reported data on Agroinvestbank excludes cotton sector in 2001. In 2004, Agroinvestbank was split into Agroinvest bank and Kredit Invest. Loans to the cotton sector are almost exclusively transferred to Kredit Invest.

4/ Maximum single borrower limit is defined as 25 percent of capital (K3-1).

Table 16. Tajikistan: Banking Sector Capital and Compliance with Prudential Requirements, June 2002–December 2004

	Coefficient	Prudential Requirements	2002			2003			2004				
			June	Sept.	Dec.	Mar.	June	Sept.	Dec.	Mar.	June	Sept.	Dec.
Gross capital of all banks (millions of somoni)			45	55	60	70	73	78	88	119	122	129	147
Total capital		US\$1.5 million	5	6	6	6	6	8	8	11	11	11	11
Total capital / Risk Weighted Assets	K1-1	Min. 12 percent	10	12	12	12	12	12	12	14	12	12	12
Total capital / Total Assets	K1-2	Min. 10 percent	10	11	11	11	11	11	12	13	11	11	11
Liquid Assets / Demand Liabilities	K2-1	Min. 75 percent 1/	11	11	11	10	12	12	11	14	12	12	12
Single Borrower Loans / Total Capital	K3-1	Max. 25 percent	7	9	10	10	11	10	9	10	8	10	9
Large Credit Exposure / Total Capital	K3-2	Max. 5 times	13	13	13	10	13	12	13	14	12	12	12
Single Shareholder Borrowing / Total Capital	K4-1	Max. 10 percent	10	10	10	10	10	10	10	13	12	11	11
All Shareholder's Borrowing / Total Capital	K4-2	Max. 50 percent	11	11	11	11	12	11	11	13	12	12	11
Single Insider Borrowing / Total Capital	K4-3	Max. 2 percent	12	13	13	14	14	14	13	14	12	12	12
All Insider Borrowing / Total Capital	K4-4	Max. 3 percent	12	13	14	14	14	14	14	14	14	12	12
Stocks of Other Legal Entities / Total Capital	K5	Max. 20 percent	14	14	14	14	14	14	14	14	14	12	12
Total number of banks			14	14	14	14	14	14	14	14	12	12	12

(Number of banks meeting the specific prudential requirement)

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

1/ Starting February 1, 2004, minimum 30 percent for banks that meet all prudential requirements, 50 percent for all other banks.

Table 17. 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	..	..	..	..	..
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 (%)	..	..	..	..	..

Table 17. Tajikistan: Millennium Development Goals, 1990–2015

	1990	1995	2001	2002	2015 Target
Goal 7. Ensure environmental sustainability					
Target 9: Integrate the principles of sustainable development into country policies and programs and reverse the loss of environmental resources.					
23. Forest area (% 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.					
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	
36. Gross national income (In billions of \$'s)	4.5	2.3	1.1	1.1	
37. GNI per capita (In \$'s)	840.0	390.0	180.0	180.0	
38. Adult literacy rate (% of people ages 15 and over)	98.2	98.8	99.3	99.3	
39. Total fertility rate (births per woman)	5.1	3.7	3.0	2.9	
40. Life expectancy at birth (years)	69.3	68.3	66.9	66.6	
41. Aid (% 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	

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.

TAJKISTAN: FUND RELATIONS
(As of December 31, 2004)

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

II. General Resources Account	SDR Million	Percent of Quota
Quota	87.00	100.00
Fund holdings of currency	87.00	100.00
Reserve position in Fund	0.00	0.00

III. SDR Department	SDR Million	Percent of Allocation
Holdings	0.85	n.a.

IV. Outstanding Purchases and Loans	SDR Million	Percent of Quota
PRGF arrangements	78.70	90.46

V. **Latest Financial Arrangements**

Type	Approval Date	Expiration Date	Amount Approved (SDR Million)	Amount Drawn (SDR Million)
PRGF	Dec 11, 2002	Dec 10, 2005	65.00	35.60
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>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>
Principal	9.39	10.59	10.59	10.39	6.71
Charges/Interest	0.38	0.33	0.28	0.22	0.17
Total	9.77	10.92	10.87	10.61	6.88

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. With effect from December 9, 2004, the Republic of Tajikistan accepted the obligations of Article VIII, Sections 2, 3, and 4 of the Articles of Agreement. The authorities amended the law on Foreign Exchange Regulation and Foreign Exchange Control to incorporate the definition of current account transactions, which is consistent with Article VIII. The NBT has also abolished its Instruction on the Procedure for Opening and Keeping Foreign Exchange Accounts of Legal Entities and Individuals to eliminate the procedures for forced debiting of foreign exchange accounts. Tajikistan has notified the Fund the restriction on current account transactions resulting from its joining the UN International Convention for the Suppression of the Financing of Terrorism (1999) and its adherence to UN Security Council Resolution 1267 (1999); (b) UN Security Council Resolution 1373 (September 28, 2001); and (c) the list of current terrorist organizations designated by the U.S. Secretary of State. 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.

X. Article IV Consultation

The 2004 Article IV consultation discussions were held from December 2–14, 2004. 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 and finished at end-2004.

XIII. Technical Assistance

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

Fiscal Affairs:

August 2002	Tax Policy and Administration
July 2004	Revenue Administration Reform
December 2004	Poverty and Social Impact Analysis

Monetary and Financial Systems:

July 2002	Multi-topic
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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:

May 2003	Safeguards assessment follow-up
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Legal:

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

TAJIKISTAN: RELATIONS WITH THE WORLD BANK
(As of January 29, 2005)

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 IMF and ODA Boards in December 2002. The strategy comprises four elements: (a) sustainable growth; (b) improved governance; (c) better provision of basic social services; and (d) 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, maintain a restrictive monetary policy stance, and 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. Policy-based lending is supporting a multisectoral structural reform agenda, supported by technical assistance as appropriate. The second tranche of SAC2 was disbursed in summer 2004 and the Second Institution Building Technical Assistance Credit (IBTA2) will close shortly. The Policy Based Credit (PBC) currently under preparation will engage the government in the areas of public sector reform in close coordination with the IMF,

private sector development, and trade and transport. This broad-based approach is combined with sector projects in rural infrastructure and power, agriculture, environment, health, education, and poverty alleviation. The Country Procurement Assessment Review (CPAR), the Country Financial Accountability Assessment (CFAA), and the Public Expenditure and Institutional Review (PEIR) have been finalized in collaboration with the government of Tajikistan. A Trade Diagnostic Study (TDS), and an Investment Climate Assessment are being finalized. Additionally, a new Poverty Assessment Report and a health sector note have been prepared. The health sector note identifies priority areas for reform of the health sector, a much needed strengthening of primary health care in particular.

Republic of Tajikistan: Collaboration of the IMF and the World Bank

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> PBC under preparation.
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> PBC under preparation.
Public sector reform	Support to State Audit Agency	Civil service reform, public sector wage policy, administrative restructuring and health and education financing	<i>IMF:</i> PRGF <i>Bank:</i> PBC under preparation.
Social/Poverty		Poverty analysis; reforms in education, health, social protection; support to community driven development	<i>IMF:</i> PRGF <i>Bank:</i> PBC under preparation.
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> PBC under preparation
Other sectors		Reforms in agriculture, energy sector, water and sanitation, environment, infrastructure.	<i>Bank:</i> PBC under preparation

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 (2003)**, a Poverty Assessment Report has been prepared. 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)**, 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, improve the system for budgeting and spending for basic health services, and 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, rockfalls, 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 PBC currently under preparation. After initial delays, the second and final tranche of the previous SAC2 was disbursed in June 2004 after the relevant conditions had been successfully met, including conditions on privatization and the energy arrears of the aluminum smelter TadAZ. Institution building and technical assistance in support of structural reforms continue to be provided by **IBTA 2** and the **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 PBC, 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 nonbank intermediaries; significant changes in the tax code making tax authorities' access to bank accounts conditional on a court authorization. In terms of banking supervision, the IMF is monitoring the closure and merger of banks that do not satisfy prudential requirements.
- (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 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 (\$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 is finalizing 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 toward 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 in which IDA provides up to \$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 new CAS is under preparation and will be adopted in 2005.

TAJIKISTAN: RELATIONS WITH THE ASIAN DEVELOPMENT BANK
(As of January 29, 2005)

Country Director: Ms. Kazuko Motomura Telephone: 992-372-210558/235314/235315

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

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

- **Transport sector:** the Road Rehabilitation Project loan (\$20 million in 2000), which rehabilitates the most deteriorated sections of the Dushanbe, Kulyab road in the southern part of Tajikistan, the most civil-war affected areas; and the first phase of Dushanbe - Kyrgyz Border Road Rehabilitation Project loan (\$15 million in 2003), which improves Tajikistan's transportation link toward north and east through the Kyrgyz Republic, further to Kazakhstan and Russia as well as to the People's Republic of China. These projects also improve rural roads in the project areas. The second phase of the Dushanbe-Kyrgyz Border Road Rehabilitation Project loan is being prepared for the ADB Board approval in 2005. Continued supports in strengthening the government's institutional capacity for efficient management of national road network are provided under technical assistance grants associated with these loans.
- **Power sector:** the Power Rehabilitation Project loan (\$34 million in 2000), which aims to improve people's quality of life and support poverty reduction by increasing the availability of electricity and assist in post-conflict recovery of Tajikistan's economy (the project rehabilitates and reinforces power transmission and distribution facilities in the war-damaged areas in Khatlon and Dushanbe regions, and rehabilitates the Nurek Power Plant and Central Hydropower Plant); and the Regional Power Transmission Modernization Project loan (\$20 million in 2002), which is geared toward improving the reliability and the operation of the Central Asian power transmission system, enhancing the intercountry power trading between Tajikistan

and Uzbekistan, and laying the foundation for a future wholesale regional power market. Various technical assistance were provided to accelerate market-oriented reforms in the power sector in line with IMF and Bank programs and for supporting the government in formulating a power sector development strategy. The second Power Rehabilitation Project loan is being prepared for ADB Board approval in 2006.

3. In addition to the above, the ADB Board approved to date the following loans to Tajikistan in each sector:
- **Social sector:** the Social Sector Rehabilitation Project loan (\$20 million in 1999) to address the serious deterioration in living standards and strengthen the delivery of essential social services; the Health Sector Reform Project loan (\$7.5 million in 2003), which aims to improve health, especially of the poor, women, and children by providing pro-poor health service package, and by reforming the health service delivery and financing mechanism; and the Education Sector Reform Project loan (\$7.5 million in 2003), which focuses on supporting the government's reform priorities in primary (grades 1–4) and general secondary education (grades 5–11) by improving the education system and its management. These two social sector reform loans are being supported by respective grants financed by Japan Fund for Poverty Reduction (JFPR): (a) the project for Community Participation and Public Information Campaign for Health Improvement (\$1 million in 2004) and (b) the School Improvement Project (\$2 million in 2004), which aims to increase access to improved education for children, particularly girls, of poor families and vulnerable groups.
 - **Agriculture sector:** based on the agriculture sector assessment prepared during 1999–2000, the Agriculture Rehabilitation Project loan (\$35 million in 2002) is being implemented to improve living conditions of the farming communities in the project area and to institute measures to sustain benefits of improvements for irrigation and drainage systems and water supply as well as by providing farm production support services. In order to support the agriculture sector reforms, the Technical Assistance for Farm Debt Resolution and Policy Reforms, which is associated with the loan, has been implemented in consultation with the IMF, involving a wide range of stakeholders. Based on the findings of the TA, ADB supports the government in close cooperation with other donors and NGOs for formulating a National Farm Debt Resolution Strategy. A wide range of donor assistance will be needed once the Strategy will be announced by the government. Grant assistance for Rural Poverty Reduction Project (\$2.9 million in 2001) financed by JFPR has supported the loan preparation and implementation by pilot testing innovative poverty-oriented on- and off-farm supports. An Irrigation Rehabilitation Project loan of \$22.7 million is being processed for approval in 2004.
 - **Finance:** Microfinance Systems Development Program loan (\$4 million in 2003) to support policy, legal, and regulatory reforms; and Microfinance Systems Development Project loan (\$4 million in 2003) to help transform nongovernmental

- organization microfinance programs into licensed and regulated microfinance institutions.
- **Other sectors:** the Regional Trade Facilitation and Customs Cooperation Program loan (\$10 million in 2002), which supports trade and customs reform development across the East and Central Asia. Subject to adequate progress in policy reforms, a project loan for customs modernization and infrastructure development will follow.
 - **Emergency assistance:** in response to the Government's urgent requests, three emergency loans, including the Emergency Flood Rehabilitation Project loan (\$5 million in 1999), the Emergency Restoration of Yavan Water Conveyance System loan (\$3.6 million in 2001), and the Emergency Baipaza Landslide Stabilization Project loan (\$5.3 million in 2002) were approved.
4. ADB prepares and updates its three-year rolling programs for Tajikistan every year in consultation with the government based on the ADF resources availability, carefully examining the country's social and economic development status and in coordination with other donors, including the IMF. As of end October 2004, in addition to the above 15 loans, totaling \$210.9 million, and three JFPR grant projects, totaling \$5.9 million, ADB provided 38 technical assistance grants, totaling \$19 million to support policy reforms, capacity building, and project implementation.
5. In end 2000, ADB started supporting the government in developing PRSP through participatory approach under a TA grant in close cooperation with the IMF, Bank, and UNDP. Following the finalization of the PRSP in June 2002, ADB concluded the Poverty Partnership Agreement (PPA) with the Government in December 2002, and proceeded to prepare a new five-year Country Strategy and Program (CSP) for 2004–08 for Tajikistan, which was endorsed by the ADB Board in October 2003. In view of the current challenging circumstances for development, including the limited borrowing capacity of Tajikistan, the CSP was not able to support all areas identified in the PRSP and the PPA. Its main objectives are (a) to strengthen rural development through institution building that will support policy implementation and the private sector; (b) to rehabilitate power and rural infrastructure; and (c) to strengthen regional cooperation through improved customs services and transport links, both within the country and neighboring ones. ADB pays full attention to the progress of Tajikistan's MDG achievement, however, in view of the ceiling on borrowing for the PIP and an expected inflow of grant funds committed for social sectors during the last consultative group (CG) meeting, ADB plans to remain involved in the social sector through only nonlending operations, enabling it to take part in policy dialogue, follow sector developments, and resume lending in the sector if required. The actual lending level needs to be determined by (a) availability of overall ADF resources, (b) country performance assessment vis-à-vis ADB's policy on performance based allocation of ADF resources, and (c) processing status of the projects in the pipeline.
6. For 2005–06, annual ADF lending level for Tajikistan is planned about \$35–40 million, and TA grant level will be around \$1.9 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 and the national accounts statistics. The scope of the foreign trade data needs to be improved to cover the 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. A General Data Dissemination System (GDDS) metadata development mission also visited Dushanbe during October 7–15, 2004. Tajikistan's participation in the GDDS took place at the end of November 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. The derived nominal GDP estimates are difficult to reconcile with the sectoral growth rates, forecasted CPI and terms of trade developments. The accuracy of the GDP current price 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. The techniques used for deriving volume measures of GDP by activity are not sound. Currently, no official volume measures of GDP by expenditure have been compiled.

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 CPI on a monthly basis. The index was compiled with technical assistance from STA. A PPI is also compiled on a monthly basis. At present, the PPI does not follow international standards (**PPI Manual**) and suffers from a number of shortcomings in the scope of the index and the 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 compiling 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 of **Monetary and Financial Statistics Manual** as recommended by STA missions. However, due to ongoing 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: COMMON INDICATORS REQUIRED FOR SURVEILLANCE

	Date of Latest Observation	Date received	Frequency of Data ⁶	Frequency of Reporting ⁶	Frequency of Publication ⁶	Memo Items ⁷ :	
						Data Quality – Methodological Soundness ⁸	Data Quality – Accuracy and Reliability ⁹
Exchange Rates	01/31/05	02/04/05	D	W	W		
International Reserve Assets and Reserve Liabilities of the Monetary Authorities ¹	01/31/05	02/04/05	W	W	W		
Reserve/Base Money	01/31/05	02/04/05	W	W	W		
Broad Money	12/30/04	01/25/05	M	M	M		
Central Bank Balance Sheet	01/31/05	02/04/05	W	W	W		
Consolidated Balance Sheet of the Banking System	12/30/04	01/25/05	M	M	M		
Interest Rates ²	01/15/05	01/25/05	W	W	V		
Consumer Price Index	12/31/04	01/15/05	M	M	M		
Revenue, Expenditure, Balance and Composition of Financing ³ – General Government ⁴	12/31/04	02/04/05	M	M	M		
Revenue, Expenditure, Balance and Composition of Financing ³ – Central Government	12/31/04	02/04/05	M	M	M		
Stocks of Central Government and Central Government-Guaranteed Debt	Q3/04	12/15/05	Q	Q	V		
External Current Account Balance	Q3/04	12/15/05	Q	Q	V		
Exports and Imports of Goods and Services	Q3/04	12/15/05	Q	Q	V		
GDP/GNP	12/31/04	01/15/05	M	M	V		
Gross External Debt ⁵	Q3/04	12/15/05	Q	Q	V		

¹Includes reserve assets pledged or otherwise encumbered as well as net derivative positions.

²Both market-based and officially-determined, including discount rates, money market rates, rates on treasury bills, notes and bonds.

³Foreign, domestic bank, and domestic nonbank financing.

⁴The general government consists of the central government (budgetary funds, extra budgetary funds, and social security funds) and state and local governments.

⁵Including currency and maturity composition.

⁶Daily (D), Weekly (W), Monthly (M), Quarterly (Q), Annually (A); NA: Not Available

⁷These columns should only be included for countries for which a Data ROSC (or a Substantive Update) has been prepared.

⁸Reflects the assessment provided in the data ROSC or the Substantive Update (published on ..., and based on the findings of the mission that took place during...) for the dataset corresponding to the variable in each row. The assessment indicates whether international standards concerning concepts and definitions, scope, classification/sectorization, and basis for recording are fully observed (O), largely observed (LO), largely not observed (LNO), or not observed (NO).

⁹Same as footnote 8, except referring to international standards concerning source data, statistical techniques, assessment and validation of source data, assessment and validation of intermediate data and statistical outputs, and revision studies.



***Президент
Республики
Таджикистан***

***Президенти
Ҷумҳурии
Тоҷикистон***

***President
Republic of
Tajikistan***

Dushanbe

February 17, 2005

Dear Mr. de Rato,

I would like to take this opportunity to thank the International Monetary Fund for its constant support of our economic reforms and development programs.

In December 2004 the Government of Tajikistan held joint discussions with Fund staff for the fourth review under the Poverty Reduction and Growth Facility (PRGF). Based on these discussions, we have prepared a Memorandum of Economic and Financial Policies (MEFP) for the third year under the current PRGF arrangement. The MEFP discusses the impact of recent economic developments on the macroeconomic framework, as well as measures we will take to accelerate structural reforms. It also includes quantitative and structural performance criteria and benchmarks for the period October 1, 2004–September 30, 2005.

I am pleased to report that we have made further progress in strengthening macroeconomic stability. The Tajik economy expanded in 2004 at a rapid pace and inflation fell 2.5 times of its 2003 level. The fiscal outcome has been much stronger than expected and our position on the country's public external debt has improved too. We have observed all of the quantitative performance criteria for end-September 2004, as well as the indicative targets for end-December 2004, except that for the nonaccumulation of new arrears to utility companies. We have also implemented the structural conditionality envisaged under the second year program, albeit with some delay.

***To His Excellency
Mr. Rodrigo de Rato
Managing Director
International Monetary Fund***

On the basis of performance during the period through end-September 2004 and the policies set out in the attached Memorandum, we request the completion of the fourth review under the PRGF arrangement. The Government believes that the policies set forth in the attached Memorandum are adequate to achieve its objectives, but it will take any further measures that may become appropriate for this purpose. Tajikistan will consult with the Fund on the adoption of these measures, and in advance of revisions of the policies contained in the MEFP, in accordance with the Fund's policies on such consultations. In addition, we will provide the staff with the information required for monitoring economic developments and progress in program implementation. Using this opportunity, we also request that the fifth review of the program take place on or after June 1 and the sixth review take place on or after December 1, 2005.

In line with our commitment to transparency, we hereby request that the staff report, this letter of intent, and the attached Memorandum of Economic and Financial Policies (including all annexes) be published on the IMF website.

Please accept the assurance of my highest consideration for you.

A handwritten signature in black ink, appearing to be 'Emomali Rakhmonov', written in a cursive style.

Emomali Rakhmonov

REPUBLIC OF TAJIKISTAN

Memorandum of Economic and Financial Policies for the Period October 1, 2004 to September 30, 2005 Under the Poverty Reduction and Growth Facility

I. INTRODUCTION

1. Tajikistan has been pursuing an economic and financial reform program with support from the International Monetary Fund's Poverty Reduction and Growth Facility (PRGF) during the past two years, with very positive effects on the economy. This Memorandum of Economic and Financial Policies (MEFP) reviews recent progress and details our economic strategy for the third annual program under this facility.

II. RECENT DEVELOPMENTS AND PERFORMANCE UNDER THE PROGRAM

2. Real GDP expanded by 10 percent in 2004 supporting a rapid increase in real wages, household incomes, and consumption. This growth was fueled by economic activity in manufacturing and services, especially in trade. Inflation has slowed to 5.6 percent at end-2004, below the program target and well down from 13 percent at end-2003. The nominal exchange rate remained stable over the past year, contributing to the reduction in inflationary pressures.

3. External conditions, which were very favorable at the beginning of 2004, deteriorated through this year, especially with rising oil prices and falling cotton prices. As a result, we expect the trade deficit to widen slightly in 2004, to 15 percent of GDP. Significant growth in remittances, including from migrants, offset the decline in external aid and will limit the deterioration in the current account to about 2½ percentage point, resulting in a deficit of 3.9 percent of GDP in 2004. Gross international reserves at end-2004 rose to two months of imports. Recently concluded debt reduction agreements with Pakistan and Russia will substantially reduce the debt service burden over the medium term.

4. Macroeconomic policies have remained on track. The projected budget deficit (excluding the foreign-financed public investment program, PIP) for 2004 at the start of the second-year program was 0.4 percent of GDP; however, we now expect to realize an overall budget surplus of 0.3 percent of GDP. Higher-than-projected GDP growth boosted nominal tax collections to SM 934 million, above the revised program target of SM 880 million, resulting in tax revenue of 15.2 percent of GDP, slightly above the 2003 level. Social expenditures increased by 0.5 percent of GDP, to 7.1 percent of GDP.

5. The implementation of monetary policy improved in 2004, assisted by the tight fiscal policy, and the National Bank of Tajikistan (NBT) observed all of the monetary policy

targets. Both the ceiling on net domestic assets of the NBT and net credit of the banking system to government for end-March and end-September 2004 were observed, the floor on net international reserves was exceeded by a wide margin (all performance criteria), and the indicative target for reserve money was met. Net international reserves were \$70 million at end-September 2004, compared with an adjusted target of \$66 million, despite curtailing of foreign exchange purchases from large exporters. Preliminary indications suggest that all indicative targets for end-December 2004 were also met, except for some arrears of SOEs to utility companies (Annex III, Table 1).

6. We have completed almost all the structural benchmarks for the second annual program, although with some delays. As a result of the education reform strategy, we have reduced the number of funded positions by 15 percent in September, well in excess of the July 2004 benchmark. Tighter enforcement of prudential regulations has improved the financial position of all banks. As of October 1, only three of the 12 banks and branches of foreign banks failed to meet all key prudential requirements. The capital deficiency of the government-owned Amonat Bank will need to be increased but no agreement has yet been reached with the NBT to make up this deficiency because the future strategy for the bank is still being discussed. Agreements have been signed with the remaining two banks on measures to bring them into compliance before end-December 2005. After delays, partly due to lack of funding, the audit of Tajikgas was completed in February 2005. The process of completing an inventory of external debts contracted or guaranteed by the government and NBT and identifying their status has been completed. Notwithstanding the improvement in recording of debts in dispute, the comprehensive recording of all such claims incurred during the period of civil strife in the early 1990s has proven to be very difficult.

7. We have continued to implement energy sector reforms under the program. We have installed over 60,000 gas meters since October 2003 and increased collection rates in this sector. The energy compensation mechanism has been reviewed to improve the targeting of poor households and the application procedure streamlined.

III. ECONOMIC POLICIES FOR THE THIRD ANNUAL PROGRAM

8. During the third year of the program, we will build on the recent progress and intensify structural reforms. In particular, we plan to achieve the following main objectives:

- Achieve real GDP growth of 8 percent and limit inflation to no more than 6 percent in 2005. The lower economic growth in 2005 is forecast due to the somewhat weaker external environment.
- Maintain the gross international reserve cover at 2.3 months of imports through end-2005.

- Limit the fiscal deficit in 2005 to SM 35 million (0.5 percent of GDP), continue to focus budget expenditure on social areas, and implement public sector reforms in the core civil service, education, and health care sectors.
- Improve the implementation of monetary policy.
- Continue to implement structural reforms in the energy, banking, and agricultural sectors.
- Improve the environment for private sector development.

A. Fiscal Policy

9. The budget for 2005 envisages an overall fiscal deficit (excluding the foreign-financed PIP) of ½ percent of GDP. In support of this goal, we will implement tax and customs administration measures to raise tax revenue collections to SM 1,115 million or 15.7 percent of GDP, and continue to strengthen expenditure management through improved prioritization of expenditures. Recognizing the low level of government wages and the recent decline in the wage bill in relation to GDP, we will increase the wage bill to 3.9 percent of GDP. Wage increases in the civil service will be differentiated by rank. The high rates of increase seek to address the problems of very low and unattractive wages, especially in the health sector. The wage increase will be given in two tranches, in parallel with government administration reforms, and will be financed by savings on interest from recent debt agreements, increased tax revenues, and economies in nonessential current expenditures.

10. In 2005, disbursements under the PIP will be limited to 4 percent of GDP to help protect debt sustainability. Also, we will continue to strengthen prioritization of the PIP to take into account our investment priorities as outlined in the PRSP, absorptive capacity, and the availability of domestic counterpart resources.

11. The 2005 budget is consistent with the medium-term fiscal framework that aims at strengthening macroeconomic stability while providing more resources for the social sectors. In particular, under this framework the budget deficit (excluding the PIP) is set at 0.5 percent of GDP for the period 2006–07. We will continue to exercise tight control over the size of the budget deficit and will keep it under review, particularly taking into account the availability of concessional external financing compared to the current projections. We will also aim to raise revenue in relation to GDP. Recognizing the uncertainties about commodity prices and the yield from tax reform measures, we are conservatively targeting tax revenue to GDP to increase gradually to slightly over 16 percent of GDP by 2007. This would allow for increases in wage expenditure in priority sectors. The large increase in the wage bill to 3.9 percent of GDP in 2005 is a one-off catch-up to prevent a further deterioration in public services and foster reforms. The increase will be offset in part by across the board cuts in nonwage expenditure, which grew rapidly in 2004. We expect

further increases in the wage bill in terms of GDP from the projected level for 2005 to be limited and consistent with available revenue, further expenditure savings, and public administration reforms, in particular in education and health.

12. The implementation of the revised tax and customs codes on January 1, 2005 will allow us to improve our revenue mobilization. The revised codes simplify the tax and customs rules and reduce the number of nuisance taxes (i.e., fees, charges, and duties) to enhance compliance, and introduce two new taxes—the unified agricultural tax and the minimum tax on business. The new tax and customs codes will be placed on the MSRD’s website, together with information on tax and customs payers’ rights and responsibilities. To strengthen tax administration, by June 30, 2005 we will expand the register of the Large Taxpayer Inspectorate (LTI) to cover at least 60 percent of total tax collections (structural benchmark). To establish an appropriate tax/governance environment for new large energy-related projects, we will vigorously pursue full tax payments from this sector. From the start of 2005, Tajik Aluminum Plant (TadAZ) and Barki Tajik will remain current on their tax payments (in the latter case allowing for technical losses), and Barki Tajik will put in place a mechanism by March 2005 to immediately transfer to the Treasury the tax share of TadAZ’s payments (structural benchmark).

13. Recognizing the need to adapt institutions to the market economy and eliminate duplication and redundancy, we are embarking on a multiyear program to reform government administration. In parallel with the first tranche of the wage increase at the start of 2005, on February 4, 2005 we adopted a reform strategy that outlines the approach to government reform that will both address governmental structures and personnel information and management systems (prior action). This will include a start of reforms in the economic and the social blocs with the assistance of the World Bank and other agencies, including upfront actions to streamline functions and reduce positions by 3 percent. This strategy is summarized in Annex I. This plan includes finalizing the health financing reform strategy, which we expect to adopt in the first quarter 2005.

14. The second tranche of the wage increase (SM 16 million) would be released after June 2005, conditional on completing additional reforms, availability of revenue, and moderate inflation. For the civil service, this will entail the implementation of measures under the ministry-specific reform plans in the Presidential Order plus the submission of amendments to the Civil Service Law to parliament by July 2005 to rationalize the pay system, and to exclude the political appointments (ministers and above) from the civil service. In the education sector, allocation of the second tranche will be conditional on further progress in implementing Government Resolution 291 on the reform of general education in 2004–09, and extending these reforms to higher education. In health, allocation of the second tranche would be conditional on extending the treatment-based funding and the guaranteed benefits package that focuses on primary health care to three rayons, including Dushanbe, and reducing positions in health by a further 2 percent.

15. The expenditure and cash management functions of the treasury will be strengthened. Specifically, we will establish and make operational a cash management unit and improve administrative procedures and communication between headquarters and local branches of the central treasury to facilitate budget reporting and cash management by September 2005 (structural benchmark). Budget institutions will remain current on all utility payments and any settlements of 2004 arrears and tax liabilities will be made through the budget. In addition, to improve the quality and currentness of budget information, a new budget classification system with a more detailed functional classification will be introduced by March 2005. We will also increase the transparency of the central state investment plan (CSIP).

B. Monetary and Exchange Rate Policies

16. The monetary program for 2005 focuses on improving the implementation of monetary policy and further reducing inflationary pressures. The program envisages an increase of 10 percent in reserve money mainly through the buildup of foreign reserves. An increase in the money multiplier associated with a reduction in the required reserve ratio is expected, with broad money growing by about 18 percent. This faster growth in broad money than in nominal GDP reflects the continued improvement in confidence in the banking system. Banking sector credit to the noncotton sector is expected to increase by 25 percent, while bank credit to the cotton sector is expected to remain flat following very strong growth in 2004, as some cotton sector debts are repaid in early 2005. Also, Kredit Invest will continue to resolve its outstanding cotton claims and debts to foreign lenders and discontinue intermediating foreign loans to the cotton sector. While the authorities expect the public sector wage increase to have a limited impact on prices, the NBT stands ready to tighten monetary policy if there is a significant inflationary effect.

17. In support of the 2005 monetary program, and to strengthen long-term monetary policy management, the authorities plan to expand the range of monetary policy instruments. To achieve this, the MOF will finance its projected deficit in 2005 partly by issuing and auctioning SM 3 million of short-term treasury securities, starting in the second quarter 2005. To strengthen the capital base of the NBT, the NBT, and MOF will review and revise the mechanism for settling interest on government securities and government deposits by March 2005, and will apply this new mechanism to settlements starting with first quarter 2005. Also, the NBT will not make expenditure that are not related to its core business activities nor pay dividends on profits to the ministry of finance while it has negative net worth (continuous structural performance criterion) and will not issue directed credits (continuous structural performance criterion). More generally, the only situation in which the NBT will provide credit is as lender of last resort to banks, and at punitive interest rates. The NBT will consult with Fund staff whenever circumstances requiring the granting of such credits arise. The NBT will actively pursue the repayment of its loan portfolio by aggressively pursuing its debtors and disposing of its holding of collateral seized in lieu of bad debts. Specifically, the

NBT plans to reduce its claims on banks and the corporate sector by SM 10 million between October 2004 and June 2005 (structural benchmark).

18. The NBT will continue to maintain a managed floating exchange rate regime. Interventions in the foreign exchange market will be aimed at meeting the international reserves targets and smoothing excessive exchange rate volatility, in line with the recommendations of the Monetary Policy Committee (MPC).

C. External Policies and Debt Management

19. The NBT and government will continue to prohibit all external nonconcessional borrowing contracted or guaranteed by the government or the NBT, and no drawings will be made on any outstanding nonconcessional credit facilities. In the area of external debt management, decisive steps will be taken to complete the inventory of public sector external debt (including SOEs even if not guaranteed by the government), by end-March 2005. The MOF will intensify efforts to start using the Debt Tracking System for debt management and forecasting, and enhance the training of staff responsible for maintaining the debt inventory.

20. The NBT will extend the monitoring of external debt to private sector debt. Starting with the cotton sector, by end-June 2005, the NBT will develop a database of all private sector external debt (structural benchmark). This database inventory will be continuously updated and monitored, and we will take measures to encourage private firms to service their debts.

21. We are committed to maintaining a liberal trade and investment environment and will ensure that the harmonization of our trade regime with that of the Eurasian Economic Community is consistent with this goal. We are also working toward joining the World Trade Organization (WTO). A working party of the WTO will hold its second meeting in February 2005 to discuss our accession.

22. We have completed the legislative changes to liberalize current account transactions and accepted with effect from December 9, 2004 the obligations under Article VIII, Sections 2, 3, and 4 of the Fund's Articles of Agreement.

D. Other Structural Policies

23. We are continuing our efforts to strengthen the banking sector by strictly enforcing all prudential requirements. We will tighten loan classification rules and continue to revoke banking licenses of the weakest banks and strictly enforce all prudential requirements by imposing the maximum penalty for noncompliance. We have raised the minimum capital requirement to \$5 million on January 1, 2005 for the largest four banks (except Amonat Bank) and from January 1, 2006 for all other banks. We will gradually (quarterly) raise the minimum capital requirement for credit associations from \$150,000 on

January 1, 2005 to \$300,000 on January 1, 2006. We will ensure that Kredit-Invest is subject to the same prudential requirements as other nonbank financial institutions, including in the area of provisioning for nonperforming loans, and that it is subject to annual audits by a reputable auditor. We will also consider setting up a credit bureau to facilitate higher quality lending.

24. In view of the prospects for major capital flows into Tajikistan, the authorities are committed to better integrate the banking system with international markets. Such integration can be best facilitated by opening the banking system to highly reputable foreign banks and will require the liberalization of some of the banking sector regulations. In particular, by end-June 2005, the regulatory limits on foreign capital in the banking system will be eliminated, as well as the requirement that a Tajik citizen should head a commercial bank (structural benchmark).

25. Other structural policies will continue to include the energy and agriculture sectors. In the energy sector, the authorities will strive to increase collection rates for gas and electricity through more aggressive collections from major energy debtors, installing gas and electricity meters, and stronger enforcement of collections from households. Automatic quarterly adjustments of all utility tariffs will be continued to account for depreciation of the nominal exchange rate (structural performance criteria), but in view of the low bill collection rate, tariffs will not be reduced if the somoni appreciates against the dollar. In addition to imposing tighter constraints on Barki Tajik, steps will be taken to ensure that TadAZ remains current on its 2005 electricity bills and taxes, and that budget entities also remain current on their utility payments.

26. In the agricultural sector, the government is finalizing its cotton debt resolution strategy in consultation with donors and will implement it promptly. We estimate the total cotton sector debt at SM 647 million (\$214 million), of which SM 470 million is owed to foreign creditors. This will be resolved on a case-by-case basis and without government guarantees with the participation of an impartial expert committee. In addition, we will strengthen the sector by stopping interference by local authorities in farm production decisions, eliminating cotton production plans at below the national level, and accelerating land privatization.

27. The government recognizes the importance of significantly improving the business environment for private sector development. To this end we will make the ministry of economy and trade responsible for private sector development and will review business regulations in collaboration with the IFC. To improve the provision of services, in addition to opening up the banking sector, we will continue to restructure Tajik Air, with the assistance of donors, and ensure that reputable international airlines are given access to the major routes to Tajikistan.

E. Program Monitoring

28. The third annual program covers the period October 1, 2004–September 30, 2005, and will be monitored through two reviews by the Fund’s Executive Board based on semi-annual performance criteria for end-March 2005 and end-September 2005, indicative targets, and structural performance criteria and benchmarks. We request that the fifth review of the program take place on or after June 1, 2005, based on performance as of March 31, 2005, and that the sixth review take place on or after December 1, 2005, based on performance as of September 30, 2005.

29. Quantitative performance criteria and indicative targets are specified in Annex III. The quantitative performance criteria are: a floor on net international reserves of the NBT; a ceiling on net domestic assets of the NBT; a ceiling on net banking system credit to government; a ceiling on the cumulative fiscal deficit of the general government; a floor on cumulative tax collections; zero ceilings on the accumulation of wage and nonworking pension arrears and external arrears; and zero ceilings on the net disbursement of medium- and long-term nonconcessional external debt contracted or guaranteed by the government or NBT. Detailed definitions and reporting requirements for these performance criteria are contained in the Technical Memorandum of Understanding attached to this memorandum (Annex V). The structural performance criteria and benchmarks are detailed in Annex IV.

Annex I: Summary of Presidential Order on the Reform of Government Administration

Annex II: Performance Under the Second Annual Program of the PRGF Arrangement
July–September 2004

Annex III: Quantitative Performance Criteria

Annex IV: Proposed Structural Performance Criteria and Benchmarks

Annex V: Technical Memorandum of Understanding

**Summary of Presidential Order on the Plan of Action for
Reforming the System of Government Management
(Starting stage)**

This annex is a summary of the Presidential Order signed on February 4, 2005. The specific actions envisaged in this strategy cover:

- the bloc of economics-related agencies, including parts of the President's office and ministries (ministries of finance, economy and trade, and state revenues and duties);
- the bloc of social sector-related agencies; and
- civil service management.

Reform strategy and specific actions

An underlying principle of the strategy would be that ministries/agencies focus on other core activities. As part of the reform effort, the number of funded civil service positions will be reduced by at least 3 percent, and technical personnel by 5 percent.

Reform of economic sectors

President's office: Organize the economic functions of the office to focus on general economic policy development and implementation oversight.

- in doing so, rationalize functions to appropriate ministries.

The ministry of finance: Approve a plan to reform the ministry of finance by June 2005. The underlying principle of this plan will be the ministry's reorganization on a functional basis. Specifically, the plan will include the following measures:

- operationalize in the central treasury a division to manage cash transactions by September 2005;
- enhance the ministry's interaction with other ministries/agencies to better prioritize expenditure and formalize its settlements with National Bank; and
- strengthen the analytical capacity of the ministry.

The ministry of the economy and trade: Approve a plan to reform the ministry by June 2005. Specifically the plan will include the following measures:

- limit the ministry's role in compiling indicative plans only at the national level and reinforce its role in strategic forecasting (to identify no more than key short- and long-term macroeconomic aggregates);

- strengthen the ministry's role in promoting more favorable conditions for private sector development and the investment climate, and transfer this function from the Anti-Monopoly Policy Agency to the ministry; and
- integrate the Plan for Social and Economic Development with the PRSP.

Ministry of state revenue and duties: A modernization plan reorganizing the ministry along functional lines was prepared recently and is presently being implemented. In line with this plan, the following specific measures will be implemented:

- prepare and adopt a plan to computerize registration of taxpayers (March 2005); and
- extend the current pilot project to streamline taxpayer registration, and receipt and review of tax declarations to Dushanbe, Khujand, Kurgantube, and to the Large Taxpayers Inspectorate by end-2005.

Reform of the social sectors

The reform of the social sector will be accelerated.

The ministry of labor and social protection: The ministry will be reformed as a pilot project in ministerial restructuring. A review is to be completed shortly and will, by the end of 2004 provide the basis for a plan for reforming the ministry by late March 2005. The reform will integrate the three component structures merged earlier to rationalize their policies, services, and other functions, as well streamline its relations with Social Protection Fund and Amonat Bank.

Education: Continue implementing Government Resolution 291 of June 2004 to comprehensively reform general education in 2004–09. This will be extended in mid-2005 to higher education under a comparable strategy.

Health care: Restructure the health care system in line with the strategy for the reform healthcare financing to be finalized by the end of the first quarter 2005. This plan will include a guaranteed benefits package, changing the funding system to a treatment basis, shifting resources to primary healthcare, and introducing co-payments and paid services.

Improvements in civil service

Specific measures in this area cover recruitment, rationalization of salaries, and establishing a register of civil service positions.

- *Civil service recruitment:* Recruitment will be through open competition following the Presidential Decree of August 2004. The new recruitment procedure will be reviewed in early 2005 and changed accordingly.

- *Rationalization of salaries:* Amend the Law on the Civil Service to set up a new salary system, which will include base salary, seniority factor, and rank coefficient. Include salary increments (e.g., for medical services, vacations, etc.) in the base salary. Implement the new pay system as of January 2006.
- Submit the revised Law on the Civil Service to Parliament by July 2005 and start its implementation from 2006. The revised law should separate political appointments (from the rank of minister and up) from professional staff.
- *Civil service register:* Complete the register of civil service positions by end 2004. Complete the register of civil service staff by end April 2005. This will help to eliminate vacant positions.

**Tajikistan: Performance Under the Second Annual Program of
the PRGF Arrangement, July–September 2004**

Measure	Status
<i>Quantitative performance criteria (September 2004)</i>	
Ceiling on net domestic assets of the NBT.	Observed
Ceiling on net credit of the banking system to general government.	Observed
Ceiling on the cumulative overall fiscal balance of the general government.	Observed
Ceiling on general government wage and nonworking pensioners' pension arrears.	Observed
Floor on tax collection of the ministry of state revenues and duties.	Observed
Floor on total net international reserves.	Observed
Ceiling on the contracting or guaranteeing of short-, medium-, and long-term nonconcessional external debt.	Observed
New external payments arrears.	Observed
<i>Indicative targets (September 2004)</i>	
Ceiling on reserve money.	Observed
New arrears of budget entities and key state-owned enterprises to utility companies.	Not observed
<i>Continuous structural performance criteria</i>	
Prohibit the NBT from issuing directed credits.	Observed
Prohibit the NBT from making expenditures not related to its core business.	Observed
Implement quarterly adjustments of all utility tariffs, equivalent to the depreciation in the nominal exchange rate in the previous quarter.	Observed
<i>Structural benchmarks</i>	
Complete an external audit of Tajikgas by a reputable international audit agency (end-June 2004).	Observed in February 2005
Reduce the number of employees in the education sector by 5 percent (end-July 2004).	Observed in 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).	Observed
Reach agreement with commercial banks not complying with prudential regulations on a time-bound plan to correct these deficiencies (end-September).	Observed, for all but the state-owned savings bank.

Table 1. Tajikistan: Quantitative Performance Criteria for the Second Annual Program

Under the PRGF Arrangement, June–December 2004

	2004		End-Sep.			End-Dec.		Prel.
	End-Jun.	Actual	Performance Criteria (IMF CR No. 04/248)	Adjusted Criteria 1/	Actual	Indicative Targets (IMF CR No. 04/248)	Adjusted Criteria 1/	
	Indicative Targets (IMF CR No. 04/248)							
<i>Performance Criteria:</i>								
	(In millions of somoni)							
1. Ceiling on net domestic assets of the NBT	35	2	23	55	30	23	71	35
2. Ceiling on net credit of the banking system to general government 2/	-211	-247	-209	-177	-237	-215	-167	-227
3. Floor on the cumulative overall fiscal balance of the general government 3/ 4/ (excluding debt-financed public investment program)	28	54	-15	...	60	-4	...	15
4. Ceiling on general government wage, and nonworking pensioners' pension arrears 5/	0	...	0	...	0	0	...	0
5. Floor on tax collection of the ministry of state revenues and duties 3/	638	663	853	...	888	224	...	250
	(In millions of U.S. dollars)							
6. Floor on total net international reserves	66	73	76	66	70	65	65	76
7a. Ceiling on the contracting or guaranteeing of short-term nonconcessional external debt with original maturity of up to and including one year 6/	0	...	0	...	0	0	...	0
7b. Ceiling on the contracting or guaranteeing of medium and long-term nonconcessional external debt with original maturity of more than one year 6/	0	...	0	...	0	0	...	0
8. New external payments arrears 5/	0	...	0	...	0	0	...	0
	(In millions of somoni)							
<i>Indicative targets:</i>								
Ceiling on reserve money	247	236	265	...	255	278	...	279
New arrears of budget entities and key state-owned enterprises to Naftason, Barqui Tajik and Tajikgas	0	10	0	...	0	0	...	24
	(In millions of U.S. dollars)							
<i>Memorandum items:</i>								
Disbursement of program loans (in millions of U.S. dollars)	25	25	35	25	25	40	25	25

Sources: Tajik authorities; and Fund staff estimates.

1/ Adjusted for the delay in disbursements of program loans.

2/ Excludes deposits related to project financing.

3/ For June–September 2004, the targets are cumulative from October 1, 2003 (IMF Country Report No. 04/17). The definition of tax revenues for 2004 has been broadened in the Technical Memorandum of Understanding to include all tax receipts. The end-December 2004 targets are cumulative from October 1, 2004.

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 Third Annual Program

Under the PRGF Arrangement, October 2004–December 2005

	2004	2005			
	End-Dec. Prel. 1/	End-Mar. Performance Criteria	End-Jun. Indicative Targets	End-Sept. Performance Criteria	End-Dec. Indicative Targets
<i>Performance Criteria:</i>					
	(In millions of somoni)				
1. Ceiling on net domestic assets of the NBT 2/	73	58	82	86	77
2. Ceiling on net credit of the banking system to general government 2/	-218	-231	-196	-186	-188
3. Floor on the cumulative overall fiscal balance of the general government 3/ (excluding foreign-financed public investment program)	15	43	5	-24	4
4. Ceiling on general government wage, and nonworking pensioners' pension arrears 4/	0	0	0	0	0
5. Floor on tax collection of the ministry of state revenues and duties 3/	248	526	798	1,070	296
	(In millions of U.S. dollars)				
6. Floor on total net international reserves 2/	67	64	58	63	75
7a. Ceiling on the contracting or guaranteeing of short-term non-concessional external debt with original maturity of up to and including one year 5/	0	0	0	0	0
7b. Ceiling on the contracting or guaranteeing of medium and long-term nonconcessional external debt with original maturity of more than one year 5/	0	0	0	0	0
8. New external payments arrears 4/	0	0	0	0	0
<i>Indicative targets:</i>					
	(In millions of somoni)				
Ceiling on reserve money	278	252	257	278	305
New arrears of budget entities and key state-owned enterprises to Nafrason, Barqui Tajik and Tajikgas	0	0	0	0	0
<i>Memorandum item:</i>					
Disbursement of program loans (in millions of U.S. dollars)	0	0	0	10	0

Sources: Tajik authorities; and Fund staff estimates.

1/ Calculated using the 2005 program exchange rates.

2/ On a cash basis, the ceiling will be adjusted for the deviation of actual program loan disbursements compared to the projections.

3/ For March–September 2005, the targets are cumulative from October 1, 2004.

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: Proposed Structural Performance Criteria and Benchmarks
for the Third Annual Program Under the PRGF Arrangement,
October 2004–September 2005**

Measures	Status
Prior action	
Adopt a presidential order for a plan of action restructuring and streamlining pilot ministries, with an upfront reduction in staff positions by 3–5 percent and specific steps in 2005.	Observed
Continuous structural performance criteria	
Prohibit the NBT from issuing directed credits.	Already applied
Prohibit the NBT from making expenditures not related to its core business activities or paying dividends while it has negative net worth.	Already applied
Implement quarterly adjustments of all utility tariffs, equivalent to the depreciation in the nominal exchange rate in the previous quarter.	Already applied
Structural benchmarks	
For end-March 2005	
Implement the mechanism to ensure the immediate transfer to the treasury by Barki Tajik of the tax portion of TadAZ's payments to Barki Tajik.	
As part of streamlining economic ministries, cease publication of detailed production targets disaggregated below the national level. Integrate various bodies preparing strategic plans and coordinating aid.	
For end-June 2005	
Reduce NBT's claims on the private sector by SM 10 million from October 2004 to June 2005 through collateral sales or other loan recoveries.	
Remove the regulatory limits on foreign capital in the banking system and the requirement for a Tajik citizen to head commercial banks in the Banking Law.	
Expand the register of the Large Taxpayer Inspectorate (LTI) to cover at least 60 percent of total tax collections.	
Develop and continuously update a database at the NBT for monitoring private sector external debt (starting with cotton sector debt).	
For end-September 2005	
Make fully operational a cash management unit in the ministry of finance and strengthen communication links between local branches of the central treasury with the headquarters to enhance fiscal management, cash control and forecasting.	

REPUBLIC OF TAJIKISTAN

Technical Memorandum of Understanding

1. Performance during third year of the PRGF-supported program will be assessed based on observance of quantitative performance criteria and structural benchmarks. This annex together with Annex III attached to the MEFP define the variables that constitute quantitative performance criteria and indicative targets under the program, and sets out the reporting requirements and frequency of data provision by the government and the National Bank of Tajikistan (NBT).

2. 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. The program exchange rate for the U.S. dollar is SM 3.037 = US\$1 (the end-December 2004 level). The SDR components will be valued at the program SDR exchange rate (SDR 1 = US\$1.54). Official gold holdings shall be valued at US\$438 per troy ounce.

I. QUANTITATIVE 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, 2004 to:	
December 31, 2004 (indicative target)	15
March 31, 2005 (performance criterion)	43
June 30, 2005 (indicative target)	5
September 30, 2005 (performance criterion)	-24
Cumulative balance from October 1, 2005 to:	
December 31, 2005 (indicative target)	4

Definitions

3. 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:

- (i) The change in stocks 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.

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, 2004 to:	
December 31, 2004 (indicative target)	248
March 31, 2005 (performance criterion)	526
June 30, 2005 (indicative target)	798
September 30, 2005 (performance criterion)	1,070
Cumulative revenues from October 1, 2005 to:	
December 31, 2005 (indicative target)	296

Definitions

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

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, 2004 (indicative target)	73
March 31, 2005 (performance criterion)	58
June 30, 2005 (indicative target)	82
September 30, 2005 (performance criterion)	86
December 31, 2005 (indicative target)	77

Definitions

5. **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 nongovernment nonbanks with the NBT. The value of the net foreign assets of the NBT is calculated as the difference between NBT's claims on nonresidents and its liabilities to nonresidents. 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 revaluation and capital accounts of the NBT.

Adjustors

6. The ceiling on net domestic assets of the NBT will be adjusted downward/upward by 100 percent for excesses/shortfalls of the disbursement of foreign program loans.

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

Table 4. Ceiling on Net Credit of the Banking System to General Government 1/

	(In millions of somoni)
December 31, 2004 (indicative target)	-218
March 31, 2005 (performance criterion)	-231
June 30, 2005 (indicative target)	-196
September 30, 2005 (performance criterion)	-186
December 31, 2005 (indicative target)	-188

1/ Calculated at fixed program exchange rate.

Adjustors

7. Net credit of the banking system to general government will be adjusted downward/upward by 100 percent for excesses/shortfalls of the disbursement of foreign program loans.

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

	(In millions of U.S. dollars)
December 31, 2004 (indicative target)	67
March 31, 2005 (performance criterion)	64
June 30, 2005 (indicative target)	58
September 30, 2005 (performance criterion)	63
December 31, 2005 (indicative target)	75

Definitions

8. 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 to include NBT's holdings of monetary gold, SDRs, convertible currencies in cash or in nonresident banks that are readily available and any reserve position in the IMF. Also included are holdings of foreign currency-denominated securities issued by governments or central banks of OECD member states. Capital subscriptions in foreign financial institutions, nonliquid assets of the NBT, convertible currency denominated claims on domestic banks and other residents, assets in nonconvertible 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 nonresidents) are excluded. *Reserve liabilities* of the NBT are defined as the sum of outstanding IMF credit, and liabilities of the NBT to nonresidents with an original maturity of up to and including one year.

9. 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 defined above).

Adjustors

10. The floor on net international reserves of the NBT will be adjusted upward/downward by 100 percent for excesses/shortfalls of the disbursement of foreign program loans.

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 2004 to:		
December 31, 2004 (indicative target)	0	0
March 31, 2005 (performance criterion)	0	0
June 30, 2005 (indicative target)	0	0
September 30, 2005 (performance criterion)	0	0
December 31, 2005 (indicative target)	0	0

Definitions

11. 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 and for which value has not been received.

12. 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."

13. 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).

14. 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.

15. 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 the contracting or guaranteeing takes place or at the exchange rate stipulated in the contract.

16. 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 debt in the event of nonpayment by the debtor (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 debtors.

17. A concessional debt is defined as one with a grant element equivalent to 35 percent or more. The grant element is calculated using the commercial interest reference rates (CIRRs) plus a margin, which will be taken as those for January 1, 2005 until this is revised in the program. For debts of an original maturity of 15 years or more, the average CIRR over the last 10 years will be used, while the average of CIRRs of the preceding six-month period will be used to assess the concessional nature of debts 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 20–29 years; and 1.25 percent for 30 and more years.

II. CONTINUOUS QUANTITATIVE TARGETS

A. No Directed Credits by the NBT

18. The NBT will not issue any directed credits. These involve credits that are issued in the absence of a competitive auction or on nonmarket 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 credit related activities.

B. No Noncore Activities of the NBT and no Dividend Payments by the NBT

19. The NBT will neither make any expenditures not related to its core business activities nor pay dividends while it has negative net worth.

C. No New External Payments Arrears

20. 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. Ceiling on General Government Wage and Nonworking Pensioners Pension Arrears

21. For purposes of the performance criterion, arrears on general government and nonworking pensioner's pension shall be monitored 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 budget 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, 2004 to:	
December 31, 2004 (indicative target)	0
March 31, 2005 (performance criterion)	0
June 30, 2005 (indicative target)	0
September 30, 2005 (performance criterion)	0
Cumulative from October 1, 2005 to:	
December 31, 2005 (indicative target)	0

22. To permit monitoring as defined above, the government will provide data on actual wage payments (as part of the monthly budget execution statements submitted to Fund staff). The Social Protection Fund will provide quarterly reports and statements of their operations.

III. INDICATIVE QUANTITATIVE TARGETS

A. Reserve Money

Table 8. Indicative Ceiling on the Stock of Reserve Money

(In millions of somoni)	
December 31, 2004	278
March 31, 2005	252
June 30, 2005	257
September 30, 2005	278
December 31, 2005	305

Definition

23. The stock of reserve money 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. 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 of 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, 2004	0
March 31, 2005	0
June 30, 2005	0
September 30, 2005	0
December 31, 2005	0

Definition

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

IV. REPORTING REQUIREMENTS UNDER THE PROGRAM

25. For monitoring program targets, the following data should be reported to the Fund.

Table 10. Data reporting frequency for program monitoring

Data	Frequency	Lag
1. NBT analytical balance sheet	Weekly	3 working days
2. NBT balance sheet	Monthly	2 weeks
3. Commercial banks' and Kredit Invest balance sheets	Monthly	4 weeks
4. Auction results for NBT certificates and treasury bills	Weekly	1 week
5. Foreign exchange transactions	Weekly	1 week
6. Fiscal revenues, expenditures and financing of budget execution, and extrabudgetary funds	Monthly	4 weeks
7. Reports and statements from the Social Protection Fund	Quarterly	6 weeks
8. Arrears of budget entities and state owned enterprises	Quarterly	4 weeks
9. Tax arrears of the largest tax payers in arrears	Quarterly	4 weeks
10. Foreign public debt, debt service, commitments, and disbursements	Monthly	4 weeks

**Statement by the IMF Staff Representative
March 18, 2005**

The following information has become available since the staff report was issued on March 3, 2005. This information does not alter the thrust of the staff appraisal.

- In the February 27 elections for the lower house of parliament, the ruling People's Democratic Party of Tajikistan won 80 percent of the votes. Opposition parties signed a petition complaining about irregularities during the electoral process. Elections for the upper house are scheduled for March 24, 2005.
- Consumer price inflation (on a 12-month basis) rose slightly to 6 percent in February 2005 owing to weather-related food price increases.
- Preliminary data indicate that policy implementation has been consistent with the program. In particular, the fiscal surplus was larger than projected in January-February 2005. The recent resumption of cotton exports in response to a moderate increase in international cotton prices is contributing to higher budget revenue, as well as to a reduction in the indebtedness of the cotton sector.
- The somoni has remained broadly stable against the U.S. dollar since end-2004.
- On the structural side, on March 4 the authorities approved the *Strategy for the Resolution of Cotton Farm Debt* in order to address this long-standing problem that has constrained development in the farm sector. The strategy contains both cotton sector reform and debt resolution measures, including the resolution of the farm debt on a case-by-case basis using an independent commission and without government guarantees.



INTERNATIONAL MONETARY FUND

Public Information Notice

EXTERNAL
RELATIONS
DEPARTMENT

Public Information Notice (PIN) No. 05/42
FOR IMMEDIATE RELEASE
March 25, 2005

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

IMF Executive Board Concludes 2005 Article IV Consultation with the Republic of Tajikistan

On March 18, 2005, the Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation with the Republic of Tajikistan.¹

Background

Tajikistan's transition to a market economy has been protracted, but reform efforts are paying off. Domestic political stability, deepening economic liberalization, a strong regional economy, and favorable terms of trade contributed to real GDP growth averaging 10 percent per year in 2000–04. Economic activity continued to diversify rapidly into the services sector. Real household incomes are on the rise, especially from remittances, and there is evidence of declining poverty. The private sector has grown and the banking system has been liberalized and strengthened. Rapidly growing migrants' remittances and small scale exports have become a major source of household supplemental income.

Strengthened fiscal discipline and tighter monetary policy have reduced inflation from 40 percent in 2001 to 5.6 percent in 2004. Strong growth in tax revenues and continued expenditure restraint contributed to small fiscal surpluses in the past two years.

The implementation of monetary policy improved significantly in the past two years. Since late 2003, the National Bank of Tajikistan (NBT) has successfully focused on stabilizing reserve money growth that has contributed to the significant reduction in inflation. The exchange rate of

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

the national currency, the somoni, remained remarkably stable in the past two years. The authorities have taken determined measures to significantly improve the external debt profile. The debt-for-asset swap with the Russian Federation, and debt relief received from Pakistan reduced Tajikistan's stock of external debt to 40 percent of GDP at end-2004. Under the relatively favorable external and domestic environment, the authorities completed the legislative changes to eliminate the few exchange restrictions on current transactions and accepted the obligations of the Article VIII, Sections 2, 3 and 4 of the Fund's Articles of Agreement on December 9, 2004. Through improved banking supervision and enforcement of prudential regulations, the authorities made further progress in strengthening the banking sector and the sector's capital rose sharply in 2004.

Nonetheless, progress in a number of priority reform areas envisaged in the PRSP (<http://www.imf.org/external/np/prsp/2002/tjk/01/>) has been slow. In particular, the business environment and public and private sector transparency and governance need to be strengthened further. In the energy sector, while gas prices have been adjusted, electricity tariffs are still well below long-run cost recovery levels. In the agricultural sector, the lack of underlying reform and the distortion of market signals and debt overhang in the cotton sector are holding back growth and rural poverty reduction. Although the initial measures in education and health reforms have been implemented, the remaining agenda for public administration reform is substantial.

Executive Board Assessment

Directors commended the authorities for the considerable progress made in 2004 in strengthening Tajikistan's economic performance. Sound macroeconomic policies and political stability have contributed to strong economic growth, a marked decline in inflation, and a reduction in poverty. Directors noted, however, that sustaining rapid growth required a stronger commitment to structural reform.

Directors welcomed the authorities' prudent fiscal program for 2005. They emphasized the importance of implementing effectively the new tax and customs codes, and strengthening revenue administration, including through the expansion of the Large Taxpayer Inspectorate and enforcing the collection of tax and utility payments by state-owned enterprises in the energy and aluminum sectors, in order to boost revenue and strengthen governance.

Directors noted the significant increase in the wage bill envisaged in the 2005 budget, which is aimed at retaining appropriately qualified personnel and stemming the deterioration in the provision of public services. While recognizing the need for flexibility in the composition of expenditure, they urged the authorities to monitor expenditure carefully and move expeditiously with public sector administration reform in order to improve efficiency, particularly in the health and education sectors.

Directors welcomed the continued improvements in monetary management. By adhering to the monetary and credit targets, the NBT has gained credibility, which has contributed to the significant reduction in inflation. Looking ahead, the authorities were encouraged to remain

vigilant in assuring the achievement of inflation objectives and to move forward with steps to broaden the range of monetary instruments. Directors considered that the current managed float exchange rate regime, with intervention in the foreign exchange market limited to smoothing short-term exchange rate volatility, was appropriate. They also welcomed the authorities' recent acceptance of the obligations under Article VIII, Sections 2, 3, and 4.

Directors, taking note of the favorable medium-term macroeconomic outlook, pointed to the critical role played by workers' remittances in sustaining growth and smoothing the social impact of the transition to a market economy. Given the associated vulnerabilities, the authorities were encouraged to strengthen financial intermediation, regularize labor migration issues with neighboring countries, and resolve regional trade and transit impediments.

Directors commended the authorities for their success in reducing external debt obligations to manageable levels through effective negotiations and prudent new borrowing. They encouraged the authorities to further improve external debt management, and to start work on recording and monitoring private sector external debt, including that incurred by the cotton sector. They supported the authorities' continued debt restructuring discussions with bilateral creditors.

Directors welcomed recent steps to strengthen the banking system. They noted, however, that the level of financial intermediation is still low, and that a sound expansion of the system will be crucial to support private sector development. In this regard, Directors welcomed the authorities' intention to remove impediments to the entry of reputable foreign banks into Tajikistan, which is expected to contribute to enhancing banking services. The increase in minimum capital requirements for banks was regarded as a positive step to encourage further consolidation of the financial system. They commended the authorities on steps taken to implement Anti-Money Laundering/Combating Financing of Terrorism legislation, and encouraged them to continue their efforts.

Directors urged the authorities to accelerate structural reforms in order to stimulate private sector development and sustain strong growth. Reforms in agriculture should focus on eliminating local government interference in farm operations and improving access to financial services. Directors also underscored the importance of moving ahead with a market-based resolution of the cotton sector's nonperforming debt, without recourse to government guarantees. They also emphasized the need to address weaknesses in the business and governance environment, including by removing obstacles to private sector activity and promoting greater competition in key sectors, such as air transport, banking, and telecommunications.

Directors indicated that further measures were necessary to improve the financial viability of the energy sector. In particular, they stressed the need to improve collection rates, especially from large users, and to extend metering. Looking beyond the near term, Directors underscored the importance of raising electricity tariffs to cost recovery levels while implementing measures to reduce the impact on the poor, including through lifeline tariffs and improvements in the cash compensation mechanism.

Directors welcomed the progress made in improving the quality and transparency of economic data, and encouraged continued efforts in this area. In particular, they underscored the importance of addressing remaining statistical weaknesses in national accounts, fiscal, and balance of payments data.

Public Information Notices (PINs) form part of the IMF's efforts to promote transparency of the IMF's views and analysis of economic developments and policies. With the consent of the country (or countries) concerned, PINs are issued after Executive Board discussions of Article IV consultations with member countries, of its surveillance of developments at the regional level, of post-program monitoring, and of ex post assessments of member countries with longer-term program engagements. PINs are also issued after Executive Board discussions of general policy matters, unless otherwise decided by the Executive Board in a particular case.

Republic of Tajikistan: Selected Economic Indicators

	2001	2002	2003	2004
(Annual percent change)				
Production and prices				
Real GDP	10.2	9.1	10.2	10.6
CPI (e.o.p.)	12.5	14.5	13.7	5.6
(In percent of GDP)				
General government				
Total revenues and grants	15.2	16.7	17.3	17.9
Total expenditure	18.4	19.2	19.1	20.7
Balance (incl. PIP)	-3.2	-2.4	-1.8	-2.7
Balance (excl. PIP)	-0.1	-0.1	0.9	0.3
(Annual percent change)				
Monetary indicators				
Broad money	31.6	38.4	29.2	14.3
Velocity 1/	13.9	12.7	12.2	15.4
(In millions of U.S. dollars, unless otherwise specified)				
External sector				
Exports of goods & services	652	768	884	1,047
Imports of goods & services	773	928	1,142	1,446
Current account balance	-74	-32	-20	-81
In percent of GDP	-7.1	-2.7	-1.3	-3.9
Gross international reserves	96	96	135	189
In months of imports 2/	1.9	1.8	1.9	2.0

Sources: Tajik authorities; and IMF Staff estimates.

1/ Annual GDP divided by quarterly average broad money.

2/ Imports of goods and services, excluding alumina and electricity which are trade on a barter basis.



Press Release No. 05/63
FOR IMMEDIATE RELEASE
March 21, 2005

International Monetary Fund
Washington, D.C. 20431 USA

IMF Executive Board Completes Fourth Review Under the Republic of Tajikistan's Three-Year PRGF Arrangement and Approves US\$15.1 million Disbursement

The Executive Board of the International Monetary Fund (IMF) has completed the fourth review of the Republic of Tajikistan's performance under its economic reform program supported by a three-year Poverty Reduction and Growth Facility (PRGF) arrangement. Completion of the review enables the Republic of Tajikistan to draw an amount equivalent to SDR 9.8 million (about US\$15.1 million) under the arrangement.

The IMF's Executive Board approved the three-year arrangement on December 11, 2002 (see [Press Release No. 02/54](#)) for an amount equivalent to SDR 65 million (about US\$99.9 million). Drawing the amount made available by completion of this fourth review will bring total disbursements under the arrangement to SDR 45.4 million (about US\$69.8 million).

Following the discussion of the Executive Board on Friday March 18, 2005, Mr. Agustín Carstens, Deputy Managing Director and Acting Chair, stated:

“Tajikistan’s performance under the Poverty Reduction and Growth Facility (PRGF) arrangement has continued to be satisfactory. Real GDP growth has remained robust and inflation has fallen significantly as a result of improved program implementation and a favorable economic environment. In addition, indicators suggest that there has been a further reduction in poverty levels.

“Assisted by a fiscal surplus, the central bank strengthened monetary management in 2004, which contributed to the marked reduction in inflation. In 2005, the central bank will seek to broaden the range of its monetary instruments to further enhance control over base money. The managed float exchange rate system currently in place will be maintained.

“The budget for 2005 is consistent with a prudent fiscal stance. On the revenue side, implementation of the new tax and customs codes and stronger compliance by the state-owned enterprises in the aluminum and energy sectors with tax and utility payments are expected to boost revenue. Regarding expenditure, the fiscal program envisages a significant increase in the wage bill aimed at retaining qualified personnel and stemming the deterioration in the provision of public services. This will be accompanied by reforms in public administration and education and health care to improve the efficiency of expenditure.

“The recent debt agreements significantly reduced Tajikistan’s medium-term external debt burden and allow for increased flexibility in the public investment program. Looking ahead, new borrowing will be closely monitored and properly prioritized.

“The central bank has made progress in strengthening the implementation of bank supervision regulations. The measures envisaged in the program for 2005 to enhance competition in the banking sector, including from foreign banks, are expected to have a positive impact on financial intermediation and the provision of financial services,” Mr. Carstens stated.

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.

**Statement by Fritz Zurbrügg, Executive Director for Republic of Tajikistan
and Djamoliddin Nuraliev, Advisor to Executive Director
March 18, 2005**

1. As we have stressed in the past, our Tajik authorities attribute great importance to the longstanding and fruitful relationship with the Fund. Management's continued support of Tajikistan's efforts to overcome the wide range of obstacles faced by a "triple-locked", low-income, transition country and staff's constructive policy advice were crucial in achieving the strong economic performance described in the papers before us today. The macroeconomic results over the last five years summarized on page 7 are very encouraging. Strong growth and low inflation are key ingredients for reducing poverty. Our authorities are convinced that the results of the economic reform program to date provide an excellent basis for persisting in their efforts to implement the still remaining difficult structural reforms.

Macroeconomic Policies

2. Economic activity remained strong and broad-based in 2004. External demand for Tajik exports remained vigorous, with the value of exports rising by 19 percent. Our authorities are also very satisfied that the remaining exchange restrictions on current transactions were eliminated, allowing Tajikistan to accept obligations under Article VIII, Sections 2, 3, and 4 of the Fund's Articles of Agreement last December. Domestic demand continued to benefit from growing worker remittances. As noted in the Selected Issues paper, remittances play a key role for the economic development of Tajikistan. The authorities are very aware of the macroeconomic relevance of these financial flows and have made strong efforts to regularize labor migration issues with neighboring countries. The signing of an agreement last October with Russia, the main destination of Tajik labor migration, was an important step.

3. Our authorities are also very satisfied with the results of their efforts to improve the external debt profile. The precarious external debt situation was long recognized as a major source of vulnerability for Tajikistan. As noted by staff, the combination of strong economic performance, restraint on new borrowing, and the recent agreements with Russia and Pakistan have helped to significantly ease the debt burden. This is reflected in the current external debt-to-GDP ratio of 40 percent, compared to 130 percent at end-2000. Our Tajik authorities share staff's view that over the medium-term the public sector debt level is sustainable. They are aware, however, that the debt position remains highly exposed to adverse shocks. In that regard, debt management will continue to be improved. Furthermore, the National Bank of Tajikistan (NBT) is in the process of extending the monitoring of external debt to private sector debt.

4. As regards monetary policy, the NBT has been successful in significantly bringing down inflation into the single-digit range, by focusing on stabilizing reserve money growth. Also, net international reserves at end-2004 were higher than programmed. Looking forward, maintaining low inflation remains the NBT's main goal. To strengthen the implementation of

monetary policy, the NBT and Ministry of Finance will step up the pace in developing market instruments.

5. What is very encouraging, is the improvement in financial sector soundness, as described in detail in the useful Selected Issues paper. The NBT is committed to build on the success of past measures that have strengthened financial market supervision. The authorities are fully aware that opening the banking system to reputable foreign banks can further increase the efficiency and resilience of the financial system. Therefore, steps to liberalize banking sector regulations are already envisaged.

6. As regards fiscal policy, the authorities continue along their well-established path of robust performance. Strong tax revenues, despite the delayed cotton exports, and expenditure restraint has allowed for a lower-than-programmed overall government deficit in 2004, amounting to 2.7 percent of GDP (including externally financed PIP). Our authorities are very much aware of the need to make further progress in revenue mobilization, given the strong demand for social and investment spending. As noted in the Memorandum of Economic and Financial Policies (MEFP), they have made significant efforts to broaden the tax base and strengthen tax collection. The simplification of tax rates and reduction of exemptions under the revised tax and customs code that came onto force on January 1, 2005, will increase tax revenues. Furthermore, the expansion of the Large Taxpayer Inspectorate (LTI) will improve revenue mobilization.

7. On the expenditure side, the authorities are appreciative of the agreement reached with staff on significantly increasing the wage bill in the 2005 budget, while maintaining overall current expenditure at the level programmed for last year. Increasing public sector wages has been an important priority for the government for some time. As we argued during the last Board meeting, the extremely low public wages in Tajikistan, in absolute terms as well as compared to other CIS countries, were creating serious problems in terms of staff retention and quality of services. Of course, the authorities are fully aware of the need to combine wage increases with public sector reform. This is underscored by the near-term measures recently formulated in a Presidential order and summarized in Annex I of the MEFP. The authorities are confident that these measures, together with the conditioning of the second tranche of the wage increase on the availability of revenue and moderate inflation, provide a solid basis for the increase of the public wage bill.

Structural Reforms

8. Reforming the agricultural sector remains a high priority for the authorities. As underscored by staff, the high level of debt of the cotton sector is an important obstacle for agricultural reform. Although the Fund is not taking the lead in this area, we would like to briefly outline recent developments on this issue. Following substantial preparatory work in defining a strategy to address the farmers' debt in the cotton sector, the Farm Debts Strategy (FDS) was recently finalized and approved by the President on March 4, 2005. Bilateral donors, the World Bank, and the Asian Development Bank provided comprehensive inputs in the development of the strategy. The basic features of the strategy is a case-by-case approach, full transparency regarding the origins of the debts, and no use of government guarantees.

Our authorities have already started implementing some elements of the FDS and are confident that it provides a good framework to resolve these longstanding debt issues.

9. Reforms in the energy sector are continuing, with the focus on further improving collection rates for gas and electricity from major energy debtors and households. The metering of gas and electricity will be extended. The automatic quarterly adjustment of all utility tariffs will continue to account for the depreciation of the nominal exchange rate. Our authorities are giving particular attention to the problem of arrears in electricity payments by the Tajik Aluminum Plant (TadAZ), which led to a breach of an indicative target under the program. They are taking remedial action to enforce the payments. A new management team was appointed for TadAZ, and requirements for TadAZ to remain current on their tax and utility payments have been strengthened.

Poverty Reduction Strategy

10. The authorities will continue to collaborate with the donor community and IFI's in reaching the PRSP's objective. In that regard, there is encouraging evidence that progress is being made. Poverty rates have declined significantly in recent years. Regarding the shortcomings pointed out in the JSA of the PRSP, our authorities have started to address the issues. In particular, they acknowledge the importance of improving participation in defining budget priorities and of strengthening the budget process. In this respect, the Budgetary Commission has now been established. Senior representatives are involved in identifying the main budgetary priorities. The authorities also intend to develop a closer link between the next PRSP and the five-year economic plan.