

**FOR
AGENDA**

EBS/03/171

December 19, 2003

To: Members of the Executive Board

From: The Secretary

Subject: **Republic of Tajikistan—Second Review Under the Three-Year Arrangement Under the Poverty Reduction and Growth Facility, and Request for a Waiver of Performance Criterion**

Attached for consideration by the Executive Directors is a paper on the second review under the three-year arrangement for the Republic of Tajikistan under the Poverty Reduction and Growth Facility and its request for a waiver of a performance criterion, which is tentatively scheduled for discussion on **Monday, January 12, 2004**. A draft decision appears on pages 22–26. At the time of circulation of this paper to the Board, the Secretary's Department has received a communication from the authorities of the Republic of Tajikistan indicating that they consent to the Fund's publication of this paper.

Questions may be referred to Mr. Christiansen (ext. 36727) and Mr. Zytek (ext. 38856) in MCD.

Unless the Documents Section (ext. 36760) is otherwise notified, the document will be transmitted, in accordance with the procedures approved by the Executive Board and with the appropriate deletions, to the Asian Development Bank, the European Bank for Reconstruction and Development, the European Commission, the Islamic Development Bank, and the Organisation for Economic Cooperation and Development, following its consideration by the Executive Board.

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INTERNATIONAL MONETARY FUND

REPUBLIC OF TAJIKISTAN

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

Prepared by the Middle East and Central Asia and
the Policy Development and Review Departments

Approved by Julian Berengaut and Juha Kähkönen

December 18, 2003

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Executive Summary

On July 18, 2003, the Executive Board completed the first review of Tajikistan's economic performance under the three-year Poverty Reduction and Growth Facility (PRGF) arrangement. In the attached Letter of Intent and Memorandum of Economic and Financial Policies, the authorities request the completion of the second review of the program, and a waiver for the non-observance of a structural performance criterion for end-September 2003. The staff supports the authorities' requests in light of Tajikistan's performance under the program and their commitment to meet the end-September structural performance criterion and the end-June 2003 structural benchmark as prior actions for completing the second review.

In the first nine months of 2003, growth of real GDP remained strong. The pattern of growth continues to become more diversified with an increased contribution from non-aluminum manufacturing and non-cotton agriculture. Macroeconomic management was generally satisfactory, except that inflation remained persistently high because of poor implementation of monetary policy and exogenous factors. The external current account deficit for 2003 will likely be smaller than previously projected because of increased migrants' remittances. Despite this strong performance, concerns remain about the sustainability of growth and prospects for poverty reduction given the slow pace of structural reform.

All of the quantitative performance criteria were observed for the period under review (April 1–September 30, 2003). The end-September indicative target for reserve money, however, was missed by a wide margin. With the exception of one measure, all structural performance criteria were met. In particular, the continuous structural performance criteria prohibiting directed credits by the central bank and prohibiting non-core expenditures and dividend payments were observed during the period. The structural performance criterion for end-September 2003 regarding the elimination of subsidized energy tariffs for privileged groups, however, was not met and is a prior action for completing the second review. The end-September 2003 structural benchmark regarding the restructuring of the National Bank of Tajikistan was implemented, but with a delay. The end-June 2003 structural benchmark regarding the restructuring of Agroinvestbank was not met and is a prior action for completing the second review.

The staff notes that better implementation of monetary policy and an acceleration of structural reform are required to enhance macroeconomic stability. The authorities recognize these problems and are committed to improving implementation of the Fund-supported program, but often call attention to the constraint posed by institutional weaknesses. The understandings reached with the authorities on policies and measures for the second annual program under the PRGF arrangement demonstrate their commitment to continuing the economic reform process. Nonetheless, numerous risks remain, which are primarily in the form of slow implementation of structural reform, the lack of broad ownership of the reform process, and vulnerability to external shocks.

Tajikistan: Basic Data, 1996–2002

| Physical and social indicators (2000) | | | | | | | | |
|---|------------------------|---|-------|-------|-------|-------|-------|------|
| Area | 43,100 km ² | | | | | | | |
| Arable land | 7,155 km ² | | | | | | | |
| Population (in thousand) | 6,376 | | | | | | | |
| Rate of population growth (in percent) | 2.0 | | | | | | | |
| Life expectancy at birth (in years) | 69 | | | | | | | |
| Infant mortality (per thousand live births) | 21 | | | | | | | |
| Birth rate, crude (per thousand people) | 19 | | | | | | | |
| Death rate, crude (per thousand people) | 5 | | | | | | | |
| Fertility rate (in births per woman) | 3.1 | | | | | | | |
| Age dependency ratio (in percent) | 0.8 | | | | | | | |
| Rural population (in percent of population) | 72.0 | | | | | | | |
| Urban population (in percent of population) | 28.0 | | | | | | | |
| Poverty rate (in percent) 1/ | 65.4 | | | | | | | |
| | | 1996 | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 |
| Nominal GDP (in millions of somoni) | 309 | 632 | 1,025 | 1,345 | 1,807 | 2,512 | 3,345 | |
| Real GDP growth (in percent) | -4.4 | 1.7 | 5.3 | 3.7 | 8.3 | 10.2 | 9.1 | |
| GDP per capita (in U.S. dollars) | 176.9 | 175.1 | 214.0 | 171.0 | 155.4 | 165.8 | 183.7 | |
| Inflation (in percent, end of period) | 40.5 | 163.6 | 2.7 | 30.1 | 60.6 | 12.5 | 14.5 | |
| Inflation (in percent, average) | 418.3 | 88.0 | 43.2 | 27.5 | 32.9 | 38.6 | 12.2 | |
| | | (In percent of GDP; unless otherwise specified) | | | | | | |
| Sectoral distribution of GDP | | | | | | | | |
| Agriculture | 36.0 | 27.1 | 24.9 | 25.4 | 27.0 | 26.7 | 22.0 | |
| Industry | 25.7 | 19.7 | 20.1 | 21.7 | 23.9 | 22.6 | 18.7 | |
| Trade | 14.6 | 10.2 | 22.1 | 19.7 | 18.3 | 19.3 | 19.4 | |
| Construction | 2.6 | 2.1 | 3.9 | 5.4 | 3.4 | 4.1 | 2.6 | |
| Other | 21.1 | 40.9 | 29.0 | 27.8 | 27.5 | 27.4 | 37.3 | |
| Balance of payments | | | | | | | | |
| Current account balance | -7.3 | -5.2 | -8.3 | -3.4 | -6.5 | -6.7 | -2.7 | |
| Gross official reserves (in months of imports) 2/ | 0.3 | 0.6 | 1.5 | 1.7 | 2.1 | 1.9 | 1.8 | |
| Consolidated government finances | | | | | | | | |
| Revenue | 13.2 | 13.7 | 12.0 | 13.5 | 13.6 | 15.2 | 16.7 | |
| Expenditure 3/ | 19.0 | 17.0 | 15.8 | 16.6 | 14.2 | 15.3 | 16.8 | |
| Overall balance 3/ | -5.8 | -3.3 | -3.8 | -3.1 | -0.6 | -0.1 | -0.1 | |
| | | (Percent change from previous period) | | | | | | |
| Money and credit | | | | | | | | |
| Somoni broad money | 142.6 | 117.2 | 18.8 | 29.3 | 48.4 | 31.5 | 38.8 | |
| Credit to private sector 4/ | ... | ... | ... | -6.0 | 90.2 | 54.3 | 20.2 | |
| Interest rate (in percent) 5/ | 116.0 | 85.0 | 49.7 | 30.6 | 34.4 | 18.5 | 28.7 | |

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

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

2/ Goods and nonfactor services.

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

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

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

I. INTRODUCTION

1. **The Executive Board completed the first review under Tajikistan's three-year Poverty Reduction and Growth Facility Arrangement (PRGF) on July 18, 2003 (EBS/03/96).**¹ At that time, Directors commended the authorities for the strong growth of real GDP as well as the prudent fiscal performance. They regretted that a lapse in the implementation of monetary policy had contributed to inflationary pressures in early 2003 and urged the authorities to improve their monetary stance. Directors welcomed the authorities' plans for increasing social sector spending and improving the transparency of fiscal policy. Regarding structural reform, they welcomed progress in the banking and energy sectors, and urged the authorities to accelerate the privatization of state-owned farms.

2. **Discussions on the second review under the PRGF arrangement took place in Dushanbe during October 22–31, 2003.**² In the attached Letter of Intent and Memorandum of Economic and Financial Policies (MEFP) (Attachments I and II), the authorities request a waiver for the non-observance of the end-September structural performance criterion that was not met, and completion of the second review under the PRGF arrangement. In support of these requests, the MEFP reviews progress made under the Fund-supported program and describes further measures to be taken through end-September 2004. Tajikistan continues to be supported by other international institutions, including the World Bank (Appendix II) and the Asian Development Bank (AsDB) (Appendix III). Statistical data provided to the Fund are weak, but adequate for program monitoring (Appendix IV). Developments in external debt management and projections for debt sustainability are presented in Appendix V.

II. RECENT ECONOMIC DEVELOPMENTS AND PERFORMANCE UNDER THE PROGRAM

3. **Program performance has been generally satisfactory, although the pace of structural reform remains a concern.** The end-September 2003 quantitative performance criteria and the continuous structural performance criteria were met, but the indicative target for reserve money was missed (Annex I). An end-September structural performance criterion eliminating subsidized energy tariffs was not met and is a prior action for Board consideration of the second review. An end-September structural benchmark on the restructuring of the central bank was implemented, but with a delay. An end-June 2003 structural benchmark regarding the restructuring of a commercial bank was not implemented and is a prior action for Board consideration of the second review.

¹ The Board approved the PRGF arrangement in December 2002 (EBS/02/188) for SDR 65 million or 75 percent of quota. As of end-October 2003, Tajikistan's outstanding use of Fund resources was SDR 68.96 million, or 79.3 percent of quota (Appendix I).

² The staff team comprised R. Christiansen (head), R. Zytek, F. Kumah, F. Ohnsorge, (all EU2), and A. Kireyev (PDR). The Fund's Resident Representative in Dushanbe, S. Khawaja, assisted the mission. Mr. Moser (OEDSZ) participated in the policy discussions as an observer.

4. **Real GDP growth was strong in the first three quarters of 2003.** In this period, output increased by 7.9 percent compared to the same period a year earlier. The sources of growth continue to become more diversified. Traditional sectors (cotton and aluminum) showed modest expansion, while services (mostly trade), non-aluminum manufacturing and non-cotton agriculture accounted for two-thirds of growth in the first nine months of 2003. Growth in domestic demand was supported by a large expansion of migrants' remittances.³ Given the strong output performance and the high world prices for cotton and aluminum, growth is projected to be 9 percent for the year. Preliminary indications from the World Bank suggest that the strong growth of recent years has contributed to a modest decrease in poverty, and an increase in consumption inequality among households.

5. **Inflationary pressure has again intensified and reflects weak policy implementation.** Prices spiked in early 2003 as a result of regional trade factors and lax monetary policy, with the result that 12-month inflation was 20 percent as of end-March compared with 14.5 percent at end-2002. Although prices declined in the summer due to an unusually good harvest, inflation spiked again in September and October. This was due to sharply higher prices for wheat and flour imports, which were accommodated by larger-than-programmed growth in reserve money resulting from continued unsterilized foreign exchange purchases by the National Bank of Tajikistan (NBT). Although inflation is projected to moderate as wheat prices decline and liquidity management improves, the authorities now project 12-month inflation of 13 percent (and average inflation of 16.2 percent) for 2003. Hence, while Tajikistan's growth performance compares favorably with other countries, inflation remains well above the norm for these countries (Box 1).

Box 1. Growth and Inflation Performance in Selected Countries, 1998–2003
(In percent)

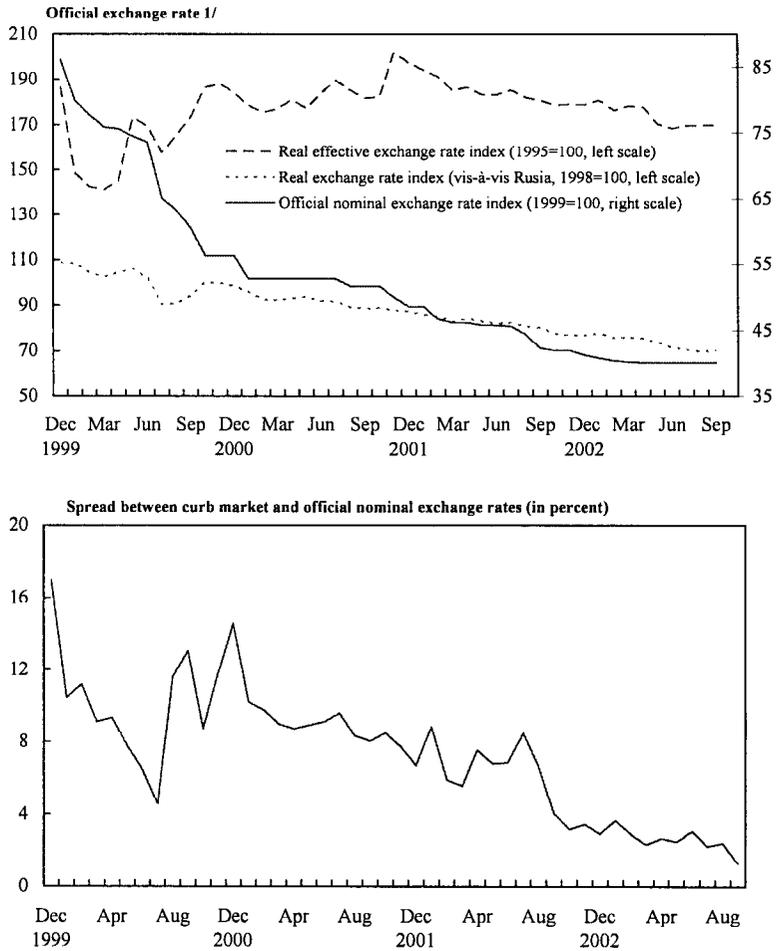
| | Real GDP Growth | | Average Inflation | |
|-------------------|-------------------------------|---------------|-------------------------------|---------------|
| | Annual average (1998–2002) | 2003 Proj. | Annual average (1998–2002) | 2003 Proj. |
| Armenia | 7.8 | 12.0 | 2.5 | 2.2 |
| Azerbaijan | 9.8 | 9.2 | -0.6 | 2.7 |
| Georgia | 3.5 | 4.8 | 7.4 | 4.4 |
| Kyrgyz Republic | 3.2 | 5.2 | 14.8 | 3.5 |
| Moldova | 1.1 | 5.0 | 23.0 | 7.0 |
| Pakistan | 3.5 | 5.5 | 4.2 | 3.5 |
| Tajikistan | 7.3 | 9.0 | 30.9 | 16.2 |
| Uzbekistan | 3.2 | 1.1 | 39.9 | 18.4 |

Sources: country authorities; and Fund staff estimates.

³ For 2003, these remittances are projected to be equivalent to 15 percent of GDP.

6. **The nominal exchange rate depreciated modestly in the first nine months of 2003.** Over this period, the real effective exchange rate depreciated by 5 percent (Figure 1). Although there was a slight real appreciation against the U.S. dollar, Uzbek sum and Kyrgyz som, it was overshadowed by a real depreciation of the somoni vis-à-vis the Russian ruble.⁴ More recently, the nominal value of the somoni vis-à-vis the U.S. dollar appreciated modestly—by 2 percent in October and November—as the NBT began to sterilize earlier foreign exchange purchases.

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



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

1/ A decline in the exchange rate indices reflects a depreciation. For the real effective exchange rate index a decline also indicates an improvement in international competitiveness.

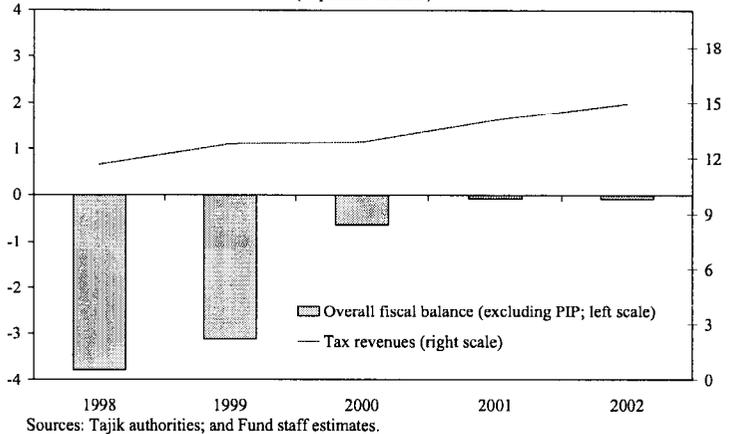
⁴ The somoni depreciated by 9 percent against the Russian ruble in real terms during the same period. The authorities are particularly concerned about Tajikistan’s competitiveness vis-à-vis Russia as this is the major market for exports priced in somoni. Exports of aluminum and cotton are priced in dollars and are not significantly affected by fluctuations in the somoni.

7. Fiscal performance was especially strong in the first nine months of 2003.

During this period, the overall fiscal balance (excluding the foreign-financed public investment program) recorded a surplus of 1.2 percent of GDP. For 2003 as a whole, the overall fiscal surplus is projected to be 0.6 percent of GDP (Figure 2). In part, this reflects higher tax collections associated with the higher-than-projected growth of GDP as well as

expenditure discipline. For 2003 as a whole, tax collections are projected to increase by 0.5 percent of GDP compared with 2002 mainly because of higher revenues from VAT and taxes on international trade. The increase reflects a broadened application of the destination principle for VAT purposes and higher world prices for aluminum and cotton. On the expenditure side, the authorities limited most expenditure to the nominal amounts in the 2003 budget. Additionally, they reduced non-interest expenditures to offset the higher interest payments associated with the December 2002 debt rescheduling agreement with Russia. Although the Fund-supported program allowed a higher fiscal deficit in recognition of these higher interest costs, the authorities were reluctant to raise the overall deficit because of concern about high debt service obligations beginning in 2005 (Appendix V). The supplemental budget that was submitted to parliament in October 2003, however, increased health and education spending by SM 15 million as programmed.

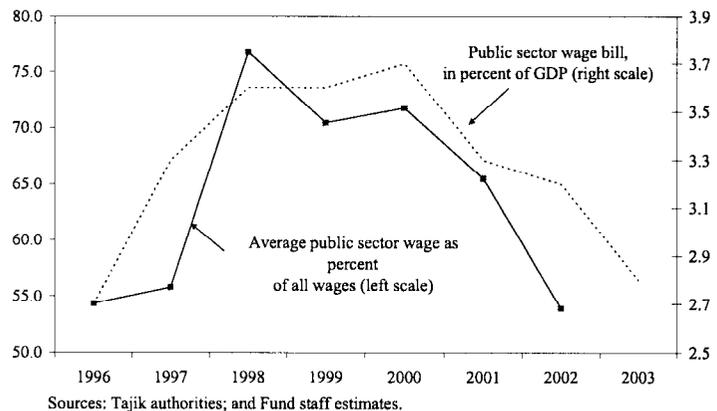
Figure 2. Tajikistan: Overall Fiscal Balance and Tax Revenue, 1998–2002
(In percent of GDP)



8. Modest progress was achieved with efforts to improve public sector efficiency.

A survey of the number of civil service positions, grades, and salaries was completed. The authorities are working with the World Bank to finalize a report on the broad parameters of a public sector reform program. Public sector employment was reduced by 20,080 (4.3 percent) in the first ten months of 2003. The authorities are deeply concerned by the low level of remuneration for public sector employees. Citing the decline in public sector wages as a share of GDP and relative to wages in the private sector (Figure 3) they recently announced a 25 percent increase in these wages starting January 1, 2004.

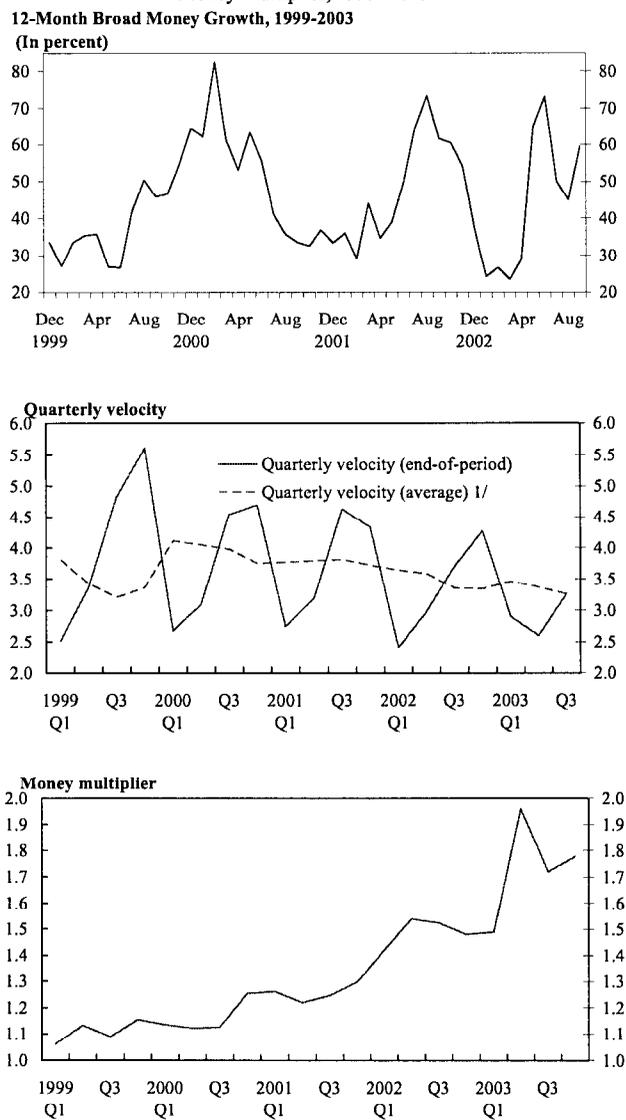
Figure 3. Tajikistan: Public Sector Wages, 1996–2003
(In percent)



9. Implementation of monetary policy was unfocused during most of 2003.

Although the performance criterion for end-September 2003 on net domestic assets of the NBT was met, it was largely because of fiscal over-performance. Throughout the year, the NBT conducted large unsterilized foreign exchange purchases. As a result, the performance criterion on net international reserves for end-September was met by a wide margin, but the indicative target on reserve money was exceeded by 37 percent. Most of the NBT's unsterilized foreign exchange purchases were from the aluminum smelter (TADAZ), which is the country's largest exporter.⁵ The NBT made these purchases out of concern that the inter-bank foreign exchange market could not smoothly absorb the large monthly volumes offered by TADAZ. Rather than return the foreign exchange to the inter-bank market in an orderly fashion, the NBT chose to accumulate reserves beyond the program target during much of 2003. This decision reflected the authorities' confusion over policy objectives. While concerned about inflation, the NBT gave priority to targeting the exchange rate on the grounds that selling large volumes of foreign exchange in the inter-bank market would result in an appreciation of the somoni and hurt competitiveness. A lack of effective domestic monetary policy instruments precluded other means of sterilizing the foreign exchange purchases.⁶ Monetary policy was further complicated by a rapid expansion of broad money in the second quarter of 2003 (Figure 4) as a result of an amnesty that allowed new

Figure 4. Tajikistan: Broad Money Growth, Quarterly Velocity and Money Multiplier, 1999–2003



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

⁵ In the first nine months of 2003, TADAZ sold the NBT an average of US\$2.5 million each month to pay wages and taxes in somoni.

⁶ The stock of treasury securities is small and there is no secondary market. Additionally, the market for NBT bills is limited given the weakness of the banking sector.

foreign exchange deposits (from any source) at commercial banks and contributed to a decline in interest rates (Box 2).

Box 2. Financial and Tax Amnesty and its Impact on Monetary Aggregates

The Law on Amnesty of Cash Holdings was intended to attract additional financial resources to the banking sector, improve the investment climate, and promote entrepreneurship. The amnesty applied to cash holdings and any taxes due on them. The Law foresaw three methods through which individuals could bring their cash holdings into the official economy: Cash or deposits held abroad could be invested into charter capital of domestic companies, used to acquire property (including shares and other securities) or deposited with local banks. The amnesty was carried out from April 1–June 10, 2003. During this period, any cash holdings and deposits abroad could be deposited in one of eight commercial banks without source documentation. The authorities estimate that US\$190 million entered the banking system as a result of the amnesty. Of this amount, however, only US\$40 million has remained in commercial banks largely as demand deposits. Thus far, banks have been reluctant to lend these funds because of their expected volatility and interest rates on these deposits have decreased in recent months.

The amnesty had a large impact on broad money. Between May 1 and June 30, foreign currency deposits with the commercial banks rose by 170 percent and the monetary liabilities of banks jumped by 94 percent. Recorded dollarization surged, as the share of foreign currency deposits in broad money rose from a relatively stable average of 30 percent to 45 percent from May–September, 2003.

10. **More recently, the NBT has clarified its policy objectives and has focused monetary policy on reducing inflation and improving liquidity management.** As part of the internal restructuring of the NBT, the operations of the Monetary Policy Committee were enhanced and focused on liquidity management. Beginning in the fourth quarter, the NBT introduced a policy of returning its foreign exchange purchases from TADAZ to the inter-bank foreign exchange market over the course of the subsequent month. Additionally, the NBT now limits its monthly purchases from TADAZ to US\$2 million and plans to reduce this limit over the next several months as the market adjusts to regular—more evenly distributed—sales by TADAZ. As a result of these measures, the stock of reserve money was stable in October and November. The NBT also relaxed restrictions between the cash and inter-bank foreign exchange markets. As a result of this latter measure, the spread between the official NBT exchange rate (based on the inter-bank market rate) and the curb cash market decreased in October and November 2003.

11. **The current account balance strengthened in the first nine months of 2003 compared to the same period a year earlier.** This reflects higher-than-projected migrants' remittances combined with higher international prices for cotton and aluminum.⁷ The increased volume of migrants' remittances sent through commercial banks reflects increased

⁷ For the first nine months of 2003 Tajikistan's average export price for cotton rose 31 percent compared to the same period of 2002.

confidence in the banks as well as a higher number of migrants working abroad due to the lack of domestic employment opportunities. The external current account deficit for 2003 is projected to be 2.9 percent of GDP, compared to an earlier projection of 5 percent (EBS/03/96). For the first nine months of 2003, gross international reserves increased by 38 percent. Significantly higher imports associated with rapid growth, however, means that import coverage is projected to be unchanged at end-2003 (1.8 months) compared to end-2002. For end-2004, reserves are projected to be equivalent to 2.7 months of imports.

12. **Implementation of structural reform has improved, but remains uneven.** In part, this reflects institutional constraints and weak governance.⁸ In the energy sector, the gas tariff was increased to the estimated cost recovery level and collection rates for most groups of consumers have improved. During 2003, gas tariffs were raised twice and included adjustments for nominal exchange rate changes. As a result, gas tariffs reached cost recovery level as of July 1, 2003. The collection rate of Tajikgas as of end-June 2003 exceeded 60 percent for all households. Gas consumption norms were also increased in 2003. Consequently, the quasi-fiscal deficit of the gas sector declined to 1.2 percent of GDP as of end-June 2003, compared to 3.0 percent at end-2002.⁹ To mitigate the impact of tariff increases on low-income households, the authorities introduced a compensation mechanism in 2003 and allocated additional resources in the 2004 budget for its financing. The elimination of subsidized gas tariffs for privileged groups of consumers (structural performance criterion for end-September) was only partially implemented as several privileged groups (e.g., veterans and the handicapped) are still eligible for subsidies. The continued existence of subsidized tariffs for these groups accounted for more than half of the remaining quasi-fiscal deficit of the gas sector as of end-June 2003.

13. **Gradual progress was made in strengthening the banking sector.** The restructuring of Agroinvestbank (AIB)—the largest bank in Tajikistan—was not completed as of end-September 2003. A government resolution was issued that mandated the bank's restructuring as well as the issuance of government securities to compensate AIB for non-performing loans resulting from directed credits.¹⁰ The resolution, however, did not address the disposition of loans that remain uncollected at the end of the three-year period. The authorities' plan to amend the resolution such that the uncollected balance will become a

⁸ Numerous reports cite governance problems in Tajikistan, including Transparency International's Corruption Perceptions Index in which Tajikistan was ranked 124th out of 133 countries. A lower ranking indicates greater corruption.

⁹ In the electricity sector, however, the deficit due to quasi-fiscal activities remains large, at 20 percent of GDP according to World Bank estimates.

¹⁰ The separation of AIB into two legally independent entities (structural benchmark for end-June 2003) cannot be completed until the bank is made financially sound by issuing the securities. The recurrent interest cost to the budget of these securities is projected to be less than 0.25 percent of projected interest expenditures in 2004.

liability of the government. Although concerned about the implications for incentives to repay the non-performing loans, the authorities expect to collect more than half the outstanding loans through better loan administration at the AIB.

14. **In agriculture, progress with farm privatization is being hindered by the debt of state-owned farms and concerns over the transparency and fairness of the process.** The authorities have completed an inventory of the domestic and external debts of state-owned farms. The inventory indicates that farm debt totals SM 765 million (US\$255 million), of which 66 percent (SM 502 million) is owed to foreign creditors, which is equivalent to 130 percent of cotton exports in 2002.¹¹

III. POLICY DISCUSSIONS

15. **Discussions took place in the context of the program's broad objectives.** The Fund-supported program concentrates on enhancing macroeconomic stability and implementing structural reform in the key areas of banking, energy, and agriculture. The discussions focused on improving the implementation of monetary policy, accelerating structural reform, and strengthening governance.

A. Macroeconomic Outlook

16. **Growth is expected to moderate to 6 percent in 2004 as the production of cotton and aluminum has now recovered from the civil war.** A further moderation in real GDP growth is projected for the medium term (Table 10). In 2004, production of cotton and aluminum is expected to remain stable, with much of the growth derived from the services sector, increased non-aluminum manufacturing and non-cotton agricultural production. In the medium term, growth in domestic demand is likely to be driven by further increases of migrants' remittances, expansion of domestic and regional trade, and structural reform in key sectors, e.g., agriculture.

17. **Reducing inflation is the major macroeconomic challenge facing Tajikistan.** End-period inflation for 2003 is projected to be 13 percent, significantly higher than programmed.¹² As was the case earlier in 2003, the spike in consumer prices that occurred in September and October reflected regional shocks (wheat and flour prices) and weak implementation of monetary policy. Reflecting the importance that the authorities assign to reducing inflation—and their expectation that the restructured NBT will strengthen policy implementation—they project end-period inflation at 7 percent for 2004.

¹¹ The foreign debt of the cotton sector is largely the result of non-payment of seasonal financing as a result of low world prices in recent years and corruption.

¹² The authorities originally set an end-period inflation target of 7 percent (EBS/02/188) and then increased it to 9 percent at the time of the first review (EBS/03/96).

B. Fiscal Policy

18. **The authorities' fiscal policy in the medium term is underpinned by a commitment to a balanced budget (excluding the PIP).** Consistent with this strategy, there is a modest fiscal surplus in 2003 and a small deficit in 2004. The strong performance in 2003 reflects a combination of conservative fiscal projections and the anticipation of higher debt service in 2005. In 2004, the moderate easing largely reflects higher social sector expenditures.

19. **Strong revenue performance driven by reform is envisioned to continue in 2004.** Tax revenues are projected to increase by 0.7 percent to 16.2 percent of GDP in 2004 (Tables 3–5).¹³ This increase is due mainly to improved administration of the VAT including completion of the transition to the destination principle. To enhance VAT collections, the authorities have begun a taxpayer education program and have reduced delays in issuing VAT refunds. They are also gradually reducing tax arrears of key state-owned enterprises. Effective January 1, 2004, the authorities plan to eliminate the preferential treatment of imported inputs for the aluminum sector by increasing tariffs on these imports from 2 to 5 percent. At the same time, the sales tax on aluminum exports will be reduced to 1 percent, as an intermediate step towards its elimination and the eventual application of the VAT to aluminum production.¹⁴ The authorities have completed a draft of a new tax code that includes proposals made by FAD and other technical assistance advisors. The new code is intended to simplify and enhance tax administration, and improve compliance. Further improvements in tax administration will require improved governance and strengthening of operations at the Ministry of State Revenues and Duties (MSRD). To this end, the authorities plan to restructure the MSRD, introduce a system of single taxpayer identification numbers, and update the database of taxpayers.

20. **Consistent with the Poverty Reduction Strategy Paper (PRSP), social sector expenditures are projected to increase significantly in 2004.** The budget for 2004 projects an overall increase in these expenditures equivalent to 1.3 percent of GDP, with half the increase concentrated on non-wage health and education spending. The authorities also plan to continue enhancing the transparency of the budget process by extending the publication of detailed health and education expenditure execution data in local and national newspapers.

21. **The authorities plan to increase the public sector wage bill by 28 percent for 2004.** The authorities noted that wages are low and that the rapid growth of GDP has resulted in a decline in the wage bill from 3.3 percent of GDP in 2001 to 2.8 percent projected for 2003. Over this period, the average wage in the public sector (which is currently US\$8 per month) declined to half the level in the non-agricultural private sector. Additionally, they stressed that the recent implementation of structural measures in the energy sector (including

¹³ This excludes extra-budgetary revenues which are classified as non-tax revenues.

¹⁴ The authorities project the combined effect of these two measures to be revenue neutral.

substantial increases in gas and electricity tariffs) required some compensation in the form of higher public sector salaries. It is anticipated that the impact of the higher wage bill on macroeconomic stability will be negligible because of offsetting cuts in expenditures on other goods and services that will leave the overall deficit unchanged. The authorities also believe that a wage increase would reduce corruption, but acknowledge it would be ineffective if not accompanied by public sector reform.

22. Recognizing the need to link the higher wage bill to civil service reform, the authorities plan to accelerate reform of the education sector. They plan to form a working group chaired by the prime minister to prepare a detailed reform strategy for education in collaboration with donors by end-March 2004. Additionally, they propose to reduce staffing in the education sector by 5 percent and use the savings to finance further increases in teachers' salaries on a merit basis.¹⁵ It is anticipated that progress in the education sector could serve as a pilot for broader changes in the public sector.

C. Monetary and Exchange Rate Policies

23. The monetary program for 2004 aims at reducing inflation to 7 percent by end-2004. A small increase in money demand is projected for 2004. Although the inflationary spike of late 2003 will likely increase inflationary expectations in early 2004, the lower inflation target for 2004 combined with the significant monetary tightening that is programmed for the first half of 2004 should reduce expectations for inflation for the year. The money multiplier is expected to be broadly stable through 2004 as the impact of the amnesty program subsides. The growth of reserve and broad money that is programmed for 2004 is consistent with the projected increase in nominal GDP.¹⁶ The program envisages modest growth in commercial bank credit to the non-cotton private sector.

24. The implementation of monetary policy is expected to strengthen as a result of the NBT restructuring.¹⁷ The authorities plan to phase out foreign exchange purchases from TADAZ over the next several months and to sterilize any such purchases. The maximum monthly purchase from TADAZ is now US\$2 million and will be reduced to zero in the first half of 2004. The NBT has begun increasing foreign exchange sales in the interbank market

¹⁵ The authorities' plan to reduce staffing reflects the recommendations of earlier studies that "ghost" positions be eliminated and norms for teachers' contact hours (and hence productivity) be increased.

¹⁶ Nominal GDP is projected to increase by 19 percent, which reflects real growth of 6 percent, an increase in the GDP deflator of 12 percent including a 3 percent improvement in the terms of trade. The latter is due to continued increases in international cotton prices.

¹⁷ The restructuring of the NBT includes a consolidation of responsibility for monetary policy, open market operations, and foreign currency operations under the direct supervision of the first deputy chairman of the NBT.

to soak up excess liquidity, which contributed to a modest appreciation in the nominal exchange rate in November 2003. They are confident that reserve money can be reduced in line with the program's indicative target by selling foreign exchange and NBT bills. To enhance the transparency of monetary policy, the NBT plans to publish its quarterly targets and monthly balance sheets, which include key monetary aggregates.

25. **The NBT is implementing the recommendations of the recent safeguards assessment.** An external audit opinion on the NBT financial statements for the fiscal year ending April 30, 2003 will be issued in December 2003 and will be published in early 2004, together with the financial statements. The authorities are negotiating a five-year agreement for annual external audits that would begin in 2004. Further, the NBT will not pay dividends to government as long as its net worth remains negative. The NBT is centralizing its accounting operations and plans to complete the transition to International Accounting Standards by May 1, 2004. An external audit of NBT's international reserves is being finalized by NBT's external auditor and will be issued in early 2004.

D. External Policies and Debt Management

26. **The current account deficit is projected to be broadly unchanged in 2003 and 2004 (Tables 8 and 9).** The lower current account deficit compared with earlier projections reflects mainly the strong growth of migrants' remittances. The balance on the capital and financial account is projected to increase in 2004 because of the likely delay in the disbursement of the World Bank adjustment credit until 2004. The foreign exchange reserves of the NBT are projected to increase from 1.8 months of import cover at end-2003 to 2.7 months at end-2004.

27. **The authorities plan to harmonize their trade regime with that of the Eurasian Economic Community.** They are considering a proposal that would move from three tariff rates (0, 2, and 5 percent) to five (0, 2, 5, 10, and 15 percent). The authorities expect that 60 percent of items would remain subject to the 5 percent tariff and the simple average tariff would rise to 7.7 percent. They are still finalizing the proposed change, especially given their decision to increase the tariff on imported inputs for the aluminum sector. The 2004 budget is based on the current tariff regime. Tajikistan has informed the World Trade Organization (WTO) of the proposed changes in the tariff regime and has received no comments. The mission encouraged the authorities to assess carefully the likely effect of the increased average tariff on trade patterns and revisit this issue in cooperation with other members of the Eurasian Economic Community. The authorities plan to delay finalizing the new regime until after the meeting of the WTO working party (which is scheduled for early 2004) and further consultation with members of the Eurasian Economic Community.

28. **Tajikistan's external debt situation is projected to improve significantly.** Although debt is large, it has declined from 82 percent of GDP at end-2002 to a projected 73 percent at end-2003, due to debt restructuring agreements with bilateral creditors and the strong growth of GDP in recent years. Continued strong growth and adherence to the ceiling—3 percent of GDP—on disbursements for the foreign-financed public investment program (PIP) will gradually enhance Tajikistan's debt sustainability. The profile of

Tajikistan's debt service burden is more problematic. The grace period provided in the restructuring agreement with Russia (December 2002) ends in 2005 and debt service costs will increase significantly for the period 2005–09 (Appendix V). Consequently, further restructuring of the bilateral debt with Russia—which is Tajikistan's largest creditor—is a priority for the authorities and they hope to initiate negotiations in early 2004.

29. **The authorities plan to revise their foreign exchange regulations in order to accept the obligations of Article VIII.** Based on the advice of LEG, the authorities are preparing the necessary changes in the regulatory framework. All remaining restrictions on current international transfers and payments will be removed by end-March 2004 in order to pave the way for acceptance of obligations under Article VIII, Sections 2, 3, and 4 of the Fund's Articles of Agreement.

E. Structural Reform

30. **Structural reform will remain focused on banking, energy and agriculture, but additional emphasis on governance is planned.** Completing the restructuring of the AIB (prior action for Board consideration of the second review) will put the country's largest bank on a sound financial footing. Additionally, the authorities have begun exploring options for strengthening the management of AIB through a combination of technical assistance and management training. In addition to restructuring AIB, the NBT plans to revoke (by end-March 2004) the banking license of the three weakest banks and close two of these institutions. For all remaining banks, the NBT will impose the maximum penalty for non-compliance with prudential requirements. The minimum capital requirement for all banks will be raised to US\$2 million with effect from end-December 2004, from US\$1.5 million. The NBT also plans to strengthen the management of commercial banks by ensuring that bank managers satisfy the "fit and proper" requirement contained in the banking law.

31. **Progress with energy sector reform remains satisfactory.** By eliminating the subsidized energy tariffs for all privileged groups, the quasi-fiscal deficit in the gas sector will be further reduced. Recognizing that subsidies for some of these groups (i.e., low-income households) are justified, the authorities are making such groups eligible for support through the energy compensation mechanism.¹⁸ At the same time, the 2004 budget will increase funding for the energy compensation mechanism to SM 20 million in 2004 from SM 12 million in 2003. Additionally, the authorities are currently working with technical assistance from the World Bank to improve the targeting (through means testing) of the energy compensation mechanism.

32. **Further reduction of the quasi-fiscal deficit in the gas sector will require greater payment discipline.** In addition to increasing gas tariffs (July 2003) and eliminating subsidies for privileged groups, the authorities plan to improve collection rates by installing

¹⁸ This mechanism was introduced in July 2003 to mitigate the impact of higher energy tariffs on low-income households.

gas meters. This will allow suspension of deliveries for non-payment of gas bills. Tajikgas plans to install 15,000 meters between end-September 2003 and end-March 2004 (structural benchmark for end-March 2004).

33. **The authorities plan to strengthen the operations of Tajikgas.** To strengthen the financial viability of Tajikgas, major state-owned enterprises have been prohibited from accumulating arrears on energy payments since end-June 2003. Although a modest amount of gas arrears accumulated in the third quarter of 2003, the authorities are confident that these will be cleared by end-2003. Additionally, the authorities are planning an external audit of Tajikgas by a reputable international firm. This audit will serve as the basis for a restructuring and commercialization strategy for Tajikgas.

34. **The accumulation of debt is a hindrance to farm privatization.** The authorities are currently preparing a debt reduction strategy for state-owned farms that includes a provision for writing-off the domestic debt of farms that are being restructured. Technical assistance from the Asian Development Bank is assisting the authorities to prepare proposals for reducing or restructuring the external debts of these state-owned farms. One option that is being considered is a mechanism for selling the external debt of the farms in exchange for temporary cotton marketing rights. The authorities plan to issue a government resolution by end-December 2003 articulating the mechanism for reducing the debts of state-owned farms.

35. **The authorities plan to work with independent third parties to enhance the transparency of the farm restructuring process.** They expect to reach understandings (by end-March 2004) with these groups (including international non-government organizations) to monitor the privatization of at least 25 state-owned farms. Further, to improve the governance of the farm privatization process, the authorities will submit amendments to the law on local government and the land code to parliament (by end-March 2004) that will prevent local authorities from interfering in the farm privatization process or the operations of restructured farms. Also, the authorities plan to make officials of the State Land Reform Committee independent of the local authorities. To expedite the process of ensuring that privatized farms have clear and unequivocal land rights, the authorities agreed to issue 5,000 additional land share certificates (between October 1, 2003 and end-March 2004).

36. **To enhance governance, the authorities plan to strengthen the State Financial Control Committee (SFCC).** They are making arrangements for an external audit of the structure, functions and practices of the SFCC by a reputable international auditing firm to be completed by end-March 2004. The audit will also provide recommendations for strengthening the SFCC's operations so that it can serve as a deterrent to corruption. It is anticipated that the ongoing parliamentary review that started in mid-2003 of the SFCC's audit reports will also contribute to greater transparency. A progress report on implementation of the SFCC's recommendations will be submitted to parliament on a quarterly basis. Excerpts from the Law on State Financial Control will be published in national newspapers on a regular basis to improve transparency of its operations.

F. PRSP Progress Report

37. **The authorities plan to submit their progress report on the implementation of the PRSP by end-February 2004.** Although this report was due in December 2003 (one year after the Board's discussion of the PRSP), the authorities sought a delay so that the updated version of the PIP can be included. The revisions to the PIP will allow the authorities to provide a clearer indication of their investment priorities, a shortcoming identified in the last Joint Staff Assessment (EBD/02/150). The delay in the completion of the PRSP progress report is justified in the light of the anticipated improvement in the design and implementation of the authorities' poverty reduction strategy. In particular, the alignment of the PIP with the PRSP is important as more donor financing becomes available.

G. Program Monitoring

38. **Program implementation for the third review under the PRGF arrangement will be monitored with quantitative and structural performance criteria through end-March 2004.** A set of indicative targets and structural benchmarks has also been established for end-March 2004 and end-September 2004. The quantitative performance criteria include: a floor on net international reserves of the NBT; a ceiling on net domestic assets of the NBT; a ceiling on NBT credit to government; a ceiling on the cumulative fiscal balance of the general government; a floor on cumulative tax collections of the Ministry of State Revenues and Duties; a zero ceiling on the accumulation of wage and non-working pension and external arrears; a zero ceiling on the net disbursement of short-term external debt with original maturity of up to and including one year; and a zero ceiling on the contracting or guaranteeing of medium and long-term non-concessional debt with original maturity of more than one year. The second annual program under the PRGF arrangement will cover the period October 1, 2003-September 30, 2004, and will be monitored through two reviews by the Fund's Executive Board based on semi-annual performance criteria (end-March 2004 and end-September 2004), indicative targets, and structural performance criteria and benchmarks. The first review will pay particular attention to the authorities' efforts to improve the implementation of monetary policy. The second review will, in addition, focus on implementation of structural reform and governance.

39. **Performance criteria, indicative targets, and structural benchmarks for the third review (October 1, 2003–March 31, 2004) under the PRGF arrangement are detailed in Annexes III and IV of the MEFP.** A Technical Memorandum of Understanding (Annex V) defines the quantitative targets of the program and specifies the reporting requirements. The third review of the program is scheduled to take place on or after May 15, 2004.

IV. STAFF APPRAISAL

40. **The continued strong growth of GDP is welcomed, as are signs that the economy is diversifying.** The growth of services and other non-traditional sectors suggests that growth is benefiting more of the population, thereby increasing the potential for poverty reduction. The staff is concerned, however, that domestic demand depends too heavily on migrants'

remittances. While external migration can be beneficial, it also has social and economic costs. The size of the migrant population, for instance, indicates the failure of recent growth to generate sufficient employment opportunities. This foreshadows more problems for the economy unless there is an acceleration of structural reform.

41. **Macroeconomic management was generally satisfactory, but inflation remained persistently high.** While a series of external shocks has exacerbated inflationary pressure, serious lapses in the implementation of monetary policy were also a major contributing factor. The repeated overshooting of the indicative target for reserve money because of unsterilized foreign exchange purchases is a cause for concern. While the proposed monetary program for 2004 is consistent with lower inflation, more disciplined and effective policy implementation will be required. The recent restructuring of the NBT and strengthening of the Monetary Policy Committee are welcome developments. The staff, however, strongly urges the authorities to intensify their efforts to manage liquidity effectively and ensure that they meet program targets. Additionally, the staff supports the authorities' intention to maintain a managed floating exchange rate regime with no pre-announced path. In this context, it is essential that the NBT eliminate its interventions in the foreign exchange market, except to reduce short-term volatility.

42. **The fiscal stance in 2003 and 2004 is consistent with the medium-term objective of an overall balanced budget excluding the PIP.** Fiscal performance in 2003 was particularly strong and reflected improved revenue performance, continued expenditure discipline and temporary factors. The authorities' decision to ease moderately the fiscal stance in 2004 is appropriate given that the overall deficit will be limited and because of the decision to increase much needed social sector spending. The authorities' efforts to simplify and rationalize the tax and customs codes are also welcome. At the same time, the staff cautions that the revenue targets for 2004 are ambitious and will require further improvement in tax administration. Specifically, the authorities need to develop a plan for revising the VAT invoice-credit mechanism and the MRSD should strengthen systems and procedures in the Large Taxpayer Unit.

43. **The staff encourages the authorities to finalize the PRSP progress report no later than February 2004.** It is recommended that the authorities ensure that they include a clear indication of their policy reform and investment priorities as a means of improving their poverty reduction strategy. The staff recommends completing the second review under the PRGF arrangement notwithstanding the absence of a PRSP progress report.

44. **Establishing a link between increases in the public sector wage bill and reforms in the sector is critical.** The staff notes the authorities' rationale for a large increase in the public sector wage bill in 2004, but would stress that such increases are not sustainable without comprehensive reform of the public sector. This reform is also necessary for improving governance and the business climate. The staff welcomes the authorities' commitment to prepare and begin implementing a reform program in the education sector in close collaboration with IFIs and donors.

45. **The staff remains concerned that the harmonization of import tariffs with those of the Eurasian Economic Community (EAEC) would lead to a more restrictive trade regime.** In their negotiations with other members of the EAEC, the authorities are encouraged to adopt either the tariff code of the least restrictive member in its entirety or the lowest tariff among the members of each tariff line.

46. **Tajikistan's debt sustainability has improved, but serious challenges remain.** The substantial increase in debt service costs associated with the debt to Russia will undermine efforts to increase expenditures on social services. The staff urges the authorities to initiate discussions with the Russian authorities in an effort to restructure the debt on concessional terms. The staff welcomes the authorities' efforts to strengthen debt management capacity, but notes that these efforts need to be intensified to avoid past problems.

47. **Progress with structural reform was mixed.** The staff commends the authorities for their efforts to strengthen the operations of commercial banks and the improvement in banks' compliance with prudential requirements. The delay in restructuring the AIB is disappointing, but when implemented it will constitute a significant strengthening of the banking sector. As a follow-up measure, the staff welcomes the authorities' commitment to intensify enforcement of the prudential requirements, regulations on loan classification and provisioning as well as to close weak banks.

48. **The staff welcomes progress in reforming the gas sector and the reduction in the quasi-fiscal deficit.** Maintaining tariffs at cost recovery levels and increasing collection rates through better payment discipline are essential for ensuring the viability of the gas sector. The non-observance of the structural performance criterion for end-September was unfortunate. Efforts to strengthen payment discipline and improve the operational efficiency of Tajikgas are critical to reducing further the quasi-fiscal deficit in the sector. The authorities' efforts to improve the targeting of the energy compensation mechanism is particularly welcome as this signifies a move toward assisting households on the basis of income levels rather than other characteristics.

49. **The continuing problems of the farm-restructuring program are disappointing.** The staff welcomes efforts to prepare a strategy for reducing the indebtedness of farms, but encourages the authorities to accelerate this process. The staff urges the authorities to act expeditiously to address concerns about the equity and transparency of farm restructuring and privatization. In this regard, the staff welcomes the authorities' commitment to involve independent third parties in monitoring this process and to reduce the scope for intervention by local authorities. The staff stresses the importance of ensuring an equitable and transparent process for restructuring and privatizing state-owned farms. Success of this program will significantly enhance the prospects for achieving sustainable growth and poverty reduction in the medium term.

50. **The staff is encouraged by the increased attention to governance issues.** Commitments to increase the transparency of key government operations—including the budget process and farm restructuring—are welcome. Similarly, the commitment to audit and strengthen the SFCC is important and has the potential to reduce malfeasance. For this

initiative to be successful, however, the authorities will need to ensure the SFCC is independent and transparent in its operations. The restructuring plan that will be prepared as part of the international audit should be vigorously implemented.

51. Tajikistan's performance under the program has been generally satisfactory.

The main risks to the successful implementation of the program are capacity constraints that contribute to the slow pace of structural reform and the economy's vulnerability to external shocks. Nonetheless, given the authorities commitment to the program, the staff recommends completing the second review under the PRGF arrangement. Further, given that the authorities have implemented appropriate remedial actions, the staff supports the authorities' request for a waiver for the non-observance of a structural performance criterion.

PROPOSED DECISION

The following draft decision is proposed for adoption by the Executive Board:

Second Review under the PRGF Arrangement for Tajikistan

1. The Republic of Tajikistan has consulted with the Fund in accordance with paragraph 2 of the three-year arrangement for the Republic of Tajikistan under the Poverty Reduction and Growth Facility (PRGF) (EBS/02/188, Supplement 2) and paragraph 6 of the letter dated November 13, 2002 from the President of the Republic of Tajikistan in order to review program implementation and reach understandings regarding the conditions for disbursements during the second year of the arrangement.
2. The letter dated December 19, 2003 from the President of the Republic of Tajikistan (the "Letter"), along with its Memorandum of Economic and Financial Policies for the Period October 1, 2003 to September 30, 2004 (the "Memorandum") and the attached Technical Memorandum of Understanding (the "Technical Memorandum") shall be attached to the three-year PRGF arrangement for the Republic of Tajikistan, and the letters dated November 13, 2002, December 8, 2002, and June 21, 2003 from the President of the Republic of Tajikistan with their annexed memoranda of economic and financial policies and their technical memoranda of understanding shall be read as supplemented and modified by the Letter together with the Memorandum and Technical Memorandum.
3. Accordingly, the following amendments shall be made to the three-year PRGF arrangement for the Republic of Tajikistan:

a. Paragraph 1(c) shall be amended:

(i) by deleting the terms “the first year of” in the introductory sentence;

(ii) by deleting the word “and” at the end of paragraph (ii); by deleting the period at the end of paragraph (iii) and replacing it with the sign “;”;

(iii) by adding at the end of paragraph 1(c) two new paragraphs (iv) and (v) to read respectively as follows:

“ (iv) the fourth disbursement, in an amount equivalent to SDR 9.8 million, will be available on or after May 15, 2004, at the request of the Republic of Tajikistan and subject to paragraph 2 below; and

(v) the fifth disbursement, in an amount equivalent to SDR 9.8 million, will be available on or after November 15, 2004, at the request of the Republic of Tajikistan and subject to paragraph 2 below.”

b. A new sentence shall be added at the end of paragraph 1(d) to read as follows:

“The phasing of, and conditions for, disbursements during the third year of this arrangement shall be determined in the context of the fourth review of the Republic of Tajikistan’s program with the Trustee, the timing of which shall be established at the third review contemplated in paragraph 2.I.(c) of this arrangement.”

c. The first sentence in paragraph 2.I.(a) shall be amended:

(i) by deleting the word “and” after the terms “March 31, 2003”;

(ii) by adding before the terms “, indicate that:” the following sentence:

“with respect to the fourth disbursement specified in paragraph 1(c)(iv), the data as of March 31, 2004, and with respect to the fifth disbursement specified in paragraph 1(c)(v), the data as of September 30, 2004,”

d. In paragraph 2.I.(a)(iv), the term “deficit” shall be deleted and replaced by the term “balance”.

e. The last sentence in paragraph 2.I.(a) shall be amended:

(i) by deleting the word “and” before the terms “for the third loan”;

(ii) by adding before the terms “,was not observed, or” the following sentence:

“ for the fourth loan, in Annex III to the Memorandum and in the Technical Memorandum; and, for the fifth loan, to be specified in the context of the third review referred to in paragraph 2.I.(c) below”

f. Paragraph 2.I.(c) shall be amended:

(i) by deleting the word “and” before the terms “, with regard to the third disbursement”;

(ii) by deleting the period at the end of the sentence;

(iii) by adding the following at the end of the sentence:

“,with regard to the fourth disbursement, that the third review of the Republic of Tajikistan’s program scheduled for completion on May 15, 2004 and referred to in paragraph 36 of the

Memorandum has been completed, and with regard to the fifth disbursement, that the fourth review of the Republic of Tajikistan's program, the timing of which shall be determined at the time of the third review, has been completed.”

g. Paragraph 2.II(a) shall be amended:

(i) by deleting the terms following the words “as specified” in paragraphs 2.II(a)(i) and (iv) and replacing them with the terms “in Annex III to the Memorandum and in the Technical Memorandum; or” in each paragraph respectively;

(ii) by deleting the terms following the words “as specified” in paragraphs 2.II(a)(ii) and (iii) and replacing them with the terms “in Annex IV to the Memorandum and in the Technical Memorandum; or” in each paragraph respectively;

(iii) by adding a new paragraph (v) to read as follows:

“(v) the authorities fail to implement the quarterly adjustments of all utility tariffs as specified in Annex IV to and paragraph 28 of the Memorandum; or”

4. The Fund decides that:

(a) the second review contemplated in paragraph 2.I.(c) of the PRGF arrangement for the Republic of Tajikistan is completed; and

(b) the Republic of Tajikistan may request disbursement of the third loan referred to in paragraph 1(c)(iii) of the three-year PRGF arrangement for the Republic of Tajikistan, notwithstanding the non-observance of the structural performance criterion on the

elimination of all privileged categories of consumers of gas and electricity specified in paragraph 2.I.(b)(iv) of the arrangement, on the condition that the information provided to the Fund by the Republic of Tajikistan on the performance under this criterion and on the implementation of the measures specified as prior actions in Annex IV of the Memorandum is accurate.

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

| | 2001 | 2002 | 2003 | | 2004 |
|---|-------|-------|-------------------------|----------------------|------------|
| | | | 9 months Preliminary | Annual Projection | Projection |
| National income and prices | | | | | |
| Nominal GDP (in millions of somoni) | 2,512 | 3,345 | 3,168 | 4,300 | 5,100 |
| Nominal GDP (in millions of U.S. dollars) 1/ | 1,033 | 1,193 | 1,029 | 1,383 | 1,594 |
| Real GDP (percent change) | 10.2 | 9.1 | 7.9 | 9.0 | 6.0 |
| GDP per capita (in U.S. dollars) | 165.8 | 183.7 | 158.5 | 208.9 | 236.3 |
| GDP deflator (annual percent change) | 29.3 | 21.9 | 35.1 | 17.9 | 11.9 |
| Consumer prices (12-month change, e.o.p.) | 12.5 | 14.5 | 12.7 | 13.0 | 7.0 |
| Consumer prices (year-on-year) | 38.6 | 12.2 | 16.1 | 16.2 | 8.9 |
| (In percent of GDP) | | | | | |
| General government finances | | | | | |
| Total revenue and grants | 15.2 | 16.7 | 18.3 | 17.9 | 18.7 |
| <i>Of which:</i> | | | | | |
| Tax revenue | 14.1 | 15.0 | 16.1 | 15.5 | 16.2 |
| Total expenditure | 17.4 | 19.2 | 20.2 | 20.3 | 22.2 |
| <i>Of which:</i> | | | | | |
| Current expenditure | 13.2 | 13.7 | 13.5 | 14.1 | 15.8 |
| Overall fiscal balance (excluding PIP) | -0.1 | -0.1 | 1.2 | 0.6 | -0.5 |
| Overall fiscal balance (including PIP) | -2.2 | -2.4 | -1.9 | -2.4 | -3.5 |
| Primary balance | 0.5 | 1.8 | 0.3 | 2.7 | 1.2 |
| Non-interest current expenditure | 11.7 | 11.8 | 11.2 | 12.1 | 14.1 |
| (12-month percentage change; unless otherwise specified) | | | | | |
| Money and credit | | | | | |
| Reserve money (e.o.p.) 2/ | 28.9 | 20.5 | 41.2 | 20.8 | 18.5 |
| Broad money (e.o.p.) 2/ | 33.4 | 37.4 | 59.4 | 43.3 | 19.9 |
| Net domestic assets of the financial system 2/ | 31.8 | 20.1 | 31.4 | -12.0 | -10.2 |
| <i>Of which:</i> | | | | | |
| Net credit to government | -6.6 | -58.8 | -60.7 | -12.0 | 23.3 |
| Credit to the private sector 2/ | 54.3 | 20.2 | 29.9 | 6.4 | -1.1 |
| Velocity (broad money) 3/ | 12.6 | 12.2 | 10.3 | 10.7 | 10.6 |
| Three-month treasury bill rate (annualized, e.o.p.) | 18.1 | 16.6 | ... | ... | ... |
| External sector | | | | | |
| Growth of exports of goods (percent change) | -17.3 | 7.3 | 9.1 | 10.5 | 6.2 |
| Workers' remittances | 47.5 | 65.4 | 141.8 | 187.3 | 206.5 |
| Growth of imports of goods (percent change) | -7.3 | 6.5 | 16.7 | 16.9 | 2.6 |
| Current account balance (in percent of GDP) | -6.7 | -2.7 | -3.4 | -2.9 | -2.9 |
| Gross international reserves (in months of imports) | 1.9 | 1.8 | 2.0 | 1.8 | 2.7 |
| Total external debt outstanding/GDP (percent) | 100.6 | 82.3 | ... | 72.8 | 69.0 |
| NPV-of-external debt/exports (percent) 4/ 5/ | 171 | 149 | ... | 142 | 139 |
| NPV-of-external debt/fiscal revenues (percent) 5/ | 476 | 351 | ... | 320 | 274 |
| Debt service ratio (in percent of exports) 5/ | 25.6 | 22.9 | ... | 19.5 | 14.5 |
| Official exchange rate (average, in somoni per U.S. dollar) | 2.4 | 2.8 | 3.1 | ... | ... |
| External financing gap (in millions of U.S. dollars) | ... | ... | 0 | 0 | 0 |

Sources: Tajik authorities; and Fund staff estimates.

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

2/ Average accounting exchange rates are SM 3.15=US\$1 and SDR 1=US\$1.341 for 2003 and SM 3.2=US\$1 and SDR 1=US\$1.388 for 2004.

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

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

5/ Non-financial public sector debt.

Table 2. Tajikistan: Basic Social Indicators, 1980–2001

| | 1980–85 | 1990–99 | 2000-01 | Europe & Central Asia 4/ | Low- income countries 4/ |
|--|---------|---------|---------|--------------------------------|--------------------------------|
| Population 1/ | | | | | |
| Life expectancy at birth (in years) | 66 | 69 | 69 | 69 | 59 |
| Infant mortality (per thousand live births) | 58 | 20 | 21 | 20 | 76 |
| Birth rate, crude (per thousand people) | ... | 22 | 19 | 12 | 29 |
| Death rate, crude (per thousand people) | ... | 5 | 5 | 11 | 11 |
| Fertility rate (in births per woman) | 5.6 | 3.3 | 3.1 | 1.6 | 3.6 |
| Age dependency ratio (in percent) | 0.9 | 0.8 | 0.8 | 0.5 | 0.7 |
| Rural population (in percent of population) | 66.0 | 72.5 | 72.0 | 35.0 | 68.0 |
| Urban population (in percent of population) | 34.0 | 27.5 | 28.0 | 65.0 | 32.0 |
| Poverty rate (in percent) 2/ | ... | 65.4 | ... | ... | ... |
| Health indicators | | | | | |
| Child immunization: Measles (in percent of children under 12 months) | ... | 79 | ... | 93 | 57 |
| Child immunization: DPT (in percent of children under 12 months) 3/ | ... | 81 | ... | 93 | 57 |
| Physicians (per thousand people) | 2.4 | 2.0 | ... | 3.1 | 0.5 |
| Hospital beds (per thousand people) | 10.0 | 8.8 | ... | 8.8 | 1.3 |
| Education 1/ | | | | | |
| Gross primary school enrollment rate (in percent of age group) | ... | 95 | ... | 99 | 96 |
| Gross secondary school enrollment rate (in percent of age group) | ... | 78 | ... | 86 | 42 |

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

1/ Data in the column labeled 1990-99 are the period averages for 1993–1999.

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

3/ Data in the column labeled 1990-99 are the period averages for 1995–1999.

4/ Latest data available, as of November 2003.

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

| | 2002 | | 2003 | | | | 2004 | | | | | |
|---|-------|--------|-------|------------|------------|-----------------|--------|------------|-------|-------|-------|---------|
| | Year | Q1 | Q2 | Q3 | Q4 | Year | | Q1 | Q2 | Q3 | Q4 | Year |
| | | Actual | | Rev. Proj. | Rev. Proj. | Prog. EBS/03/96 | | Projection | | | | |
| Overall revenues and grants | 559.9 | 175.9 | 201.4 | 200.9 | 192.1 | 770.3 | 689.2 | 211.5 | 242.8 | 232.5 | 266.0 | 952.7 |
| Tax revenues | 500.6 | 163.7 | 172.9 | 173.4 | 157.1 | 667.2 | 627.6 | 182.1 | 212.1 | 201.8 | 229.0 | 825.0 |
| Income and profit tax | 60.1 | 17.5 | 18.8 | 17.8 | 17.9 | 72.0 | 72.5 | 19.6 | 20.8 | 19.8 | 27.9 | 88.1 |
| Payroll taxes | 64.6 | 16.6 | 21.5 | 23.5 | 20.1 | 81.8 | 76.2 | 18.1 | 24.0 | 28.0 | 26.9 | 97.0 |
| Property taxes | 18.9 | 6.7 | 5.7 | 6.6 | 6.4 | 25.4 | 22.8 | 7.7 | 6.5 | 8.0 | 8.6 | 30.9 |
| Internal taxes on goods and services | 231.4 | 73.7 | 89.2 | 90.7 | 61.8 | 315.4 | 310.7 | 85.3 | 108.6 | 107.3 | 102.7 | 403.9 |
| VAT | 159.3 | 49.7 | 61.4 | 63.4 | 48.6 | 223.1 | 225.7 | 56.4 | 75.4 | 73.9 | 86.6 | 292.3 |
| International trade and operations tax | 122.9 | 47.8 | 36.1 | 33.2 | 50.0 | 167.1 | 140.1 | 49.8 | 50.3 | 37.0 | 61.6 | 198.6 |
| Total sales taxes | 63.2 | 25.7 | 20.4 | 12.1 | 33.8 | 91.9 | 80.0 | 19.2 | 18.9 | 10.2 | 30.1 | 78.4 |
| Import duties | 59.7 | 22.1 | 15.7 | 21.1 | 16.2 | 75.1 | 60.1 | 30.6 | 31.3 | 26.8 | 31.5 | 120.2 |
| Other taxes | 2.7 | 1.5 | 1.6 | 1.5 | 0.9 | 5.5 | 5.3 | 1.7 | 1.8 | 1.8 | 1.2 | 6.5 |
| Non-tax duties | 51.2 | 11.6 | 25.7 | 25.1 | 7.8 | 70.2 | 29.6 | 18.8 | 20.1 | 20.0 | 26.3 | 85.2 |
| Grants | 8.0 | 0.5 | 2.8 | 2.4 | 27.1 | 32.9 | 32.0 | 10.6 | 10.6 | 10.6 | 10.6 | 42.5 |
| Total expenditures and lending minus repayments | 641.5 | 167.0 | 232.2 | 240.0 | 232.4 | 871.6 | 847.0 | 229.1 | 282.6 | 293.5 | 325.8 | 1,131.0 |
| Current expenditures | 459.2 | 116.4 | 153.4 | 156.7 | 178.7 | 605.3 | 594.1 | 181.7 | 199.0 | 202.6 | 224.5 | 807.8 |
| Expenditures on goods and services | 290.2 | 69.1 | 92.9 | 93.4 | 103.9 | 359.2 | 352.5 | 116.4 | 142.1 | 126.2 | 131.1 | 515.8 |
| Wages and salaries | 107.9 | 25.2 | 34.5 | 31.1 | 30.0 | 120.8 | 120.8 | 28.9 | 39.0 | 37.0 | 50.4 | 155.3 |
| Others | 182.4 | 43.9 | 58.3 | 62.3 | 73.9 | 238.5 | 231.7 | 87.5 | 103.1 | 89.2 | 80.7 | 360.5 |
| Interest payments (due) 1/ | 63.0 | 23.6 | 16.6 | 31.6 | 13.0 | 84.8 | 88.3 | 32.6 | 13.0 | 30.5 | 10.2 | 86.5 |
| Transfers to households | 89.2 | 20.8 | 37.9 | 27.0 | 37.2 | 122.9 | 112.4 | 24.4 | 31.8 | 35.4 | 56.2 | 147.9 |
| Subsidies and other current transfers | 16.8 | 2.9 | 6.1 | 4.7 | 24.7 | 38.4 | 41.0 | 8.3 | 12.0 | 10.5 | 26.9 | 57.6 |
| Compensation scheme for energy tariff increases | 0.0 | 0.0 | 3.5 | 3.6 | 5.0 | 12.0 | ... | 5.0 | 5.0 | 5.0 | 5.0 | 20.0 |
| Capital expenditures | 181.0 | 50.2 | 78.2 | 82.9 | 53.4 | 264.8 | 251.2 | 46.9 | 83.1 | 90.4 | 101.0 | 321.4 |
| External financed PIP | 78.8 | 30.5 | 34.7 | 34.4 | 28.8 | 128.3 | 121.4 | 38.2 | 38.2 | 38.2 | 38.2 | 152.8 |
| Lending minus repayments | 1.4 | 0.3 | 0.5 | 0.4 | 0.3 | 1.5 | 1.7 | 0.5 | 0.5 | 0.5 | 0.3 | 1.8 |
| Overall balance (incl. externally financed PIP, due) | -81.6 | 8.8 | -30.7 | -39.1 | -40.4 | -101.3 | -157.8 | -17.7 | -39.8 | -61.0 | -59.9 | -178.3 |
| Overall balance (incl. externally financed PIP, cash basis) | -81.6 | 8.8 | -30.7 | -39.1 | -40.4 | -101.3 | -157.8 | -17.7 | -39.8 | -61.0 | -59.9 | -178.3 |
| Overall balance (excl. externally financed PIP, cash basis) | -2.9 | 39.3 | 3.9 | -4.7 | -11.5 | 27.0 | -36.4 | 20.5 | -1.6 | -22.8 | -21.6 | -25.5 |
| Total financing (incl. externally financed PIP, cash) | 81.6 | -8.8 | 30.7 | 39.1 | 40.4 | 101.3 | 157.8 | 17.7 | 39.8 | 61.0 | 59.9 | 178.3 |
| Net external | 86.4 | 35.9 | 32.5 | 43.3 | 23.4 | 135.2 | 195.6 | 122.9 | 35.8 | 79.0 | 44.8 | 282.4 |
| Disbursements | 93.8 | 30.5 | 34.7 | 34.4 | 28.8 | 128.3 | 195.7 | 117.2 | 38.2 | 70.2 | 54.2 | 279.8 |
| Amortization | -17.8 | -5.0 | -2.1 | -2.3 | -5.4 | -14.9 | -21.2 | -5.5 | -2.4 | -2.4 | -9.4 | -19.8 |
| Arrears (+ increase) | -69.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Debt rescheduling | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Drawdown of Tajikistan's claim on CBR | 79.5 | 10.5 | 0.0 | 11.2 | 0.0 | 21.7 | 21.1 | 11.2 | 0.0 | 11.2 | 0.0 | 22.4 |
| Net domestic | -4.8 | -44.8 | -1.8 | -4.2 | 17.0 | -33.8 | -37.8 | -105.3 | 4.0 | -17.9 | 15.1 | -104.1 |
| NBT 2/ | -24.7 | -45.2 | -6.9 | -5.5 | 22.8 | -34.8 | -54.8 | -104.3 | 5.0 | -20.9 | 9.1 | -111.1 |
| Commercial banks | -1.3 | -5.4 | -0.7 | -6.7 | -5.8 | -18.6 | -0.4 | -5.0 | -5.0 | -1.0 | 2.0 | -9.0 |
| Gross proceeds from privatization | 31.3 | 5.9 | 5.9 | 7.9 | 0.0 | 19.7 | 14.9 | 4.0 | 4.0 | 4.0 | 4.0 | 16.0 |
| Financing gap | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| <i>Memorandum items:</i> | | | | | | | | | | | | |
| GDP (In millions of somoni) | 3,345 | 755 | 1,039 | 1,374 | 1,132 | 4,300 | 4,050 | 867 | 1,189 | 1,592 | 1,452 | 5,100 |

Sources: Tajik authorities; and Fund staff estimates.

1/ The 2003 budget envisaged SM 62.821 million in external interest payments due. It did not include extrabudgetary funds.

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

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

| | 2002 | | 2003 | | | | | 2004 | | | | |
|---|-------|------|-------|-------|-------|------------|------------|-------|------------|-------|-------|-----------|
| | Year | Q1 | Q2 | Q3 | Q4 | Year | Q1 | Q2 | Q3 | Q4 | Year | |
| | | | | | | Rev. Proj. | Rev. Proj. | Prog. | Projection | | | EBS/03/96 |
| Overall revenues and grants | 16.7 | 23.3 | 19.4 | 14.6 | 17.0 | 17.9 | 17.0 | 24.4 | 20.4 | 14.6 | 18.3 | 18.7 |
| Tax revenues | 15.0 | 21.7 | 16.6 | 12.6 | 13.9 | 15.5 | 15.5 | 21.0 | 17.8 | 12.7 | 15.8 | 16.2 |
| Income and profit tax | 1.8 | 2.3 | 1.8 | 1.3 | 1.6 | 1.7 | 1.8 | 2.3 | 1.8 | 1.2 | 1.9 | 1.7 |
| Payroll taxes | 1.9 | 2.2 | 2.1 | 1.7 | 1.8 | 1.9 | 1.9 | 2.1 | 2.0 | 1.8 | 1.9 | 1.9 |
| Property taxes | 0.6 | 0.9 | 0.5 | 0.5 | 0.6 | 0.6 | 0.6 | 0.9 | 0.5 | 0.5 | 0.6 | 0.6 |
| Internal taxes on goods and services | 6.9 | 9.8 | 8.6 | 6.6 | 5.5 | 7.3 | 7.7 | 9.8 | 9.1 | 6.7 | 7.1 | 7.9 |
| VAT | 4.8 | 6.6 | 5.9 | 4.6 | 4.3 | 5.2 | 5.6 | 6.5 | 6.3 | 4.6 | 6.0 | 5.7 |
| International trade and operations tax | 3.7 | 6.3 | 3.5 | 2.4 | 4.4 | 3.9 | 3.5 | 5.7 | 4.2 | 2.3 | 4.2 | 3.9 |
| Total sales taxes | 1.9 | 3.4 | 2.0 | 0.9 | 3.0 | 2.1 | 2.0 | 2.2 | 1.6 | 0.6 | 2.1 | 1.5 |
| Import duties | 1.8 | 2.9 | 1.5 | 1.5 | 1.4 | 1.7 | 1.5 | 3.5 | 2.6 | 1.7 | 2.2 | 2.4 |
| Other taxes | 0.1 | 0.2 | 0.2 | 0.1 | 0.1 | 0.1 | 0.1 | 0.2 | 0.2 | 0.1 | 0.1 | 0.1 |
| Non-tax duties | 1.5 | 1.5 | 2.5 | 1.8 | 0.7 | 1.6 | 0.7 | 2.2 | 1.7 | 1.3 | 1.8 | 1.7 |
| Grants | 0.2 | 0.1 | 0.3 | 0.2 | 2.4 | 0.8 | 0.8 | 1.2 | 0.9 | 0.7 | 0.7 | 0.8 |
| Total expenditures and lending minus repayments | 19.2 | 22.1 | 22.3 | 17.5 | 20.5 | 20.3 | 20.9 | 26.4 | 23.8 | 18.4 | 22.4 | 22.2 |
| Current expenditures | 13.7 | 15.4 | 14.8 | 11.4 | 15.8 | 14.1 | 14.7 | 21.0 | 16.7 | 12.7 | 15.5 | 15.8 |
| Expenditures on goods and services | 8.7 | 9.1 | 8.9 | 6.8 | 9.2 | 8.4 | 8.7 | 13.4 | 12.0 | 7.9 | 9.0 | 10.1 |
| Wages and salaries | 3.2 | 3.3 | 3.3 | 2.3 | 2.6 | 2.8 | 3.0 | 3.3 | 3.3 | 2.3 | 3.5 | 3.0 |
| Others | 5.5 | 5.8 | 5.6 | 4.5 | 6.5 | 5.5 | 5.7 | 10.1 | 8.7 | 5.6 | 5.6 | 7.1 |
| Interest payments (due) 1/ | 1.9 | 3.1 | 1.6 | 2.3 | 1.2 | 2.0 | 2.2 | 3.8 | 1.1 | 1.9 | 0.7 | 1.7 |
| Transfers to households | 2.7 | 2.8 | 3.7 | 2.0 | 3.3 | 2.9 | 2.8 | 2.8 | 2.7 | 2.2 | 3.9 | 2.9 |
| Subsidies and other current transfers | 0.5 | 0.4 | 0.6 | 0.3 | 2.2 | 0.9 | 1.0 | 1.0 | 1.0 | 0.7 | 1.9 | 1.1 |
| Compensation scheme for energy tariff increases | ... | 0.0 | 0.3 | 0.3 | 0.4 | 0.3 | ... | 0.6 | 0.4 | 0.3 | 0.3 | 0.4 |
| Capital expenditures | 5.4 | 6.7 | 7.5 | 6.0 | 4.7 | 6.2 | 6.2 | 5.4 | 7.0 | 5.7 | 7.0 | 6.3 |
| External financed PIP | 2.4 | 4.0 | 3.3 | 2.5 | 2.5 | 3.0 | 3.0 | 4.4 | 3.2 | 2.4 | 2.6 | 3.0 |
| Lending minus repayments | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.1 | 0.0 | 0.0 | 0.0 | 0.0 |
| Overall balance (incl. externally financed PIP) | -2.4 | 1.2 | -3.0 | -2.8 | -3.6 | -2.4 | -3.9 | -2.0 | -3.3 | -3.8 | -4.1 | -3.5 |
| Overall balance (incl. externally financed PIP, cash basis) | -2.4 | 1.2 | -3.0 | -2.8 | -3.6 | -2.4 | -3.9 | -2.0 | -3.3 | -3.8 | -4.1 | -3.5 |
| Overall balance (excl. externally financed PIP, cash basis) | -0.1 | 5.2 | 0.4 | -0.3 | -1.0 | 0.6 | -0.9 | 2.4 | -0.1 | -1.4 | -1.5 | -0.5 |
| Total financing (incl. externally financed PIP, cash) | 2.4 | -1.2 | 3.0 | 2.8 | 3.6 | 2.4 | 3.9 | 2.0 | 3.3 | 3.8 | 4.1 | 3.5 |
| Net external | 2.6 | 4.8 | 3.1 | 3.2 | 2.1 | 3.1 | 4.8 | 14.2 | 3.0 | 5.0 | 3.1 | 5.5 |
| Disbursements | 2.8 | 4.0 | 3.3 | 2.5 | 2.5 | 3.0 | 4.8 | 13.5 | 3.2 | 4.4 | 3.7 | 5.5 |
| Amortization | -0.5 | -0.7 | -0.2 | -0.2 | -0.5 | -0.3 | -0.5 | -0.6 | -0.2 | -0.2 | -0.6 | -0.4 |
| Arrears (+ increase) | -2.1 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Debt rescheduling | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Drawdown of Tajikistan's claim on CBR | 2.4 | 1.4 | 0.0 | 0.8 | 0.0 | 0.5 | 0.5 | 1.3 | 0.0 | 0.7 | 0.0 | 0.4 |
| Net domestic | -0.1 | -5.9 | -0.2 | -0.3 | 1.5 | -0.8 | -0.9 | -12.1 | 0.3 | -1.1 | 1.0 | -2.0 |
| NBT 2/ | -0.7 | -6.0 | -0.7 | -0.4 | 2.0 | -0.8 | -1.4 | -12.0 | 0.4 | -1.3 | 0.6 | -2.2 |
| Commercial banks | 0.0 | -0.7 | -0.1 | -0.5 | -0.5 | -0.4 | 0.0 | -0.6 | -0.4 | -0.1 | 0.1 | -0.2 |
| Gross proceeds from privatization | 0.9 | 0.8 | 0.6 | 0.6 | 0.0 | 0.5 | 0.4 | 0.5 | 0.3 | 0.3 | 0.3 | 0.3 |
| Financing gap | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| <i>Memorandum items:</i> | | | | | | | | | | | | |
| GDP (In millions of somoni) | 3,345 | 755 | 1,039 | 1,374 | 1,132 | 4,300 | 4,050 | 867 | 1,189 | 1,592 | 1,452 | 5,100 |

Sources: Tajik authorities; and Fund staff estimates.

1/ The 2003 budget envisaged SM 62.821 million in external interest payments due. It did not include extrabudgetary funds.

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

Table 5. Tajikistan: Functional Classification of General Government Finances, 2002-08
(In millions of somoni; unless otherwise indicated)

| | 2002 | | 2003 | | 2004 | | 2005 | | 2006 | | 2007 | | 2008 | |
|---|----------------|------------|----------------|-------|----------------|-------|----------------|-------|----------------|-------|----------------|-------|----------------|-------|
| | Percent of GDP | Rev. Proi. | Percent of GDP | Proi. |
| Overall revenue and grants | 559.9 | 16.7 | 770.3 | 17.9 | 952.7 | 18.7 | 1,062.6 | 19.1 | 1,169.1 | 19.2 | 1,291.0 | 19.4 | 1,427.3 | 19.7 |
| Tax revenues | 500.6 | 15.0 | 667.2 | 15.5 | 825.0 | 16.2 | 929.9 | 16.7 | 1,025.8 | 16.9 | 1,144.9 | 17.2 | 1,262.7 | 17.4 |
| Total expenditures and lending minus repayments (due) | 641.5 | 19.2 | 871.6 | 20.3 | 1,131.0 | 22.2 | 1,229.7 | 22.1 | 1,351.6 | 22.2 | 1,490.3 | 22.4 | 1,645.1 | 22.7 |
| General administrative services | 91.1 | 2.7 | 110.9 | 2.6 | 115.1 | 2.3 | 116.3 | 2.1 | 128.8 | 2.1 | 139.1 | 2.1 | 151.2 | 2.1 |
| Protection services | 70.7 | 2.1 | 106.5 | 2.5 | 134.2 | 2.6 | 136.1 | 2.4 | 135.7 | 2.2 | 136.2 | 2.1 | 143.3 | 2.0 |
| Social services | 233.1 | 7.0 | 312.5 | 7.3 | 436.4 | 8.6 | 505.0 | 9.1 | 584.6 | 9.6 | 671.4 | 10.1 | 773.7 | 10.7 |
| Education | 87.0 | 2.6 | 118.3 | 2.8 | 162.8 | 3.2 | 193.0 | 3.5 | 232.2 | 3.8 | 272.0 | 4.1 | 313.8 | 4.3 |
| Health | 30.5 | 0.9 | 48.2 | 1.1 | 63.0 | 1.2 | 79.5 | 1.4 | 94.7 | 1.6 | 120.9 | 1.8 | 153.0 | 2.1 |
| Social security and welfare | 66.6 | 2.0 | 85.2 | 2.0 | 103.5 | 2.0 | 115.0 | 2.1 | 127.2 | 2.1 | 137.9 | 2.1 | 152.6 | 2.1 |
| Other social services | 49.0 | 1.5 | 60.8 | 1.4 | 107.1 | 2.1 | 117.5 | 2.1 | 130.6 | 2.1 | 140.5 | 2.1 | 154.4 | 2.1 |
| Economic services | 64.2 | 1.9 | 90.9 | 2.1 | 113.9 | 2.2 | 118.5 | 2.1 | 127.2 | 2.1 | 138.1 | 2.1 | 143.5 | 2.0 |
| Interest payments (due) | 63.0 | 1.9 | 84.8 | 2.0 | 86.5 | 1.7 | 85.3 | 1.5 | 88.1 | 1.4 | 89.5 | 1.3 | 89.3 | 1.2 |
| Other services | 40.7 | 1.2 | 37.6 | 0.9 | 92.2 | 1.8 | 101.4 | 1.8 | 104.6 | 1.7 | 116.7 | 1.8 | 126.3 | 1.7 |
| Externally financed PIP | 78.8 | 2.4 | 128.3 | 3.0 | 152.8 | 3.0 | 167.1 | 3.0 | 182.4 | 3.0 | 199.2 | 3.0 | 217.8 | 3.0 |
| Overall balance (incl. externally financed PIP) | -81.6 | -2.4 | -101.3 | -2.4 | -178.3 | -3.5 | -167.1 | -3.0 | -182.5 | -3.0 | -199.3 | -3.0 | -217.9 | -3.0 |
| Net arrears/ rescheduling of interest | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Overall balance (incl. externally financed PIP, cash basis) | -81.6 | -2.4 | -101.3 | -2.4 | -178.3 | -3.5 | -167.1 | -3.0 | -182.5 | -3.0 | -199.3 | -3.0 | -217.9 | -3.0 |
| Overall balance (excl. externally financed PIP, cash basis) | -2.9 | -0.1 | 27.0 | 0.6 | -25.5 | -0.5 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Primary balance (excl. externally financed PIP, cash basis) | 58.6 | 1.8 | 115.8 | 2.7 | 60.9 | 1.2 | 85.3 | 1.5 | 88.1 | 1.4 | 89.4 | 1.3 | 93.3 | 1.3 |
| Total financing | 81.6 | 2.4 | 101.3 | 2.4 | 178.3 | 3.5 | 167.1 | 3.0 | 182.5 | 3.0 | 199.3 | 3.0 | 217.9 | 3.0 |
| Net external | 86.4 | 2.6 | 135.2 | 3.1 | 282.4 | 5.5 | 125.9 | 2.3 | 70.7 | 1.2 | 40.4 | 0.6 | 50.0 | 0.7 |
| Net domestic | -4.8 | -0.1 | -33.8 | -0.8 | -104.1 | -2.0 | 15.5 | 0.3 | 59.5 | 1.0 | 71.9 | 1.1 | 82.0 | 1.1 |
| Financing gap | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 15.9 | 0.3 | 40.6 | 0.7 | 58.0 | 0.9 | 46.2 | 0.6 |
| <i>Memorandum item:</i> | | | | | | | | | | | | | | |
| Nominal GDP | 3,345 | | 4,300 | | 5,100 | | 5,569 | | 6,082 | | 6,641 | | 7,252 | |

Sources: Tajik authorities; and Fund staff estimates.

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

| | 2002 | | 2003 | | | | | 2004 | | | |
|---|---|---------|--------------------|--------------------|--------------------|-------------------------------|-------------------------------|---------------|--------|--------|--------|
| | Dec. | | Mar. | Jun. | Sept. | Dec. | | Mar. | Jun. | Sep. | Dec. |
| | Act. 1/ Act. 2/ | Act. 2/ | Act. 2/ Act. 2/ | Act. 2/ Act. 2/ | Act. 2/ Act. 2/ | Rev. EBS/03/96 Proj. 3/ | Rev. EBS/03/96 Proj. 3/ | Projection 3/ | | | |
| (In millions of U.S. dollars; unless otherwise specified) | | | | | | | | | | | |
| Net international reserves | 2.7 | -1.7 | 12.2 | 25.3 | 35.7 | 28.0 | 22.4 | 54.4 | 59.2 | 73.9 | 80.9 |
| Gross assets | 96.2 | 96.2 | 99.8 | 111.5 | 133.2 | 122.9 | 127.6 | 161.4 | 160.6 | 188.9 | 190.3 |
| Gross liabilities | 93.5 | 97.8 | 87.6 | 86.1 | 97.4 | 94.9 | 105.2 | 107.0 | 101.4 | 115.0 | 109.4 |
| Official exchange rate (Sm/US\$) | 3.00 | ... | 3.08 | 3.09 | 3.09 | ... | ... | ... | ... | ... | ... |
| Program exchange rate (Sm/US\$) | ... | 3.20 | 3.20 | 3.20 | 3.20 | 3.20 | 3.0 | 3.20 | 3.20 | 3.20 | 3.20 |
| (In millions of somoni) | | | | | | | | | | | |
| Net foreign assets | 8.2 | -5.3 | 39.1 | 81.0 | 114.3 | 89.8 | 67.3 | 174.1 | 189.6 | 236.5 | 258.8 |
| Gross assets | 288.5 | 307.7 | 319.3 | 356.7 | 426.1 | 393.4 | 382.8 | 516.5 | 514.1 | 604.5 | 608.9 |
| Gross liabilities | 280.4 | 313.1 | 280.2 | 275.6 | 311.8 | 303.6 | 315.5 | 342.4 | 324.5 | 368.0 | 350.1 |
| Net domestic assets | 176.9 | 191.7 | 136.6 | 123.6 | 132.0 | 135.3 | 117.3 | 40.7 | 32.4 | 14.4 | 7.8 |
| Net credit to general government | -9.3 | -17.0 | -70.0 | -76.8 | -57.4 | -34.7 | -63.9 | -137.0 | -130.1 | -149.1 | -138.1 |
| <i>Of which:</i> | | | | | | | | | | | |
| Somoni credits | 89.4 | 153.8 | 153.8 | 153.8 | 153.8 | 153.8 | 89.4 | 153.8 | 153.8 | 153.8 | 153.8 |
| Longterm bonds | 64.3 | ... | ... | ... | ... | ... | 64.3 | ... | ... | ... | ... |
| Foreign exchange credits | ... | ... | ... | ... | 24.8 | 24.8 | ... | 24.8 | 24.8 | 24.8 | 24.8 |
| Treasury bills | 3.0 | 3.0 | 3.0 | 3.0 | 0.0 | 0.0 | 3.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Deposits (-) | -65.1 | -66.1 | -113.9 | -119.6 | -124.7 | -86.1 | -88.3 | -119.6 | -107.4 | -99.4 | -60.0 |
| <i>Of which: Privatization fund</i> | -26.7 | -26.7 | -34.3 | -37.6 | -41.0 | -49.0 | -43.3 | -53.0 | -57.0 | -61.0 | -65.0 |
| Counterpart deposits | -101.0 | -107.7 | -112.9 | -114.0 | -111.4 | -127.2 | -132.4 | -196.0 | -201.3 | -228.3 | -256.7 |
| EU | -18.3 | -19.5 | -24.0 | -26.1 | -25.7 | -40.0 | -14.7 | -38.9 | -46.0 | -50.1 | -57.1 |
| World Bank | -47.4 | -50.6 | -43.6 | -42.6 | -40.4 | -42.0 | -82.4 | -113.7 | -113.9 | -138.8 | -146.1 |
| AsDB | -35.2 | -37.6 | -37.6 | -37.6 | -37.6 | -37.6 | -35.2 | -37.6 | -37.6 | -37.6 | -53.6 |
| Credit to the private sector | 205.2 | 209.5 | 209.1 | 208.2 | 187.1 | 183.1 | 204.8 | 181.1 | 179.1 | 177.1 | 175.1 |
| <i>Of which:</i> | | | | | | | | | | | |
| Claims on banks | 34.1 | 34.3 | 33.8 | 32.8 | 42.1 | 42.1 | 33.6 | 42.1 | 42.1 | 42.1 | 42.1 |
| Claims on private sector | 85.1 | 85.2 | 85.4 | 85.6 | 145.0 | 141.0 | 85.4 | 139.0 | 137.0 | 135.0 | 133.0 |
| Other loans | 86.0 | 90.1 | 89.9 | 89.8 | 0.0 | 0.0 | 85.7 | 0.0 | 0.0 | 0.0 | 0.0 |
| Other items, net | -19.0 | -0.8 | -2.5 | -7.8 | 2.4 | -13.0 | -23.6 | -3.4 | -16.6 | -13.6 | -29.2 |
| <i>Of which:</i> | | | | | | | | | | | |
| NBT bills | -9.0 | -9.0 | -10.2 | -12.1 | -8.2 | -22.0 | -13.5 | -9.6 | -15.6 | -10.9 | -29.6 |
| Reserve money | 185.0 | 186.4 | 175.7 | 204.6 | 246.3 | 225.1 | 184.6 | 214.8 | 222.0 | 250.8 | 266.6 |
| Currency in circulation | 140.8 | 140.8 | 131.9 | 158.5 | 178.1 | 145.7 | 154.3 | 150.5 | 170.2 | 189.1 | 177.0 |
| Bank reserves | 35.8 | 36.6 | 30.0 | 33.4 | 39.9 | 73.4 | 23.4 | 60.7 | 47.8 | 56.9 | 84.8 |
| <i>Of which:</i> | | | | | | | | | | | |
| Required reserves | 11.9 | 12.3 | 13.2 | 14.7 | 21.3 | 37.9 | 18.0 | 21.3 | 20.2 | 29.0 | 46.9 |
| Somoni | 5.5 | 5.5 | 5.9 | 5.7 | 6.0 | 8.8 | 9.8 | 19.1 | 17.1 | 24.4 | 27.2 |
| Foreign exchange | 6.3 | 6.8 | 7.3 | 9.0 | 15.3 | 17.5 | 8.2 | 2.2 | 3.1 | 4.6 | 19.7 |
| Other deposits | 8.4 | 8.9 | 13.9 | 12.7 | 28.3 | 6.0 | 6.9 | 3.6 | 4.0 | 4.8 | 4.8 |
| Somoni | 1.3 | 1.3 | 1.5 | 3.3 | 4.9 | ... | ... | ... | ... | ... | ... |
| Foreign exchange 4/ | 7.1 | 7.6 | 12.3 | 9.4 | 23.4 | ... | ... | ... | ... | ... | ... |
| <i>Memorandum items:</i> | (Cumulative change as a percent of reserve money over the previous 12 months) | | | | | | | | | | |
| Net international reserves | 29.4 | 52.2 | 71.6 | 90.9 | 83.0 | 51.0 | 34.2 | 76.8 | 53.0 | 49.6 | 75.1 |
| Net domestic assets | -8.9 | -34.4 | -54.4 | -56.2 | -41.9 | -30.2 | -34.5 | -54.6 | -44.6 | -47.8 | -56.7 |
| Reserve money | 20.5 | 17.8 | 17.2 | 34.8 | 41.2 | 20.8 | -0.3 | 22.2 | 8.5 | 1.9 | 18.5 |

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

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

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

3/ Data are based on the following program exchange rates: SM 3.2=US\$1 and SDR 1=US\$1.3888.

4/ The increase in September 2003 was due to a deposit of the capital of a newly formed commercial bank.

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

| | 2002 | | 2003 | | | | 2004 3/ | | | | |
|---|---------|---------|--------|-----------|--------|----------|-----------|--------|------------|--------|--------|
| | Dec | | Mar. | Jun. | Sep | Dec. | | Mar. | Jun. | Sep. | Dec. |
| | Act. 1/ | Act. 2/ | | Actual 2/ | | Rev. | EBS/03/96 | | Projection | | |
| | | | | | | Proj. 3/ | | | | | |
| Net foreign assets | -267.2 | -298.5 | -313.9 | -294.6 | -255.7 | -174.6 | -193.7 | -67.9 | -65.2 | -31.1 | 36.1 |
| National Bank of Tajikistan | 8.2 | -5.3 | 39.1 | 81.0 | 114.3 | 89.8 | 67.3 | 174.1 | 189.6 | 236.5 | 258.8 |
| Commercial banks | -275.4 | -293.2 | -353.0 | -375.6 | -370.0 | -264.4 | -260.9 | -242.0 | -254.8 | -267.6 | -222.8 |
| Net domestic assets | 541.1 | 577.8 | 577.4 | 700.9 | 683.7 | 574.8 | 517.7 | 425.7 | 460.3 | 515.1 | 443.9 |
| Net credit to general government | -16.5 | -24.2 | -82.6 | -90.1 | -77.5 | -60.5 | -71.5 | -167.9 | -165.9 | -185.9 | -172.9 |
| <i>Of which:</i> | | | | | | | | | | | |
| Somoni credits | 89.9 | 154.2 | 153.9 | 154.1 | 154.0 | 154.0 | 89.9 | 154.0 | 154.0 | 154.0 | 154.0 |
| Long-term bonds | 64.3 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 64.3 | 0.0 | 0.0 | 0.0 | 0.0 |
| Treasury bills | 3.3 | 3.3 | 3.3 | 3.3 | 0.3 | 0.3 | 3.3 | 0.3 | 0.3 | 0.3 | 0.3 |
| Deposits (-) | -73.0 | -74.0 | -126.9 | -133.5 | -145.2 | -112.4 | -96.6 | -150.9 | -143.7 | -136.7 | -95.3 |
| Counterpart deposits | -101.0 | -107.7 | -112.9 | -114.0 | -111.4 | -127.2 | -132.4 | -196.0 | -201.3 | -228.3 | -256.7 |
| Credit to the private sector | 627.2 | 653.7 | 738.2 | 817.9 | 814.1 | 689.7 | 684.9 | 650.7 | 690.7 | 767.1 | 679.7 |
| Other items net | -69.5 | -51.7 | -78.2 | -26.9 | -52.8 | -54.4 | -95.6 | -57.2 | -64.4 | -66.1 | -63.0 |
| Broad money | 274.0 | 279.2 | 263.5 | 406.3 | 428.0 | 400.2 | 324.1 | 357.8 | 395.2 | 484.0 | 480.0 |
| Somoni broad money | 195.0 | 195.0 | 180.2 | 215.1 | 228.2 | 204.9 | 239.9 | 215.5 | 241.2 | 260.5 | 242.7 |
| Currency outside banks | 135.6 | 135.6 | 120.2 | 146.6 | 162.6 | 141.2 | 145.8 | 142.1 | 161.5 | 185.1 | 162.6 |
| Deposits | 59.4 | 59.4 | 60.0 | 68.5 | 65.6 | 63.7 | 94.2 | 73.4 | 79.6 | 75.4 | 80.1 |
| Foreign currency deposits | 78.9 | 84.2 | 83.3 | 191.3 | 199.8 | 195.3 | 84.2 | 142.3 | 154.0 | 223.5 | 237.2 |
| <i>Memorandum items:</i> | | | | | | | | | | | |
| Year-to-year average of quarterly velocity 4/ | 3.5 | 3.3 | 3.5 | 3.4 | 3.3 | 2.9 | 3.4 | 2.8 | 2.9 | 2.9 | 2.9 |
| Money multiplier 5/ | 1.5 | 1.5 | 1.5 | 2.0 | 1.7 | 1.8 | 1.8 | 1.7 | 1.8 | 1.9 | 1.8 |
| Broad money (12-month percent change) | 37.4 | 30.2 | 18.4 | 66.8 | 57.5 | 43.3 | 18.3 | 35.8 | -2.8 | 13.1 | 19.9 |

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

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

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

3/ Data are based on the following program exchange rates: SM 3.2=US\$1 and SDR 1=US\$1.3888.

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

5/ Total broad money divided by reserve money.

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

| 2002 | 2003 | | | | | 2004 | | | | | |
|---|--------|-----|-----|-------|------|------------|-----|-----|-----|------|-------|
| | Q1 | Q2 | Q3 | Q4 | Year | Q1 | Q2 | Q3 | Q4 | Year | |
| | Actual | | | Proj. | | Projection | | | | | |
| Current account | -32 | -19 | -6 | -11 | -5 | -40 | -18 | -10 | -12 | -6 | -46 |
| Balance on goods and services | -160 | -60 | -50 | -102 | -39 | -251 | -64 | -62 | -55 | -55 | -236 |
| Balance on goods | -124 | -42 | -39 | -84 | -25 | -189 | -41 | -48 | -39 | -37 | -166 |
| Exports | 699 | 174 | 189 | 180 | 230 | 773 | 212 | 205 | 179 | 225 | 820 |
| <i>Of which:</i> aluminum | 399 | 94 | 106 | 104 | 104 | 408 | 105 | 108 | 110 | 113 | 436 |
| cotton fiber | 128 | 41 | 41 | 18 | 77 | 176 | 49 | 48 | 21 | 83 | 201 |
| Imports | 823 | 216 | 227 | 264 | 255 | 962 | 253 | 254 | 218 | 262 | 986 |
| Balance on services 1/ | -36 | -18 | -11 | -19 | -14 | -62 | -23 | -13 | -16 | -18 | -71 |
| Balance on income | -57 | -27 | -19 | -25 | -18 | -89 | -25 | -19 | -25 | -19 | -88 |
| Balance on transfers | 184 | 68 | 63 | 117 | 52 | 299 | 71 | 71 | 69 | 69 | 279 |
| <i>Of which:</i> workers' remittances, net 2/ | 65 | 22 | 35 | 84 | 46 | 187 | 53 | 53 | 51 | 51 | 207 |
| Capital and financial account | 53 | 29 | 19 | 18 | -3 | 63 | 40 | 14 | 23 | 13 | 90 |
| Capital transfers | 5 | 9 | 1 | 1 | 3 | 14 | 8 | 0 | 0 | 0 | 8 |
| Public sector (net) | 2 | -11 | 11 | 10 | 7 | 16 | 2 | 11 | 10 | 9 | 32 |
| Disbursements | 28 | 10 | 12 | 11 | 9 | 41 | 12 | 12 | 12 | 12 | 48 |
| Amortization | -25 | -22 | -1 | -1 | -2 | -25 | -10 | -1 | -2 | -3 | -16 |
| World Bank | 0 | 0 | 0 | 0 | 0 | 0 | 25 | 0 | 10 | 0 | 35 |
| AsDB | 5 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 5 | 5 |
| FDI | 36 | 6 | 4 | 5 | 5 | 20 | 6 | 6 | 6 | 6 | 24 |
| Commercial bank NFA (- increase) | 8 | 23 | 7 | -2 | -33 | -5 | -7 | 4 | 4 | -14 | -13 |
| Electricity credit | 4 | 3 | -2 | -5 | 15 | 11 | 6 | -7 | -7 | 7 | 0 |
| Other capital and errors and omissions | -7 | 0 | -3 | 9 | 0 | 7 | 0 | 0 | 0 | 0 | 0 |
| Overall balance | 21 | 10 | 13 | 8 | -8 | 22 | 21 | 5 | 11 | 7 | 44 |
| Use of international reserves (- increase) | -1 | -4 | -12 | -22 | 11 | -27 | -39 | 1 | -28 | -1 | -67 |
| Financing items | -21 | -7 | -1 | 15 | -3 | 4 | 17 | -6 | 17 | -6 | 23 |
| IMF (net) | -24 | -10 | -1 | 11 | -3 | -3 | 14 | -6 | 14 | -6 | 16 |
| Purchases/disbursements | 11 | 0 | 0 | 11 | 0 | 11 | 14 | 0 | 14 | 0 | 27 |
| Repurchases/repayments | 35 | 10 | 1 | 0 | 3 | 14 | 0 | 6 | 0 | 6 | 11 |
| Other reserve liabilities | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Debt service account (- increase) | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Arrears (+ increase) 3/ | -23 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Drawdown on Tajikistan's claim on the CBR | 27 | 4 | 0 | 4 | 0 | 7 | 4 | 0 | 4 | 0 | 7 |
| Rescheduling | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Financing gap | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| As a share of GDP | 0 | ... | ... | ... | ... | 0 | ... | ... | ... | ... | ... |
| <i>Memorandum items:</i> | | | | | | | | | | | |
| Current account balance in percent of GDP | -2.7 | ... | ... | ... | ... | -2.9 | ... | ... | ... | ... | -2.9 |
| (excluding transfers) | -18.1 | ... | ... | ... | ... | -24.5 | ... | ... | ... | ... | -20.4 |
| Terms of trade (percent change) | -10.7 | ... | ... | ... | ... | 1.8 | ... | ... | ... | ... | 4.8 |
| Net international reserves | 3 | 15 | 25 | 36 | 28 | 28 | 54 | 59 | 74 | 81 | 81 |
| Gross reserves | 96 | 100 | 112 | 134 | 123 | 123 | 161 | 161 | 189 | 190 | 190 |
| (in months of imports) | 1.8 | 1.9 | 1.9 | 2.0 | 1.8 | 1.8 | 2.2 | 2.2 | 2.7 | 2.7 | 2.7 |
| Total debt service due | 113 | ... | ... | ... | ... | 111 | ... | ... | ... | ... | 89 |
| (in percent of exports) 4/ | 22.9 | ... | ... | ... | ... | 19.5 | ... | ... | ... | ... | 14.5 |
| Total external debt | 982 | ... | ... | ... | ... | 1,007 | ... | ... | ... | ... | 1,100 |
| (in percent of GDP) | 82.3 | ... | ... | ... | ... | 72.8 | ... | ... | ... | ... | 69.0 |

Sources: Tajik authorities; and Fund staff estimates.

- 1/ Beginning in 2002, transportation and insurance costs have been revised upward to reflect international prices.
2/ Workers' remittances have been reclassified from the current income to current transfers following the guidelines of the 5th manual of the balance of payments.
3/ Repayments of arrears in 2002 pertains to the Russian rescheduling agreement (December 2002).
4/ Excluding trade in alumina and electricity, which are on a barter basis.

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

| | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 |
|--|-------|-------|-------|-------|-------------|-------|-------|-------|-------|
| | | | | | Projections | | | | |
| Current account | -32 | -40 | -46 | -63 | -51 | -54 | -61 | -76 | -81 |
| Balance on goods and services | -160 | -251 | -236 | -243 | -230 | -232 | -236 | -241 | -241 |
| Balance on goods | -124 | -189 | -166 | -171 | -159 | -158 | -160 | -163 | -162 |
| Exports | 699 | 773 | 820 | 867 | 903 | 941 | 981 | 1,023 | 1,068 |
| <i>Of which:</i> aluminium | 399 | 408 | 436 | 454 | 469 | 484 | 501 | 517 | 534 |
| cotton fiber | 128 | 176 | 201 | 215 | 222 | 230 | 238 | 248 | 258 |
| Imports | 823 | 962 | 986 | 1,037 | 1,062 | 1,099 | 1,141 | 1,187 | 1,230 |
| Balance on services 1/ | -36 | -62 | -71 | -73 | -72 | -74 | -76 | -78 | -79 |
| Balance on income | -57 | -89 | -88 | -91 | -92 | -96 | -99 | -107 | -111 |
| Balance on transfers | 184 | 299 | 279 | 271 | 272 | 274 | 274 | 273 | 271 |
| <i>Of which:</i> workers' remittances 2/ | 65 | 187 | 207 | 211 | 215 | 220 | 225 | 229 | 234 |
| Capital and financial account | 53 | 63 | 90 | 61 | 53 | 47 | 53 | 60 | 66 |
| Capital transfers | 5 | 14 | 8 | 0 | 0 | 0 | 0 | 0 | 0 |
| Public sector (net) | 2 | 16 | 32 | 18 | 19 | 10 | 14 | 16 | 19 |
| Disbursements | 28 | 41 | 48 | 51 | 54 | 58 | 62 | 66 | 70 |
| Amortization | -25 | -25 | -16 | -33 | -35 | -48 | -48 | -49 | -51 |
| World Bank | 0 | 0 | 35 | 13 | 0 | 0 | 0 | 0 | 0 |
| AsDB | 5 | 0 | 5 | 0 | 0 | 0 | 0 | 0 | 0 |
| FDI | 36 | 20 | 24 | 34 | 36 | 40 | 41 | 46 | 49 |
| Commercial bank NFA (- increase) | 8 | -5 | -13 | -3 | -3 | -3 | -3 | -3 | -3 |
| Electricity credit | 4 | 11 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Other capital and errors and omissions | -7 | 7 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Overall balance | 21 | 22 | 44 | -2 | 2 | -7 | -9 | -16 | -15 |
| Use of international reserves (- increase) | -1 | -27 | -67 | -26 | -14 | 0 | 0 | 0 | 0 |
| Financing items | -21 | 4 | 23 | 21 | 1 | -15 | -14 | -9 | -13 |
| IMF (net) | -24 | -3 | 16 | 14 | -1 | -15 | -14 | -9 | -13 |
| Purchases/disbursements | 11 | 11 | 27 | 27 | 14 | 0 | 0 | 0 | 0 |
| Repurchases/repayments | 35 | 14 | 11 | 13 | 15 | 15 | 14 | 9 | 13 |
| Other reserve liabilities | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Debt service account (- increase) | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Arrears (+ increase) 3/ | -23 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Drawdown on Tajikistan's claim on the CBR | 27 | 7 | 7 | 7 | 2 | 0 | 0 | 0 | 0 |
| Rescheduling | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Financing gap | 0 | 0.0 | 0 | 7 | 12 | 21 | 23 | 25 | 28 |
| As a share of GDP | 0.0 | 0.0 | 0.0 | 0.4 | 0.6 | 1.1 | 1.1 | 1.1 | 1.2 |
| <i>Memorandum items:</i> | | | | | | | | | |
| GDP (in millions of U.S. dollars) | 1,193 | 1,383 | 1,594 | 1,699 | 1,812 | 1,931 | 2,058 | 2,194 | 2,339 |
| Current account balance in percent of GDP | -2.7 | -2.9 | -2.9 | -3.7 | -2.8 | -2.8 | -3.0 | -3.4 | -3.5 |
| (excluding transfers) | -18.1 | -24.5 | -20.4 | -19.7 | -17.8 | -17.0 | -16.3 | -15.9 | -15.1 |
| Net international reserves | 3 | 28 | 81 | 92 | 108 | 122 | 137 | 146 | 159 |
| Gross reserves | 96 | 123 | 190 | 216 | 230 | 230 | 230 | 230 | 230 |
| (in months of imports) | 1.8 | 1.8 | 2.7 | 2.9 | 3.0 | 2.9 | 2.8 | 2.7 | 2.6 |
| Total debt service due | 113 | 111 | 89 | 109 | 110 | 122 | 123 | 119 | 122 |
| (in percent of exports) 4/ | 22.9 | 19.5 | 14.5 | 16.5 | 15.9 | 16.9 | 16.3 | 15.1 | 14.7 |
| Total external debt | 982 | 1,007 | 1,100 | 1,154 | 1,189 | 1,211 | 1,237 | 1,275 | 1,314 |
| (in percent of GDP) | 82.3 | 72.8 | 69.0 | 67.9 | 65.6 | 62.7 | 60.1 | 58.1 | 56.2 |

Sources: Tajik authorities; and Fund staff estimates.

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

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

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

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

Table 10. Tajikistan: Medium-Term Projections, 2002-08

| | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 |
|---|--------|-------------|-------|-------|-------|-------|-------|
| | Actual | Projections | | | | | |
| National income and prices | | | | | | | |
| Nominal GDP (in millions of somoni) | 3,345 | 4,300 | 5,100 | 5,569 | 6,082 | 6,641 | 7,252 |
| Nominal GDP (in millions of U.S. dollars) | 1,193 | 1,383 | 1,594 | 1,699 | 1,812 | 1,931 | 2,058 |
| Real GDP (annual percent change) | 9.1 | 9.0 | 6.0 | 4.0 | 4.0 | 4.0 | 4.0 |
| GDP per capita (in U.S. dollars) | 183.7 | 208.9 | 236.3 | 247.4 | 260.0 | 273.2 | 287.2 |
| GDP deflator (annual percent change) | 21.9 | 17.9 | 11.9 | 5.0 | 5.0 | 5.0 | 5.0 |
| Consumer prices (12-month percent change, e.o.p.) | 14.5 | 13.0 | 7.0 | 5.0 | 5.0 | 5.0 | 5.0 |
| Consumer prices (year-on-year percent change, average) | 12.2 | 16.2 | 8.9 | 5.0 | 5.0 | 5.0 | 5.0 |
| (In percent of GDP) | | | | | | | |
| General government finances | | | | | | | |
| Total revenue and grants | 16.7 | 17.9 | 18.7 | 19.1 | 19.2 | 19.4 | 19.7 |
| <i>Of which:</i> | | | | | | | |
| Tax revenue | 15.0 | 15.5 | 16.2 | 16.7 | 16.9 | 17.2 | 17.4 |
| Total expenditure | 19.2 | 20.3 | 22.2 | 22.1 | 22.2 | 22.4 | 22.7 |
| <i>Of which:</i> | | | | | | | |
| Current expenditure | 13.7 | 14.1 | 15.8 | 15.8 | 15.9 | 16.0 | 16.2 |
| Fiscal balance (excluding PIP, cash basis) | -0.1 | 0.6 | -0.5 | 0.0 | 0.0 | 0.0 | 0.0 |
| Primary balance | 1.8 | 2.7 | 1.2 | 1.5 | 1.4 | 1.3 | 1.3 |
| Public investment projects (PIP) | 2.4 | 3.0 | 3.0 | 3.0 | 3.0 | 3.0 | 3.0 |
| Savings/investment balances | | | | | | | |
| Current account balance | -2.7 | -2.9 | -2.9 | -3.7 | -2.8 | -2.8 | -3.0 |
| Overall fiscal balance (including PIP, cash basis) | -2.4 | -2.4 | -3.5 | -3.0 | -3.0 | -3.0 | -3.0 |
| Fiscal balance (excluding PIP, cash basis) | -0.1 | 0.6 | -0.5 | 0.0 | 0.0 | 0.0 | 0.0 |
| PIP | 2.4 | 3.0 | 3.0 | 3.0 | 3.0 | 3.0 | 3.0 |
| Net savings (S-I) of the private sector ^{1/} | -0.2 | -0.6 | 0.6 | -0.7 | 0.2 | 0.2 | 0.0 |
| (In millions of U.S. dollars; unless otherwise specified) | | | | | | | |
| External sector | | | | | | | |
| Exports of goods | 699 | 773 | 820 | 867 | 903 | 941 | 981 |
| Imports of goods | 823 | 962 | 986 | 1,037 | 1,062 | 1,099 | 1,141 |
| Current account balance | -32 | -40 | -46 | -63 | -51 | -54 | -61 |
| Gross international reserves | 96 | 123 | 190 | 216 | 230 | 230 | 230 |
| Gross international reserves (in months of imports) | 1.8 | 1.8 | 2.7 | 2.9 | 3.0 | 2.9 | 2.8 |

Sources: Tajik authorities; and Fund staff estimates.

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

Table 11. Tajikistan: Fund Position During the Period of the PRGF Arrangement, October 2002-September 2005
(In millions of SDR; unless otherwise specified)

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

Sources: International Monetary Fund.

Table 12. Tajikistan: Number of Banks Complying with Prudential Requirements, June 2002-September 2003

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

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

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

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

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

TAJIKISTAN: FUND RELATIONS
(As of October 31, 2003)

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

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

| | | |
|-----------------------------|--------------------|--------------------|
| III. SDR Department: | <u>SDR Million</u> | <u>%Allocation</u> |
| Holdings | 0.04 | N/A |

| | | |
|---|--------------------|---------------|
| IV. Outstanding Purchases and Loans: | <u>SDR Million</u> | <u>%Quota</u> |
| PRGF arrangements | 68.96 | 79.26 |

V. **Latest Financial Arrangements:**

| <u>Type</u> | <u>Approval Date</u> | <u>Expiration Date</u> | <u>Amount Approved (SDR Million)</u> | <u>Amount Drawn (SDR Million)</u> |
|-------------|--------------------------|----------------------------|--|---------------------------------------|
| PRGF | Dec 11, 2002 | Dec 10, 2005 | 65.00 | 16.00 |
| ESAF/PRGF | Jun 24, 1998 | Dec 24, 2001 | 100.30 | 78.28 |
| Stand-by | May 08, 1996 | Dec 07, 1996 | 15.00 | 15.00 |

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

| | <u>Forthcoming</u> | | | | |
|------------------|--------------------|-------------|-------------|-------------|-------------|
| | <u>2003</u> | <u>2004</u> | <u>2005</u> | <u>2006</u> | <u>2007</u> |
| Principal | 1.80 | 8.06 | 9.39 | 10.59 | 10.59 |
| Charges/Interest | 0.17 | 0.32 | 0.28 | 0.23 | 0.18 |
| Total | 1.97 | 8.38 | 9.67 | 10.82 | 10.77 |

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. These measures are being monitored by staff under the current PRGF arrangement.

IX. Exchange Rate Arrangements:

The National Bank of Tajikistan (NBT) maintains a managed floating exchange rate regime with no pre-announced path for the exchange rate. There are restrictions on current international transactions, which the authorities plan to remove by end-March 2004 in order to pave the way for acceptance of obligations under Article VIII. On August 12, 2002, the NBT revised the calculation of the official exchange rate to include all inter-bank transactions in foreign exchange. The official exchange rate is used for valuation of the National Bank's foreign currency reserves, for the calculation of customs duties, and for the National Bank's foreign exchange transactions. A currency conversion took place on October 30, 2000 replacing the Tajik ruble, which was introduced in May 1995. Prior to July 1, 2000, the National Bank of Tajikistan quoted a twice weekly official representative exchange rate for the Tajik ruble, based on the selling rates for the Tajik ruble against the U.S. dollar in the Tajikistan Interbank Foreign Currency Exchange (TICEX). As of July 1, 2000 the TICEX was eliminated and the National Bank of Tajikistan began quoting a daily official exchange rate for the Tajik ruble (up to October 31, 2000) and somoni (beginning November 1, 2000). 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 2002 Article IV consultation discussions were held during April 25–May 4, 2002, July 9–18, 2002, and October 3–10, 2002. The 2002 Article IV report, dated November 13, 2002, was considered by the Executive Board on December 11, 2002. Tajikistan is on the 24-month consultation cycle, subject to the provisions of the decision on consultation cycles approved on July 15, 2002.

XI. Resident Representative:

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

XII. Resident Advisors:

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

XIII. Technical Assistance:

The following list summarizes the technical assistance provided by the Fund to Tajikistan since 1998.

Fiscal Affairs:

| | |
|-------------------------|--|
| April 1998 | Tax policy and administration |
| June/July 1998 | Implementation of Tax Identification Numbers |
| September/November 1998 | Tax Code Assessment |
| September 1999 | Tax administration |
| September 1999 | Law on Foreign Debt and Government Guarantees, Tax Code amendments |
| July 2001 | Tax Administration |
| August 2002 | Tax Policy and Administration |

Monetary and Financial Systems:

| | |
|----------------------|---|
| February 1998 | Multi-topic |
| April 1998 | Treasury bill auctions, bank restructuring, and banking supervision |
| August 1998 | Multi-topic |
| April 1999 | Multi-topic |
| April 1999–July 2000 | Monetary operations |
| March 2000 | Multi-topic |
| August 2000 | Bank restructuring |

| | |
|-----------------------|---|
| January/February 2001 | Bank restructuring |
| August 2001 | Multi-topic |
| July 2002 | Multi-topic |
| Statistics: | |
| April 1998 | Money and banking statistics |
| April 1999 | Money and banking statistics |
| March 2002 | Balance of payments statistics |
| October/November 2002 | Money and banking statistics |
| January 2003 | Balance of payments statistics |
| February 2003 | Money and banking statistics |
| May 2003 | Balance of payments statistics |
| Finance: | |
| July 2001 | Safeguards assessment stage two |
| May 2003 | Safeguards assessment follow-up |
| Legal: | |
| April/May 2001 | Legislation on State Audit Agency, the Budget System and Taxation |
| March 2003 | Tax Legislation |

TAJIKISTAN: RELATIONS WITH THE WORLD BANK
(As of December 5, 2003)

Country Director: Mr. Dennis N. de Tray

Telephone: (202) 473 3544

A. Partnership in Tajikistan's Development Strategy

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

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

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

Tajikistan: Collaboration of the World Bank and the IMF

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

B. IMF-World Bank Collaboration in Specific Areas

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

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

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

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

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

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

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

11. The Bank leads the dialogue on structural reforms through the *SAC 2*, approved by the Bank's Board of Executive Directors in May 2001. Despite volatility in the policy environment caused by the situation in Afghanistan, initially good progress on the *SAC 2* conditions was made. However, progress then slowed with a few key conditions outstanding. After granting two 6-month extensions, the principal condition to be addressed is the one that requires a reduction of energy arrears to below 90-day current consumption. In that context, the continued increase in energy arrears, especially of the aluminum smelter, are a significant cause for concern. The government is working on the fulfillment of the remaining condition—carrying out an acceptable IAS audit of the Aluminum Company TADAZ—and intends to complete it in about three months. Institution building and technical assistance in support of structural reforms under *SAC 2* are supported by *IBTA 2* and *Farm Privatization Support Project*. The Bank leads in areas of:

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

privatization plan for Tajiktelekom; and taking the first steps towards splitting Tajik Air's organizational structure into three different business units in order to prepare it for privatization.

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

Areas of shared responsibility

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

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

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

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

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

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

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

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

C. World Bank Group Strategy

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

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

19. Tajikistan is currently in the Base Case Scenario. Continued support under this scenario would depend on macroeconomic performance, particularly good external debt management, and continued progress with structural reforms supported by a SAC III in FY04

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

TAJIKISTAN: RELATIONS WITH THE ASIAN DEVELOPMENT BANK
(As of December 5, 2003)

Country Director: Ms. Kazuko Motomura Telephone: 992-91-901-5051/372-210558

1. Tajikistan became a member of the AsDB on April 20, 1998. The AsDB has participated in the Consultative Group Meeting for Tajikistan since 1998. Based on the first Economic Report and Interim Operational Strategy for Tajikistan endorsed by AsDB's Board of Directors in October 1998, the Board approved Tajikistan's country classification, which provides the basis for Tajikistan's full access to concessional resources (Asian Development Fund).
2. In view of Tajikistan's urgent need for assistance in 1998, the interim strategy focused predominantly on the rehabilitation of infrastructure destroyed by the civil war, as well as creating a basis for a successful economic transition. Under this interim strategy, the AsDB Board approved a Postconflict Infrastructure Program Loan (US\$20 million) to support agriculture, energy, transport, and social sectors, and was designed to create a framework for the delivery of market-based transport and energy services. The loan was for two years and was fully disbursed by end-2000 upon implementation of reforms acceptable to AsDB.
3. In 1999, the AsDB Board approved a Social Sector Rehabilitation Project Loan (US\$20 million) to address the serious deterioration in living standards and strengthen the delivery of essential social services, and the Emergency Flood Rehabilitation Project Loan (US\$5 million). In 2000, a Road Rehabilitation Project Loan (US\$20 million) and a Power Rehabilitation Project Loan (US\$34 million) were approved based on the satisfactory progress of the Postconflict Infrastructure Program Loan conditionalities. In response to an urgent request of the Government, the Emergency Restoration of Yavan Water Conveyance System loan (US\$3.6 million) was approved in November 2001. Due to the war in Afghanistan in 2001, processing of other loans were delayed. In 2002, the Emergency Baipaza Landslide Stabilization Project loan (US\$5.3 million), the Regional Trade Facilitation and Customs Cooperation Program loan (US\$10 million) focused on customs reforms, the Agriculture Rehabilitation Project loan (US\$35 million) aimed at improving living conditions of the project area farming communities, and the Regional Power Transmission Modernization Project loan (US\$20 million) were approved. The last project loan is geared towards improving the reliability and the operation of the Central Asian power transmission system, enhancing the intercountry power trading between Tajikistan and Uzbekistan, and laying the foundation for a future wholesale regional power market. With the approval of the Rural Financial Systems Development Program loan in 2003, the total lending from AsDB to Tajikistan reached US\$180.9 million as of end-October 2003. A road rehabilitation project for improving transportation link between Dushanbe and the border with Kyrgyz, and two other loans for supporting reforms in education and health sectors are being processed.

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

5. Following the finalization of Tajikistan's Poverty Reduction Strategy (PRSP) in June 2002, AsDB concluded the Poverty Partnership Agreement (PPA) with the Government in December 2002, and proceeded to prepare a new Country Strategy and Program (CSP) for 2004–2008 for Tajikistan, which was considered by the AsDB Board on October 22, 2003. In view of the current challenging circumstances for development, including the limited borrowing capacity of the country, the CSP will not be able to support all areas identified in the PRSP and the PPA. Its main objectives will be to strengthen (i) regional cooperation through improved customs services and transportation links; and (ii) rural development through institutional building that will support policy implementation and the private sector, and rehabilitate irrigation and rural infrastructure. Annual lending during 2004–2008 is expected to be US\$30–35 million.

TAJIKISTAN: STATISTICAL ISSUES

1. The National Bank of Tajikistan (NBT) has recently made significant improvements in the areas of balance of payments and money and banking statistics with STA technical assistance. The country page for Tajikistan was introduced in the *International Financial Statistics* in February 2003. However, weaknesses persist in the statistical system, in particular in compiling real sector statistics (primarily, the responsibility of the State Statistical Committee (Goskomstat)) due largely to inadequate coverage and valuation problems for certain production activities. Efforts to further improve the quality of economic statistics are limited by tight budgetary constraints and the authorities have requested significant Fund technical assistance which is currently being considered for inclusion in STA's RAP.

National Accounts Statistics

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

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

Price Statistics

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

index (WPI), which is also compiled on a monthly basis, closely corresponds to a producer price index. At present, the WPI suffers from a number of shortcomings including inadequate coverage of private sector activities.

Government Finance Statistics

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

6. Data covering the consolidated central government as well as the consolidated local government for 1998–2001 have been reported by Tajikistan for publication in the *2002 GFS Yearbook*, an effort that was disrupted in 2003. Tajikistan is yet to report GFS using the new *GFSM 2001* template. 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 money and banking statistics, following the adoption of the IAS-based new charts of accounts by NBT and commercial banks in end-1998, are broadly in line with the framework recommended by STA missions in 1998 and 1999. The money and banking statistics reported to the Fund are broadly adequate for policy and analytical purposes. However, a STA mission in October/November 2002 identified several areas for further improvement, including: (a) the classification of foreign assets and liabilities based fully on the residency criterion instead of currency denomination; (b) more detailed classification of loans; and (c) investigation and reclassification, as appropriate, of several bank accounts currently included in *other items (net)* in the analytical accounts of NBT and commercial banks. A follow-up mission included in RAP FY2004 is scheduled for early 2004.

Balance of Payments Statistics

8. The authorities have made significant improvements in compiling the balance of payments statistics with assistance provided by STA. A STA mission found in March 2002 that most recommendations of previous missions had been implemented, although there are outstanding problems, such as inadequate coordination of the exchange of data between government agencies and estimation of “shuttle” trade. A follow-up mission in October/November 2002 recommended for the medium-term the modernization of the statistics law, establishment of a private statistics users council, the partial compilation of the international investment position and the establishment of a program for improving balance

of payments statistics on an on-going basis. The May 2003 STA mission noted that the NBT is taking the initiative to draft an amendment aimed at ensuring legal protection of the confidentiality of reporters. No steps have been taken to establish a private statistics users council. Under-reporting by joint enterprises and wholly foreign-owned foreign direct investment enterprises, as well as the absence of portfolio investment data are the major deficiencies in the balance of payments accounts.

Tajikistan: Core Statistical Indicators
(As of December 2, 2003)

| | Exchange Rates | International Reserves | Central Bank Balance Sheet | Reserve Money | Broad Money | Interest Rates 1/ | Consumer Price Index | Exports/ Imports | Current Account Balance | Overall Government Balance | GDP/ GNP | External Debt/ Debt Service |
|----------------------------|----------------|------------------------|----------------------------|---------------|-------------|-------------------|----------------------|------------------|-------------------------|----------------------------|----------|-----------------------------|
| Date of Latest Observation | 11/28/03 | 11/27/03 | 11/27/03 | 11/27/03 | 10/31/03 | 12/2/03 | 10/31/03 | Q3/03 | Q3/03 | 10/31/03 | 10/31/03 | Q3/03 |
| Date Received | 12/2/03 | 12/2/03 | 12/2/03 | 12/2/03 | 12/2/03 | 12/2/03 | 11/13/03 | 11/6/03 | 11/6/03 | 11/17/03 | 11/6/03 | 11/6/03 |
| Frequency of Data | D | W | W | W | M | W | M | Q | Q | M | M | Q |
| Frequency of Reporting | W | W | W | W | M | W | M | Q | Q | M | M | Q |
| Source of Update | A | A | A | A | A | A | A | A | A | A | A | A |
| Mode of Reporting | RR | RR | RR | RR | RR | RR | RR | RR | RR | RR | RR | RR |
| Confidentiality | - | - | - | - | - | - | - | - | - | - | - | - |
| Frequency of Publication | W | W | W | W | M | V | M | V | V | M | V | V |

1/ Annual interest rate on NBT bills.

Notes:

Explanation of abbreviations:

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

Source of updating: A-authorities.

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

TAJIKISTAN: EXTERNAL DEBT MANAGEMENT AND SUSTAINABILITY

Recent Developments

1. As of end-September 2003, Tajikistan's external debt stood at US\$1,015 million (73 percent of GDP). The increase in external debt since end-2002 (US\$982 million) was due to disbursements by IFIs for financing the public investment program (PIP) and the second disbursement under PRGF. Of the total debt, US\$806 million (79 percent) is public and publicly guaranteed debt, while the balance is private sector debt. About 45 percent of public debt is owed to multilateral creditors. Much of Tajikistan's external debt is concessional, with the implicit average interest rate of 2.6 percent.

2. Since end-2002, Tajikistan's debt indicators have improved modestly because of higher-than-projected growth of GDP, strong fiscal revenue growth and bilateral debt rescheduling. In late 2002, the government rescheduled debt service and repaid arrears to Russia, reduced the stock of debt to Uzbekistan through an offset, restructured the debt to Kazakhstan and Uzbekistan, and repaid a non-complying disbursement to the Fund. In 2003, Tajikistan finalized its restructuring negotiations with Iran and formalized earlier rescheduling arrangements with Pakistan. Tajikistan also reconfirmed the earlier understanding that debt service to Uzbekistan will be offset by transit services provided by Tajik Rail based on annual agreements, although the agreement for 2003 has not been signed. The government is actively pursuing restructuring options on government-guaranteed debt with India and China.

3. Russia is Tajikistan's largest bilateral creditor. Debt to Russia amounted to US\$300 million at end-2002 (37 percent of public debt and 65 percent of bilateral debt). This debt was restructured in December 2002. The conditions include the extension of maturity from 15 to 17 years, the reduction of principal repayments falling due in 2005–2006 by 50 percent, and a reduction of interest payments in 2002–2005 by US\$1 million annually. The interest rate was unchanged at 4 percent. As a result, Tajikistan's debt service payments to Russia are US\$23 million a year and will increase to US\$32 million beginning in 2007. The authorities are considering a new debt restructuring with Russia, either bilaterally or in the Paris Club context.

4. Debt management has improved, but remains weak. Lack of technical knowledge, insufficient administrative capacity, and low salaries are the main reasons for institutional weaknesses. In the past, poor debt management has been the reason for the missed debt service payments and the recurrent errors in debt service calculations and projections. To assist the authorities with capacity building, an MFD debt advisor is assisting the authorities with the introduction of the Integrated Financial Information Management System (SMART). The authorities' debt strategy focuses on improving debt management, restructuring existing bilateral debt, limiting future debt contracting and ensuring its concessionality, avoiding technical arrears, and ensuring timely debt service payment. On July 4, 2003, the Government approved the "Strategy for the Reduction of External Debt of the Republic of Tajikistan."

Debt Sustainability¹

5. The assumptions underlying the baseline scenario of the debt sustainability analysis include continued strong real growth at 9 percent in 2003, 6 percent in 2004, and a 4 percent thereafter; fiscal consolidation with the overall fiscal deficit of about 3 percent of GDP reflecting the externally financed PIP; and inflation of 7 in 2004 and 5 percent thereafter. The foreign-financed PIP is assumed to be 3 percent of GDP. Tajikistan's terms of trade are assumed to improve gradually, while exports and imports are expected to grow annually by 5 and 4 percent, respectively. At end-2002, net present value (NPV) of public debt was US\$701 million (149 percent of non-barter exports and 351 percent of fiscal revenue, excluding grants). Public debt service stood at US\$74 million (15 percent of exports and 37 percent of fiscal revenue) (Appendix Tables 1 and 2).

6. The baseline scenario is affected by the trends in the profile of debt owed to Uzbekistan and Russia. At this point, the authorities have not yet signed the annual offset agreements with Uzbekistan for 2003 and 2004. In the absence of such agreements, Tajikistan is liable for US\$13 million a year of additional principal repayments until 2010. In the absence of further rescheduling, a repayment of the principal to Russia is due in 2005. Furthermore, total payments to Russia will more than double beginning in 2007. The combined obligations to Russia and Uzbekistan cause debt service costs to increase substantially in 2005–2009. The fiscal sustainability of public debt after worsening in 2005–2009, will remain a concern in the medium term, as the ratio of NPV to revenue is projected to fall below 250 percent only in 2006.

7. Following the expiration of the grace period on the debt to Russia, debt service costs are expected to increase in 2005 and may exceed 11 percent of exports by 2007 with the expiration of grace periods on a number of loans. Reflecting a solid increase in revenue collection in 2003–2004 and debt restructuring efforts by the government, ratio of debt service to fiscal revenue will drop from 37 percent in 2002 to some 21 percent in 2005.

8. Tajikistan's debt profile is vulnerable to exogenous shocks, especially with regard to export revenue (Appendix Table 1). If the historical volatility in export revenues is assumed to recur in 2004–05 (export growth at historical average minus two standard deviations), NPV of debt-to-export ratio would exceed 200 percent in the medium term and put the balance of payments under a protracted stress during the coming decade. If net official transfers decline in 2004–05 by two standard deviations, also reflecting their historical volatility, NPV of public debt-to-exports will exceed 200 percent already in the short term. If Tajikistan has to resort to borrowing on commercial terms to cover its future financing gaps,

¹ For the purpose of debt sustainability analysis, the definition of debt includes only external debt by the central government and debt guaranteed by the central government, for which guarantees have been invoked by creditors.

its debt profile will worsen, but not dramatically. Given Tajikistan's limited absorption capacity, additional external financing would not exceed US\$15–20 million per year.

9. Fiscal indicators also would deteriorate under the stress tests (Appendix Table 2). For example, a 30 percent real depreciation may lead to NPV of debt-to-revenue of 380 percent in 2004, with debt service amounting to at least 30 percent of fiscal revenue in the medium term. Non-concessional borrowing, if pursued by the authorities, will have broadly the same effect. With a relatively high real GDP growth in 2000–02 (8–10 percent per year) from a low post-war base, the NPV of debt-to-revenue indicators improves somewhat if held at these high historical levels, but worsen substantially should real GDP growth be lower by two standard deviations in 2004–05. Under this stress test, the NPV of debt-to-revenue will remain stable at above 250 percent through 2006, and debt service would reach about 25 percent of fiscal revenue in 2007.

10. A hypothetical restructuring of Tajikistan's debt to Russia improves debt sustainability (Appendix Tables 3 and 4). The restructuring is assumed to take place at end-2003 and envisage a reduction of interest rate to 2.8 percent (consistently with the interest paid to most other creditors and compared with 4 percent currently), with six year grace period through 2009 and the repayment of debt by 2021. Rescheduling of debt service to Russia on more concessional terms reduces the actual and projected NPV of debt. While the NPV of debt-to-revenue ratio will decline modestly, the impact on debt service payments is significant: under the restructuring scenario, during 2004–2009 debt service will average 8 percent of export earnings and 16 percent of fiscal revenue, compared with 10 and 20 percent, respectively, without the restructuring.

Conclusions

11. Tajikistan's debt burden will remain high in the coming years. Unfavorable trends in the debt profile arise in 2005–2009, mainly because of large debt service to Russia, uncertainties regarding repayment to Uzbekistan, and external borrowing to finance the PIP. The situation is vulnerable to shocks and hinges on continued strong policy implementation. With continued strong growth underpinned by sustained reforms and no new non-concessional borrowing, Tajikistan debt indicators are projected to improve gradually.

12. The fiscal sustainability of debt remains a serious concern. Tajikistan's debt service obligations are burdensome, in particular in the medium term. Unless the high growth rate in revenue collection and strong macroeconomic policy implementation are sustained, debt service payments may require diversion of up to a third of revenue in case of adverse shocks.

13. Restructuring of bilateral debt with Russia remains a priority. With the projected hump in debt service payments in the next five years, extension of the grace period of payments to Russia would help smoothen the debt profile in the medium term and reduce strain on limited fiscal resources.

Appendix Table 1. Tajikistan: External Debt Indicators Relative to Exports 1/
(In percent)

| | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 |
|--|--------|------|------|------|------|------|-------------|------|------|------|------|------|------|------|
| | Actual | | | | | | Projections | | | | | | | |
| NPV of debt-to-exports ratio 2/ | | | | | | | | | | | | | | |
| Baseline | 149 | 142 | 139 | 132 | 126 | 119 | 114 | 110 | 104 | 97 | 91 | 86 | 82 | 79 |
| Stress tests | | | | | | | | | | | | | | |
| 1. Export growth and non-interest current account (NICA) at historical averages | | | 136 | 131 | 132 | 133 | 134 | 122 | 110 | 104 | 101 | 99 | 98 | 96 |
| 2. Export growth at historical average minus two standard deviations in 2004-05 | | | 153 | 187 | 251 | 279 | 265 | 256 | 242 | 230 | 218 | 207 | 198 | 191 |
| 3. NICA at historical average minus two standard deviations in 2004-05 | | | 151 | 156 | 143 | 130 | 122 | 109 | 100 | 95 | 93 | 91 | 89 | 86 |
| 4. Export growth and NICA at historical averages minus 1 standard deviation in 2004-05 | | | 146 | 159 | 184 | 198 | 199 | 182 | 164 | 154 | 150 | 147 | 145 | 142 |
| 5. Net official transfers at historical average minus two standard deviations in 2004-05 | | | 223 | 273 | 235 | 199 | 167 | 131 | 108 | 101 | 96 | 92 | 90 | 86 |
| 6. 10 percent of GDP increase in other debt-creating flows in 2004 | | | 157 | 144 | 135 | 125 | 117 | 108 | 102 | 95 | 89 | 84 | 79 | 76 |
| Debt service-to-exports ratio 3/ | | | | | | | | | | | | | | |
| Baseline | 15.0 | 10.7 | 8.0 | 10.1 | 10.1 | 11.4 | 10.7 | 9.7 | 9.8 | 8.9 | 8.6 | 7.7 | 7.2 | 6.2 |
| Stress tests 4/ | | | | | | | | | | | | | | |
| 1. Export growth and non-interest current account (NICA) at historical averages | | | 8.3 | 9.6 | 9.4 | 11.5 | 12.3 | 12.9 | 12.5 | 10.7 | 10.1 | 9.3 | 8.8 | 9.2 |
| 2. Export growth at historical average minus two standard deviations in 2004-05 | | | 11.4 | 21.5 | 19.3 | 20.6 | 17.1 | 14.3 | 15.0 | 13.5 | 13.7 | 12.5 | 12.6 | 10.6 |
| 3. NICA at historical average minus two standard deviations in 2004-05 | | | 7.2 | 12.5 | 15.9 | 16.3 | 15.1 | 14.4 | 11.4 | 7.8 | 7.9 | 7.9 | 7.9 | 7.9 |
| 4. Export growth and NICA at historical averages minus 1 standard deviation in 2004-05 | | | 9.1 | 16.9 | 19.5 | 20.2 | 18.6 | 17.8 | 15.2 | 11.4 | 12.0 | 12.1 | 12.4 | 12.4 |
| 5. Net official transfers at historical average minus two standard deviations in 2004-05 | | | 7.2 | 28.0 | 44.8 | 44.2 | 41.8 | 39.4 | 25.2 | 11.6 | 10.5 | 9.5 | 8.8 | 8.4 |
| 6. 10 percent of GDP increase in other debt-creating flows in 2004 | | | 7.0 | 13.7 | 13.3 | 14.3 | 13.4 | 12.6 | 9.4 | 8.4 | 7.9 | 6.8 | 6.4 | 5.3 |

Source: country authorities and staff estimates, projections and simulations.

1/ Includes public and publicly-guaranteed debt only.

2/ Based on three-year backward-looking average of non-barter exports of goods and services.

3/ Based on current-year non-barter exports of goods and services.

4/ Historical averages are for period 1996-2002.

Appendix Table 2. Tajikistan: External Debt Indicators Relative to Fiscal Revenue
(In percent)

| | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 |
|--|--------|------|------|-------------|------|------|------|------|------|------|------|------|------|------|
| | Actual | | | Projections | | | | | | | | | | |
| NPV of debt-to-revenue ratio | | | | | | | | | | | | | | |
| Baseline | 351 | 320 | 274 | 257 | 240 | 222 | 205 | 192 | 176 | 162 | 148 | 136 | 126 | 119 |
| Stress tests | | | | | | | | | | | | | | |
| 1. Real GDP growth at historical average | 263 | 236 | 211 | 187 | 167 | 148 | 130 | 114 | 100 | 90 | 81 | 76 | | |
| 2. Real GDP growth at historical average minus two standard deviations in 2004-05 | 292 | 289 | 270 | 249 | 231 | 211 | 190 | 171 | 153 | 139 | 126 | 117 | | |
| 3. 30 percent real depreciation in 2004 | 380 | 354 | 329 | 302 | 278 | 260 | 240 | 221 | 203 | 187 | 174 | 164 | | |
| 4. Net official transfers at historical average minus two standard deviations in 2004-05 | 263 | 248 | 233 | 217 | 203 | 191 | 176 | 161 | 147 | 136 | 126 | 119 | | |
| 5. 10 percent of GDP increase in other debt-creating flows in 2004 | 333 | 302 | 274 | 245 | 219 | 196 | 179 | 163 | 148 | 136 | 126 | 119 | | |
| Debt service-to-revenue ratio | | | | | | | | | | | | | | |
| Baseline | 37.0 | 26.8 | 17.3 | 21.1 | 20.3 | 22.0 | 20.1 | 17.8 | 17.4 | 15.4 | 14.6 | 12.7 | 11.7 | 9.7 |
| Stress tests | | | | | | | | | | | | | | |
| 1. GDP growth at historical average | 16.6 | 19.3 | 18.0 | 18.8 | 16.7 | 14.4 | 13.8 | 12.3 | 11.6 | 10.5 | 10.0 | 9.1 | | |
| 2. Real GDP growth at historical average minus two standard deviations in 2004-05 | 18.4 | 23.8 | 22.8 | 24.8 | 22.6 | 19.5 | 18.8 | 16.4 | 15.1 | 12.9 | 11.7 | 9.6 | | |
| 3. 30 percent real depreciation in 2004 | 23.3 | 31.1 | 29.7 | 31.9 | 29.1 | 27.8 | 25.9 | 23.5 | 22.3 | 20.0 | 18.7 | 15.6 | | |
| 4. Net official transfers at historical average minus two standard deviations in 2004-05 | 17.3 | 18.5 | 17.8 | 19.8 | 18.0 | 15.9 | 17.0 | 15.2 | 14.4 | 12.6 | 11.6 | 9.7 | | |
| 5. 10 percent of GDP increase in other debt-creating flows in 2004 | 17.3 | 34.6 | 32.8 | 33.7 | 30.8 | 27.5 | 19.2 | 16.7 | 15.3 | 13.1 | 11.9 | 9.8 | | |

Source: country authorities and staff estimates, projections and simulations.

Appendix Table 3. Tajikistan: External Debt Indicators Relative to Exports 1/
(In percent)

| | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 |
|--|--------|------|------|------|------|------|-------------|------|------|------|------|------|------|------|
| | Actual | | | | | | Projections | | | | | | | |
| NPV of debt-to-exports ratio 2/ | | | | | | | | | | | | | | |
| Baseline | 142 | 136 | 133 | 128 | 124 | 120 | 119 | 117 | 111 | 105 | 98 | 93 | 88 | 86 |
| Restructuring with Russia | | | | | | | | | | | | | | |
| 1. Export growth and non-interest current account (NICA) at historical averages | 130 | 127 | 130 | 127 | 130 | 134 | 139 | 131 | 119 | 112 | 109 | 106 | 103 | 100 |
| 2. Export growth at historical average minus two standard deviations in 2004-05 | 146 | 180 | 246 | 282 | 277 | 275 | 261 | 248 | 236 | 225 | 215 | 208 | | |
| 3. NICA at historical average minus two standard deviations in 2004-05 | 145 | 152 | 140 | 132 | 126 | 117 | 107 | 102 | 100 | 97 | 95 | 92 | | |
| 4. Export growth and NICA at historical averages minus 1 standard deviation in 2004-05 | 139 | 154 | 181 | 200 | 206 | 194 | 176 | 166 | 161 | 157 | 153 | 149 | | |
| 5. Net official transfers at historical average minus two standard deviations in 2004-05 | 217 | 269 | 232 | 200 | 171 | 139 | 116 | 108 | 103 | 99 | 96 | 93 | | |
| 6. 10 percent of GDP increase in other debt-creating flows in 2004 | 150 | 140 | 133 | 127 | 121 | 116 | 109 | 102 | 96 | 90 | 86 | 83 | | |
| Debt service-to-exports ratio 3/ | | | | | | | | | | | | | | |
| Restructuring with Russia | 15.0 | 10.7 | 8.0 | 8.3 | 8.5 | 8.2 | 7.6 | 6.8 | 10.0 | 9.1 | 8.8 | 7.9 | 7.4 | 6.4 |
| Stress tests 4/ | | | | | | | | | | | | | | |
| 1. Export growth and non-interest current account (NICA) at historical averages | 8.3 | 7.8 | 7.7 | 8.1 | 9.1 | 9.1 | 9.9 | 12.9 | 11.2 | 10.5 | 9.7 | 9.0 | 9.1 | |
| 2. Export growth at historical average minus two standard deviations in 2004-05 | 11.4 | 17.0 | 15.0 | 12.3 | 9.1 | 6.8 | 15.6 | 14.1 | 14.3 | 13.0 | 13.1 | 11.1 | | |
| 3. NICA at historical average minus two standard deviations in 2004-05 | 7.2 | 10.8 | 14.2 | 13.1 | 12.1 | 11.4 | 11.7 | 8.0 | 8.1 | 8.1 | 8.1 | 8.1 | | |
| 4. Export growth and NICA at historical averages minus 1 standard deviation in 2004-05 | 9.1 | 14.2 | 16.8 | 15.2 | 13.8 | 13.2 | 15.5 | 11.8 | 12.3 | 12.4 | 12.7 | 12.7 | | |
| 5. Net official transfers at historical average minus two standard deviations in 2004-05 | 7.2 | 26.3 | 43.2 | 41.0 | 38.7 | 36.5 | 25.5 | 11.8 | 10.7 | 9.7 | 9.0 | 8.5 | | |
| 6. 10 percent of GDP increase in other debt-creating flows in 2004 | 7.0 | 11.9 | 11.7 | 11.2 | 10.4 | 9.6 | 9.7 | 8.6 | 8.1 | 7.0 | 6.6 | 5.5 | | |

Source: country authorities and staff estimates, projections and simulations.

1/ Includes public and publicly-guaranteed debt only.

2/ Based on three-year backward-looking average of non-barter exports of goods and services.

3/ Based on current-year non-barter exports of goods and services.

4/ Historical averages are for period 1996-2002.

Appendix Table 4. Tajikistan: External Debt Indicators Relative to Fiscal Revenue
(In percent)

| | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 |
|--|--------|------|------|------|------|-------------|------|------|------|------|------|------|------|------|
| | Actual | | | | | Projections | | | | | | | | |
| NPV of debt-to-revenue ratio | | | | | | | | | | | | | | |
| Restructuring with Russia | 335 | 305 | 262 | 249 | 236 | 224 | 213 | 205 | 188 | 173 | 159 | 146 | 136 | 129 |
| Stress tests | | | | | | | | | | | | | | |
| 1. Real GDP growth at historical average | 251 | 229 | 207 | 189 | 173 | 157 | 138 | 121 | 107 | 95 | 86 | 80 | | |
| 2. Real GDP growth at historical average minus two standard deviations in 2004-05 | 279 | 280 | 265 | 252 | 240 | 225 | 203 | 183 | 165 | 149 | 136 | 127 | | |
| 3. 30 percent real depreciation in 2004 | 364 | 343 | 323 | 305 | 289 | 278 | 257 | 237 | 218 | 201 | 187 | 177 | | |
| 4. Net official transfers at historical average minus two standard deviations in 2004-05 | 251 | 240 | 229 | 219 | 211 | 204 | 188 | 173 | 159 | 146 | 136 | 129 | | |
| 5. 10 percent of GDP increase in other debt-creating flows in 2004 | 321 | 294 | 270 | 247 | 227 | 209 | 191 | 175 | 159 | 147 | 136 | 129 | | |
| Debt service-to-revenue ratio | | | | | | | | | | | | | | |
| Restructuring with Russia | 37.0 | 26.8 | 17.3 | 17.5 | 16.9 | 15.8 | 14.3 | 12.4 | 17.8 | 15.8 | 14.9 | 13.0 | 12.0 | 10.0 |
| Stress tests | | | | | | | | | | | | | | |
| 1. GDP growth at historical average | 16.6 | 16.0 | 15.1 | 13.7 | 12.2 | 10.4 | 14.1 | 12.5 | 11.8 | 10.5 | 10.0 | 9.1 | | |
| 2. Real GDP growth at historical average minus two standard deviations in 2004-05 | 18.4 | 19.7 | 19.0 | 17.8 | 16.1 | 13.6 | 19.2 | 16.8 | 15.5 | 13.3 | 12.0 | 9.9 | | |
| 3. 30 percent real depreciation in 2004 | 23.3 | 26.2 | 25.3 | 23.6 | 21.4 | 20.6 | 26.5 | 24.0 | 22.8 | 20.4 | 19.1 | 16.0 | | |
| 4. Net official transfers at historical average minus two standard deviations in 2004-05 | 17.3 | 14.9 | 14.5 | 13.6 | 12.3 | 10.5 | 17.4 | 15.6 | 14.8 | 12.9 | 11.9 | 10.0 | | |
| 5. 10 percent of GDP increase in other debt-creating flows in 2004 | 17.3 | 31.0 | 29.5 | 27.5 | 25.1 | 22.2 | 19.6 | 17.1 | 15.7 | 13.4 | 12.2 | 10.1 | | |

Source: country authorities and staff estimates, projections and simulations.

**President
of the Republic
of Tajikistan**

December 19, 2003
Dushanbe

Mr. Horst Köhler
Managing Director
International Monetary Fund

Dear Mr. Köhler:

I would like to take this opportunity to express my gratitude to the International Monetary Fund for its ongoing support for our economic reforms and development.

During October of this year, the government of Tajikistan held discussions with Fund staff for the second 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 second year of the three-year PRGF arrangement. This MEFP reflects the impact of recent economic developments on the macroeconomic framework; measures we will take to accelerate structural reforms; quantitative performance criteria; and structural performance criteria and benchmarks to cover the period October 1, 2003–September 30, 2004.

All of the quantitative performance criteria for end-September 2003 were observed, however, the indicative target on reserve money was missed. The end-September structural performance criterion on eliminating subsidized tariffs for privileged groups was not met on time, but will be implemented by end-December 2003. Therefore, we request a waiver for the non-observance of the one structural performance criterion. The end-June structural benchmark regarding the restructuring of Agroinvestbank was not met on time, but will also be implemented by end-December 2003. On the basis of performance during the period up to end-September 2003 and the policies set out in the attached Memorandum of Economic and Financial Policies, we request the completion of the second review under the PRGF arrangement.

We intend to remain in close consultation with Fund staff on the adoption of any measures that may be appropriate, in accordance with IMF policies on such consultations, and will provide the staff with information it requests for monitoring economic developments and progress in the implementation of policies and in reaching the objectives of the program supported by the PRGF arrangement.

The government believes that the policies set forth in the attached Memorandum of Economic and Financial Policies (MEFP) are adequate to achieve the objectives of its program, 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 to the policies contained in the MEFP, in accordance with the Fund's policies on such consultation.

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

/s/

Emomali Rakhmonov

REPUBLIC OF TAJIKISTAN

Memorandum of Economic and Financial Policies for the Period October 1, 2003 to September 30, 2004 Supported Under the Poverty Reduction and Growth Facility

December 19, 2003

I. INTRODUCTION

1. During the past year, we have been pursuing an economic and financial program with support from the International Monetary Fund's Poverty Reduction and Growth Facility (PRGF). This Memorandum of Economic and Financial Policies (MEFP) reviews the progress made during this period and details our economic strategy for the second annual program under this facility.

II. RECENT DEVELOPMENTS AND PERFORMANCE UNDER THE PROGRAM

2. Since 1998, real GDP has expanded by an average of 7 percent per annum and through September of this year it has increased by 7.9 percent. This strong performance has led to an improvement in per capita incomes and a reduction in poverty. Although economic activity continues to be supported by traditional sectors (aluminum and cotton), there is evidence that growth is broadening. Between January 2002 and September 2003, the service sector expanded by 19.5 percent, and it accounted for a third of the growth in output during the first nine months of this year. This performance has, however, been undermined by ongoing high inflation. Consumer prices increased by 12.2 percent last year (year-on-year) and are projected to rise by more than 15 percent this year. Exogenous factors and administered price increases (utility tariffs) contributed to inflation, but lapses in monetary policy also played a role. The nominal exchange rate has remained stable for the past year and has not been a major source of inflationary pressure.

3. A depreciation of the real effective exchange rate by 14 percent between end-2001 and end-September 2003 has helped maintain Tajikistan's international competitiveness. We expect the trade deficit to decline significantly this year, while the current account deficit is broadly unchanged at 2.9 percent of GDP compared with 2.7 percent last year. The debt rescheduling with Russia last year has reduced our debt service this year, and gross international reserves are projected to remain unchanged at 1.8 months of imports at end-2003 compared with 2002.

4. Macroeconomic policies have generally remained on track. The projected deficit for 2003 was 0.9 percent of GDP, however, we expect realize a overall budget surplus for the year due to higher-than-projected GDP growth and expenditure discipline. At the

same time, we limited public sector wage increases and foreign-financed capital expenditures in line with the Fund-supported program.

5. During the first nine months of this year, tax collections have exceeded the program targets and have allowed for expanded social expenditures. Although higher-than-projected GDP explains much of this performance, improved tax and customs administration has also played a role. The ratio of tax revenue to GDP has increased this year, but by less than we projected because much of the recent growth has been concentrated recently in services, which are difficult to tax.

6. Prudent fiscal policy has helped the National Bank of Tajikistan (NBT) observe most of the monetary policy targets during the first year of the program. Nonetheless, the indicative ceiling for reserve money has been consistently exceeded. Both the ceiling on net domestic assets of the NBT and net credit of the banking system to government were observed for end-March and end-September 2003, and the floor on net international reserves was exceeded by a wide margin (all performance criteria). Net international reserves were US\$38.5 million at end-September 2003, compared with an adjusted target of US\$5.5 million. The NBT accumulated these reserves because the interbank foreign-exchange market could not absorb large monthly foreign-exchange sales by the state-owned aluminum enterprise. The NBT, however, did not return these purchases to the inter-bank market and as a result, reserve money growth through end-October was 33 percent above the end-September program target. More recently, the NBT has begun returning these purchases to the interbank market in an effort to reduce liquidity.

7. Additionally, the restructuring of the NBT has been completed, although with a slight delay, and the newly established Monetary Policy Committee is operational. We believe these changes will significantly improve the implementation of monetary policy and contribute to a reduction in inflationary pressures.

8. With regard to external policies, we have harmonized our trade regime with the requirements of the Eurasian Economic Community. This involved the introduction of two new tariff rates (10 and 15 percent) to the present system of three rates (0, 2, and 5 percent) and resulted in an increase of the average tariff from 5 to 7.7 percent. We informed the World Trade Organization of our intention to change the trade regime and there were no objections. Together with technical assistance from the Fund, we have continued to improve debt management and to update our comprehensive computerized inventory of all public and publicly-guaranteed external debt.

9. Under the Fund-supported program, we have continued the implementation of structural reforms. In the energy sector, we raised gas tariffs to cost recovery levels; increased collection rates, and raised gas consumption norms for unmetered households. Recognizing the need to mitigate the impact of these measures on low-income households, we introduced an energy compensation mechanism. As of end-October 2003,

we have provided SM 9 million through this compensation mechanism. We are currently working with the World Bank to improve this mechanism through better targeting of poor households and streamlining of the application procedure.

10. The problems of the Agroinvestbank (AIB), which is Tajikistan's largest commercial bank, proved more difficult to resolve than expected and we did not meet the structural benchmark (end-June 2003) for separating AIB into two independent entities. We have issued a government resolution on the restructuring of the AIB that requires (i) issuing SM 25 million in government bonds as compensation for directed credits issued by the AIB on behalf of government and (ii) finalizing the separation of AIB into two independent entities. We are exploring options that will strengthen the management of AIB. We plan to amend this resolution to ensure that AIB is fully compensated for all remaining non-performing loans under this agreement as of end-2006 as a prior action for completing the second review. Further, we have revoked the banking licenses of two problem commercial banks. We plan to close one of these banks and convert the other into a limited credit union by end-December 2003.

11. Our farm privatization program has been hindered by the lack of a mechanism for addressing the indebtedness of state-owned farms and concerns over the transparency and fairness of the process. We had hoped to resolve this issue by end-December 2002, but it proved to be more complex than anticipated. We have completed an inventory of the domestic and external debts of these farms and are currently finalizing proposals for improving the administration and transparency of the farm privatization process.

12. We are preparing the progress report on the implementation of our Poverty Reduction Strategy Paper (PRSP) and will submit it to the IMF and World Bank Executive Boards by end-February 2003. This report will be based on an analysis of the recent household poverty survey and an updated public investment program (PIP). It will pay particular attention to identifying investment priorities.

III. ECONOMIC POLICIES FOR THE SECOND ANNUAL PROGRAM

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

- Real GDP growth of 6–7 percent and a reduction of inflation of 7 percent for 2004;
- An increase of gross international reserves to the equivalent of 2.7 months of imports at end-2004;
- Maintain the overall stance of fiscal policy and its focus on enhancing social policy expenditures

- Improve the implementation of monetary policy;
- Continue structural reform in the energy, banking and agricultural sectors; and
- Improve governance.

A. Fiscal Policy

14. The budget for 2004 envisages an overall fiscal deficit (excluding the foreign-financed public investment program, PIP) of ½ percent of GDP. In support of this goal, we will focus on completing a number of tax and customs administration measures to achieve tax revenue collections of SM 825 million or 16.2 percent of GDP, and continue to improve expenditure management through improved prioritization of expenditures. In particular, we will maintain the PIP at 3 percent of GDP and allow a modest increase in public sector wages linked to progress in the civil service reform agenda. We plan to review the appropriate level of annual disbursements under the PIP and will take account of our investment priorities as outlined in the PRSP, absorptive capacity, the availability of domestic resources, the sustainability of our external debt and improved forecasting of disbursements. The government will submit to parliament a 2004 budget that is consistent with program targets.

15. As part of our civil service reform agenda, we are preparing a plan for reducing the number of employees paid from the budget. This plan will be available at end-December 2003 and is aimed at improving the efficiency of the civil service. We have completed a survey of the number of the civil service employees and have prepared a database of civil service positions, grades and salaries and plan to begin auditing these positions in early 2004. During the first ten months of 2003, we reduced the number of employees paid from the budget by 20,080 or 4.3 percent.

16. As a pilot civil service reform effort, we will establish a working group chaired by the prime minister that will complete by end-March 2004 a fully costed plan for reforming the education sector. The working group will include representatives from government, donor agencies and IFIs. As part of this plan, we will reduce the number of employees in the education sector by 30 percent over a period of three to five years. We will begin the process of downsizing by reducing the number of budgetary employees in the education sector by 5 percent as of July 2004 (structural benchmark). Further, the plan will address reform of the education budget system with a move to more school autonomy; introduction of a fee schedule; expansion of teaching assignments; curriculum reform; and private sector involvement.

17. Recognizing that the level of public service wages is unacceptably low and in line with the gradual reduction in public sector employment, the 2004 budget allows for an increase in the civil service wage bill to a maximum of SM 155 million. The savings from staff reductions in education will be targeted on teachers as will the savings from an

average 25 percent increase in their average standard workload. This will allow a further targeted increase in teachers' wages effective July 1, 2004. As reform progresses, it would be possible to increase the public sector wage bill as a share of GDP to higher levels without compromising fiscal sustainability.

18. In order to strengthen our health and education sectors, we will increase expenditures in the 2004 budget on health and education to SM 225.8 million or 4.4 percent of GDP. Additionally, we will further increase transparency in public spending by continuing to publish detailed health and education expenditure execution data in national newspapers. In addition, from end-March 2004, we will publish in the local press a detailed breakdown of education and health expenditures by individual facility, e.g. schools and hospitals, on a quarterly basis.

19. To sustain our revenue efforts into the medium term, we plan to focus on completing a number of tax changes proposed earlier through Fund technical assistance. These measures include reducing the number of nuisance taxes (i.e. fee, charges and duties), simplifying both the tax and customs codes to enhance compliance, and introducing the unified land tax on a national basis. Effective January 1, 2004, we will eliminate the preferential tariff treatment of alumina imports by increasing the tariff on these (and all other imported inputs for aluminum production in that bracket) to 5 percent and reducing the sales tax on aluminum exports to 1 percent. We will also improve the transparency of revenue collections by publishing the 50 corporate taxpayers with the largest tax arrears on a quarterly basis in local newspapers. Excerpts from the tax and customs code will be published in national newspapers on a weekly basis to disseminate information on tax and customs payers' rights and responsibilities.

20. Improvements in our VAT system are critical to our revenue collection efforts. In view of this, we have implemented measures aimed at enhancing the efficiency of the system. In particular, we have [compiled and published an inventory of VAT refund claims and reimbursed these claims], cleared all overdue VAT refund claims and we are gradually eliminating tax arrears of key state-owned enterprises. To support the implementation of these measures, we will accelerate reform of the Ministry of State Revenues and Duties (MSRD) especially in the area of tax administration. To improve tax administration, we will finalize a plan to restructure the MSRD along functional lines by end-January 2004. By end-June 2004, we will adopt a standardized taxpayer registration document that will allow the introduction of a single taxpayer identification number for tax, customs and the social protection fund. Further, to improve monitoring of taxpayers, we will fully update the database of registered taxpayers by end-February 2004. Regarding improvements in customs administration, we will continue to limit export and import licensing to goods that adversely affect health, the environment, and our national security.

B. Monetary and Exchange Rate Policies

21. The monetary program for 2004 focuses on improving the implementation of monetary policy and reducing inflation, while strengthening the reserve position of the NBT. The program envisages a modest growth of 19.4 percent in banking sector credit to the non-cotton private sector, an increase of 18.5 percent in reserve money mainly through reserve buildup, and broad money growth of about 19.9 percent. Money demand is projected to increase by 1 percent during 2004 as confidence in the currency continues to improve.

22. In support of the 2004 monetary program, we established a monetary policy committee (MPC) to improve liquidity management. The MPC meets on a weekly basis and issues instructions for the purchase and/or sale of foreign exchange and other monetary instruments which are strictly enforced. To improve further the effectiveness of monetary policy, we will publish on a monthly basis our quarterly targets and end-month balance sheet statements. To strengthen the financial position of the NBT, we are committed to non-payment of dividends to the Ministry of Finance by the NBT as long as the latter's net worth remains negative (continuous structural performance criterion). Further, the NBT will not make any contribution to a deposit insurance scheme. Finally, the NBT will continue to refrain from issuing directed credits (continuous structural performance criterion).

23. The NBT will continue to maintain a managed floating exchange rate regime. While foreign exchange purchases and sales would continue to be the NBT's most effective policy instrument, any interventions in the foreign exchange market in excess of those required for monetary policy will be undertaken solely to reduce excess exchange rate volatility, and in line with the recommendations of the MPC.

24. A follow-up safeguards assessment of the NBT was completed in July 2003. It noted progress in strengthening safeguards since the previous assessment but that vulnerabilities remain. These relate mainly to financial accounting, reporting, and auditing procedures. In order to strengthen the management of the NBT further, we will appoint three well-qualified external candidates to the Executive Board by end-March 2004.

C. External Policies and Debt Management

25. We are committed to maintaining a liberalized trade and investment environment and the harmonization of our tariff regime with that of the Eurasian Economic Community is consistent with this goal. A working party of the World Trade Organization has been formed to consider our accession and will meet again in February to discuss our accession.

26. During the period under the Fund-supported program, neither the government nor the NBT will, without Fund approval, introduce or intensify existing restrictions on the making of payments and transfers for current international transactions. Nor we will introduce or modify any multiple currency practices, conclude any bilateral payments agreements that are inconsistent with Article VIII of the Fund's Articles of Agreement or impose or intensify restrictions for balance of payments reasons. All remaining restrictions on current international transfers and payments will be removed by end-March 2004 in order to pave the way for acceptance of obligations under Article VIII, sections 2, 3, and 4 of the Fund's Articles of Agreement.

27. We will continue to prohibit all non-concessional borrowing, and we will not draw on any outstanding non-concessional credit facilities. We will continue to update the inventory of public and publicly-guaranteed debt, and submit quarterly reports on debt to parliament. We will also improve accounting and reconcile PIP disbursements between the Ministry of Finance and the Aid Coordination Unit in the Office of the President. To ensure external debt sustainability, we will seek further debt rescheduling with major bilateral creditors on concessional terms. We will also compensate Tajikrail for rail services provided to service Tajikistan's debt to Uzbekistan.

D. Structural Policies

28. Our structural reform program will continue to focus on the energy, banking and agriculture sectors. In the energy sector, we eliminated the use of differential tariffs for privileged categories of consumers as a means of reducing the quasi-fiscal deficit. This was a structural performance criterion for end-September 2003, but due to the political sensitivity of the change, was only partially implemented. We will implement this structural performance criterion as a prior action for completion of the second review. We request that a waiver be granted for not observing this structural performance criterion. To alleviate the impact of higher energy tariffs on low-income households, we have increased funding for the energy compensation mechanism to SM 20 million in 2004 from SM 12 million last year. Up to 10 percent of these resources will be used to defray the cost of installing gas meters. In order to accelerate the installation of gas meters, we will finalize a contract by end-December 2003 to procure 250,000 gas meters from China. Between October 1, 2003 and end-March 2004, we plan to install 15,000 gas meters in households (structural benchmark). We also plan to continue automatic quarterly adjustments of all utility tariffs to account for depreciation of the nominal exchange rate (structural performance criteria). Although key state-owned enterprises have accumulated arrears to Tajikgas and Barqui Tajik since end-June 2003, we plan to eliminate these arrears by end-December 2003. By end-June 2004, we will also complete an external audit of Tajikgas by a reputable international auditing company and finalize a restructuring plan (structural benchmark).

29. We are continuing our efforts to strengthen the banking sector by strictly enforcing all prudential requirements. In addition to restructuring AIB, we will revoke (by

end-March 2004) the banking license of the three weakest banks and close two of these institutions. For all remaining banks, we will strictly enforce all prudential requirements by imposing the maximum penalty for non-compliance with prudential requirements. We will raise the minimum capital requirement to US\$2 million with effect end-December 2004, from US\$1.5 million. We will also allow banks to hold up to 50 percent of their capital in foreign exchange beginning January 1, 2004. We will also ensure that the management of all commercial banks is fully competent by ensuring strict adherence to the “fit and proper” requirement contained in the laws of Tajikistan.

30. In the agricultural sector, we will continue to address the farm debt problem and to improve the transparency and equity of the farm privatization process. We estimate the total farm debt at SM 765 million (US\$255 million) of which SM 502 million is owed to foreign creditors; SM 14 million is owed to domestic banks in interest; and SM 249 million is owed to the government and/or state-enterprises. We are presently finalizing our plan for restructuring farm debt which includes a provision for writing-off the domestic debt that restructured farms and those that are being restructured incurred before their privatization. This plan will also include a mechanism for the sale of the external debt of the farms in exchange for temporary cotton marketing rights. We will prepare, in consultation with IMF staff, and issue a government resolution by end-December 2003 containing the mechanism for reducing the debts of state owned farms.

31. To enhance the transparency of the farm privatization process, we will reach understandings (by end-March 2004) with independent third parties (including international non-government organizations) to monitor the privatization of at least 25 state-owned farms. To improve the governance of the farm privatization process, we will submit amendments to the law on local government and the land code to parliament (by end-March 2004) that will eliminate the authority of local government leaders to interfere in the farm privatization process or the operations and decisions of farms. Further, we will eliminate the double subordination clause and thereby make local officials of the State Land Reform Committee independent of local government officials.

32. To expedite the process of ensuring that privatized farms have clear and unequivocal land rights, we will issue 5,000 additional land share certificates (between October 1, 2003 and end-March 2004, structural benchmark). Further, we plan to begin issuing land share certificates to landholders under the presidential land distribution program.

33. Finally, to enhance governance we will complete an audit by a reputable international auditing firm of the structure, functions and practices of the State Financial Control Committee (SFCC) by end-March 2004 (structural benchmark). This audit will also provide recommendations for strengthening the SFCC’s operations so that it can serve as a deterrent to corruption. It is anticipated that the on-going parliamentary review started mid-2003 of all of the SFCC’s audit reports will also contribute to reducing

corruption. A progress report on implementation of the SFCC's recommendations will be submitted to parliament on a quarterly basis. Excerpts from the law on State Financial Control will be published in national newspapers on a weekly basis to improve transparency of its operations.

E. Program Monitoring

34. The second annual program will cover the period October 1, 2003–September 31, 2004, and will be monitored through two reviews by the Fund's Executive Board based on semi-annual performance criteria (at end-March 2004 and end-September 2004), indicative targets, and structural performance criteria and benchmarks.

35. 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 NBT credit to government; a ceiling on the cumulative fiscal deficit of the general government; a floor on cumulative tax collections of the Ministry of State Revenues and Duties; a zero ceiling on the accumulation of wage and non-working pension and external arrears; a zero ceiling on the net disbursement of short-term external debt with original maturity of up to and including one year; and a zero ceiling on the contracting or guaranteeing of medium and long-term nonconcessional debt with original maturity of more than one year. Detailed definitions and reporting requirements for these performance criteria are contained in the Technical Memorandum of Understanding attached to this memorandum (Annex V). In addition, the program includes adjustors on net domestic assets of the NBT and net international reserves to reflect excess/shortfalls of the disbursement of (non-project) foreign loans and cash grants, privatization receipts, and any overdue or rescheduled debt service obligations. The structural performance criteria and benchmarks are detailed in Annex IV.

36. The third review of the program will take place on or after May 15, 2004, based on performance as of March 31, 2004. At the time of the third review, the timing of the fourth review will be established, and quantitative and structural performance criteria as well as structural benchmarks will be established for end-September 2004.

37. The government and the National Bank of Tajikistan believe that the policies described herein will further strengthen our macroeconomic stabilization and structural reform efforts, and that they are adequate to achieve the objectives of our economic program. We intend to remain in close consultation with the IMF in accordance with IMF policies on such consultation and will provide the IMF with information it requests for monitoring economic developments and implementation of policies under the program. In addition, the government and the NBT stand ready to take further measures, in consultation with the IMF staff, which might be necessary to ensure that the overall objectives of the program can be achieved.

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

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

| | 2003 | | | | | |
|---|--------------------------------------|--------------------------------------|--------|--|--|--------|
| | End-Jun. | | | End-Sep. | | |
| | Indicative Targets (EBS/03/96) | Adjusted Indicative Targets 1/ | Actual | Performance Criteria (EBS/03/96) | Adjusted Performance Criteria 2/ | Actual |
| <i>Performance Criteria:</i> (In millions of somoni) | | | | | | |
| 1. Ceiling on net domestic assets of the NBT | 67.9 | 140.6 | 119.8 | 92.5 | 162.1 | 128.1 |
| 2. Ceiling on net credit of the banking system to general government 3/ | -120.4 | -46.3 | -74.6 | -97.4 | -23.3 | -77.5 |
| 3. Ceiling on the cumulative overall fiscal balance of the general government 4/ 5/ (excluding foreign-financed public investment program) | -20.9 | -20.9 | 3.9 | -54.4 | -54.4 | -0.8 |
| 4. Ceiling on general government wage, and nonworking pensioners' pension arrears 6/ | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| 5. Floor on tax collection of the Ministry of State Revenues and Duties 4/ | 114.2 | 114.2 | 131.0 | 226.1 | 226.1 | 268.8 |
| (In millions of U.S. dollars) | | | | | | |
| 6. Floor on total net international reserves | 35.1 | 10.8 | 27.9 | 28.7 | 5.5 | 38.5 |
| 7a. Ceiling on the contracting or guaranteeing of short-term non-concessional external debt with original maturity of up to and including one year 7/ | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| 7b. Ceiling on the contracting or guaranteeing of medium and long-term nonconcessional external debt with original maturity of more than one year 7/ | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| 8. New external payments arrears 6/ | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| (In millions of somoni; unless otherwise specified) | | | | | | |
| <i>Indicative targets:</i> | | | | | | |
| Ceiling on reserve money | 173.1 | 173.1 | 203.9 | 178.6 | 178.6 | 243.7 |
| New arrears of budget entities and key state-owned enterprises to Naftason, Barqui Tajik and Tajikgas | ... | ... | ... | 0.0 | 0.0 | 14.3 |
| Floor on health and education spending 8/ | 75.8 | 75.8 | 69.4 | 113.7 | 113.7 | 107.8 |
| <i>Memorandum items:</i> | | | | | | |
| Disbursements of balance of payment support (in millions of U.S. dollars) 9/ | 24.7 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Withdrawal from government project accounts (in millions of somoni) | 1.5 | 0.0 | 0.0 | 3.0 | 3.0 | 3.0 |

Sources: Tajik authorities; and Fund staff estimates.

1/ Adjusted for non-disbursement by the World Bank of \$24.7 million. Net domestic assets and net international reserves of the NBT are also adjusted for non-withdrawal from government project accounts.

2/ Adjusted for the non-disbursement of programmed World Bank grant of \$24.7 million. Net international reserves and net domestic assets were also adjusted for the difference between the amount in government project accounts (\$2.4 million) and the amount programmed for end-September 2003 (\$0.9 million).

3/ Excludes deposits related to project financing.

4/ Cumulative from April 1, 2003.

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

6/ A continuous performance criterion.

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

8/ Cumulative from January 1, 2003.

9/ Disbursement in Q2 2003 were expected from the World Bank.

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

| Measure | Target Date | Status |
|--|--------------------|--------------------------|
| Structural Performance Criteria | | |
| Prohibit the NBT from issuing directed credits. | Continuous | Met |
| Prohibit the NBT from making expenditures not related to its core business activities or paying dividends while it has negative net worth. | Continuous | Met |
| Raise gas tariffs to at least SM 200 per thousand cubic meters. | July 1, 2003 | Met |
| Eliminate all privileged categories of consumers of gas and electricity. | End-September 2003 | Not met |
| Structural Benchmarks | | |
| Complete the restructuring of the NBT in accordance with the plan agreed with Fund staff. | End-September 2003 | Implemented with a delay |
| Finalize the division of Agroinvestbank into two independent corporate entities, one that operates as a non-bank cotton financing institution and one that is a commercial bank. | End-June 2003 | Not met |

Tajikistan: Quantitative Performance Criteria for the Second Annual Program
Under the PRGF Arrangement, October 2003-September 2004
(In stocks; unless otherwise indicated)

| | 2003 | 2004 | | |
|---|---|---|-----------------------------------|-------------------------------------|
| | End-Dec. Indicative Target (EBS/03/96) | End-Mar. Performance Criteria | End-Jun. Indicative Targets | End-Sep. Performance Criteria |
| <i>Performance Criteria:</i> | | (In millions of somoni) | | |
| 1. Ceiling on net domestic assets of the NBT | 117.3 | 40.7 | 32.4 | 14.4 |
| 2. Ceiling on net credit of the banking system to general government 1/ | -71.5 | -162.1 | -162.1 | -184.0 |
| 3. Ceiling on the cumulative overall fiscal balance of the general government 2/ 3/ (excluding foreign-financed public investment program) | -73.8 | 9.0 | 7.4 | -15.4 |
| 4. Ceiling on general government wage, and nonworking pensioners' pension arrears 4/ | 0.0 | 0.0 | 0.0 | 0.0 |
| 5. Floor on tax collection of the Ministry of State Revenues and Duties 2/ | 349.5 | 339.2 | 551.3 | 753.1 |
| | | (In millions of U.S. dollars) | | |
| 6. Floor on total net international reserves | 22.4 | 54.4 | 59.2 | 73.9 |
| 7a. Ceiling on the contracting or guaranteeing of short-term non-concessional external debt with original maturity of up to and including one year 5/ | 0.0 | 0.0 | 0.0 | 0.0 |
| 7b. Ceiling on the contracting or guaranteeing of medium and long-term nonconcessional external debt with original maturity of more than one year 5/ | 0.0 | 0.0 | 0.0 | 0.0 |
| 8. New external payments arrears 4/ | 0.0 | 0.0 | 0.0 | 0.0 |
| <i>Indicative targets:</i> | | (In millions of somoni; unless otherwise specified) | | |
| Ceiling on reserve money | 184.6 | 214.8 | 222.0 | 250.8 |
| New arrears of budget entities and key state-owned enterprises to Nafrason, Barqui Tajik and Tajikgas | 0.0 | 0.0 | 0.0 | 0.0 |
| Floor on health and education spending 2/ | 151.6 | ... | ... | ... |
| <i>Memorandum items:</i> | | | | |
| Disbursements of balance of payment support (in millions of U.S. dollars) 6/ | 0.0 | 0.0 | 0.0 | 10.0 |
| Withdrawal from government project accounts (in millions of somoni) 2/ | 2.7 | 1.9 | 3.8 | 5.8 |

Sources: Tajik authorities; and Fund staff estimates.

1/ Excludes deposits related to project financing.

2/ Targets for end-December 2003 and 2004 are cumulative from October 1, 2003. Targets for overall fiscal balance and tax revenues in EBS03/96 were cumulative from April 1, 2003. The definition of tax revenue for 2004 has been broadened in the TMU to include all tax receipts.

Targets for education and health spending in EBS/03/96 were cumulative from January 1, 2003.

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

4/ A continuous performance criterion.

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

6/ The projected disbursement in Q3 2004 is expected from the World Bank.

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

| Measure | Target Date |
|--|-------------------------------------|
| Prior Actions | |
| Eliminate all privileged categories of consumers of gas and electricity. | |
| Finalize the division of Agroinvestbank into two independent corporate entities, one that operates as a non-bank cotton financing institution and one that is a commercial bank. | |
| Structural Performance Criteria | |
| Prohibit the NBT from issuing directed credits. | Continuous |
| Prohibit the NBT from making expenditures not related to its core business activities or paying dividends while it has negative net worth. | Continuous |
| Implement quarterly adjustments of all utility tariffs, equivalent to the depreciation in the nominal exchange rate in the previous quarter. | Continuous beginning end-March 2004 |
| Structural Benchmarks | |
| Install 15,000 gas meters in households from October 1, 2003. | End-March 2004 |
| Cumulatively from October 1, 2003, issue an additional 5,000 land use/share certificates in connection with the privatization of state-owned farms. | End-March 2004 |
| Complete an external audit of the State Financial Control Committee by a reputable international audit company. | End-March 2004 |
| Complete an external audit of Tajikgas by a reputable international audit company. | End-June 2004 |
| Reduce the number of employees in the education sector by 5 percent | End-July 2004 |

REPUBLIC OF TAJIKISTAN

Technical Memorandum of Understanding
for the PRGF Arrangement 2003–2005

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

I. QUARTERLY TARGETS

A. Fiscal Balance of the General Government

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

| | (In millions of somoni) |
|---|-------------------------|
| Cumulative balance from October 1, 2003 to: | |
| December 31, 2003 (indicative target) | -73.8 |
| March 31, 2004 (performance criterion) | 9.0 |
| June 30, 2004 (indicative target) | 7.4 |
| September 30, 2004 (performance criterion) | -15.4 |

Definitions

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

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

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

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

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

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

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

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

4. Monthly data on net claims of the domestic banking system on the general government are taken from the balance sheets of the NBT and commercial banks. The Ministry of Finance shall provide information on, and confirm the amounts of general government deposits held abroad, disbursements of foreign loans to the general government, net sales of treasury bills and other securities, borrowing from the nonbank sector, as well as gross receipts and expenditures of the central government privatization account. It shall provide detailed monthly data on: (i) revenues, expenditures and lending operations of the state and local budgets, as well as all budgetary and extra-budgetary funds; (ii) quasi-fiscal operations; (iii) estimates of the outstanding stock of wage and pension and all other domestic expenditure arrears; and (iv) estimates of the outstanding stock of tax and other revenue arrears to the general government.

Adjustors

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

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

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

| | (In millions of somoni) |
|--|-------------------------|
| Cumulative revenues from October 1, 2003 to: | |
| December 31, 2003 (indicative target) | 349.5 |
| March 31, 2004 (performance criterion) | 339.2 |
| June 30, 2004 (indicative target) | 551.3 |
| September 30, 2004 (performance criterion) | 753.1 |

Definitions

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

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

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

| | (In millions of somoni) |
|--|-------------------------|
| December 31, 2003 (indicative target) | 117.3 |
| March 31, 2004 (performance criterion) | 40.7 |
| June 30, 2004 (indicative target) | 32.4 |
| September 30, 2004 (performance criterion) | 14.4 |

Definitions

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

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

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

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

Adjustors

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

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

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

| | (In millions of somoni) |
|--|-------------------------|
| December 31, 2003 (indicative target) | -71.5 |
| March 31, 2004 (performance criterion) | -162.1 |
| June 30, 2004 (indicative target) | -162.1 |
| September 30, 2004 (performance criterion) | -184.0 |

Definitions

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

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

Adjustors

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

E. Net International Reserves

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

| | (In millions of U.S. dollars) |
|--|-------------------------------|
| December 31, 2003 (indicative target) | 22.4 |
| March 31, 2004 (performance criterion) | 54.4 |
| June 30, 2004 (indicative target) | 59.2 |
| September 30, 2004 (performance criterion) | 73.9 |

Definitions

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

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

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

Adjustors

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

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

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

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

Definitions

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

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

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

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

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

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

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

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

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

II. CONTINUOUS QUARTERLY TARGETS

A. No Directed Credits by the NBT

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

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

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

C. No New External Payments Arrears

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

D. Exchange and Payments Arrangements

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

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

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

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

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

III. QUARTERLY INDICATIVE TARGETS

A. Reserve Money

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

| | (In millions of somoni) |
|--|-------------------------|
| December 31, 2003 (indicative target) | 184.6 |
| March 31, 2004 (performance criterion) | 214.8 |
| June 30, 2004 (indicative target) | 222.0 |
| September 30, 2004 (performance criterion) | 250.8 |

Definition

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

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

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

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

Definition

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