Islamic Republic of Afghanistan: Staff-Monitored Program: Letter of Intent and Memorandum of Economic and Financial Policies

February 11, 2006

The following item is a Letter of Intent and a Memorandum of Economic and Financial Policies of the government of Islamic Republic of Afghanistan. The document, which is the property of Islamic Republic of Afghanistan, is being made available on the IMF website by agreement with the member as a service to users of the IMF website. This memorandum describes the policies that is implementing in the framework of a staff-monitored program. A member's staff-monitored program is an informal and flexible instrument for dialogue between the IMF staff and a member on its economic policies. A staff-monitored program is not supported by the use of the Fund's financial resources; nor is it subject to the endorsement of the Executive Board of the IMF.
Kabul, February 11, 2006

Mr. Rodrigo de Rato
Managing Director
International Monetary Fund
Washington, DC 20431
U.S.A.

Dear Mr. de Rato,

1. In November 2005, we carried out with IMF staff the discussions for the 2005 Article IV consultation and the sixth review under the staff-monitored program (SMP) agreed in March 2004.

2. Since the completion of the fifth review under the SMP, we have continued to maintain economic stability while holding, for the first time in recent history, legislative and provincial elections. During the recent discussions, we reached understandings on a revised macroeconomic framework and an updated memorandum of economic and financial policies (MEFP) covering the period through September 2006. As detailed in the MEFP, we have observed all the end-September 2005 quantitative indicators and, albeit with some delays caused by technical factors, all but one of the end-September structural benchmarks under the SMP program (Tables 1 and 2).

3. We believe that the policies and measures set forth in the attached MEFP are adequate to achieve the objectives of the program, but we will take any further measures that may become appropriate for this purpose. In accordance with IMF’s policies on such consultations, the Government of Afghanistan will consult with staff prior to adopting any such measures or revising any of the policies contained in the MEFP. We will also provide any information required to assess the implementation of the SMP.

4. Looking forward, and in view of the significant challenges facing the country, including the prevalence of drug-related activities and pervasive poverty, we intend to intensify our adjustment and structural reform efforts. To that end, we are preparing an interim national development strategy consistent with the Millennium Development Goals, which will focus on creating adequate conditions for sustainable economic growth and reducing poverty in the context of fiscal and external sustainability. In support of this strategy, we have initiated discussions with IMF staff on a formal program that could be supported by the Poverty Reduction and Growth Facility (PRGF). We expect to continue these discussions in early March 2006, with the view of requesting a PRGF arrangement in the second quarter of 2006.
5. In continuing with our policy of transparency, we consent to the publication of this letter, the attached MEFP, the technical memorandum of understanding, and the accompanying Executive Board documents on the IMF’s website.

Sincerely yours,

/s/ Anwar Ul-Haq Ahady
Minister of Finance

Ministry of Finance

/s/ Noorullah Delawari
Governor
Da Afghanistan Bank

Attachment:
Update to the Memorandum of Economic and Financial Policies
Update to the Memorandum of Economic and Financial Policies of the Government of Afghanistan

Sixth Review Under the Staff-Monitored Program

November 22, 2005

I. INTRODUCTION

1. The government of Afghanistan held discussions with IMF staff in the context of the sixth quarterly review under the staff-monitored program (SMP). These discussions, which coincided with the 2005 Article IV consultation, covered: (a) developments under the SMP during the second quarter of 2005/06, as specified in our Memorandum of Economic and Financial Policies (MEFP) of September 26, 2005; (b) the macroeconomic outlook for the remainder of 2005/06 and the first half of 2006/07; (c) the structural reform agenda; and (d) the medium-term outlook.

2. This update to the MEFP reviews performance during July–September 2005 and describes policies and objectives for the remainder of 2005/06 and the first half of 2006/07. The program will continue to be guided by the macroeconomic and structural reform policies described in the MEFP of March 2004, and in the supplements of September 6, 2004; December 29, 2004; February 3, 2005; May 18, 2005; and September 26, 2005. The seventh review under the SMP is scheduled for early March 2006 and will coincide with discussions to reach understandings on a program supported by the Poverty Reduction and Growth Facility (PRGF). That review, combined with the interim Afghanistan National Development Strategy (I-ANDS), which we will present at the January 2006 Donors’ Conference in London, will provide the basis for policy discussions related to the PRGF program.

3. The government continues to attach paramount importance to the SMP. We have adhered fully to the agreed macroeconomic policies, having observed all the end-September quantitative indicators. We have also met, albeit with some delays caused by various factors, all end-September structural benchmarks, except for the benchmark related to the publication of the audited 2004/05 core budget financial statements, which we now intend to meet by end-December. Lastly, as described below, we have also taken important policy actions in the fiscal, financial, and statistical areas.

4. While much has been achieved under the SMP in terms of macroeconomic stabilization and structural reforms, we still face significant challenges, including the prevalence of drug activities and pervasive poverty. To further strengthen our reform efforts, we intend to develop a comprehensive economic program for 2006/07–2008/09 consistent with our I-ANDS and the Millennium Development Goals (MDGs). In support of
these policies, the government of Afghanistan has initiated discussions with IMF staff on a three-year PRGF-supported program, with the view of requesting a PRGF arrangement in the second quarter of 2006.

A. Developments Under the SMP

5. **Macroeconomic developments during the first half of 2005/06 were in line with program projections.** Reflecting a rebound in agriculture output—resulting from favorable weather conditions—and sustained activity in construction, transportation, and telecommunications, economic growth remained strong during the first half of the year.

6. **Consumer prices in Kabul have continued to increase at a moderate pace during the second quarter of 2005/06.** They increased by 2.6 percent, up from 2.4 percent in the first quarter. Reflecting the pass-through of international prices to consumer prices, petroleum product prices increased by 26.3 percent during the second quarter. While slowing markedly, rents increased by 6.5 percent. Excluding these two items, prices increased by 1.6 percent during the first quarter, and by 3.3 percent during the first half of 2005/06. After declining sharply during the first quarter, from 16.3 percent at end-March to 11.5 percent at end-June, year-on-year inflation rebounded somewhat, to 12.9 percent at end-September.1

7. **According to preliminary estimates provided by the UN Office of Drugs and Crime, opium production declined by 2 percent in 2005, as a sharp fall in area cultivated was largely offset by a rebound in yields due to favorable weather conditions.** Opium cultivation declined by 21 percent, primarily due to the decision by many farmers not to plant in anticipation of intensified government-led anti-narcotics efforts but also in response to relatively low farm gate prices. The intensification of the government’s interdiction efforts led to a significant increase in seizures of opium, while eradication contributed to a reduction in the cultivation area. Due to a slight decline in prices, the production export value and farm gate value fell by 4 percent and 7 percent, respectively, to $2.7 billion and $560 million.

8. **The core operating budget deficit, excluding grants, was lower than expected, reaching 1.7 percent of GDP during the first half of 2005/06.** The government continued to abide by its “no-overdraft” commitment and the core operating deficit was more than covered by foreign grants, resulting in a surplus of 0.7 percent of GDP (including grants). Core budget operating and development spending during the first half of the year totaled Af 14.6 billion and Af 8.9 billion, respectively, compared with revised annual budget estimates of Af 33.6 billion and Af 50.1 billion. Compensation of employees accounted for about 64 percent of operating expenditures, while spending on livelihoods and social protection and on transport amounted to 67 percent of the core development budget.

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1The national CPI, which covers five major cities in addition to Kabul, increased by 10.6 percent in the twelve months ending in September 2005.
9. **Revenue, excluding grants, was estimated at Af 8.8 billion in the first half of 2005/06, exceeding the SMP indicative target (Af 8.3 billion).** Revenue comprised Af 4.6 billion in customs duties, Af 1.1 billion in domestic taxes, and Af 3.1 billion in nontax revenues. While customs performed better than anticipated, increasing by 40 percent over the same period of 2004/05, tax collections declined by 9 percent. While a number of new tax policies and administrative reforms were introduced over this period, covering: the lowering of corporate tax rates (from 25 to 20 percent); the increase in turnover tax rates for specific services; the introduction of a rental tax; the removal of tax holidays; and the creation of a large taxpayer office; the expected revenue benefits from these changes, with the exception of the rental tax, are yet to be achieved. Factors which affected the revenue collections, and which have now been resolved, involved: delays in the approval of the new enforcement provisions, so over the period compliance remained voluntary; and uncertainty associated with the administration and application of the amended income tax law, as the new one was already drafted and was being discussed.

10. **We have started to implement a range of recently-adopted tax measures.** These measures, which have been the subject of a taxpayer education program, include: (a) an increase in turnover tax rates for specific services (hotels, restaurants, telecommunications, and airlines); (b) a wage withholding tax; and (c) an airline departure fee. As our administrative capabilities are still limited and several technical issues related to implementation and coverage need to be resolved, we are initially focusing on the larger taxpayers.

11. **The new income tax law was approved after a short delay.** The new law, which incorporates amendments to provide for administrative powers and additional corporate tax reform measures, was approved by the Cabinet and signed into law by the President in November 2005. The short delay was largely due to an unanticipated legal ruling that required the re-submission of the complete law, rather than only the amendments, as was originally intended.

12. **The midyear review (MYR), was adopted by Cabinet in October 2005.** An increase in the wages of non-uniformed public servants was required, as the last general increase was in November 2003. Importantly, the aggregate rise in the wage bill for 2005/06 was restricted to less than 3 percent over the original budget (Af 549 million). Overall, the increase in operating budget stemming from the MYR was limited to 2.1 percent, with additional unanticipated spending for parliamentarians and pensions partially offset by savings in other current and capital expenditures. This increase in operating spending should be more than offset by additional domestic revenues, projected to increase by around 14 percent over the initial budget.²

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²The increase in revenue excludes $80 million (equivalent to 21 percent of domestic revenue) from the sale of telecoms spectrum band width that we expect will be received in the third quarter of the year.
13. **We have adjusted the core development budget to make it more realistic, reflecting the government’s limited spending capacity.** For the remainder of 2005/06, core development spending was reduced by 14 percent to Af 50.1 billion (15 percent of GDP) as projects unlikely to be started in the current year were carried forward to 2006/07. Over the medium term, core development spending is expected to average around 8 percent of GDP and be predominantly funded by external grants. Donor-funded spending currently implemented outside the core budget is estimated at Af 105.4 billion (31 percent of GDP) in 2005/06. To enhance transparency, accountability, and the role of the budget as a key policy instrument, we continue to encourage donors to bring this expenditure on-budget.

14. **Currency in circulation increased by 12.1 percent during the first half of 2005/06, to Af 43.5 billion, slightly below the SMP second quarter indicative ceiling (Af 43.8 billion).** As expected, demand for money accelerated somewhat during the second quarter due to seasonal factors. This acceleration was, however, less pronounced than last year, allowing Da Afghanistan Bank (DAB) to contain money growth within program limits without triggering a sharp appreciation of the Afghani. Reflecting the central bank’s foreign exchange activity and the accumulation of deposits by the government, international reserves increased further, reaching $1.5 billion at end-September, equivalent to 4.1 months of prospective imports. Interest rates on the overnight and 30-day capital notes continued to move in the 1–2 percent and 4–6 percent ranges, respectively. After depreciating by 3 percent during the first quarter, the Afghani appreciated by 2 percent against the U.S. dollar during the second quarter. During the 12 months leading to end-September, the Afghani has depreciated modestly against the dollar but remained broadly stable in real terms.

15. **Progress was made in restructuring the state-owned banks.** The Ministry of Finance, formally notified by DAB, and made public our decision to restructure the licensed banks, and to liquidate the three former state-owned banks that had not been relicensed. As a first step toward the transfer of its remaining deposits, DAB froze the correspondent accounts of Agricultural Development Bank, the only institution among the three former banks that had kept a deposit base. Regarding the licensed state-owned banks, we have decided to restructure Bank Millie and Bank Pashtany and to finalize the restructuration plan of Export Promotion Bank. The Ministry has initiated steps to restructure the management and operation of the Bank Mille, with recruitment of a new chief executive and a management team, all with the appropriate skills and experience, which will be in charge of implementing the restructuring. At the same time, DAB has conducted a review of the performance of these banks regarding observance of the conditions attached to their licenses. Based on the findings of this review, DAB has adopted enforcement measures to improve the operational performance and governance of these banks, starting with the replacement of the top management of Bank Mille. Accordingly, consultants are being recruited to advise and assist management of the Bank. A similar approach will be taken with Bank Pashtany. Other positive developments in the financial sector include the completion of the transfer of DAB’s

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3This figure reflects the funded portion of the external budget, while an additional Af 77 billion is planned but not funded in 2005/06.
commercial activities, and the reduction of the registration fees for deeds from 6 percent to 0.5 percent.

16. **The current account deficit, excluding grants, reached 45 percent of GDP, compared with 51 percent in 2003/04.** Including grants, the current account recorded a surplus, which narrowed to 1.9 percent of GDP in 2004/05, down from 3.1 percent of GDP in 2003/04. In addition, there was increasing foreign direct investments, concessional loans, as well as other unrecorded flows.

17. **We stepped up our efforts to improve compilation of balance of payments statistics.** In line with the recommendations of the May 2005 IMF technical assistance mission on balance of payments statistics, we have started implementing a reporting system that covers trade flows, private grants, interest receipts and payments, and the international investment position. In this context, we are working closely with the banking community, money changers, nongovernmental organizations, and firms engaged in international trade.

18. **We have made progress in verifying external debt owed to Paris Club creditors and to non Paris Club creditors (an end-September 2005 structural benchmark).** However, despite protracted efforts, we are still to receive from some creditors a reply to our requests, or provision of adequate documentation to validate claims.

19. **We have adopted a classification of state-owned enterprises (SOEs) by the envisaged restructuring method.** This list comprises the 66 enterprises directly owned by the government. Eight will remain state-owned, while 58 will be divested (liquidated or privatized). We expect about two thirds of the latter to be privatized, including about seven through international tenders. To facilitate the privatization of these enterprises, many of which are no longer in operation but hold large real estate assets, we adopted amendments to the Tassidy law giving the Ministry of Finance full authority and responsibility to privatize these enterprises.

20. **We have adopted a statistical law, which provides for an independent statistical agency.** This law establishes the legal framework for collecting, processing, and disseminating economic data, with the Central Statistical Office (CSO) being an independent institution with a separate budget. In addition, we adopted a program of restructuring and reform to ensure that the CSO has the human capital needed to implement the statistical master plan.

II. **POLICIES FOR THE REMAINDER OF 2005/06 AND 2006/07**

21. To ensure a continued strong economic performance, we intend to pursue prudent macroeconomic policies, consistent with the SMP objectives, and create the conditions for sustained growth and poverty alleviation.

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4As it is now currently constructed, the current account does not include drug exports.
A. Macroeconomic Objectives

22. **The macroeconomic outlook for 2005/06 remains favorable.** Real GDP is expected to grow by 14 percent in 2005/06, driven by the continued recovery of the agriculture sector due to better rainfall during the planting season, and sustained activity in construction and services. Year-on-year inflation is expected to decline further, to about 10 percent at end-2005/06, notwithstanding upside risks related to possible second round effects of oil prices. The current account deficit, including grants, is projected to decline to 1.7 percent of GDP in 2005/06, while international reserves are expected to increase further.

B. Fiscal Policy

23. **In October, the Cabinet adopted a medium-term fiscal framework (MTFF), that will form the basis for the 2006/07 budget, which also contains projections of the main fiscal aggregates over the next four years.** This MTFF, the government's first, includes a set of integrated medium-term macroeconomic and fiscal targets and projections that set out a path towards fiscal sustainability. The MTFF will be gradually refined to strengthen the linkages between these aggregate projections and our policy priorities. Although it will take time to develop more detailed sector strategies, the I-ANDS process, combined with work in a few priority sectors, should help improve the linkages between policies and operating and development spending and contribute to a more sustainable fiscal position and improved outcomes.

24. **The MTFF highlights the country’s main fiscal challenges.** Fiscal sustainability is predicated on: (a) rebuilding domestic tax collection from its extremely low level; (b) implementing an civil service reform program to both contain the wage bill and pensions to affordable levels, in the face of significant cost pressures, and improve performance; and (c) gradually consolidating fiscal operations within the core budget, consistent with our limited ability to sustain such activities. In particular, incorporating the ongoing costs arising from the current reconstruction and capital investments (i.e. for maintenance) into the budget, remains a significant challenge. Over the medium-term, we will continue to rely on significant external funding, even for some core current spending (such as the Afghan National Army), while planning to enhance its predictability and effectiveness by bringing such spending into the budget, consistent with the MTFF and I-ANDS.

25. **Revenue is expected to increase significantly over the medium-term.** The MTFF includes an ambitious program to increase domestic revenue from 4.5 percent of GDP in 2004/05 to 8.6 percent by 2009/10. In order to achieve these ambitious revenue targets, we plan to rationalize the current tariff structure for 2006/07, expand the coverage of the taxes introduced earlier in the year, and continue to strengthen compliance through the large taxpayer office. We will also consider introducing an excise tax. In addition, following the October 2005 tax policy conference with the private sector, we are jointly reviewing the priority reforms, including the turnover tax, revenue administration, and the abolition of nuisance taxes. Before major changes are made, we will consult widely and consider the impact on the whole economy. By maintaining our competitive income tax and customs duty
rates and improving administration by simplifying procedures, streamlining the number of
taxes, and reducing the burden of illicit taxation and corruption, we seek to increase revenue
and reinforce a positive business environment.

26. **Continuing to improve fiscal transparency, accountability and the integrity of fiscal information is a priority.** Fiscal reporting improved markedly over the last year, with monthly core budget data now published on our website. However, the reconciliation of fiscal and banking data (an end-September benchmark) is constrained by existing procedures, information systems and weak capacity. The audit of the financial statements for the 2004/05 core budget (an end-September 2005 benchmark), which has been delayed by uncertainty over the appropriate procedures, recent changes in the new budget law, and limited administrative capacity will now be submitted to cabinet before end-December 2005. To avoid a repeat of such delays, the Ministry of Finance and the Control and Audit Office will agree on an audit plan for the 2005/06 core budget by end-February 2006.

**C. Monetary and Exchange Rate Policies and Financial Sector Reforms**

27. **As price, exchange rate and financial developments during the first half of 2005/06 were largely in line with SMP projections, monetary policy will continue to be guided by the program agreed during the third review.** In view of the upward risks on inflation, stemming in particular from possible second-round effects of the increase in oil prices, we will closely monitor price and exchange rate developments in the coming months and stand ready to tighten the monetary stance, should inflationary pressures emerge. International reserves are expected to increase further, to about $1.7 billion at end-2005/06. In 2006/07, pending the deepening of the financial markets (interbank market, capital notes) and the development of a monetary survey in line with international standards, monetary policy will continue to target currency in circulation, and the exchange rate to be market-determined.

28. **We will continue to modernize DAB’s operations and strengthen the monetary policy framework.** We will adopt amendments to remunerate reserve requirements, while excluding capital notes from the eligible assets. By end-March 2006, we will enforce these new regulations, as well as those related to the foreign currency open positions, and penalize non-compliance. By end-December 2005, we will allow participants to the DAB’s foreign exchange auctions to sell, as well as to buy, dollars. By year end, with technical assistance from the IMF, we will also introduce an overnight collateralized credit facility, with capital notes eligible as collateral. We also intend to introduce capital notes of longer maturities. Lastly, we will strengthen the monetary framework, through the development of more reliable liquidity forecasts, publication of the capital note interest rates, and strengthened oversight by DAB’s Supreme Council.

29. **We will pursue the restructuring of the public banking sector.** By end-December 2005, we will appoint people in charge of overseeing the liquidation of the state-owned banks, and by end-March 2006, we will start implementing this liquidation and complete the transfer/reimbursement of the Agricultural Development Bank deposits. We will replace the
management boards of Bank Millie and Bank Pashtany by end-December 2005 and end-March 2006, respectively. By end-June 2006, the new management teams, in coordination with the Ministry of Finance, will adopt long-term restructuring plans for these two banks.

30. **We intend to tackle the administrative and legal impediments to the development of the banking sector.** We will continue working with the banking and donor communities to identify the main impediments to the development of banking operations, prioritize a legal, administrative and legislative reform agenda to address impediments, and ensure better coordination between donors. One of our priorities is the adoption of essential enabling laws for lending operations, including the secure transactions law, the business organization law, and the negotiable instrument law.

**D. External Policies and Debt Management**

31. **The overall external sector outlook remains favorable.** The revised current account deficit, excluding grants, is projected to reach 42 percent of GDP in 2005/06, compared with 45 percent in 2004/05. Although foreign direct investment and concessional loans are expected to increase in the near future, the deficit will continue to be primarily supported by grant financing, as well as other flows. Including grants, the current account is expected to record a surplus of 1.7 percent of GDP.

32. **We are committed to further enhance the quality and reliability of balance of payments data.** The survey of non-recorded trade is expected to be completed by end-March 2006. Its findings will help refine trade flow estimates. In addition to the various surveys under way on other components of the balance of payments, we will hold regular meetings with the primary providers of data on remittances, financial flows, and the international investment position. On external debt data, DAB will coordinate closely with the Ministry of Finance.

33. **Our external borrowing strategy will remain cautious, relying primarily on grants and highly concessional loans to meet our financing needs.** We envisage continued lending from multilaterals such as the Asian Development Bank and additional highly concessional lending from bilaterals, if need be, to fund specific projects that directly benefit the population and reduce poverty. We will continue to seek generous debt relief from existing bilateral creditors and examine the various debt-reduction options. We will pursue good faith efforts to conclude the debt reconciliation process with all our creditors.

34. **We recognize that an open and transparent trade regime is critical to enhancing Afghanistan’s growth prospects.** We intend to consolidate the gains made thus far through reforms of the trade regime and customs administration. We have begun discussions with the world trade organization (WTO) as a first step toward membership. Such membership will provide us with more predictability in our trade relations with other countries, and give us access to the WTO dispute settlement apparatus and to technical assistance. In addition, to
enhance our role in the region, we recently became a member of the Central Asian Regional Economic Council, and are being considered for membership in several other regional organizations.

E. Structural Reforms

35. In addition to reforms in the fiscal and monetary areas, we intend to focus on further liberalizing the economy and strengthening competition. Key measures will include: (a) the publication in the Official Gazette, by end-December 2005, of the amendments to the Tassady Law; (b) the initiation of an open and transparent divestiture process of the 58 SOEs slated for liquidation or privatization; and (c) the completion by end-December 2005 of an inventory of the various public entities and government agencies engaged in commercial activities. The divestiture will be accompanied by an equitable and affordable retrenchment plan. To enhance competition and ensure an adequate regulatory environment for investment, we will also promote land ownership rights and an insurance law.

F. Poverty Reduction Strategy

36. As part of the first step in formulating our development strategy, a draft document, the I-NDS, is being developed with broad intra-government consultation and participation of civil society and the donor community. This draft will define our strategic vision and sectoral priorities, consistent with the Millennium Development Goals, and will include broad estimates of our medium-term development needs. This draft will subsequently be discussed with our development partners, and civil society to build broader ownership before it is presented at the January 2006 International Donors’ Conference. We will continue to work closely with World Bank and IMF staffs to ensure that the I-ANDS meets the requirements of an interim poverty reduction strategy paper (I-PRSP) that could support our upcoming request for a PRGF-supported program. A final version of the I-ANDS in a format consistent with an I-PRSP, is expected to be adopted before end-March 2006.

G. Statistical Issues

37. We are committed to building our statistical capacity with support from the international community. We intend to complete the institutional statistical framework by putting in place, by March 2006, the National Statistical Council provided for by the new statistical law. At the same time, we will actively seek donor support to fully fund the action plan for rebuilding our statistical capacities. We recently notified the IMF of our commitment to join the General Data Dissemination System (GDDS), and have appointed a GDDS

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5This inventory will include (a) enterprises which are not fully-owned by the government (e.g. Ariana Afghan Airlines); and (b) departments—within ministries—which are engaged in commercial activities.
coordinator and started work on the metadata. Lastly, owing to some technical difficulties, the three surveys designed to measure development progress were delayed and are now expected to start in March 2006.  

H. Technical Assistance

38. An overall review of technical assistance (TA) will be completed after the Donors’ Conference. As we intend to request a PRGF-supported program, this review will be instrumental in helping us, as well as our partners, to enhance the quality of TA, ensure a better distribution of TA across government agencies, and redeploy resources in line with the priorities defined in the I-ANDS. The government of Afghanistan remains grateful for the assistance provided so far by the IMF and looks forward for its support in the months ahead to implement its reform program.

III. PROGRAM MONITORING

39. We will continue to monitor, through the Technical Coordination Committee, the implementation of the SMP. In doing so, we will refer to the definitions, data sources, and frequency set out in the technical memorandum of understanding (TMU). Table 1 includes the quantitative indicators through end-September 2006. Table 2 sets out the structural benchmarks. For reporting purposes, the government will continue to provide IMF staff all core data, appropriately reconciled and on a timely basis, as specified in the TMU. IMF staff will be notified prior to introducing any policy actions and developments that might affect the program.

40. Discussions on a PRGF-supported program are expected to be completed by March 2006, and the request for a program presented for consideration by the Executive Board in the second quarter of 2006. Performance under the seventh review will serve as a basis for policy discussions under the PRGF.

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6These surveys are: (a) the national risk vulnerability assessment survey on rural households; (b) the integrated business enterprise survey; and (c) the integrated living standard survey or household income expenditure survey.
### Table 1. Islamic Republic of Afghanistan: Quantitative Indicators, 2005/06–2006/07

(In millions of Afghanis, unless otherwise indicated; cumulative changes from beginning of fiscal year)

<table>
<thead>
<tr>
<th></th>
<th>2005/06</th>
<th>2006/07</th>
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<tbody>
<tr>
<td></td>
<td>Indicative Target</td>
<td>Estimate</td>
</tr>
<tr>
<td>Currency in circulation (ceiling) 1/</td>
<td>2,453</td>
<td>1,321</td>
</tr>
<tr>
<td>Claims of the banking system on the central government (ceiling)</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Gross international reserves of the central bank (floor) (in millions of dollars)</td>
<td>-50</td>
<td>85</td>
</tr>
<tr>
<td>Fiscal revenue of the central government (floor)</td>
<td>4,629</td>
<td>4,757</td>
</tr>
<tr>
<td>External debt</td>
<td></td>
<td></td>
</tr>
<tr>
<td>a) New medium- and long-term nonconcessional external debt (with original maturities of one year or more) contracted or guaranteed by the government (ceiling) 2/ 3/</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>b) New nonconcessional debt with an original maturity of less than one year (ceiling) 3/ 4/ 5/</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Memorandum item:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Currency in circulation (level triggering consultation)</td>
<td>3,508</td>
<td>...</td>
</tr>
</tbody>
</table>

Sources: Afghan authorities; and Fund estimates and projections.

1/ At end-2004/05, currency in circulation amounted to Af 38.8 billion.
3/ Excluding rescheduling arrangements, but including debt with maturities of more than one year.
4/ This benchmark will be evaluated on a continuous basis.
5/ Concessional debt is defined as debt with a grant element of at least 60 percent calculated on the basis of currency-specific discount rates, based on the OECD commercial interest reference rates (CIRRs).
5/ On a contracting or guaranteed basis. Excluding debt related to normal import transactions.
<table>
<thead>
<tr>
<th>Structural Benchmarks</th>
<th>Target Date</th>
<th>Status</th>
</tr>
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<tbody>
<tr>
<td>Adopt (by the Cabinet) and publish in the Official Gazette the financial management law.</td>
<td>End-June 2005</td>
<td>Implemented</td>
</tr>
<tr>
<td>Publish the financial statements of the 2003/04 external audit of DAB.</td>
<td>End-June 2005</td>
<td>Implemented</td>
</tr>
<tr>
<td>Reconcile the government accounting records with the government’s bank accounts.</td>
<td>End-September 2005</td>
<td>Implemented 1/</td>
</tr>
<tr>
<td>Publish the 2004/05 audited financial statements (core budget).</td>
<td>End-September 2005</td>
<td>Not implemented</td>
</tr>
<tr>
<td>Adopt (by Cabinet) a comprehensive external debt management strategy.</td>
<td>End-September 2005</td>
<td>Implemented 1/</td>
</tr>
<tr>
<td>Contact the Secretariat of the Paris Club to assist with the comprehensive review of, and reconciliation of, debt owed to Paris Club creditors; and continue to contact the non-Paris Club creditors for a full reconciliation of external obligations, including those that did not respond to earlier requests for debt reconciliation.</td>
<td>End-September 2005</td>
<td>Implemented</td>
</tr>
<tr>
<td>Publish in the Official Gazette: the proposed amendments to the income tax law to provide for administrative powers and for additional corporate tax reform measures.</td>
<td>End-September 2005</td>
<td>Implemented 1/</td>
</tr>
<tr>
<td>Commence implementation of recently approved tax measures, notably the business receipt tax on hotels, restaurants, telecommunications, and airlines and the wage withholding tax, accompanied by a taxpayer education program.</td>
<td>End-September 2005</td>
<td>Implemented 1/</td>
</tr>
<tr>
<td>Issue a statement indicating the Ministry of Finance decision, as the main shareholder, to liquidate the three former state-owned banks.</td>
<td>End-September 2005</td>
<td>Implemented 1/</td>
</tr>
<tr>
<td>Appoint liquidators for the three former state-owned banks and start implementing their liquidation.</td>
<td>End-December 2005</td>
<td></td>
</tr>
<tr>
<td>Replace the management board of Bank Millie.</td>
<td>End-December 2005</td>
<td></td>
</tr>
<tr>
<td>Adopt (by Cabinet) a Medium-Term Fiscal Framework that includes (a) a fiscal table with 3-year projections of revenues, expenditures, fiscal deficit and sources of financing, and (b) a description of the policy actions which sustain the projections.</td>
<td>End-December 2005</td>
<td></td>
</tr>
<tr>
<td>Eliminate, or reduce substantially, registration fees for deeds.</td>
<td>End-December 2005</td>
<td></td>
</tr>
<tr>
<td>Publish the 2004/05 audited financial statements (core budget).</td>
<td>End-December 2005</td>
<td></td>
</tr>
<tr>
<td>Remunerate required reserves.</td>
<td>End-March 2006</td>
<td></td>
</tr>
<tr>
<td>Identify largest taxpayers to be administered by the Large Taxpayer Unit according to agreed transparent criteria, and prepare detailed compliance profile for each taxpayer.</td>
<td>End-March 2006</td>
<td></td>
</tr>
</tbody>
</table>

1/ This structural benchmark was implemented with some delay.
Table 2. Islamic Republic of Afghanistan: Structural Benchmarks, June 2005–September 2006 (concluded)

<table>
<thead>
<tr>
<th>Structural Benchmarks</th>
<th>Target Date</th>
<th>Status</th>
</tr>
</thead>
<tbody>
<tr>
<td>Publish estimate of revenues forgone as a result of customs exemptions, including due to international assistance, and income tax law exemptions.</td>
<td>End-March 2006</td>
<td></td>
</tr>
<tr>
<td>Establish appeals process for customs and tax administrations.</td>
<td>End-June 2006</td>
<td></td>
</tr>
<tr>
<td>Process gold held in the palace vaults into a form that qualifies as a reserve asset and transfer any monetary gold held in Afghanistan to an international gold center.</td>
<td>End-September 2006</td>
<td></td>
</tr>
<tr>
<td>Submit to parliament the core budget’s audited financial statements for 2005/06.</td>
<td>End-September 2006</td>
<td></td>
</tr>
</tbody>
</table>