

Republic of Tajikistan: 2002 Article IV Consultation and Request for a Three-Year Arrangement Under the Poverty Reduction and Growth Facility—Staff Report; Staff Supplement; Public Information Notice and Press Release on the Executive Board Discussion; and Statement by the Executive Director for the Republic of Tajikistan

Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. In the context of a combined discussion of the 2002 Article IV consultation with the Republic of Tajikistan and request for a three-year Arrangement under the Poverty Reduction and Growth Facility, the following documents have been released and are included in this package:

- the staff report for the 2002 consultation and request for a three-year Arrangement under the Poverty Reduction and Growth Facility, prepared by a staff team of the IMF, following discussions that ended on **October 10, 2002**, with the officials of the Republic of Tajikistan on economic developments and policies. **Based on information available at the time of these discussions, the staff report was completed on November 13, 2002.** The views expressed in the staff report are those of the staff team and do not necessarily reflect the views of the Executive Board of the IMF.
- a staff supplement of **December 10, 2002** updating information on recent economic developments.
- a Public Information Notice (PIN) and Press Release, summarizing the **views of the Executive Board as expressed during its December 11, 2002, discussion** of the staff report that concluded the Article IV consultation and request for a three-year arrangement under the Poverty Reduction and Growth Facility, respectively.
- a statement by the Executive Director for the Republic of Tajikistan.

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

Poverty Reduction Strategy Paper
Joint Staff Assessment of the Poverty Reduction Strategy Paper
Letter of Intent sent to the IMF by the authorities of the Republic of Tajikistan*
Memorandum of Economic and Financial Policies by the authorities of the Republic of Tajikistan*
Technical Memorandum of Understanding*
Selected Issues and Statistical Appendix

*May also be included in Staff Report

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

To assist the IMF in evaluating the publication policy, reader comments are invited and may be sent by e-mail to publicationpolicy@imf.org.

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INTERNATIONAL MONETARY FUND

REPUBLIC OF TAJIKISTAN

**Staff Report for the 2002 Article IV Consultation and Request for a Three-Year
Arrangement Under the Poverty Reduction and Growth Facility**

Prepared by European II and Policy Development and Review Departments

Approved by John Odling-Smee and Michael Hadjimichael

November 13, 2002

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Tajikistan: Basic Data, 1996–2002

Physical and social indicators (2000)							
Area							143,100 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
	1996	1997	1998	1999	2000	2001	Jan-Jun. 2002
Nominal GDP (in millions of somoni)	309	632	1,025	1,345	1,807	2,512	1,195
Real GDP growth (in percent)	-4.4	1.7	5.3	3.7	8.3	10.2	8.3
Inflation (in percent, end of period)	40.5	163.6	2.7	30.1	60.6	12.5	9.7
Inflation (in percent, average)	418.3	88.0	43.2	27.5	32.9	38.6	16.7
	(In percent of GDP; unless otherwise specified)						
Sectoral distribution of GDP							
Agriculture	36.0	27.1	24.9	25.4	27.0	26.7	...
Industry	25.7	19.7	20.1	21.7	23.9	22.6	...
Trade	14.6	10.2	22.1	19.7	18.3	19.3	...
Construction	2.6	2.1	3.9	5.4	3.4	4.1	...
Other	21.1	40.9	29.0	27.8	27.5	27.4	...
Balance of payments							
Current account balance	-7.3	-5.2	-8.3	-3.4	-6.5	-7.1	-7.0
Gross official reserves (in months of imports) 1/	0.3	0.6	1.5	1.7	2.1	1.9	2.3
Consolidated government finances							
Revenue	13.2	13.7	12.0	13.5	13.6	15.2	20.8
Expenditure 2/	19.0	17.0	15.8	16.6	14.2	15.3	19.7
Overall balance 2/	-5.8	-3.3	-3.8	-3.1	-0.6	-0.1	1.1
	(Percent change from previous period)						
Money and credit							
Somoni broad money	142.6	117.2	18.8	29.3	48.4	31.5	14.7
Credit to private sector 3/	...	...	...	-6.0	90.2	54.3	18.1
Interest rate (in percent) 4/	116.0	85.0	49.7	30.6	34.4	18.5	29.5

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

1/ Goods and nonfactor services.

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

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

4/ Lending rate for domestic currency denominated 3–6 months loans; end of period.

EXECUTIVE SUMMARY

Tajikistan's previous Fund-supported program went off-track in mid-2001 largely because of poor progress with structural reform and weak management of external debt. To revitalize the reform process, the authorities satisfactorily implemented a Staff Monitored Program that covered the first half of 2002. The staff discussions on Article IV issues and those for a new Fund arrangement were held during April, July and October this year.

Tajikistan continues to experience strong growth with increases in GDP averaging 7 percent since 1997. Although much of this growth is based on the recovery of traditional exports, there are signs that light manufacturing and private farming are also expanding. In recent years, inflation performance has been uneven reflecting mainly occasional lapses in monetary policy.

The major challenges facing Tajikistan's economic reform process are (a) enhancing stabilization through better implementation of fiscal and monetary policy; (b) achieving more extensive ownership of core structural reforms; and (c) restructuring debt and improving debt management. Progress in these areas will be supported by the proposed three-year PRGF arrangement that is being requested.

Targets for the first year (2003) of the proposed arrangement include real GDP growth of 6 percent and inflation of 7 percent. To secure these objectives, the overall fiscal deficit, including the foreign-financed public investment program, is projected at 3.5 percent of GDP. Financing gaps projected for 2002-03 are expected to be covered by a bilateral debt restructuring with Russia.

Structural reform in the proposed arrangement reflects a streamlined agenda that concentrates on:

- strengthening the banking sector by restructuring weak banks and improving supervision;
- reducing quasi-fiscal activities in the energy sector by increasing tariffs and collection rates while protecting vulnerable households;
- limiting foreign borrowing and improving debt management with technical assistance; and
- enhancing private sector activity in agriculture by supporting further farm privatization and reducing government intervention.

The preparation of Tajikistan's Poverty Reduction Strategy Paper (PRSP) involved widespread public participation. Although the PRSP is ambitious and understates the constraints posed by limited absorptive and institutional capacity, it can serve as a credible planning document. The proposed Fund-supported program is consistent with the PRSP.

I. INTRODUCTION

1. The Article IV staff discussions were held in Dushanbe during April 25–May 4, 2002, July 9–18, 2002, and October 3–10, 2002.¹ These missions also assessed progress under a Staff Monitored Program (SMP) that covered the period January–June 2002 and held discussions on a new arrangement under the Poverty Reduction and Growth Facility (PRGF).
2. The Fund has supported Tajikistan's economic reform program since 1996, most recently with a three-year PRGF arrangement approved in June 1998.² The third annual arrangement was approved in October 2000, but the third and fourth reviews were not completed due to slow progress with structural reform. The PRGF arrangement expired in December 2001 with total disbursements of SDR 78.3 million.
3. Tajikistan received several noncomplying disbursements from the PRGF Trust mainly related to the accumulation of external payment arrears. Although the Executive Board granted waivers for the first two of these incidents, it required an early repayment for the third one, which involved three noncomplying disbursements totaling SDR 25.32 million. Tajikistan was allowed to repay in four quarterly tranches beginning end-June 2002. Two payments have been made.
4. During the last Article IV consultation (IMF Country Report No. 01/65, April 2001), Executive Directors welcomed Tajikistan's strong economic growth but regretted the uneven program performance. They noted that despite adverse circumstances, real GDP growth remained strong. Directors stressed, however, that slippages caused the Fund-supported program to go off track and contributed to a spike of inflation in late 2000. Directors expressed concern about Tajikistan's heavy external debt burden and its difficult economic and financial outlook. They stressed the need for consistent implementation of prudent fiscal and monetary policies, as well as for an acceleration of structural reform to promote macroeconomic stability and sustainable growth.
5. In the attached letter of intent, the authorities request approval of a new PRGF arrangement in an amount equivalent to SDR 65 million (75 percent of quota) to support the program for the period October 1, 2002–September 30, 2005. In October the PRSP was submitted to the Executive Board. As of end-September 2002, Tajikistan's

¹ The staff team consisted of R. Christiansen (head), R. York, Z. Bogetic, F. Ohnsorge (all EU2), N. Koliadina, P. Beynet (both PDR), and H-S. Jung (FAD). Mr. Lorie, the Funds' Resident Representative in Dushanbe, assisted the mission. Mr. Odling-Smee joined the April mission and Mr. Szczuka (OEDSZ) joined the July mission. Mr. Milford (LEG) participated in both the July and October missions. The missions met with the president, the prime minister, other senior government officials and representatives of civil society.

² Access under the PRGF was for SDR 96 million, or 110 percent of quota. On December 17, 1998, access was raised to SDR 100.3 million, or 115 percent of quota.

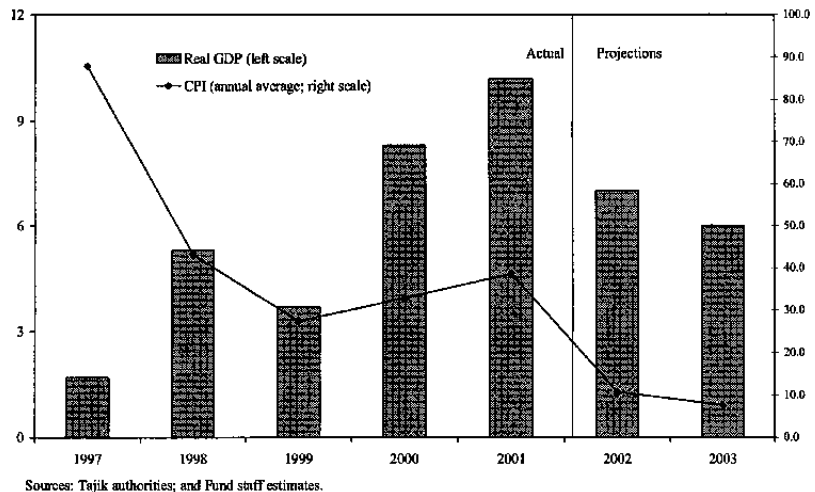
outstanding use of Fund resources amounted to SDR 69.37 million, 79.7 percent of quota. The Fund (Appendix I) and other international financial institutions (Appendices II and III) have provided Tajikistan with extensive technical assistance. The core minimum data provided to the Fund has weaknesses but is adequate for program monitoring (Appendix IV). Tajikistan plans to implement measures that will lead to acceptance of the obligations under Article VIII of the Fund's Articles of Agreement. A Safeguards Assessment of the National Bank of Tajikistan (NBT) was completed in November 2001 and the authorities are implementing its recommendations. A follow-up assessment is being prepared.

II. RECENT ECONOMIC DEVELOPMENTS AND PERFORMANCE UNDER THE SMP

6. **Economic performance has improved in recent years, despite natural disasters, deteriorating terms of trade, the Russia crisis, and regional instability.** Real GDP growth has averaged 7 percent a year since 1997 and remained strong in the first three quarters of this year (Table 3). This pace of growth places Tajikistan among the top performers of comparable countries (Box 1). Macroeconomic stability has facilitated recovery from the civil war, which ended in 1997. Production of the two main export commodities (aluminum and cotton) has rebounded from their immediate post war lows and domestic demand has been supplemented by higher workers' remittances.³

7. **Occasional lapses in policy implementation combined with exogenous shocks have contributed to an uneven inflation performance over the post-war period.** While inflation has declined from its peak at the end of 2000, it has yet to fall below 10 percent. In contrast, inflation in other low-income CIS countries was 4-6 percent last year and is expected to be the same this year. For the twelve months through September 2002, inflation was 16 percent (Figure 1) and the outlook is for a decline to 13 percent by year's end, compared with the 9.5 percent target under the SMP.

Figure 1. Tajikistan: GDP and Inflation, 1997-2003
(Percent change from previous year)



³ Although estimates vary, there were about 225,000 Tajiks (3.5 percent of the population) abroad as seasonal workers in 2001, who remit the equivalent of 5-10 percent of GDP annually.

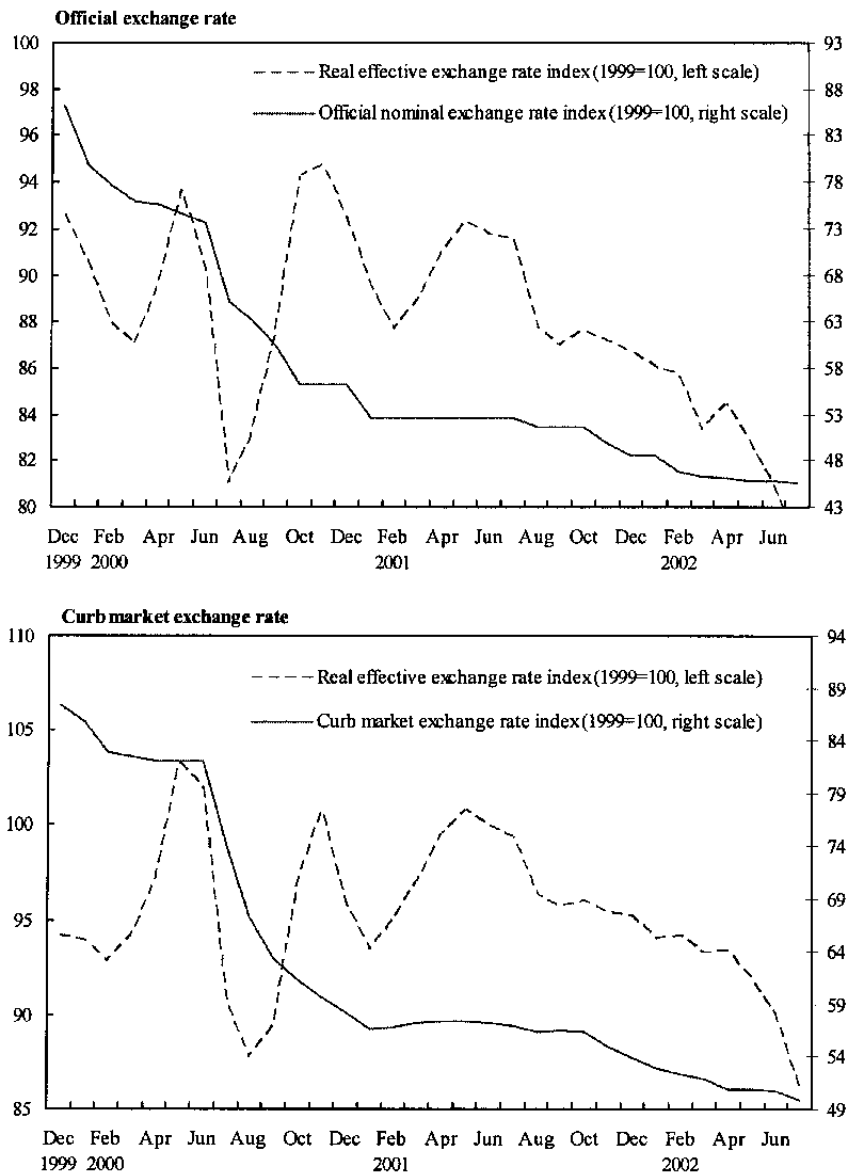
Box 1. Macroeconomic Indicators in Selected CIS Countries, 2001-2002

	2001	2002 Projection
Real GDP growth (in percent)		
Armenia	9.6	9.5
Georgia	4.5	4.3
Kazakhstan	13.2	8.0
Kyrgyz Republic	5.3	0.8
Moldova	6.1	6.0
Russia	5.0	4.4
Tajikistan	10.2	7.5
Consumer price inflation (in percent change, eop)		
Armenia	2.9	1.2
Georgia	3.4	5.0
Kazakhstan	6.4	6.0
Kyrgyz Republic	3.7	3.6
Moldova	6.4	5.0
Russia	18.6	14.0
Tajikistan	12.5	13.0
GDP (in millions of U.S. dollars)		
Armenia	2,122	2,309
Georgia	3,197	3,378
Kazakhstan	22,372	24,805
Kyrgyz Republic	1,526	1,649
Moldova	1,613	1,705
Russia	309,510	345,139
Tajikistan	1,033	1,089
General government balance (in percent of GDP)		
Armenia	-4.0	-3.1
Georgia	-1.6	-1.4
Kazakhstan	2.8	1.4
Kyrgyz Republic	-5.0	-5.6
Moldova	-0.7	-1.7
Russia	3.0	0.7
Tajikistan	-0.1	-0.3
Total revenue (in percent of GDP)		
Armenia	17.1	18.8
Georgia	16.3	16.0
Kazakhstan	25.4	23.4
Kyrgyz Republic	20.4	21.9
Moldova	26.7	27.1
Russia	37.1	36.5
Tajikistan	15.2	16.9
Current account balance (in percent of GDP)		
Armenia	-9.5	-7.5
Georgia	-6.9	-6.3
Kazakhstan	-4.7	-2.8
Kyrgyz Republic	-3.3	-1.1
Moldova	-6.2	-7.3
Russia	10.3	7.1
Tajikistan	-7.0	-4.3
Stock of debt (in percent of GDP)		
Armenia	42.7	40.1
Georgia	53.1	52.9
Kazakhstan	66.9	...
Kyrgyz Republic	112.0	103.0
Moldova	58.6	58.2
Russia	41.2	35.6
Tajikistan	99.0	93.0
Gross reserves (in months of imports)		
Armenia	3.8	3.9
Georgia	1.4	1.7
Kazakhstan	2.8	3.0
Kyrgyz Republic	4.1	4.4
Moldova	2.5	2.8
Russia	5.1	6.3
Tajikistan	1.9	2.3

Source: Data provided by the authorities and Fund staff projections.

8. **The curb market exchange rate was broadly stable throughout 2001.** It weakened early this year, however, with the pace of depreciation accelerating more recently mainly because of excess liquidity injected during the third quarter. The authorities set the official exchange rate as a weighted average of weekly transactions in the official interbank foreign exchange market. Indicators of bilateral real exchange rates with Tajikistan's major trading partners do not indicate any major changes in competitiveness (Figure 2).

Figure 2. Tajikistan: Indicators of International Competitiveness, 1999–2002 1/



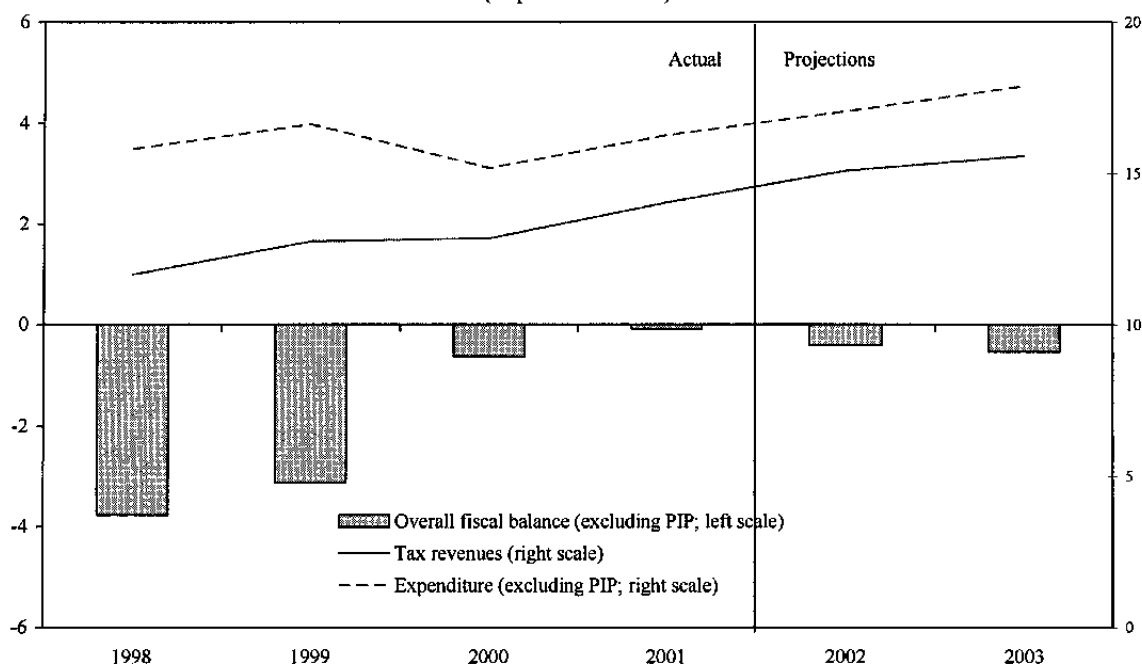
Sources: National Bank of Tajikistan; and Fund staff estimates.

1/ A decline in the exchange rate indices reflects a depreciation.

9. **Real wages increased in 2001 after several years of stagnation.** The increases, however, were uneven across sectors with non-agricultural private sector real wages rising by 22 percent in 2001 and agricultural wages rising by 40 percent. In contrast, public sector real wages declined by 8 percent during 2001. The increase in agricultural wages is important because the sector accounts for the majority of employment and historically wages have been comparatively low. While a boost in civil service salaries in 2001 and 2002 helped to narrow the substantial gap between public and private sector pay, average wages in Tajikistan remain below US\$1 per day. Official statistics indicate that between 1999 and 2001, employment increased by 1.8 percent, with a 4.4 percent gain in agriculture, while non-agricultural employment declined over the period.

10. **The overall fiscal deficit, excluding the foreign-financed public investment program (PIP), declined from nearly 4 percent of GDP in 1998 to near balance in 2001 (Figure 3).** The steady improvement in Tajikistan's fiscal position compares favorably with other low-income CIS countries. This reflects a modest gain in revenue collections and better expenditure discipline. While tax revenues are low compared with other transition countries, in 2001 they were at their highest level (14 percent of GDP) in the post-independence period. Consequently, current expenditures have increased only slightly over time, limiting social programs. In education and health, for example, equipment shortages compromise quality and have made private supplementary payments common (Box 2). The fiscal situation, however, is not fully reflected in current expenditures because of extensive quasi-fiscal activities, especially in the energy sector where they were equivalent to 5-6 percent of GDP in 2001.

Figure 3. Tajikistan: Overall Fiscal Balance, Expenditures, and Tax Revenue, 1998–2003
(In percent of GDP)



Sources: Tajik authorities; and Fund staff estimates.

Box 2. Spending on Health and Education

As in other CIS countries, public spending on social services in Tajikistan declined precipitously after the collapse of the former Soviet Union such that by 1999 real public spending on health and education was an eighth of its level in 1992. Although there has been a modest recovery in the past three years—to one-sixth of their 1992 levels—Tajikistan's social expenditure (7 percent of GDP) remains half of that in other CIS countries.

About 80 percent of total education spending is for basic and secondary education, the bulk of which is financed by local governments. The decline in real spending for education has led to a shortage of materials, a decline in teachers' real wages, and an exodus of qualified teachers. Lack of financing has also caused schools to charge education fees, further reducing enrolment ratios among the poorest segments of the population.

Overstaffing and under financing characterize the public health system. The government finances 1,428 hospitals and 156 health care centers staffed with a large number of doctors and beds compared with other countries in the region. The decline in the real level of health spending is reflected in inadequate equipment and supplies of medicine, wages that are 40 percent of the national average, and the imposition of informal fees that further reduce access of the poor.

Real Education and Health Expenditure Indices, 1992-2001
(Index 1992 = 100)

	1992	1994	1996	1998	2000	2001
Education	100.0	56.6	11.4	13.4	15.0	18.0
Health	100.0	81.1	13.8	12.5	11.5	14.0
<i>Memorandum item:</i>						
Real GDP	100.0	72.2	60.4	64.7	72.6	80.0

Sources: Tajik authorities; and Fund staff estimates.

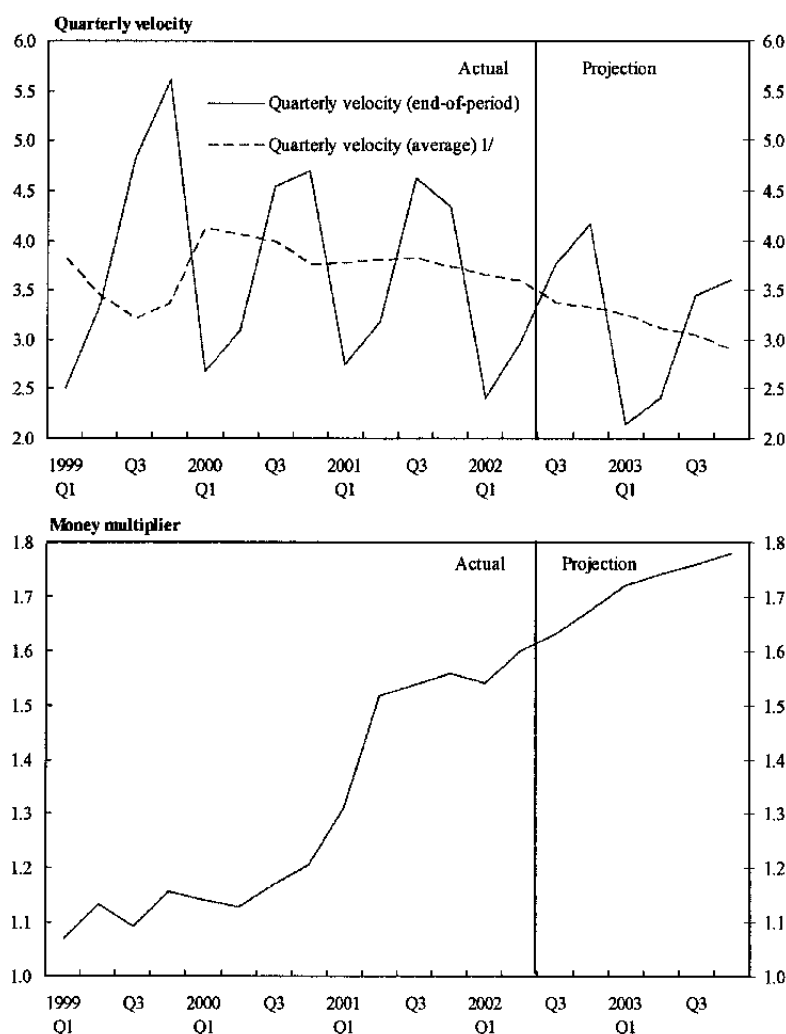
11. **The fiscal stance continued to improve in the first half of 2002.** Instead of a projected deficit of ¼ percent of GDP, a surplus of 1.1 percent of GDP was realized (Table 4). This reflected higher-than-expected revenues resulting from strong economic growth and better tax administration, as well as the comprehensive application of the destination principle to imports from CIS countries. Recent indicators confirm the continued over-performance of tax revenue collections and expenditure discipline.

12. **In contrast to fiscal policy, the uneven implementation of monetary policy has occasionally undermined macroeconomic stability.** At times, the central bank has issued directed credit to support state enterprises and cotton production thus compromising compliance with its quantitative targets. During the period under the SMP (January-June 2002), monetary policy was generally on track. In July and August 2002, however, the NBT again issued directed credits that contributed to the rapid growth of reserve money and a spike in inflation. Since then, reserve money growth has been brought back in line with the program's targets.

13. **The limited development of the financial sector poses challenges for conducting monetary policy.** Weak institutional capacity and the lack of a secondary market for treasury bills has precluded the use of open market operations. The effectiveness of the NBT's Lombard facility is also limited by institutional weaknesses. Consequently, the central bank has relied on the development of a market for NBT bills to absorb excess liquidity. Injecting liquidity has also been problematic as the NBT's credit auctions have tended to result in directed credits. To improve this situation, the NBT is developing an interbank credit market in which it could participate as necessary.

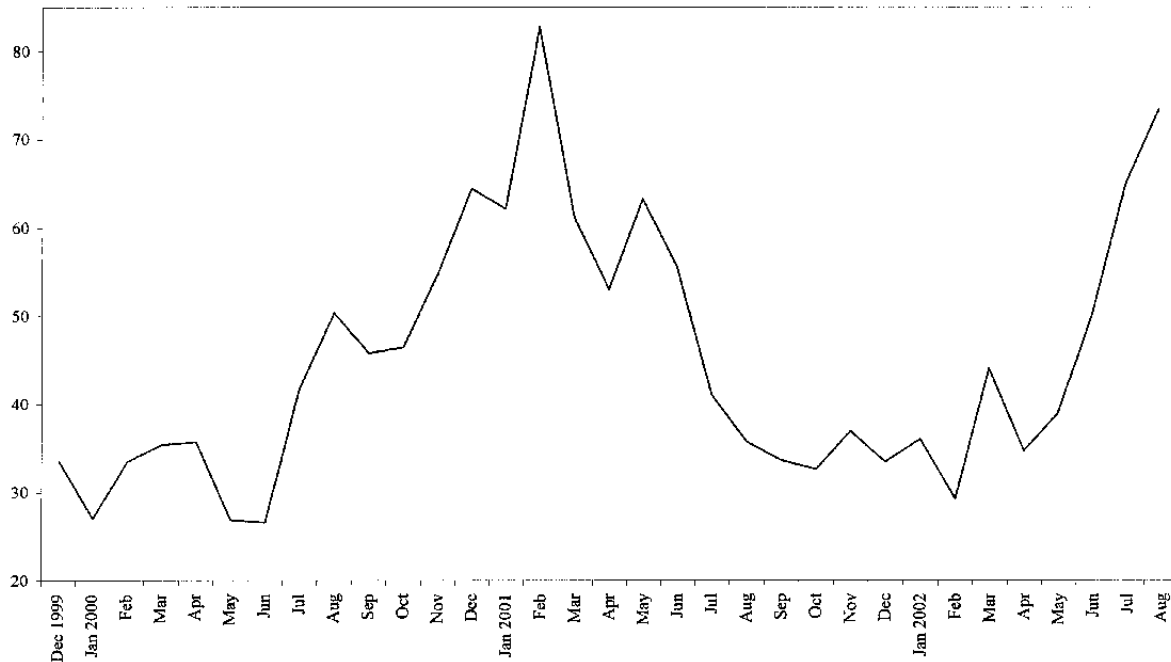
14. **Increased deposits in the banking system suggest that confidence is improving, aided by measures to strengthen banks (Figures 4 and 5).** The latter include eliminating a provision that required payment of a 30 percent tax on financial transfers from abroad, preventing tax authorities from freezing accounts without a court order, paying interest on deposits, and amending the tax code to enhance privacy.

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



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

Figure 5. Tajikistan: 12-Month Broad Money Growth, 1999-2002
(In percent)



Sources: Tajik authorities; and Fund staff estimates.

15. **Tajikistan's current account deficit widened in 2001 largely because of deteriorating terms of trade.** Other low-income CIS countries have faced a similar situation, although the external adjustment in the Kyrgyz Republic has been particularly strong. The value of exports declined by 17 percent due to lower world prices for cotton and aluminum and lower electricity exports to the region. The balance on income improved, reflecting the inclusion of workers' remittances for the first time. This year's large cotton harvest combined with higher commodity prices suggests that the current account deficit will narrow (Table 8). The current account deficit in 2001 was financed mainly with borrowing from multilateral institutions and private capital inflows to the cotton sector. Foreign direct investment (FDI), already low compared with other countries in the region, declined further due to regional insecurity and a difficult private sector environment. Gross international reserves increased to 2.3 months of imports at mid-2002.

16. **At end-2001, Tajikistan's total external debt was US\$1,024 million.** At 100 percent, only the Kyrgyz Republic among the CIS countries has a higher ratio of external debt to GDP. Public sector debt, which accounts for 89 percent of the total (Table 13), declined during 2001 because of a reclassification of some commercial debt and the amortization of bilateral government debt. The terms of debt service have gradually improved as bilateral debt has been rescheduled on more favorable terms (Belarus, Kazakhstan, Russia, and Uzbekistan) and concessional borrowing replaced bilateral debt.

The debt burden, however, remains high, with debt service payments amounting to 46 percent of fiscal revenue in 2001 (Table 12).

17. **Debt management capacity is weak, though slowly improving.** The authorities have completed an inventory of government, government-guaranteed, and state-enterprise debts, and they have written to bilateral creditors to confirm the status of their debt. Under the SMP, external payment arrears accumulated on the same loan that had earlier given rise to a noncomplying disbursement. Although the arrears resulted from confusion over preconditions for restructuring the loan, and have been cleared, the incident illustrates the lingering weaknesses in debt management. Similarly, the most recent incident of misreporting stemming from the accumulation of external payment arrears on a credit line from Iran highlights the weak institutional capacity in this regard. The situation with government-guaranteed debt is also difficult, as past guarantees are occasionally still used by enterprises for external borrowing.

18. **Structural reform has been erratic during the authorities' economic program.** Progress was particularly weak in 2001, a factor that contributed to the program going off track. While a narrow base of ownership played a role, other contributing factors included weak institutions, inexperience, and a reform agenda that was perhaps too ambitious for the immediate post-civil war period.

19. **The implementation of structural reform improved under the SMP.** Nearly all the measures set as structural benchmarks were implemented (Table 2), although some with a delay. Among the measures completed were some of the recommendations contained in the Safeguards Assessment report, amendments to the legislation governing the State Auditing Agency to ensure effective parliamentary oversight, and the creation of a computerized loan-by-loan inventory of public, publicly guaranteed, and state-owned enterprise external debt. At present, Tajikistan is current on its external obligations or is in the process of negotiating a rescheduling of those debts. The authorities have also regularized financial relations between the NBT and the government, by reducing the central bank's portfolio of non-performing loans and ensuring that their respective obligations are settled on market terms. As well, the President issued a decree that should limit the ability of local authorities to intervene in the production and export of cotton. The authorities have not yet implemented the structural benchmark requiring creation of a centralized record of its contingent liabilities that would improve its financial reporting to the Fund. This will take place as part of the planned restructuring of the NBT.

III. POLICY DISCUSSIONS

20. **Recent experience with uneven program implementation—especially with regard to structural reform and monetary policy—mirrors past performance.** Although economic activity has strengthened over time, the uneven implementation of policy measures remains a potentially limiting factor to the success of a Fund-supported program. This, in large measure, is a consequence of the country's weak institutions and the fragmented political environment prevailing since the end of the civil war in 1997. During the war, many

senior civil servants left the country and key institutions have yet to recover so that policy execution remains weak.

21. Ending the war required the government to accommodate many disparate groups. Not only was the opposition accorded a third of senior government positions, but numerous well-armed factions created a fragmented and near feudal political landscape. These groups quickly evolved into political interests that have generally resisted reform in favor of continued rent-seeking opportunities. Ownership of the reform process has been narrow and the authorities have frequently been unable to fulfill commitments. In many instances, the authorities were unable to enforce laws because the central government did not physically control parts of the country.

22. In the past, policy differences between staff and the authorities centered mainly on structural reforms and to a lesser extent on the appropriate fiscal stance. Although, in hindsight, the first PRGF may have had too many structural conditions, the authorities also recognized their limited ability to implement many program requirements. As a result, the previous program was characterized by numerous lapses and requests for waivers. Past differences over the fiscal stance were the result of pressures for higher expenditures despite low levels of revenue collection. While past discussions of monetary policy experienced few differences over objectives, performance was often problematic because of pressure on the central bank to engage in non-core activities and to issue directed credits.

23. Over the past year or so, the central government's administrative control—aided by improved regional stability and greater support from donors—has improved. The authorities acknowledge that, while institutions have improved, problems persist and continue to slow implementation. They believe, however, that political support for reform is broader and more effective than in the past. Accordingly, recent policy discussions centered more on the appropriate pace and sequencing of measures and less on the extent of reforms. For example, the authorities have long recognized the need to reform energy sector policies, but have been reluctant to launch the process because of the influential vested interests associated with state-owned enterprises in this sector. During discussions with the authorities on energy reforms, the main differences centered on the pace of reform and the extent of protection that could be afforded for vulnerable groups. Similarly, discussions of farm privatization focused more on the capacity to administer the process in an equitable manner and less on the difficulty of confronting vested interests within the sector. As a way to demonstrate their commitment, the authorities have implemented a range of actions, five of which have been identified as prior actions for finalizing the Board documents (see Attachment II, Annex III).

A. Medium-Term Objectives and Strategy

24. Under the SMP, the authorities reaffirmed their commitment to macroeconomic stability and structural reform. Of particular importance were measures to strengthen external debt management, which—while not yet complete—should help to prevent future

incidents of misreporting to the Fund.⁴ The authorities have developed a policy framework for the period ahead based on their PRSP, the heart of which is the need to reduce poverty by enhancing macroeconomic stability. Key ingredients of the strategy include reducing inflation, addressing quasi-fiscal activities while achieving modest fiscal consolidation, improving the operations of the central bank, continuing privatization in agriculture, and improving governance. This strategy is being supported by bilateral and multilateral donors. More than 80 percent of the population lives below the poverty line. Poverty in rural areas, where most of the population lives, is more widespread than in urban areas. The poorest area of the country is in the mountainous south. While official statistics do not reflect the gender dimension of poverty well, female-headed households are most at risk of poverty.

25. For 2002, the macroeconomic framework envisages real GDP growth of 7.5 percent, end-period inflation of 13 percent and an overall fiscal deficit of 3.1 percent of GDP. Over the medium term, sustainable growth combined with poverty reduction need to be achieved while enhancing external debt sustainability. Over the next few years, real GDP growth is projected to be 4-6 percent annually with a decline in inflation to 5 percent. Growth is projected to be based on continued strong agricultural production and light manufacturing. Further, it is anticipated that domestic demand will continue to be supplemented by workers' remittances from abroad. To ensure debt sustainability, it is necessary to contain the overall budget deficit to the amount of concessional foreign financing required to fund the public investment program. Hence, increases in current expenditures would be limited to increases in revenues. The authorities' public investment program is also constrained by the limited absorptive capacity of local institutions. As a result of the limits on the overall fiscal deficit, net savings by the private sector are projected to increase gradually over the next few years, allowing for a modest narrowing of the deficit. From the Article IV and program discussions—and as highlighted in the PRSP—there emerged an understanding that poverty reduction efforts may require additional resource mobilization. To this end, the authorities are encouraged to solicit grant resources from bilateral and multilateral donors, including within the framework of the CIS-7 initiative. To the extent that additional grants become available and implementation capacity increases, the medium-term objectives could be revised in the context of the PRSP progress report and subsequently incorporated in the PRGF-supported program.

B. Fiscal Policy

26. The authorities' strategy limits the fiscal deficit to the requirements of the foreign-financed PIP, effectively limiting expenditure increases to revenue gains. This would entail modest fiscal consolidation as the overall deficit is projected to decrease from 3.5 percent in 2003 to 3 percent in 2004 and 2005 (Table 4). During most of the program period, budget financing would be provided largely by investment lending from bilateral and

⁴ Technical assistance from the Fund to strengthen the Debt Management Unit at the Ministry of Finance is expected to begin by end-2002.

multilateral donors, with domestic sources contributing only in the outer year. (Over the period 2003-04, there is a projected accumulation of the government's deposits with the NBT.)

27. **Current expenditures are projected to rise modestly over the program period, mainly due to increased outlays for health, education and targeted social programs.** These spending priorities are in line with the PRSP, which places emphasis on the problems facing the poor in accessing essential social services. That said, the staff recognizes the limited impact such increased spending will have in the short term, given the current state of such services/programs and the low level of financial resources that are available.

28. **The authorities initially proposed a 40 percent increase in the public sector wage bill for 2003.** They argued that such an increase would be necessary to bring civil service salaries more in line with the private sector, to alleviate poverty among the low paid civil servants in the health and education sectors, and to combat corruption. While sympathetic, the staff noted that a wage increase of this magnitude could not be justified, especially given the 25 percent increase in the wage bill for 2002. In particular, the staff stressed that raising public sector wages across the board is not an effective means of reducing poverty. The staff urged that future increases in the civil service wage bill be linked to civil service reform. In the event, the authorities agreed to a 20 percent wage increase beginning April 1, 2003, corresponding to an increase in the wage bill of 15 percent for the year. The staff also agreed to reassess (in consultation with the World Bank) the prospects for a further wage increase in light of progress with civil service reform.

29. **The authorities favor higher levels of spending on the foreign-financed PIP.** Earlier versions of the PRSP targeted foreign financing of US\$50–60 million annually. In particular, the authorities were concerned that reducing the PIP would compromise efforts to reduce poverty. Nonetheless, the authorities acknowledge that the country's absorptive capacity remains limited, the debt burden poses a constraint and ensuring adequate budget resources for operation and maintenance costs could be problematic. Further, they recognize the need to better prioritize their public sector investments. While reaching understandings on a 3 percent ceiling for the PIP during the program period, they hope to revisit this issue in the light of improved administrative and revenue performance. The staff would be willing to reconsider this in the context of future PRSP progress reports.

30. **Reducing quasi-fiscal activities in the gas sector will require increasing tariffs and collection rates.** The authorities are committed to taking the necessary difficult decisions, including suspending gas deliveries to industrial users that are in arrears. They are also committed to cushioning the impact of higher gas prices on vulnerable households. To mitigate the social impact of these reforms, the authorities plan to extend the coverage of lifeline tariffs or introduce targeted subsidies. The outline of their proposals was discussed with staff in October 2002. The authorities plan to allocate 0.4 percent of GDP in the 2003 budget to finance this mechanism, implementation of which will begin in January 2003. While this allocation is somewhat less than recommended by staff, it should be adequate initially, especially recognizing that the mechanism will be implemented gradually.

31. **The proposed arrangement envisions a gradual increase in tax collections.** Tax revenues are projected to increase to 15.8 percent of GDP in 2003 from 14.1 percent of GDP in 2001. In an effort to achieve this target, a number of tax measures have been taken to simplify the income tax structure and broaden the tax base, increase the excise tax rates on alcohol and tobacco, and introduce a pilot unified agricultural tax in several regions. In addition, the authorities will delay the move to the VAT on cotton until 2004. The staff concurs with this decision since the risk of revenue loss from eliminating the sales tax on cotton is substantial. These tax measures will be supported by improved performance of the Ministry of State Revenues and Duties (MSRD) as it reforms tax and customs administration, and works to simplify the tax code to bolster compliance. The MSRD will also encourage strong tax collections through the introduction (in consultation with staff) of a performance-based remuneration scheme for its employees.

32. **The submission to parliament of the draft budget for 2003, in line with staff discussions, is a prior action for proceeding with a new arrangement.** In its current context, this budget enhances Tajikistan's fiscal policy since it is much broader, in scope and coverage, than previous budgets. For the first time, it will explicitly include the PIP and both extra-budgetary revenues and expenditures that have increased in importance over time. It earmarks resources to address concerns over adjustment costs facing the poor related to energy tariff reform and calls for the development of a detailed classification system to monitor poverty-related expenditures. Next year's budget also includes the (negligible) fiscal impact of the regularization of financial relations between the government and the NBT.⁵ The authorities also recognize the need to boost revenues and the important contribution of tax and customs administration reform in this regard.

C. Monetary and Exchange Rate Policies

33. **The program assumes a modest increase in money demand premised on greater confidence in the banks and the currency.** The decline in velocity observed during the first three-quarters of 2002 would continue and broad money is projected to increase by 17 percent in 2003 (Table 7), consistent with projected economic growth and inflation. The recent increase in confidence in commercial banks suggests that deposits (and the money multiplier) will continue to grow, a trend that should be reinforced by further restructuring of banks.

34. **The NBT plans to maintain a managed floating exchange rate regime with no pre-determined path as the best protection against external shocks.** Foreign exchange intervention would be limited to smoothing temporary fluctuations and to ensuring that the targeted reserve gains are achieved. In the event of an unexpected inflow of foreign capital,

⁵ The regularization of financial relations between the government and the NBT involves the issuance of long-term bonds by the former to the latter, in respect of past directed credits issued by the NBT. It also includes payment of market-related interest on both these bonds and on government deposits held at the NBT.

the central bank could accumulate reserves beyond the program targets while carefully managing liquidity needs.

35. **The authorities plan to implement the measures needed to comply with the obligations of Article VIII of the Fund's Articles of Agreement.** Tajikistan does not currently maintain exchange restrictions under Article XIV of the Fund's Articles. With a view toward Tajikistan's acceptance of the obligations of Article VIII, Sections 2, 3 and 4 of the Fund's Articles, staff is in the process of reviewing the laws and regulations applicable to the exchange system in order to determine if Tajikistan maintains restrictions that are inconsistent with Article VIII, Sections 2, 3 or 4. If restrictions exist, remedial action would be taken before the first review under the PRGF arrangement is concluded.

36. **Although inflation has moderated significantly since end-2000, the NBT needs to strengthen monetary discipline.** Past problems were the result of the NBT's inability to resist pressures from vested interests as well as its operational deficiencies. Under the SMP, performance of the NBT improved as it began to implement the recommendations of the Safeguards Assessment. Performance again lapsed in July and August; however, this was more because of institutional weaknesses than outside pressure. The proposed arrangement includes continuous performance criteria prohibiting the NBT from (a) issuing directed credits⁶ and (b) making non-core expenditures or paying dividends while it has negative net worth. The NBT will establish a centralized record of its contingent liabilities, undertake an unqualified international audit of its accounts by end-2002, centralize all accounting functions, and consolidate operations. To improve efficiency, the NBT is reducing staff and facilities, and preparing a restructuring plan to strengthen its operations.

D. External Policies and Debt Management

37. **The current account deficit is projected to decline in 2002 because of improved terms of trade and increased cotton exports.** Agricultural production is expected to expand further in 2003 as farm privatization continues. The capital account surplus is also projected to fall next year, because of lower electricity exports to Uzbekistan after two years of drought and increased production of aluminum. The overall balance of payments deficit is expected to widen to 2 percent of GDP over the program period because of reduced capital transfers associated with lower grants from the EU. An external financing gap of about US\$127 million was projected to arise over the three-year period, 2002-2005, with a gap of US\$38 million this year reflecting an early repayment to the Fund and high debt service. In the event, these gaps are expected to be covered by a bilateral debt restructuring agreement with Russia and balance of payments support from the World Bank.

⁶ The authorities are aware of the importance of abiding by their performance criteria and are of the view that the improved financial condition of banks will reduce pressure for directed credits.

38. **The authorities continue to liberalize the trade regime.** Trade reforms were initiated in late 1995 and bolstered in 1999 with the adoption of a new tariff structure aiming at harmonizing its tariff schedule with other CIS customs union members. In May 2002, average tariffs and the number of tariff-exempt goods were further reduced. Humanitarian aid and goods imported by international organizations continue to be exempt from tariffs. Tajikistan has a relatively open trade regime whose trade restrictiveness is ranked as level one according to the Fund's trade restrictiveness index.⁷

39. **The authorities recognize the problems posed by Tajikistan's external debt and its weak management.** They have made progress with improving debt management by establishing a debt inventory and consolidating the responsibility for contracting new debt in the Ministry of Finance. In addition, the authorities have initiated debt restructuring negotiations with Russia, that are expected to fill the financing gap in the first year of the program. The terms of the restructuring are expected to involve a write-down of the stock of debt (including arrears) from US\$323 million to US\$300 million, using part of a US\$49.8 million credit with the Central Bank of Russia.⁸ The staff had initially urged the authorities to pursue a Paris Club restructuring in order to benefit in the short run from favorable and comparable treatment of all of its bilateral debt, the possibility of future debt relief, and the prospects for medium-term fiscal sustainability. The authorities, however, preferred negotiating with Russia in part because of the expectation of favorable terms, including a low rate of interest (2.8 percent); the partial write-down of the stock of debt; a more favorable short-term debt service profile and in their view, the uncertainties associated with the eventual terms of a Paris Club operation. While such a restructuring should significantly reduce the debt service burden in the short run, some concerns about fiscal sustainability will remain.

40. **A Russian agreement would offer short-term debt service relief, compared with a possible Paris Club rescheduling (Appendix V).** The staff's debt sustainability analysis suggests that, with a bilateral agreement on favorable terms, the net present value (NPV) of Tajikistan's debt service as a share of fiscal revenue would decline to 9 percent next year, compared with 30 percent under the baseline. However, as the grace period comes to an end, the prospective benefits of a Paris Club rescheduling would begin to outweigh those with Russia; the NPV of the stock of debt diverges amounting to US\$425 million in the former case, compared with \$485 million in the latter in 2010. In either case, the NPV of debt as a share of exports remains below the critical level of 150 percent, alleviating somewhat concerns over Tajikistan's external sustainability. The combination of a (managed) floating

⁷ For details on developments in Tajikistan's trade regime see Chapter 4 of the Selected Issues Paper.

⁸ In October 2001, Tajikistan and Russia agreed that the US dollar equivalent of the 67 billion of Russian rubles returned by the former to the latter amounted to US\$49.8 million.

exchange rate, increased reserve cover, and reduced debt service should mitigate vulnerability (Table 16).

E. Structural Reform

41. **The foremost lesson emerging from experience in Tajikistan is the constraint posed by weak institutions.** In this setting, streamlining structural conditionality would improve the prospects for effective implementation (Box 3). Accordingly, the proposed arrangement concentrates on strengthening the banking sector; reducing quasi-fiscal activities in the gas sector; accelerating reform in the agricultural sector; and enhancing governance. The Memorandum of Financial and Economic Policies (MEFP) (Attachment II) provides details on the authorities' structural reform agenda. The first year of the proposed arrangement includes four structural performance criteria and five benchmarks (Annex II of the Memorandum).

42. **The financial sector remains a serious constraint to growth.** Tajikistan has the lowest degree of monetization of the CIS countries. As of end-July 2002, 9 out of 14 banks did not meet the minimum capital requirement and only one bank complied with all prudential requirements. The two largest banks (Agroinvestbank (AIB) and Amonatbank) are especially weak. The NBT (with technical assistance from the Fund) has completed restructuring plans for AIB and Amonatbank. The restructuring plan for AIB, which was the main source of cotton financing before 1998, requires a division into a cotton financing institution and a commercial bank. Amonatbank, a state-owned bank, has an extensive branch network that enables it to serve an important fiscal agent function for the government. The restructuring plan for Amonatbank includes measures to reduce costs, increase capital and ensure that the budget pays adequate compensation for the bank's activities as a fiscal agent.

43. **The authorities are committed to further improvements in the banking system.** To strengthen banks, the NBT plans to increase the minimum capital requirement to US\$2 million by end-2003. Recognizing that many of the smaller banks are among the most vibrant, the authorities plan to allow them to meet the minimum capital requirement gradually as long as they meet all other prudential requirements. The authorities plan to close or begin merging all banks that do not comply with the prudential requirements, and which are not subject to a restructuring agreement with the NBT, by end-March 2003. In order to strengthen the commercial viability of banks, regulators plan to reduce the liquidity requirements on deposits for banks that meet the prudential requirements.

44. **Eliminating quasi-fiscal activities in the gas sector is a critical part of the structural reform agenda.** Tajikistan is the most intensive energy user among the CIS countries. This partly reflects the energy intensity of aluminum production, but also the misallocation of energy resources due to low tariffs and collection rates. The resulting quasi-fiscal deficits (5–6 percent of GDP) have been financed by the accumulation of arrears and

Box 3. Tajikistan: Structural Conditionality Streamlining Assessment

1. Coverage of Structural Conditionality in the Current Program

Structural conditionality under the proposed arrangement focuses on four areas that are crucial for enhancing economic growth: banking and energy sector reform, debt sustainability, and farm privatization. Restructuring the two largest banks and closing or merging other non-viable banks will strengthen financial intermediation by encouraging a more efficient credit allocation and mobilization of domestic savings. The elimination of quasi-fiscal activities in the gas sector through increased tariffs and collection rates is critical for improving the fiscal situation, as well as transparency and accountability. To ensure a sustainable level of external debt, the program includes a zero-limit on non-concessional borrowing by the government, a streamlined public investment program, and technical assistance to improve debt management. Completion of the farm privatization program is key to further efficiency gains in the agricultural sector which is an important means to reducing poverty.

2. Status of Structural Conditionality from Earlier Programs

Structural conditionality under the previous PRGF arrangement (covering the period June 1998-December 2001) extended over a broad range of areas, reflecting Tajikistan's early stage of transition. There were 113 structural performance criteria and benchmarks and prior actions, of which about one-third were effectively implemented. In retrospect, the reform agenda was probably too ambitious, especially in light of Tajikistan's weak institutional capacity. While some of the unfinished business has since been included in the conditionality of other IFIs, IMF conditionality has been increasingly streamlined. During the third year of that arrangement and under the Staff Monitored Program, the focus had been on enhancing governance by making transparent fiscal relations between the government and the central bank; improving the efficiency of public spending (for example, by establishing a treasury system); tax and customs administration reform; strengthening the financial condition and independence of the NBT, and debt management. The authorities have made considerable progress in all of these areas.

3. Structural Areas Covered by Bank Lending and Conditionality

In 1998, the World Bank approved a second Country Assistance Strategy (CAS) which is currently being implemented. The CAS includes conditionality on (a) public administration reform; (b) improving budget preparation processes; (c) fostering the private sector environment through further privatization of farms as well as large and medium enterprises; (d) restructuring the financial sector; and (e) reforming the telecommunications and transport sectors. In the third CAS that is currently under preparation, the World Bank intends to include measures to (a) improve governance and transparency; (b) strengthen the education system; (c) improve the investment climate for small and medium enterprises; and (d) promote the development of agricultural and agro-business. World Bank lending for 2002-2005 is expected to amount to US\$80 million.

4. Relevant Structural Conditions not Included in the Current Program

Quasi-fiscal activities extend across the entire energy sector whereas Fund conditionality will be confined to the gas sector. Reforms in other parts of the industry (for example, electricity) are addressed in the conditionality of the Asian Development Bank (AsDB). While the emergence of micro-credit institutions may contribute significantly to future growth, the area is excluded from Fund conditionality because it is covered by conditionality of the World Bank, the AsDB and the EBRD.

under-investment. The size of the quasi-fiscal deficit in Tajikistan is comparable to that in other countries in the region (Box 4). The AsDB is providing restructuring assistance in the electricity sector but little restructuring has been achieved in the gas sector. The Fund is coordinating its work in the gas sector with the World Bank.

Box 4. Energy Related Quasi-Fiscal Deficits in Tajikistan and Selected CIS Countries

Armenia 1/ 2001	Azerbaijan 1/ 1999	Belarus 1/ 2000	Kyrgyz Rep. 1/ 2000	Tajikistan 2001	Turkmenistan 1/ 2000	Ukraine 1/ 2000
(In percent of GDP)						
5.0	27.0	14.2	6.0	5.3	13.0	6.5

1/ Petri, Taube, and Tsyvinski, IMF Working Paper 02/60.

45. **Gas sector reforms focus on increasing tariffs and collection rates, while protecting vulnerable households.** The authorities have begun the reform process by ensuring that the state-owned petroleum distributor does not incur any new arrears during this year or next. A quarterly adjustment mechanism will be introduced in December 2002 to ensure that a depreciation of the somoni does not erode cost recovery. Tariffs on gas will be increased to 80 percent of their cost recovery level by end-2002 and to 100 percent by end-March 2003. As of end-September 2002, collection rates had risen to 30 percent for households and 100 percent for all other categories of gas users. Concurrently the authorities plan to develop (in consultation with staff) and implement a plan to provide targeted compensation to low-income households to offset partially the higher energy prices.

46. **Successful agricultural development is critical to the prospects for growth, increased employment, and poverty reduction.** Given the importance of cotton and other agricultural commodities, reforming the sector is an essential ingredient in the proposed arrangement. As such, the authorities intend to complete the farm privatization process (about 225 large farms are still operated by the state) by 2005. Presently, high levels of external debt, the lack of progress with privatization of the remaining state-owned farms, and intervention by the government hinder the sector, although the authorities recently issued a decree restricting public sector interference in cotton production. By end-December 2002, the authorities will finalize their plans for addressing the debt burden facing many farms and thereby hindering privatization.

47. **Improving governance will require implementing measures across a wide range of areas.** The authorities plan some specific measures that will help to improve governance, including eliminating excessive regulation and interference in agriculture and ensuring the effective operation of the state audit agency. Efforts to improve governance must also cut across all areas of the public sector (Box 5).

Box 5. Improving Governance

Weak governance has three dimensions: excessive government intervention and discretion relating to economic activity; lack of transparency, accountability and poor management; and the absence of a stable, rule-based and competitive environment. Each of these is evident in Tajikistan.

The authorities are committed to improving governance. In the fiscal area, they will enhance transparency and accountability through the inclusion of both the foreign-financed public investment program and extra-budgetary revenues and expenditures into the 2003 budget, and development of a detailed classification of budgetary expenditures to allow for the monitoring of poverty-related spending. The independence of the central bank is being strengthened and monetary policy will be improved through further development of monetary instruments. Governance of the banking sector will be bolstered through annual international audits and on-site inspections undertaken by the NBT, the restructuring or closing of banks that do not comply with minimum capital requirements, and the elimination of waivers on prudential requirements from all commercial banks. Increasing energy tariffs to cost recovery levels and imposing financial discipline on consumers and budget entities should address inefficiencies and poor management of the energy sector.

Finally, an important element of the authorities' strategy to improve economic governance is the State Audit Agency that was created last year. The agency's role is to monitor the use of public funds to ensure that they are not misappropriated. Through a work program established by its board of directors, the agency undertakes biannual spot audits of each ministry, government agency, state-owned enterprise, and any commercial entity that conducts business with, or on behalf, of the government. The auditors' reports are forwarded to the Prosecutor's Office for action if any illegal activity is uncovered in the case of commercial entities, and to the Office of the President in the case of government entities. So far, 1,012 of the 1,200 planned audits for this year have been completed. Of these completed audits, 264 uncovered deficiencies and were forwarded to the Prosecutor's Office for action. Further, SM 15 million in assets and unpaid taxes were recovered as of mid-2002. This represents 12 percent of deficient tax payments and/or fraudulent activity and the agency intends to raise this recovery rate in future.

F. Program Financing

48. **Access under the proposed three-year PRGF arrangement is in an amount equivalent to SDR 65 million or 75 percent of quota.** This is premised on the need to rebuild international reserves, the strength of the program, and the difficult balance of payments outlook. The proposed access level would bring cumulative access under the PRGF to SDR 97.4 million, or 112 percent of quota by the end of the proposed arrangement (Table 14). If the full amount were disbursed over the next three years, the Fund's exposure in Tajikistan would increase to SDR 97.4 million from SDR 69.2 million this year, or about 41 percent of outstanding obligations. The first two of the seven proposed disbursements would be less than subsequent ones (Table 15).

49. **The balance of payments deficit during the first year of the program would be covered by the Russia debt rescheduling and World Bank support.** Between October 2002 and September 2003, Tajikistan's financing needs in this regard amount to US\$11 million, which is projected to be filled by debt service relief from Russia and balance of payment support from the World Bank of US\$ 37 million through a Structural Adjustment Credit. Over the first year of the program, the authorities would have a net repayment to the

Fund of US\$1 million associated with the earlier noncomplying disbursements under the previous PRGF arrangement. Over the subsequent two years, external financing would be provided by further support from the World Bank, debt service relief from Russia, and net credit from the Fund of about US\$40 million.

G. Medium-Term Balance of Payments and Capacity to Repay the Fund

50. **The current account deficit is projected to drop sharply this year and to decline moderately over the medium term.** The medium-term outlook is driven mainly by the growth of cotton and aluminum exports and a slowing of imports in line with a streamlined public-investment program. Structural reform efforts aimed at removing impediments to private sector development, especially in agriculture, will help strengthen Tajikistan's export potential. Although some export diversification is expected over the medium term, the economy will likely remain dependent on traditional commodities. The capital account is expected to remain in surplus over the medium term, albeit at a lower level, as higher FDI partially offsets rising debt service as the grace period with Russia ends.

51. **Tajikistan is expected to meet its obligations to the Fund in a timely manner provided it adheres closely to the program and intensifies structural reform.** Over the program period, the repayment ratios are lower than under the previous third annual arrangement, except during 2002, which is the result of the required early repayment. Debt service to the Fund declines to 15.6 percent as a share of total debt service and to 7 percent in terms of gross reserves in 2005, from 18.4 percent and 14.1 percent, respectively in 2001. Tajikistan has maintained a strong record of repayment to the Fund.

IV. PROGRAM MONITORING

52. Program implementation under the proposed PRGF arrangement will be monitored with semiannual quantitative and structural performance criteria and through reviews under the arrangement. A set of semiannual indicative targets and structural benchmarks has also been established. Performance criteria, indicative targets, and structural benchmarks for the first year program (October 1, 2002–September 30, 2003) are detailed in Annexes I and II of the Memorandum of Economic and Financial Policies. A Technical Memorandum of Understanding (Annex IV) defines the quantitative targets of the program and specifies the reporting requirements. The first and second reviews of the program are scheduled to take place by May 15, 2003 and November 15, 2003, respectively. At the time of the first review, the quantitative and structural performance criteria and benchmarks for September 2003 may be revised in light of developments.

V. STAFF APPRAISAL

53. **The staff commends the authorities for the progress in economic areas realized over the past few years.** It is especially notable given that the Peace Accord ending the protracted and costly civil war was signed only five years ago. Since then, the economic environment has gradually improved. Regional developments over the past year have been positive and the authorities are optimistic that implementation of economic reforms can now

gain momentum. On balance, performance during the SMP was broadly satisfactory, although the delays in the implementation of the structural measures were unfortunate.

54. **Against this background, recent economic growth is impressive.** Underlying this growth has been a recovery of traditional exports supported by a better macroeconomic environment, but one that is still characterized by uneven management and performance. While fiscal management has improved and the budget deficit has narrowed, better tax administration and tax policy are urgently needed. Although average inflation has been reduced, periodic price spikes reflect to a large extent lapses in the implementation of monetary policy. While the staff believes that the macroeconomic objectives of the proposed Fund-supported program can be achieved, success will require a considerable improvement in fiscal and monetary management. The underlying problem is the poor quality of most economic institutions, which is unlikely to change without civil service reform supplemented by technical assistance.

55. **Fiscal performance can be further enhanced through better planning, greater transparency and concerted actions to reduce quasi-fiscal activities.** To improve planning, the authorities should establish a medium term expenditure framework with clearly identified objectives, to be discussed and approved by parliament. A key ingredient in this framework should be a continued gradual increase in social spending—including compensation to vulnerable households for higher utility tariffs.

56. **The authorities' desire to raise civil service wages is understandable, but it needs to be balanced against the imperative of maintaining a prudent fiscal stance.** Low wages, often below the poverty level, compromise the quality of many public sector operations and perpetuate poverty. Remuneration, therefore, needs to be increased gradually and in conjunction with a civil service reform and greater mobilization of domestic revenues.

57. **The Ministry of State Revenues and Duties should be encouraged to improve revenue collection and rationalize the tax structure.** Although increasing, the ratio of tax revenues to GDP remains low compared to most neighboring countries. The authorities have identified several measures that would improve revenue performance while broadening the tax base and reducing distortionary taxes and have established the key administrative units. These can be implemented quickly and could serve to initiate a comprehensive reform process. Successful implementation will require additional budget resources, possibly in the form of a staff incentive scheme, as well as strong political support. The staff urges the authorities to move expeditiously to finalize their tax and customs reform strategy and to begin implementation.

58. **Improved operational and policy performance at the NBT is essential for enhancing macroeconomic stability.** The recent lapse in monetary discipline and the recurrence of directed credits are disappointing and should be firmly resisted in the future. Against this background, the authorities are advised to address the administrative weaknesses at the central bank identified in the Safeguards Assessment and the recent international audit report for the NBT. While both reports recommended remedial measures, the staff urges the NBT to formulate a comprehensive restructuring strategy that will enhance the

implementation of monetary policy and strengthen operational efficiency. Key measures that need to be included are better coordination and timing of policy actions, improved coordination of intervention in foreign exchange and domestic liquidity markets, improved accounting procedures, a reduction in staff and facilities, and the elimination of non-core activities.

59. **The staff urges the authorities to maintain the current (managed) floating exchange rate regime.** Given the frequent external shocks that buffet the economy, movements in the nominal exchange rate have helped Tajikistan preserve its international competitiveness. It should be stressed, however, that for Tajikistan's non-traditional exports, trade restrictions from neighboring countries affect export performance more than price changes. The staff hopes that the international community will give strong support to the Tajik authorities' efforts to remove regional trade barriers.

60. **The banking sector remains weak but shows significant signs of improvement.** While the staff welcomes the measures taken to improve confidence in the banking system, bank supervision needs to be strengthened. In particular, the staff is concerned that continued weak enforcement of prudential requirements would pose significant risks to the banking system. The staff urges the authorities to collaborate with the Fund's technical assistance team on bank supervision and implement its recommendations.

61. **The strong growth in recent years will only be sustained if structural reform is accelerated.** Weak performance in this regard, stemming from institutional weaknesses and uneven political support for economic reform, was a key factor in the Fund-supported program going off track in 2001. The authorities acknowledge the negative effect these factors have had on policy implementation. In their view, the fragmentation of political authority in the aftermath of the civil war combined with regional instability allowed vested interests to undermine the authority of government and the reform process. With recent improvements, the authorities believe that implementation will also improve. The staff urges the authorities to broaden support for reform and to ensure that the program targets are met in a timely and effective manner.

62. **The authorities are to be commended for the preliminary measures they have implemented to reduce the quasi-fiscal deficit in the gas sector.** However, the most difficult tasks will only be implemented under the proposed Fund-supported program, including the introduction of higher tariffs and collection rates. The staff is particularly concerned that the most vulnerable households be protected, in part, from the effects of higher energy prices through increased transfers from the budget. The staff urges the authorities to move quickly to implement and support the necessary measures for protecting these households.

63. **An effective farm privatization program is critical for achieving sustainable growth and poverty reduction.** While progress in recent years has been uneven, there is evidence that private sector agriculture is beginning to prosper and realize the anticipated productivity gains. Based on the lessons of experience, especially those gained from the World Bank's ongoing project, the staff is confident that the authorities can meet the farm

privatization targets. The staff, however, urges the authorities to ensure that the privatization process is transparent and equitable, and that the policy environment facing private farmers is improved. In particular, the authorities need to ensure that the past pattern of inappropriate interference of government officials in the sector is eliminated.

64. **Weak debt management capacity continues to be a source of concern.** These weaknesses were the cause of several incidents of misreporting and noncomplying disbursements under earlier arrangements including the most recent incident that involved the accumulation of external payment arrears on a credit line from Iran. While this incident is unfortunate, the deviation from the relevant performance criterion was minor and quickly cleared. Nonetheless, the accumulation of external arrears has been problematic, but the authorities have clearly made an effort to strengthen debt management. Additional progress will be achieved with technical assistance being provided by the Fund and the Swiss authorities. The staff urges the authorities to further intensify monitoring of their external obligations, remain current on those obligations and ensure that adequate resources are available to support the technical assistance.

65. **The authorities are to be commended for addressing the longstanding debt issues with Russia.** This, along with the other recent debt restructuring agreements, has reduced external debt service obligations for the next several years and enhanced fiscal sustainability. Nonetheless, the authorities need to address the issue of medium-term external sustainability. In this context, the authorities' decision to limit annual disbursements under the PIP to 3 percent of GDP is an important step. They also need to develop clear expenditure priorities in order to make the best use of external resources. In this regard, the PRSP is a good start but the authorities should refine their spending priorities for poverty reduction by the time of the PRSP progress report. The staff also encourages the authorities to seek grants to finance social spending.

66. **Data availability and quality are weak but adequate for purposes of program monitoring.** The authorities are encouraged to continue their efforts, with assistance from Fund staff and other international agencies, to improve data quality.

67. **The main risks to the authorities' program stem from a combination of weak implementation capacity and the still comparatively narrow ownership.** Nonetheless, on balance the staff believes that the broadly satisfactory performance under the SMP, along with the effective implementation of the prior actions, demonstrate the authorities' renewed commitment to reform and augers well for the successful implementation of the program. Therefore, the staff supports the authorities' request for a new three-year PRGF arrangement. The staff recommends that the next Article IV consultation with Tajikistan be held on the 24-month cycle subject to the provisions of the decision on consultation cycles approved on July 15, 2002.

Table 1. Tajikistan: Quantitative Targets Under the Staff Monitored Program, January–June 2002
(In stocks; unless otherwise indicated)

	2001		2002				
	End-Dec.	End-March			End-June		
	Actual	Prog.	Adjusted Prog. 4/	Actual	Prog.	Adjusted Prog. 5/	Actual
1. Ceiling on net domestic assets of the NBT	195.6	198.3	172.6	173.0	218.4	167.1	167.2
2. Ceiling on NBT's net credit to general government	58.2	120.5	120.5	108.2	128.9	128.9	111.1
3. Ceiling on the cumulative overall fiscal deficit of the general government 1/ (excluding foreign-financed public investment program)	-5.8	2.7	2.7	16.7	-8.3	-8.3	14.8
4. General government wage, and nonworking pensioners' pension arrears	0.0	0.0	0.0	0.0	0.0	0.0	0.0
5. Tax collection of the Ministry of State Revenues and Duties 1/	69.8	65.8	65.8	79.1	142.2	142.2	172.4
6. Floor on total net international reserves	-15.2	-21.4	-11.9	-9.1	-27.1	-8.1	-6.4
7a. Ceiling on the net disbursement of short-term external debt with original maturity of up to and including one year 2/	...	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 2/	...	0.0	0.0	0.0	0.0	0.0	0.0
8. New external payments arrears 3/	...	0.0	0.0	0.0	0.0	0.0	0.0
	(In millions of somoni)						
<i>Indicative target:</i>							
Reserve money	154.6	140.4	140.4	148.5	145.2	145.2	149.9
<i>Memorandum items:</i>							
Program exchange rate (SM/US\$)	2.7	2.7	2.7	2.7	2.7	2.7	2.7
Disbursements of balance of payment support (in millions of U.S. dollars)	0.0	0.0	0.0	0.0	0.0	0.0	0.0

Sources: Tajik authorities; and Fund staff estimates.

1/ Cumulative from January 1, 2002.

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

3/ A continuous performance criterion.

4/ The adjustor, amounting to US\$9.5 million, reflects the ongoing negotiations between the authorities and Russia concerning debt rescheduling.

5/ The adjustor, amounting to US\$19 million, reflects the ongoing negotiations between the authorities and Russia concerning debt rescheduling.

Table 2. Tajikistan: Structural Benchmarks Under the Staff Monitored Program
January–June 2002

Measures	Timing and Status
Fiscal Issues and Transparency	
To complete the regularizing of financial relations between the government and the National Bank of Tajikistan (NBT). The NBT will establish a repayment schedule at a market rate of interest for SM 11.8 million from Somonyon, a private sector borrower.	March 2002. Not observed. Long-term bonds were issued in Q1 2002. However reconciliation of interest payment was not completed. Repayment schedule for Somonyon using market interest rates was established, and Somonyon made payments totaling SM 100,000 between May 29 and June 3, 2002.
Submit an amendment to the legislation concerning the State Audit Agency that specifies parliament's right to receive full information on specific audit results upon request, and to issue its own reports concerning these audits.	March 2002. Not observed. Completed with a delay (April 4, 2002).
Safeguards Issues	
The National Bank of Tajikistan will allocate all of its post-tax profits to rebuilding its capital base as long as it has negative net worth.	Continuous. Observed. No post-tax profits have been distributed to the government through end-June 2002.
The government will reimburse the National Bank of Tajikistan (SM 5.2 million) for the expenses it incurred in connection with the construction of the government dacha.	March 2002. Not observed. Completed with a delay (June 30, 2002). Repayment of SM 1.7 million was made by end-March 2002 and the balance by end-June 2002.
Undertake an interim external audit to verify that:	June 2002. Observed. A draft of the audit report has been made available to Fund staff.
i) the NBT has stopped payments (since February 2001) of expenses not related to its core business (such as those paid at the request or on behalf of the government) and that any amounts already paid in the first few months of the current financial year have been reclassified as advances paid to the government; and	i) Expenditure for the construction of the government dacha was repaid at end-June 2002. The NBT, however, continued to incur some non-core expenditures.
ii) formal dividends have not been paid out to the government in the current reporting period.	ii) Not observed.
The NBT will improve its reporting of financial information to the Fund by:	June 2002.
i) establishing a centralized record of guarantees, pledges, and other central bank contingencies under the control of the head of the Accounting Department of the NBT, with required inputs from all areas of the central bank; and	i) Not observed.
ii) reconciling its reserve data by an interim external audit, and by the Internal Audit Department on a regular basis.	ii) Observed. The Internal Audit Department conducted a reconciliation on May 1, 2002. Fieldwork for the external audit commenced on May 20, 2002. PriceWaterhouseCoopers advised Fund staff that the audit was completed on July 22, 2002.

Table 2. Tajikistan: Structural Benchmarks Under the Staff Monitored Program
January–June 2002

Measures	Timing and Status
Submit to parliament draft amendments requiring that the annual financial statements of the National Bank of Tajikistan be prepared in full accordance with International Accounting Standards.	March 2002. Observed.
Debt Management	
The authorities will undertake a number of measures to improve debt management, information and reporting. These will include:	
i) completing a computerized loan-by-loan inventory of public sector external debt, and publicly-guaranteed external debt;	March 2002. Observed.
ii) completing a computerized loan-by-loan inventory of the external debt of state-owned enterprises;	June 2002. Observed.
iii) establishing a framework for quarterly reporting to parliament on its external debt situation, including the stock of debt, debt service and arrears; and	June 2002. Observed.
iv) complying strictly with the law that vests sole authority with the Ministry of Finance to undertake external loans on behalf of the government. (The National Bank will thus be precluded from undertaking such loans, or providing guarantees.)	Continuous. Observed through end-June 2002.
Energy Sector	
The authorities will ensure that Nafrason does not accrue any new arrears during 2002.	Continuous. Observed. Since January 2002, Nafrason has been shipping oil only on a pre-payment basis.
The authorities will raise the average collection rate of Tajikgas from 37 percent during the first half of 2001, to 47 percent in the first half of 2002.	June 2002. Observed. The collection rate was increased to 49 percent in the first half of 2002.

Table 3. Tajikistan: Selected Economic Indicators, 1999-2003

	1999	2000	2001	2002			2003
				Q1 Actual	Q2 Actual	Year Program	
National income and prices							
Nominal GDP (in millions of somoni)	1,345	1,807	2,512	508	686	3,045	3,600
Nominal GDP (in millions of U.S. dollars) 1/	1,087	991	1,033	195	255	1,089	1,200
Real GDP (percent change)	3.7	8.3	10.2	9.3	7.5	7.5	6.0
GDP per capita (in U.S. dollars)	171.0	155.4	165.8	...	...	167.6	181.2
GDP deflator (percent change)	22.5	24.8	29.3	16.0	30.3	12.8	11.5
Consumer prices (12-month change, e.o.p.)	30.1	60.6	12.5	10.3	9.7	13.0	7.0
Consumer prices (year-on-year)	27.5	32.9	38.6	26.2	16.7	12.2	9.5
General government finances 2/							
Total revenue and grants	13.5	13.6	15.2	22.3	19.6	16.9	17.7
<i>Of which:</i>							
Tax revenue	12.8	12.9	14.1	21.0	17.6	15.4	15.8
Total expenditure	16.6	19.2	18.4	23.0	23.2	20.0	21.2
<i>Of which:</i>							
Current expenditure	13.2	12.5	13.2	18.0	17.8	14.3	14.7
Overall fiscal balance (excluding PIP)	-3.1	-0.6	-0.1	3.0	-0.3	-0.3	-0.5
Primary balance	-2.5	0.7	1.4	5.2	1.8	1.9	1.2
Non-interest current expenditure	12.6	11.1	11.7	15.7	15.8	12.1	13.0
Money and credit							
Reserve money (e.o.p.) 3/	29.4	51.4	28.9	27.9	18.9	5.3	11.8
Broad money (e.o.p.) 3/	39.0	64.5	33.4	44.1	50.1	31.8	17.2
Net domestic assets of the financial system 3/	44.6	61.4	31.8	37.8	22.0	-9.6	-5.1
<i>Of which:</i>							
Net credit to government 4/	60.3	-2.0	-6.5	-4.5	-13.9	-31.6	-17.4
Credit to the private sector 3/ 4/	-6.0	90.2	54.3	55.5	40.6	4.0	0.9
Velocity (broad money) 5/	4.9	4.7	4.3	2.4	3.0	3.6	3.9
One-month treasury bill rate (annualized, e.o.p.) 6/	84.7	40.0	18.1	19.0	16.6	...	...
External sector							
Growth of exports of goods (percent change)	13.7	18.5	-17.3	-6.8	1.6	11.0	11.3
Growth of imports of goods (percent change)	-4.4	20.6	-7.3	-4.7	-5.7	6.0	2.9
Current account balance (in percent of GDP) 2/	-3.4	-6.5	-7.1	...	...	-4.2	-4.0
Gross international reserves (in months of imports)	1.7	2.1	1.9	2.7	2.3	2.3	2.8
Total external debt outstanding/GDP (percent)	118.0	128.3	99.0	...	...	93.0	89.7
NPV-of-external debt/exports (percent) 8/ 7/	...	176.4	171.2	...	...	156.0	146.0
NPV-of-external debt/fiscal revenues (percent) 8/	...	578.8	475.6	...	...	411.3	366.0
Debt service ratio (in percent of exports) 8/	11.9	17.5	25.6	...	...	31.3	22.6
Official exchange rate (average, in somoni per U.S. dollar)	1.2	1.8	2.4	2.6	2.7	...	...
External financing gap (in millions of U.S. dollars)	...	...	...	...	...	0	0

Sources: Tajik authorities; and Fund staff estimates.

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

2/ For Q1 and Q2 2002, in percent of quarterly GDP.

3/ Average program exchange rates are Sm2.85=US\$1 and SDR1=US\$1.29 for 2002 and Sm3.0=US\$1 and SDR1=US\$1.33 for 2003.

4/ In July 2001, Sm41 million in assets were reclassified from net credit to government to credit to the private sector. In February 2002, Sm64.4 million in assets were reclassified from net credit to the private sector to net credit to government, as specified in the agreement between the government and the National Bank of Tajikistan.

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

6/ For 2001 and 2002, the annualized three-month treasury bill rate is shown because no one-month treasury bills were issued.

7/ Computed as a three-year moving average of exports of goods and services, less alumina and electricity which are traded on a barter basis.

8/ Non-financial public sector debt.

Table 4a. Tajikistan: General Government Operations, 2000-2003
(In millions of somoni)

	2000	2001	2002					2003				
	Year	Year	Q1	Q2	Q3	Q4	Year	Q1	Q2	Q3	Q4	Year
	Act.	Act.	Act.	Act.	Program			Program				
Overall revenues and grants	245.7	381.9	113.4	134.8	123.2	142.1	513.4	142.8	166.3	141.3	186.6	637.1
Tax revenues	232.3	353.1	106.8	120.8	114.6	128.3	470.4	129.5	148.5	125.0	165.4	568.4
Income and profit tax	33.3	47.1	14.6	15.4	14.5	14.0	58.5	15.7	18.8	16.4	19.9	70.7
Payroll taxes	28.9	44.8	12.7	15.4	15.2	14.9	58.2	13.7	19.0	17.3	21.0	70.9
Property taxes	11.5	14.8	3.6	4.3	4.3	5.7	17.9	3.8	5.2	4.8	7.4	21.2
Internal taxes on goods and services	70.4	128.5	45.8	58.5	50.9	55.1	210.3	58.9	68.3	58.9	72.7	258.8
VAT	44.5	86.0	31.3	41.2	33.7	39.1	145.4	43.3	47.6	39.8	50.7	181.4
International trade and operations tax	86.3	114.4	29.1	26.2	28.6	37.4	121.3	36.3	36.1	26.5	42.8	141.8
Total sales taxes	58.9	62.8	15.0	12.1	12.8	20.1	59.9	17.8	18.2	9.3	22.6	67.9
Import duties	27.4	51.6	14.1	14.1	15.8	17.3	61.3	18.5	17.9	17.3	20.2	73.9
Other taxes	2.0	3.5	1.0	1.0	1.0	1.3	4.2	1.0	1.2	1.1	1.7	5.0
Non-tax duties	11.7	28.8	6.5	13.9	5.9	5.1	31.4	6.5	11.1	9.6	14.5	41.6
Grants	1.7	0.0	0.0	0.1	2.7	8.7	11.5	6.8	6.8	6.8	6.8	27.0
Total expenditures and lending minus repayments	346.1	462.0	117.0	159.4	145.2	186.0	607.6	165.5	200.5	175.0	221.7	762.7
Current expenditures	225.3	332.4	91.5	122.5	99.0	121.1	434.1	110.7	149.7	122.0	146.5	528.9
Expenditures on goods and services	148.1	222.0	62.7	82.4	55.9	74.8	275.8	69.0	93.9	78.3	93.6	334.7
Wages and salaries	66.5	82.4	24.9	29.8	28.4	21.9	105.1	24.9	35.8	34.1	26.0	120.8
Others	81.6	139.6	37.8	52.5	27.5	52.9	170.8	44.1	58.1	44.2	67.6	213.9
Interest payments (duc) 1/	23.9	38.3	11.5	13.9	20.0	20.7	66.0	14.4	17.7	11.4	16.1	59.7
Transfers to households	40.0	59.9	14.4	20.8	20.7	21.7	77.5	20.2	27.6	25.6	27.7	101.1
Subsidies and other current transfers	13.3	12.2	2.9	5.4	2.5	3.9	14.7	7.1	10.5	6.8	9.1	33.4
Capital expenditures	119.4	127.1	25.2	36.5	45.7	64.4	171.9	54.3	50.3	52.5	74.7	231.9
External financed PIP	71.6	53.5	11.5	18.1	21.0	35.9	86.5	24.3	27.3	27.3	29.1	108.0
Lending minus repayments	1.4	2.5	0.3	0.5	0.4	0.4	1.6	0.5	0.5	0.5	0.4	1.9
Overall balance (incl. externally financed PIP)	-100.4	-80.1	-3.6	-24.7	-22.0	-43.9	-94.2	-22.7	-34.2	-33.7	-35.0	-125.6
Net arrears (- decrease)	17.4	24.5	7.1	4.7	5.9	-17.7	0.0	0.0	0.0	0.0	0.0	0.0
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
Overall balance (incl. externally financed PIP, cash basis)	-82.9	-55.6	3.5	-20.0	-16.0	-61.7	-94.2	-22.7	-34.2	-33.7	-35.0	-125.6
Overall balance (excl. externally financed PIP, cash basis)	-11.3	-2.1	15.0	-1.9	5.0	-25.8	-7.7	1.6	-6.9	-6.4	-6.0	-17.6
Total financing	82.9	55.6	-3.5	20.0	16.0	61.7	94.2	22.7	34.2	33.7	35.0	125.6
Net external	118.3	74.5	9.1	16.2	18.9	128.0	172.2	24.4	27.4	64.9	23.6	140.4
Disbursements	120.7	113.0	11.5	18.1	21.0	110.0	160.6	24.3	27.3	64.8	29.1	145.5
Amortization	-4.9	-49.2	-23.0	-23.2	-25.8	-31.3	-103.3	-27.2	-27.2	-27.2	-32.7	-114.2
Arrears (+ increase)	2.5	-119.5	20.6	21.3	23.7	-65.6	0.0	0.0	0.0	0.0	0.0	0.0
Debt rescheduling 2/	0.0	130.2	0.0	0.0	0.0	115.0	115.0	27.3	27.3	27.3	27.3	109.0
Net domestic	-35.4	-19.0	-12.6	3.8	-2.9	-66.4	-78.0	-1.7	6.8	-31.2	11.4	-14.7
NBT 3/	-38.4	-22.1	-8.1	-2.5	-6.5	-77.8	-94.9	-6.7	1.8	-37.2	5.4	-36.7
Commercial banks	-6.4	3.8	-6.7	3.9	-0.2	12.4	9.4	1.0	1.0	2.0	2.0	6.0
Tajik Rail repayment	-8.3	-8.0	-3.1	-2.6	-2.6	-1.7	-10.0	0.0	0.0	0.0	0.0	0.0
Gross proceeds from privatization	17.5	7.4	5.3	5.1	6.4	0.8	17.5	4.0	4.0	4.0	4.0	16.0
Other nonbank	0.2	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)	1,807	2,512	508	686	868	982	3,045	542	820	965	1,272	3,600

Sources: Tajik authorities; and Fund staff estimates.

1/ Excludes payments to Uzbekistan which are paid in kind by Tajik Rail.

2/ This reflects an expected debt rescheduling agreement with Russia that will result in full financing of the program for the first and subsequent years of the program. The terms are expected to include an interest rate of 2.8 percent, a three-year grace period and 17-year maturity, and a provision that US\$23 million of the NBT's credit balance with the Central Bank of Russia (\$49.8 million) would be used to clear outstanding interest arrears. The remainder would be applied to interest payments falling due during the grace period.

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

Table 4b. Tajikistan: General Government Operations, 2000-2003
(In percent of GDP)

	2000		2001		2002				2003			
	Year	Year	Q1	Q2	Q3	Q4	Year	Q1	Q2	Q3	Q4	Year
	Act.	Act.	Act.	Act.	Program				Program			
Overall revenues and grants	13.6	15.2	22.3	19.6	14.2	14.5	16.9	26.4	20.3	14.6	14.7	17.7
Tax revenues	12.9	14.1	21.0	17.6	13.2	13.1	15.4	23.9	18.1	12.9	13.0	15.8
Income and profit tax	1.8	1.9	2.9	2.2	1.7	1.4	1.9	2.9	2.3	1.7	1.6	2.0
Payroll taxes	1.6	1.8	2.5	2.2	1.8	1.5	1.9	2.5	2.3	1.8	1.6	2.0
Property taxes	0.6	0.6	0.7	0.6	0.5	0.6	0.6	0.7	0.6	0.5	0.6	0.6
Internal taxes on goods and services	3.9	5.1	9.0	8.5	5.9	5.6	6.9	10.9	8.3	6.1	5.7	7.2
VAT	2.5	3.4	6.2	6.0	3.9	4.0	4.8	8.0	5.8	4.1	4.0	5.0
International trade and operations tax	4.8	4.6	5.7	3.8	3.3	3.8	4.0	6.7	4.4	2.7	3.4	3.9
Total sales taxes	3.3	2.5	2.9	1.8	1.5	2.0	2.0	3.3	2.2	1.0	1.8	1.9
Import duties	1.5	2.1	2.8	2.1	1.8	1.8	2.0	3.4	2.2	1.8	1.6	2.1
Other taxes	0.1	0.1	0.2	0.1	0.1	0.1	0.1	0.2	0.1	0.1	0.1	0.1
Non-tax duties	0.6	1.1	1.3	2.0	0.7	0.5	1.0	1.2	1.3	1.0	1.1	1.2
Grants	0.1	0.0	0.0	0.0	0.3	0.9	0.4	1.2	0.8	0.7	0.5	0.8
Total expenditures and lending minus repayments	19.2	18.4	23.0	23.2	16.7	18.9	20.0	30.5	24.4	18.1	17.4	21.2
Current expenditures	12.5	13.2	18.0	17.8	11.4	12.3	14.3	20.4	18.2	12.6	11.5	14.7
Expenditures on goods and services	8.2	8.8	12.3	12.0	6.4	7.6	9.1	12.7	11.4	8.1	7.4	9.3
Wages and salaries	3.7	3.3	4.9	4.3	3.3	2.2	3.5	4.6	4.4	3.5	2.0	3.4
Others	4.5	5.6	7.4	7.7	3.2	5.4	5.6	8.1	7.1	4.6	5.3	5.9
Interest payments (duc) 1/	1.3	1.5	2.3	2.0	2.3	2.1	2.2	2.7	2.2	1.2	1.3	1.7
Transfers to households	2.2	2.4	2.8	3.0	2.4	2.2	2.5	3.7	3.4	2.6	2.2	2.8
Subsidies and other current transfers	0.7	0.5	0.6	0.8	0.3	0.4	0.5	1.3	1.3	0.7	0.7	0.9
Capital expenditures	6.6	5.1	5.0	5.3	5.3	6.6	5.6	10.0	6.1	5.4	5.9	6.4
External financed PIP	4.0	2.1	2.3	2.6	2.4	3.7	2.8	4.5	3.3	2.8	2.3	3.0
Lending minus repayments	0.1	0.1	0.1	0.1	0.0	0.0	0.1	0.1	0.1	0.1	0.0	0.1
Overall balance (incl. externally financed PIP)	-5.6	-3.2	-0.7	-3.6	-2.5	-4.5	-3.1	-4.2	-4.2	-3.5	-2.8	-3.5
Net arrears (- decrease)	1.0	1.0	1.4	0.7	0.7	-1.8	0.0	0.0	0.0	0.0	0.0	0.0
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
Overall balance (incl. externally financed PIP, cash basis)	-4.6	-2.2	0.7	-2.9	-1.8	-6.3	-3.1	-4.2	-4.2	-3.5	-2.8	-3.5
Overall balance (excl. externally financed PIP, cash basis)	-0.6	-0.1	3.0	-0.3	0.6	-2.6	-0.3	0.3	-0.8	-0.7	-0.5	-0.5
Total financing	4.6	2.2	-0.7	2.9	1.8	6.3	3.1	4.2	4.2	3.5	2.8	3.5
Net external	6.5	3.0	1.8	2.4	2.2	13.0	5.7	4.5	3.3	6.7	1.9	3.9
Disbursements	6.7	4.5	2.3	2.6	2.4	11.2	5.3	4.5	3.3	6.7	2.3	4.0
Amortization	-0.3	-2.0	-4.5	-3.4	-3.0	-3.2	-3.4	-5.0	-3.3	-2.8	-2.6	-3.2
Arrears (+ increase)	0.1	-4.8	4.1	3.1	2.7	-6.7	0.0	0.0	0.0	0.0	0.0	0.0
Debt rescheduling 2/	0.0	5.2	0.0	0.0	0.0	11.7	3.8	5.0	3.3	2.8	2.1	3.0
Net domestic	-2.0	-0.8	-2.5	0.6	-0.3	-6.8	-2.6	-0.3	0.8	-3.2	0.9	-0.4
NBT 3/	-2.1	-0.9	-1.6	-0.4	-0.8	-7.9	-3.1	-1.2	0.2	-3.9	0.4	-1.0
Commercial banks	-0.4	0.1	-1.3	0.6	0.0	1.3	0.3	0.2	0.1	0.2	0.2	0.2
Tajik Rail repayment	-0.5	-0.3	-0.6	-0.4	-0.3	-0.2	-0.3	0.0	0.0	0.0	0.0	0.0
Gross proceeds from privatization	1.0	0.3	1.0	0.7	0.7	0.1	0.6	0.7	0.5	0.4	0.3	0.4
Other nonbank	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)	1,807	2,512	508	686	868	982	3,045	542	820	965	1,272	3,600

Sources: Tajik authorities; and Fund staff estimates.

1/ Excludes payments to Uzbekistan which are paid in kind by Tajik Rail.

2/ This reflects an expected debt rescheduling agreement with Russia that will result in full financing of the program for the first and subsequent years of the program. The terms are expected to include an interest rate of 2.8 percent, a three-year grace period and 17-year maturity, and a provision that US\$23 million of the NBT's credit balance with the Central Bank of Russia (\$49.8 million) would be used to clear outstanding interest arrears. The remainder would be applied to interest payments falling due during the grace period.

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

Table 5. Tajikistan: Functional Classification of General Government Finances, 2000-2006
(In millions of somoni, unless otherwise indicated)

	2000		2001		2002		2003		2004		2005		2006	
	Act.	Percent of GDP	Act.	Percent of GDP	Prog.	Percent of GDP	Prog.	Percent of GDP	Prog.	Percent of GDP	Prog.	Percent of GDP	Prog.	Percent of GDP
Overall revenue and grants	246	13.6	382	15.2	513	16.9	637	17.7	698	17.8	770	17.9	834	17.8
Tax revenues	232	12.9	353	14.1	470	15.4	568	15.8	640	16.3	709	16.5	783	16.7
Total expenditures and lending minus repayments	346	19.2	462	18.4	608	20.0	763	21.2	816	20.8	899	20.9	975	20.8
General administrative services	49	2.7	66	2.6	64	2.1	92	2.6	91	2.3	99	2.3	107	2.3
Protection services	43	2.4	57	2.3	77	2.5	82	2.3	88	2.2	96	2.2	105	2.2
Social services	119	6.6	172	6.9	222	7.3	290	8.1	332	8.5	379	8.8	422	9.0
Education	36	2.0	63	2.5	79	2.6	92	2.5	108	2.7	120	2.8	133	2.8
Health	16	0.9	24	1.0	29	1.0	40	1.1	49	1.2	61	1.4	69	1.5
Social security and welfare	42	2.3	47	1.9	74	2.4	97	2.7	106	2.7	120	2.8	133	2.8
Other social services	25	1.4	38	1.5	39	1.3	62	1.7	69	1.8	78	1.8	87	1.9
Economic services	37	2.1	58	2.3	62	2.0	92	2.6	96	2.5	109	2.5	119	2.5
Interest payments due	24	1.3	38	1.5	66	2.2	60	1.7	62	1.6	59	1.4	59	1.2
Other services	2	0.1	17	0.7	31	1.0	40	1.1	29	0.7	29	0.7	23	0.5
External financed PIP	72	4.0	54	2.1	87	2.8	108	3.0	118	3.0	129	3.0	141	3.0
Overall balance (incl. externally financed PIP)	-100	-5.6	-80	-3.2	-94	-3.1	-126	-3.5	-118	-3.0	-129	-3.0	-141	-3.0
Net arrears/ rescheduling of interest	17	1.0	25	1.0	0	0.0	0	0.0	0	0.0	0	0.0	0	0.0
Overall balance (incl. externally financed PIP, cash basis)	-83	-4.6	-56	-2.2	-94	-3.1	-126	-3.5	-118	-3.0	-129	-3.0	-141	-3.0
Overall balance (excl. externally financed PIP, cash basis)	-11	-0.6	-2	-0.1	-8	-0.3	-18	-0.5	0	0.0	0	0.0	0	0.0
Primary balance (excl. externally financed PIP, cash basis)	13	0.7	36	1.4	58	1.9	42	1.2	62	1.6	59	1.4	58	1.2
Total financing	83	4.6	56	2.2	94	3.1	126	3.5	118	3.0	129	3.0	141	3.0
Net external	118	6.5	75	3.0	172	5.7	140	3.9	163	4.1	46	1.1	18	0.4
Net domestic	-35	-2.0	-19	-0.8	-78	-2.6	-15	-0.4	-45	-1.1	24	0.6	35	0.8
Financing gap	0	0.0	0	0.0	0	0.0	0	0.0	0	0.0	58	1.4	88	1.9
<i>Memorandum item:</i>														
Nominal GDP (in million somoni)	1,807		2,512		3,045		3,600		3,931		4,293		4,688	

Sources: Tajik authorities; and Fund staff estimates.

Table 6. Tajikistan: Accounts of the National Bank of Tajikistan, 2001-2003
(End-of-period stock; unless otherwise specified)

	2001		2002				2003				
	Dec.	Dec.	Mar.	Jun.	Sep.	Dec.	Mar.	Jun.	Sep.	Dec.	
	Act. 1/ Act. 2/	Act. 2/ Act. 1/	Act. 1/ Act. 1/	Act. 1/ Act. 1/	Act. 1/ Act. 2/	Prog. 2/ Act. 2/	Program 2/ Act. 2/				
Net international reserves	-14.5	-18.4	-8.5	-8.8	-3.3	-1.9	22.4	26.0	27.3	42.4	41.2
Gross assets	95.7	95.7	99.3	91.7	88.4	88.4	112.5	106.7	119.4	134.6	144.1
Gross liabilities	110.2	114.1	107.8	100.5	91.7	90.4	90.1	80.7	92.2	92.2	102.9
Official exchange rate (Sm/US\$)	2.55	...	2.68	2.70	2.92	...	...	...	...	...	...
Program exchange rate (Sm/US\$)	...	3.00	...	...	...	3.00	3.00	3.00	3.00	3.00	3.00
Net foreign assets	-37.0	-55.2	-22.8	-23.8	-9.5	-5.8	67.3	78.1	81.8	127.2	123.7
Gross assets	244.0	287.1	266.2	248.1	258.7	265.3	337.6	320.1	358.3	403.7	432.3
Gross liabilities	281.0	342.3	288.9	271.9	268.2	271.1	270.3	242.0	276.6	276.6	308.6
Net domestic assets	190.5	212.0	171.2	173.7	182.9	179.5	97.8	87.7	91.5	55.5	61.0
Net credit to general government	-31.1	-48.5	20.1	16.7	1.5	-1.4	-79.1	-85.8	-84.0	-121.3	-115.9
<i>Of which:</i>											
Somoni credits	89.7	89.7	89.7	89.7	89.7	89.7	89.7	89.7	89.7	89.7	89.7
Long-term bonds 3/	0.0	0.0	64.3	64.3	64.3	64.3	64.3	64.3	64.3	64.3	64.3
Treasury bills	3.0	3.0	2.8	3.0	3.0	3.0	3.0	3.0	3.0	3.0	3.0
Deposits (-)	-30.9	-33.2	-45.8	-43.2	-47.2	-47.7	-59.5	-68.7	-72.9	-75.1	-83.1
Counterpart deposits	-85.8	-101.0	-86.4	-88.4	-93.2	-95.6	-160.7	-156.2	-148.3	-181.3	-165.9
EU	-21.4	-25.2	-19.9	-21.4	-23.4	-24.1	-30.1	-33.1	-36.1	-39.1	-42.1
World Bank	-47.2	-55.6	-48.4	-48.9	-50.1	-51.4	-110.5	-103.0	-92.1	-122.1	-103.7
AsDB	-17.1	-20.1	-17.9	-18.1	-19.6	-20.1	-20.1	-20.1	-20.1	-20.1	-20.1
Privatization fund (-)	-7.1	-7.1	-4.6	-8.8	-15.2	-15.2	-16.0	-18.0	-20.0	-22.0	-24.0
Credit to the private sector	253.3	291.3	192.1	189.6	202.4	206.0	205.3	205.1	205.9	205.9	205.9
<i>Of which:</i>											
Claims on banks	37.6	39.0	33.9	34.0	36.1	36.2	36.8	37.3	38.1	38.1	38.1
Claims on private sector	12.4	14.2	8.2	3.9	4.7	4.8	3.6	3.6	3.6	3.6	3.6
ALCO 3/	203.3	238.1	150.0	151.7	161.5	165.0	164.9	164.2	164.2	164.2	164.2
Other items, net	-31.7	-30.8	-41.0	-32.5	-21.0	-25.2	-28.4	-31.6	-30.4	-29.2	-29.1
<i>Of which:</i>											
NBT bills	-0.2	-0.2	-3.5	-5.8	-6.8	-6.8	-2.0	-3.0	-0.5	-1.2	-4.2
Reserve money	153.5	156.8	148.5	149.9	173.4	173.7	165.1	165.8	173.2	182.6	184.6
Currency in circulation	110.8	110.8	116.1	122.8	146.3	146.3	138.6	138.1	142.5	152.0	153.9
Bank reserves	32.5	34.2	25.8	23.4	19.3	19.5	19.2	20.4	22.8	23.0	23.8
<i>Of which:</i>											
Required reserves	8.8	9.1	8.7	10.3	10.9	11.0	15.5	15.9	16.3	17.8	17.6
Somoni	7.0	7.0	6.0	6.8	6.7	6.7	11.2	12.0	12.1	13.6	13.4
Foreign exchange	1.8	2.1	2.6	3.5	4.2	4.3	4.3	3.9	4.2	4.1	4.2
Other deposits	10.2	11.8	6.5	3.8	7.8	7.9	7.4	7.4	7.9	7.6	7.0
Somoni	1.5	1.5	2.4	0.4	1.8	1.8	1.4	1.6	0.8	0.8	1.0
Foreign exchange	8.7	10.2	4.1	3.4	6.0	6.2	6.0	5.8	7.0	6.8	6.0
<i>Memorandum items:</i>											
Net international reserves	12.9	12.1	31.2	28.1	13.5	21.8	78.2	77.3	72.5	76.6	34.1
Net domestic assets	15.9	16.1	-3.3	-9.2	18.6	5.7	-72.8	-66.3	-57.9	-71.4	-22.3
Reserve money	28.9	28.2	27.9	18.9	32.1	27.5	5.3	11.0	14.6	5.1	11.8

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 end-period program exchange rate of Sm3.0 = US\$1 and SDR1 = US\$1.299; from June 2003 SDR1 = US\$1.333 in line with the World Economic Outlook, October 2003, assumptions.

3/ On February 11, 2002, Sm64.348 million were transferred out of ALCO into long term government bonds as agreed in the agreement signed by the NBT and the government.

Table 7. Tajikistan: Monetary Survey, 2001–2003
(In millions of somoni, end-of-period stock unless otherwise specified)

	2001		2002					2003			
	Dec.		Mar.	Jun.	Sep.		Dec.	Mar.	Jun.	Sep.	Dec.
	Act. 1/ Act. 2/	Act. 2/	Act.1/ Act. 1/	Act. 1/ Act. 1/	Act. 1/ Act. 2/	Act. 2/ Prog. 2/	Act. 2/ Prog. 2/	Program 2/			
Net foreign assets	-251.0	-306.1	-331.6	-319.0	-244.3	-246.4	-189.7	-222.4	-244.2	-195.8	-118.3
National Bank of Tajikistan	-37.0	-55.2	-22.8	-23.8	-9.5	-5.8	67.3	78.1	81.8	127.2	123.7
Commercial banks	-214.0	-250.9	-308.8	-295.2	-234.7	-240.5	-257.0	-300.5	-326.0	-323.0	-242.0
Net domestic assets	450.4	515.9	542.5	549.8	508.5	512.6	466.2	503.4	537.8	507.2	442.4
Net credit to general government	-36.9	-54.4	7.6	8.0	-7.4	-10.2	-75.6	-81.3	-78.5	-113.8	-106.4
<i>Of which:</i>											
Sm credits	90.4	90.4	90.3	90.2	90.0	90.0	90.4	90.4	90.4	90.4	90.4
Long-term bonds 3/	0.0	0.0	64.3	64.3	64.3	64.3	64.3	64.3	64.3	64.3	64.3
Treasury bills	5.5	5.5	4.7	4.8	4.6	4.6	4.9	4.3	4.4	4.4	4.4
Deposits (-)	-39.9	-42.2	-60.8	-54.1	-57.9	-58.4	-58.6	-66.2	-69.4	-69.6	-75.6
Counterpart deposits	-85.8	-101.0	-86.4	-88.4	-93.2	-95.6	-160.7	-156.2	-148.3	-181.3	-165.9
Privatization fund (-)	-7.1	-7.1	-4.6	-8.8	-15.2	-15.2	-16.0	-18.0	-20.0	-22.0	-24.0
Credit to the private sector 3/	575.2	658.7	627.2	615.2	587.1	598.3	620.8	665.9	698.9	701.6	626.3
Other items net	-87.9	-88.5	-92.3	-73.4	-71.3	-75.4	-79.0	-81.2	-82.6	-80.6	-77.5
Broad money	199.4	209.8	210.9	230.8	264.3	266.3	276.5	281.0	293.6	311.4	324.0
Somoni broad money	140.5	140.5	150.9	161.2	185.2	185.2	175.4	176.9	190.6	206.3	218.9
Currency outside banks	103.6	103.6	108.9	112.2	137.3	137.3	135.6	136.2	139.4	145.2	149.7
Deposits	36.8	36.8	41.9	48.9	47.8	47.8	39.7	40.7	51.2	61.1	69.2
Foreign currency deposits	58.9	69.3	60.0	69.7	79.1	81.1	101.1	104.1	103.0	105.1	105.2
<i>Memorandum items:</i>											
Year-to-year average of quarterly velocity 4/	3.7	3.7	3.6	3.6	3.2	3.2	3.0	2.9	2.8	2.8	2.9
Money multiplier 5/	1.3	1.3	1.4	1.5	1.5	1.5	1.7	1.7	1.7	1.7	1.8
Broad money (12-month percent change)	33.4	27.2	44.1	50.1	61.6	51.3	31.8	28.9	23.1	16.9	17.2

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 Sm3.0 =US\$1 and SDR1 = US\$1.299; from June 2003 SDR1 = US\$1.333 in line with the World Economic Outlook, October 2003, assumptions.

3/ On February 11, 2002, Sm 64.348 million were transferred out of ALCO into long term government bonds as agreed in the agreement signed by the NBT and the government.

4/ Quarterly GDP divided by end-period broad money for the quarter.

5/ Total broad money divided by reserve money.

Table 8. Tajikistan: Balance of Payments, 2000-2003
(In millions of US dollars)

	2000	2001	2002				2002	2003					2003
			Q1	Q2	Q3	Q4		Q1	Q2	Q3	Q4		
				Est.				Program					
Current account	-62	-74	-32	0	17	-31	-46	-24	-20	-13	8	-48	
Balance on goods and services	-42	-128	-53	-28	-27	-1	-110	-30	-15	-18	19	-44	
Balance on goods	-46	-121	-49	-25	-24	1	-96	-27	-12	-18	19	-38	
Exports	788	652	159	167	182	214	723	187	199	186	233	805	
of which: aluminum	424	398	93	99	121	118	432	109	112	126	128	475	
cotton fiber	92	71	29	26	5	43	103	38	38	6	50	131	
Imports	834	773	208	192	206	213	819	214	212	203	214	843	
Balance on services	4	-7	-5	-4	-3	-2	-14	-3	-2	-1	0	-7	
Balance on income	-57	-29	-16	2	25	-35	-25	-3	-12	-1	-17	-33	
Balance on transfers	37	84	38	26	19	4	88	9	7	7	6	30	
Capital and financial account	63	64	27	-6	-19	47	49	19	14	19	-19	32	
Capital transfers	5	13	0	2	2	14	17	1	1	1	8	12	
Public sector (net)	17	-19	-7	-5	-5	-8	-25	-1	0	0	-8	-9	
Disbursements	36	22	4	7	7	12	30	8	9	9	10	36	
Amortization	-19	-41	-12	-12	-12	-20	-55	-9	-9	-9	-18	-45	
World Bank	13	25	0	0	0	25	25	0	0	13	0	13	
AsDB	9	0	0	0	0	0	0	0	0	0	0	0	
FDI	24	9	2	2	9	9	22	4	4	6	8	22	
Commercial bank NFA (- increase)	24	20	31	-6	-29	5	2	15	9	-1	-27	-5	
Electricity credit	23	20	1	1	4	2	8	0	0	0	0	0	
Other capital and errors and omissions	-51	-3	0	0	0	0	0	0	0	0	0	0	
Overall balance	1	-9	-4	-7	-2	16	3	-5	-6	6	-11	-15	
Use of international reserves (- increase)	-29	-8	-4	8	3	-24	-17	6	-13	-15	-10	-32	
Financing items	28	18	8	-1	-1	8	14	-1	18	9	20	47	
IMF (net)	16	3	-2	-10	-11	0	-24	-10	9	0	11	10	
Purchases/disbursements	26	15	0	0	0	11	11	0	11	0	13	24	
Repurchases/repayments	10	12	2	10	11	11	35	10	1	0	2	13	
Other reserve liabilities	2	0	0	0	0	0	0	0	0	0	0	0	
Arrears (+ increase) 1/	11	-41	10	10	10	-30	0	0	0	0	0	0	
Rescheduling 2/	0	55	0	0	0	38	38	9	9	9	9	36	
Financing gap	0	0	0	0	0	0	0	0	0	0	0	0	
As a share of GDP	...	...	...	...	...	0.0	0.0	0.0	0.0	0.0	0.0	0.0
<i>Memorandum items:</i>													
Current account balance in percent of GDP	-6.5	-7.1	...	...	...	...	-4.2	...	...	...	...	-4.0
(excluding transfers)	-10.4	-15.3	...	...	...	...	-12.3	...	...	...	...	-6.4
Real GDP growth	8.3	10.2	...	...	...	...	7.5	...	...	...	...	6.0
Terms of trade	-1.9	-1.7	...	...	...	...	-1.6	...	...	...	...	5.3
Net international reserves	-23.8	-14.5	-8.5	-8.8	-3.3	22.4	22.4	26.0	27.2	42.4	41.2	41.2	
Gross reserves	87	96	99	92	88	113	113	107	119	135	144	144	
(in months of imports)	2.1	1.9	2.7	2.3	2.0	2.3	2.3	2.2	2.3	2.6	2.8	2.8	
Total debt service due	79	119	...	...	...	...	152	...	...	...	...	130
(in percent of exports)	17.5	25.6	...	...	...	...	31.3	...	...	...	...	22.6
Total external debt	1,226	1,024	...	...	...	...	1,013	...	...	...	...	1,076
(in percent of GDP)	128	99	...	...	...	...	93	...	...	...	...	90

Sources: Tajik authorities; and Fund staff estimates.

1/ Tajikistan has not been servicing debt to Russia and India as debt restructuring negotiations have been ongoing. The overdue debt service payments amounted to US\$10.2 million in the first quarter of 2002.

2/ The rescheduling in 2001 reflects restructuring of Tajikistan's debt to the European Union. The rescheduling in 2002 reflects an expected debt rescheduling agreement with Russia that will result in full financing of the program for the first and subsequent years of the program. The terms are expected to include an interest rate of 2.8 percent, a three-year grace period and 17-year maturity, and a provision that US\$23 million of the NBT's credit balance with the Central Bank of Russia (\$49.8 million) would be used to clear outstanding interest arrears. The remainder would be applied to interest payments falling due during the grace period.

Table 9. Tajikistan: Balance of Payments, 2000-2010
(In millions of US dollars)

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Current account	-62	-74	-46	-48	-47	-47	-37	-26	-17	-16	-18
Balance on goods and services	-42	-128	-110	-44	-56	-49	-40	-27	-20	-17	-16
Balance on goods	-46	-121	-96	-38	-46	-41	-34	-22	-14	-11	-10
Exports	788	652	723	805	870	917	961	999	1,030	1,059	1,087
of which: aluminium	424	398	432	475	506	524	533	542	547	550	552
cotton fiber	92	71	103	131	145	164	184	198	208	216	222
Imports	834	773	819	843	916	959	995	1,020	1,044	1,070	1,097
Balance on services	4	-7	-14	-7	-9	-7	-6	-6	-6	-7	-7
Balance on income	-57	-29	-25	-33	-21	-21	-17	-17	-12	-16	-17
Balance on transfers	37	84	88	30	29	22	21	18	16	18	15
Capital and financial account	63	64	49	32	36	25	28	27	24	28	27
Capital transfers	5	13	17	12	7	0	0	0	0	0	0
Public sector (net)	17	-19	-25	-9	-12	-14	-13	-17	-22	-23	-26
Disbursements	36	22	30	36	37	40	43	47	50	54	57
Amortization	-19	-41	-55	-45	-49	-54	-56	-64	-72	-77	-83
World Bank	13	25	25	13	13	13	13	13	13	13	13
AsDB	9	0	0	0	7	0	0	0	0	0	0
FDI	24	9	22	22	22	27	29	31	34	38	40
Commercial bank NFA (- increase)	24	20	2	-5	0	0	0	0	0	0	0
Electricity credit	23	20	8	0	0	0	0	0	0	0	0
Other capital and errors and omissions	-51	-3	0	0	0	0	0	0	0	0	0
Overall balance	1	-9	3	-15	-11	-22	-8	1	7	12	9
Use of international reserves (- increase)	-29	-8	-17	-32	-39	-9	-2	0	0	0	0
Financing items	28	18	14	47	50	14	-15	-26	-24	-15	-14
IMF (net)	16	3	-24	10	15	14	-15	-26	-24	-15	-14
Purchases/disbursements	26	15	11	24	26	26	0	0	0	0	0
Repurchases/repayments	10	12	35	13	11	13	15	26	24	15	14
Other reserve liabilities	2	0	0	0	0	0	0	0	0	0	0
Arrears (+ increase)	11	-41	0	0	0	0	0	0	0	0	0
Rescheduling 1/	0	55	38	36	35	0	0	0	0	0	0
Financing gap	0	0	0	0	0	17	25	25	16	4	6
As a share of GDP	...	...	0.0	0.0	0.0	1.4	1.9	1.8	1.1	0.2	0.3
<i>Memorandum items:</i>											
Current account balance in percent of GDP	-6.5	-7.1	-4.2	-4.0	-3.9	-3.7	-2.8	-1.8	-1.1	-1.0	-1.0
(excluding transfers)	-10.4	-15.3	-12.3	-6.4	-6.4	-5.5	-4.3	-3.1	-2.1	-2.0	-1.9
Net international reserves	-24	-15	22	41	65	62	82	112	139	158	173
Gross reserves	87	96	113	144	184	193	195	195	195	195	195
(in months of imports)	2.1	1.9	2.3	2.8	3.3	3.3	3.2	3.1	3.1	3.0	2.9
Total debt service due	79	119	152	130	111	120	122	141	147	143	150
(in percent of exports)	17.5	25.6	31.3	22.6	17.9	18.3	17.7	19.6	19.7	18.7	19.1
Total external debt	1,226	1,024	1,013	1,076	1,130	1,181	1,204	1,215	1,214	1,214	1,217
(in percent of GDP)	128	99	93	90	94	94	91	84	79	74	69

Sources: Tajik authorities; and Fund staff estimates.

1/ The rescheduling in 2001 reflects restructuring of Tajikistan's debt to the European Union. The rescheduling in 2002 reflects an expected debt rescheduling agreement with Russia that will result in full financing of the program for the first and subsequent years of the program. The terms are expected to include an interest rate of 2.8 percent, a three-year grace period and 17-year maturity, and a provision that US\$23 million of the NBT's credit balance with the Central Bank of Russia (\$49.8 million) would be used to clear outstanding interest arrears. The remainder would be applied to interest payments falling due during the grace period.

Table 10. Tajikistan: Medium-term Projections, 2000-2006

	2000	2001	2002	2003	2004	2005	2006
	Actual	Actual	Program				
National income and prices							
Nominal GDP (in millions of somoni)	1,807	2,512	3,045	3,600	3,931	4,293	4,688
Nominal GDP (in millions of U.S. dollars)	991	1,033	1,089	1,200	1,202	1,254	1,331
Real GDP (annual percent change)	8.3	10.2	7.5	6.0	4.0	4.0	4.0
GDP per capita (in U.S. dollars)	155.4	165.8	167.6	181.2	178.2	182.6	191.0
GDP deflator (annual percent change)	24.8	29.3	12.8	11.5	5.0	5.0	5.0
Consumer prices (12-month percent change, e.o.p.)	60.6	12.5	13.0	7.0	5.0	5.0	5.0
Consumer prices (year-on-year percent change, average)	32.9	38.6	12.2	9.5	5.3	5.0	5.0
(In percent of GDP)							
General government finances							
Total revenue and grants	13.6	15.2	16.9	17.7	17.8	17.9	17.8
Of which:							
Tax revenue	12.9	14.1	15.4	15.8	16.3	16.5	16.7
Total expenditure	19.2	18.4	20.0	21.2	20.8	20.9	20.8
Of which:							
Current expenditure	12.5	13.2	14.3	14.7	14.9	15.0	15.0
Fiscal balance (excluding PIP, cash basis)	-0.6	-0.1	-0.3	-0.5	0.0	0.0	0.0
Primary balance	0.7	1.4	1.9	1.2	1.6	1.4	1.2
Public investment projects (PIP)	4.0	2.1	2.8	3.0	3.0	3.0	3.0
Savings/investment balances							
Current account balance	-6.5	-7.1	-4.2	-4.0	-3.9	-3.7	-2.8
Overall fiscal balance (including PIP, cash basis)	-4.6	-2.2	-3.1	-3.5	-3.0	-3.0	-3.0
Fiscal balance (excluding PIP, cash basis)	-0.6	-0.1	-0.3	-0.5	0.0	0.0	0.0
PIP	4.0	2.1	2.8	3.0	3.0	3.0	3.0
Net savings (S-I) of the private sector 1/	-1.9	-4.9	-1.1	-0.5	-0.9	-0.7	0.2
(In millions of U.S. dollars; unless otherwise specified)							
External sector							
Exports of goods	788	652	723	805	870	917	961
Imports of goods	834	773	819	843	916	959	995
Current account balance	-62	-74	-46	-48	-47	-47	-37
Gross international reserves	87	96	113	144	184	193	195
Gross international reserves (in months of imports)	2.1	1.9	2.3	2.8	3.3	3.3	3.2

Sources: Tajik authorities; and Fund staff estimates.

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

Table 11. Tajikistan: Debt Service Capacity, 2001-2010

(In millions of U.S. dollars)

	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
I. Current account minus interest	-8	16	24	5	6	14	25	35	35	35
Trade balance	-121	-96	-38	-46	-41	-34	-22	-14	-11	-10
Services	-7	-14	-7	-9	-7	-6	-6	-6	-7	-7
Income, excluding interest due	36	38	39	31	33	33	34	39	35	35
Transfers	84	88	30	29	22	21	18	16	18	15
II. Financial and capital account minus principal	106	104	78	85	79	85	91	96	104	110
Capital transfers	13	17	12	7	0	0	0	0	0	0
Public sector disbursements	22	30	36	37	40	43	47	50	54	57
World Bank	25	25	13	13	13	13	13	13	13	13
AsDB	0	0	0	7	0	0	0	0	0	0
FDI	9	22	22	22	27	29	31	34	38	40
Other net capital	37	10	-5	0	0	0	0	0	0	0
III. Financing items	30	49	60	61	26	0	0	0	0	0
IMF (purchases)	15	11	24	26	26	0	0	0	0	0
IV. Total resources (I + II + III)	128	169	162	151	112	99	116	131	139	145
V. Change gross reserves (- increase)	-8	-17	-32	-39	-9	-2	0	0	0	0
VI. Debt service payments	-119	-152	-130	-111	-120	-122	-141	-147	-143	-150
Interest	-66	-62	-72	-52	-53	-51	-51	-51	-51	-53
Non financial public sector	-19	-17	-14	-17	-16	-16	-16	-17	-17	-17
<i>Of which:</i>										
Russia	-9	-8	-6	-5	-4	-3	-3	-2	-1	0
Private and banking sector	-45	-44	-57	-34	-37	-34	-34	-34	-34	-36
National Bank of Tajikistan (IMF)	-2	-1	-1	-1	0	0	0	0	0	0
Principal	-53	-89	-58	-59	-67	-71	-90	-96	-92	-98
Non financial public sector	-41	-55	-45	-49	-54	-56	-64	-72	-77	-83
<i>Of which:</i>										
Russia	0	-30	-30	-30	-30	-30	-30	-30	-30	-30
National Bank of Tajikistan (IMF)	-12	-35	-13	-11	-13	-15	-26	-24	-15	-14
VII. Total uses (V+VI)	-128	-168	-162	-150	-129	-124	-141	-147	-143	-150
Financing gap	0	0	0	0	17	25	25	16	4	6

Sources: Tajik authorities; and Fund staff estimates.

Table 12. Tajikistan: External Debt and Debt Service of the Public Sector, 2001-2010
(In millions of U.S. dollars, unless otherwise specified)

	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
NPV of Debt										
Total public sector and guaranteed	753	730	744	750	751	700	633	561	493	423
Non-financial public sector	538	549	569	579	588	549	507	458	407	350
IMF	155	129	122	118	110	98	73	50	33	20
Private, guaranteed	60	53	53	53	53	53	53	53	53	53
NPV of Debt										
In percent of GDP	73	67	62	62	60	53	44	36	30	24
In percent of exports 1/	171	156	146	134	122	107	92	78	66	55
In percent of fiscal revenue	476	411	366	360	341	296	246	202	164	130
Debt service due										
In percent of exports 2/	16	22	13	12	13	13	15	15	14	15
In percent of fiscal revenue	46	60	36	37	38	37	41	41	36	35
In percent of fiscal revenue 3/	38	41	29	32	32	31	31	32	31	31
<i>Memorandum items:</i>										
GDP	1,033	1,089	1,200	1,202	1,254	1,331	1,439	1,540	1,649	1,765
Exports 4/	468	485	576	619	654	690	720	744	767	788
Exports, three-year moving average 4/	440	468	510	560	617	654	688	718	744	766
Fiscal revenue 5/	158	178	203	208	220	237	257	278	301	326
Debt service due 6/	73	107	73	77	83	88	107	113	109	115
Debt service after rescheduling	9	69	...	...	...	...	...	...	...	...

Sources: Tajik authorities; and Fund staff estimates.

1/ Three-year moving average of exports.

2/ Annual exports.

3/ Excluding IMF obligations.

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

5/ Total government revenue, excluding grants.

6/ Includes all public sector debt service due.

Table 13. Tajikistan: Stock of Non-Financial Public Sector External Debt, 1995-2001
(In millions of U.S. dollars)

	1995	1996	1997	1998	1999	2000	2001
Total Debt	668	726	747	822	867	895	906
Bilateral	587	594	581	543	551	532	522
Uzbekistan	200	200	171	153	142	130	117
Russia	292	288	291	288	304	313	323
United States	25	31	32	30	30	22	21
Turkey	23	23	26	26	26	26	23
Kazakhstan	19	19	19	18	18	19	12
Pakistan	6	12	14	14	13	13	13
China	5	5	6	6	11	0	0
India	4	4	6	6	6	7	7
Kyrgyz Republic	0	0	0	2	2	2	2
Iran	0	0	0	0	0	1	4
Switzerland	2	0	0	0	0	0	0
Other bilaterals	11	11	17	0	0	0	0
Multilateral	81	133	166	279	316	363	383
IMF	0	22	30	96	100	111	110
EU	81	81	83	89	76	73	53
World Bank	0	30	53	90	126	149	184
Islamic Development Bank	0	0	0	3	3	8	11
Asian Development Bank	0	0	0	0	10	22	25

Sources: Tajik authorities; and Fund staff estimates.

Table 14. Tajikistan: Capacity to Repay the Fund, 2001-2010

(In units indicated)

	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Existing and prospective Fund credit 1/										
In millions of SDRs 2/	87.7	69.2	77.0	88.5	98.7	87.5	68.0	50.3	38.9	28.2
In millions of U.S. dollars	110.2	89.9	102.6	118.1	132.1	117.3	91.2	67.5	52.1	37.7
In percent of exports 3/	24.4	18.5	17.8	19.1	20.2	17.0	12.7	9.1	6.8	4.8
In percent of external debt	9.0	8.8	9.4	10.3	11.1	9.6	7.4	5.5	4.3	3.1
In percent of gross reserves	115.1	79.9	71.2	64.3	68.6	60.3	46.9	34.7	26.8	19.4
In percent of quota	100.8	79.5	88.5	101.7	113.5	100.6	78.2	57.9	44.7	32.4
In percent of GDP	10.7	8.3	8.6	9.8	10.5	8.8	6.3	4.4	3.2	2.1
Repurchases and charges due from										
Existing and prospective drawings										
In millions of SDRs	10.6	27.1	10.4	8.4	9.7	11.4	20.0	17.9	11.6	11.0
In millions of U.S. dollars	13.5	35.3	13.9	11.2	13.0	15.3	26.8	24.0	15.6	14.6
In percent of exports 3/	2.9	7.3	2.4	1.8	2.0	2.2	3.7	3.2	2.0	1.9
In percent of external debt	1.3	3.4	1.3	1.0	1.1	1.3	2.2	2.0	1.3	1.2
In percent of debt service	18.4	32.9	19.0	14.5	15.6	17.4	25.1	21.3	14.3	12.8
In percent of gross reserves	14.1	31.4	9.6	6.1	6.7	7.9	13.8	12.3	8.0	7.5
In percent of quota	12.2	31.1	12.0	9.7	11.1	13.1	23.0	20.5	13.4	12.6
In percent of GDP	1.3	3.2	1.2	0.9	1.0	1.1	1.9	1.6	0.9	0.8
Memorandum items:										
Gross reserves (millions of U.S. dollars)	96	113	144	184	193	195	195	195	195	195
Net reserves (millions of U.S. dollars)	-15	22	41	65	62	82	112	139	158	173
Quota (millions of SDR)	87	87	87	87	87	87	87	87	87	87
Debt service due (millions of U.S. dollars) 4/	73	107	73	77	83	88	107	113	109	115
GDP (millions of U.S. dollars)	1,033	1,089	1,200	1,202	1,254	1,331	1,439	1,540	1,649	1,765
Gross reserves (months of imports) 5/	1.9	2.3	2.8	3.3	3.3	3.2	3.1	3.1	3.0	2.9
Net reserves (months of imports) 5/	-0.3	0.5	0.8	1.2	1.1	1.4	1.8	2.2	2.4	2.6

Sources: Tajik authorities; and Fund staff estimates.

1/ End of period.

2/ This table assumes SDR 65 million in Fund disbursements under the proposed second three-year PRGF arrangement covering 2002-2005. The prospective schedule of purchases is summarized in Table 15. On September 30, 2002, Tajikistan had SDR 3.75 million outstanding from a previous stand-by arrangement (approved in 1996).

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

4/ Debt service due on total public sector debt.

5/ Imports of goods and services, less alumina and electricity imports.

Table 15. Tajikistan: Reviews and Disbursements Under the Proposed Three-Year PRGF Arrangement, 2002-2005

Date	Action	Disbursement
December 20, 2002 1/	Board approval of a three-year arrangement.	SDR 8 million
On or after May 15, 2003	Complete 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 15, 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 is expected at the meeting on December 11, 2002, but the first disbursement will be made available on December 20, 2002.

Table 16. Tajikistan: Indicators of External Vulnerability, 1998–2003
(In units indicated)

	1998	1999	2000	2001	2002 Prog.	2003 Prog.
Financial indicators						
Broad money (percent change) 1/	29.3	39.0	64.5	33.4	31.8	17.2
Private sector credit (percent change) 1/ 2/	...	-6.0	90.2	54.3	4.0	0.9
31 day treasury bill yield (percent) 3/	52.9	84.7	40.0	18.1	...	...
External indicators						
Exports of goods and services (in US dollars, percent change)	-19.7	11.2	18.3	-15.9	11.2	10.9
Imports of goods and services (in US dollars percent change)	-11.5	-4.2	21.5	-5.5	7.3	2.3
Current account balance (in millions of US dollars)	-120	-36	-62	-74	-46	-48
Capital and financial account balance (in millions of US dollars)	103	42	63	64	49	32
Gross official reserves (in millions of US dollars)	65.3	58.1	87.2	95.7	112.5	144.1
Central bank short-term foreign liabilities (in millions of US dollars)	0.0	0.0	0.0	0.0	0.0	0.0
Official reserves (in months of relevant imports of goods and services)	1.5	1.7	2.1	1.9	2.3	2.8
Ratio of broad money to reserves 1/	0.4	0.4	0.8	0.8	0.8	0.7
Total external debt (in millions of US dollars)	1,179	1,223	1,226	1,024	1,013	1,076
<i>Of which:</i>						
Public and publicly guaranteed debt	822	867	895	906	940	968
Ratio of total external debt to exports of goods and services 4/	2.8	3.1	2.7	2.2	2.1	1.9
Public sector external interest payments (as a percent of exports goods and services) 4/ 5/	3.0	1.8	3.3	4.3	3.7	2.5
Public sector external amortization payments (as a percent of exports of goods and services) 4/ 5/	5.5	3.6	6.3	11.4	18.4	10.1
Exchange rate (In somoni per US dollar, period average) 6/	0.8	1.2	1.8	2.4	...	...

Source: Tajik authorities; and Fund staff estimates.

1/ For historical data at actual exchange rate, and program exchange rate of Sm 3.0=US\$1 and SDR1=US\$1.299; from 2003, SDR1=US\$1.333.

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

3/ For 2001, the annualized three-month treasury bill rate is shown because no one-month treasury bills were issued.

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

5/ Including debt service to the IMF.

6/ On November 1, 2000 the somoni replaced the Tajik ruble at the rate of one somoni per 1,000 Tajik rubles.

TAJIKISTAN: FUND RELATIONS
(As of September 30, 2002)

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	90.75	104.31
Reserve position in Fund	0.00	0.00

III. SDR Department:	<u>SDR Million</u>	<u>%Allocation</u>
Holdings	1.47	N/A

IV. Outstanding Purchases and Loans:	<u>SDR Million</u>	<u>%Quota</u>
PRGF arrangements	65.62	75.43
Credit Tranche	3.75	4.31

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>
ESAF/PRGF	June 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>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>
Principal	1.88	3.68	8.06	9.39	11.19
Charges/Interest	0.20	0.35	0.31	0.26	0.21
Total	2.08	4.02	8.37	9.66	11.41

VII. **Implementation of HIPC Initiative:**

Not Applicable.

VIII. **Safeguards Assessments:**

Under the Fund's safeguards assessment policy, the National Bank of Tajikistan (NBT) was subject to a full safeguards assessment with respect to the previous PRGF arrangement, which was approved on June 24, 1998. The assessment of the NBT was completed on

November 27, 2001 and concluded that high risks may exist in the financial reporting framework, the internal audit mechanism, and the system of internal controls. Staff's findings and recommendations were reported to the Board for information in April 2002 (EBS/02/58). Currently, the NBT is subject to a new assessment with respect to the expected arrangement. The necessary documentation was received from the authorities on October 1, 2002 and the off-site safeguards assessment of the NBT is underway.

IX. Exchange Rate Arrangements:

A currency conversion took place on October 30, 2000 replacing the Tajik ruble, which had been 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). Beginning in November 2001, the authorities began setting the official exchange rate once a week based on a weighted average of exchange rates in the official interbank market. The official exchange rate is used for valuation of the National Bank's foreign currency reserves, for the calculation of customs duties, and for the National Bank's foreign exchange transactions. On October 15, 2002, the official exchange rate was somoni 2.9527 per U.S. dollar.

X. Article IV Consultation:

The 2001 Article IV consultation mission was held during January 30-February 15, 2001. The 2001 Article IV report, dated March 28, 2001, was considered by the Executive Board on April 12, 2001. It is proposed that Tajikistan move to the 24-month consultation cycle, subject to the provisions of the decision on consultation cycles approved on July 15, 2002.

XI. Resident Representative:

Mr. Lorie, Senior Resident Representative of the Fund, started his assignment in Dushanbe in September 1999. At the request of the authorities, his assignment was extended through November 2002.

XII. Resident Advisors:

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 adviser 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. A bank restructuring expert conducted peripatetic visits during 2002. A resident debt management expert, financed by the Swiss Secretariat for Economic Affairs, will be assigned in 2003.

XIII. Technical Assistance:

The following list summarizes the technical assistance provided by the Fund to Tajikistan since 1992.

Fiscal Affairs:

February 1992	Tax policy and tax administration social safety net, inter-governmental financial relationships, and public expenditure management
February 1994	Tax policy, social safety net, and public expenditure management
April/May 1995	Public expenditure management and treasury operations
July 1995	Tax policy and tax administration
September/October 1995	Social safety net
October 1995	Macroeconomic and financial policy seminar
January 1996	Modernization of the State Tax Inspectorate, implementation of a large taxpayer monitoring unit and collection of tax arrears
August 1996	Implementation of a large taxpayer unit
September 1997	Modernization of the State Tax Inspectorate; Implementation of a large taxpayer unit
April 1998	Tax policy and administration
June/July 1998	Implementation of Tax Identification Numbers
September/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 Exchange Affairs:

November 1993	Monetary operations and money market development, banking supervision, foreign exchange operations and management, the payments system, and central bank legislation
January/February 1995	Introduction of the national currency, monetary policy and

	banking supervision
April 1995	Foreign exchange operations and introduction of the national currency
September 1995	Central banking operations
November 1995	Central bank legislation, exchange market operations and banking supervision
November 1996	Multi-topic
February 1998	Multi-topic
April 1998	Treasury bill auctions, bank restructuring, and banking supervision
August 1998	Multi-topic
April 1999	Multi-topic
April 1999-July 2000	Monetary operations
March 2000	Multi-topic
August 2000	Bank restructuring
January/February 2001	Bank Restructuring
August 2001	Multi-topic
July 2002	Multi-topic
Statistics:	
February/March 1994	Government finance, money and banking, balance of payments, and national account and price statistics
January/February 1995	Money and banking statistics
April/May 1995	National accounts and price statistics
July 1995	Money and banking statistics
September/October 1995	Price statistics
November/December 1995	Balance of payments statistics
September 1996	Money and banking statistics
November 1996	National accounts statistics
October/November 1997	Balance of payments statistics
April 1998	Money and banking statistics
April 1999	Money and banking statistics
March 2002	Balance of payments statistics

Treasury:

October 1995

Accounting of Fund transactions

July 2001

Safeguards assessment stage two

Legal:

April/May 2001

Legislation on State Audit Agency, the Budget System and Taxation

July 2002

Article VIII Assessment

TAJIKISTAN: RELATIONS WITH THE WORLD BANK
(As of September 30, 2002)

1. Tajikistan became a member of the IBRD and IDA in 1993 and of the IFC in 1994. To date, World Bank Group assistance has consisted of policy advice, increased field presence, institutional capacity building, financing of post-conflict needs through rehabilitation and reconstruction operations, and resource mobilization.
2. Country Assistance Strategies were discussed by the Board of Directors in May 1996 and July 1998. The Bank is preparing a new Country Assistance Strategy (CAS) to be presented to the Board in February 2003, that would take into account the need for prioritization and focus on the following three areas:
 - 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.
3. As of September 30, 2002, IDA had committed US\$302.2 million for 20 operations in Tajikistan. Currently there are 11 ongoing operations with a net commitment of US\$151.5 million, of which \$45.5 million was disbursed as of September 30, 2002. In FY03 the Bank is planning to submit to the Board one project on Education Modernization (US\$10 million).
4. The second tranche of the Second Structural Adjustment Credit (US\$50 million) is currently pending subject to fulfillment of the following conditions:
 - Completing an IAS audit of the aluminum smelter (TADAZ);
 - Developing a privatization strategy;
 - Enacting the Law on the State Financial Control Office; and
 - Reducing arrears related to Tajik Gas, Barki Tajik, and Tajik Telekom.
5. The Second Poverty Alleviation Project (US\$13.8 million) was approved in May 2002, and the Dushanbe Water Supply (US\$17 million) and the Pamir Power (US\$10 million) projects were approved in June 2002.
6. A Country Economic Memorandum (CEM) entitled "Tajikistan: Toward Accelerated Economic Growth" was issued in January 2001. A Poverty Assessment Report was prepared in May 2000. At the government's request, the World Bank is planning to organize a Consultative Group (CG) meeting for Tajikistan in Paris in February–March 2003. This will be the fourth CG meeting. The previous meeting took place in Tokyo in May 2001.

7. In FY03, the World Bank is planning to complete a Public Expenditure Review, a Country Financial Accountability Assessment, and a Country Procurement Assessment Review. On balance, the effectiveness of project implementation has been mixed due to capacity constraints and a volatile security situation in many parts of the country.
8. The World Bank's Director for Tajikistan is Mr. Dennis de Tray.

TAJIKISTAN: RELATIONS WITH THE ASIAN DEVELOPMENT BANK
(As of September 30, 2002)

1. Tajikistan became a member of the AsDB on April 20, 1998. The AsDB participated in the second Consultative Group Meeting for Tajikistan (May 20, 1998). After conducting an initial Economic Mission in June 1998, AsDB staff completed an Economic Report and Interim Operational Strategy that detailed the economic structure and recent economic developments in the country and identified areas in which AsDB assistance would have the greatest development impact. The report was endorsed by AsDB's Board of Directors in October 1998. The Board also approved Tajikistan's country classification, which provides the basis for Tajikistan's access to concessional resources.
2. In view of Tajikistan's urgent need for assistance in 1998, the AsDB Board approved a Postconflict Infrastructure Program Loan (US\$20 million) to support reforms in the transport and energy sectors. The loan was for two years and was successfully completed in the end of 2000 upon implementation of reforms acceptable to AsDB.
3. In 1999, the AsDB Board approved a Social Sector Rehabilitation Project Loan (US\$20 million) to address the serious deterioration in living standards and strengthen the delivery of essential social services, and an Emergency Flood Rehabilitation Project Loan (US\$5 million). In 2000, a Road Rehabilitation Project Loan (US\$20 million) and a Power Rehabilitation Project Loan (US\$34 million) were approved based on the satisfactory progress of the Postconflict Infrastructure Program Loan conditionalities. In response to an urgent request of the Government, an Emergency Restoration of Yavan Water Conveyance System loan (US\$3.6 million) was approved in November 2001.
4. Two loans, including an Agriculture Rehabilitation Sector Project (US\$35 million) and a Rural Financial Systems Development Program loan (\$8 million) could not be processed in 2001 due to the war in Afghanistan. These are now processed and are expected to be approved in November and September 2002, respectively. In addition, a Trade Facilitation and Customs Cooperation Program loan (US\$10 million) is being processed. At the request of the government, the AsDB processed an Emergency Rehabilitation Assistance Project (\$5 million) which was approved in September 2002.
5. AsDB also provided 24 technical assistance grants, totaling US\$12.5 million by the end of 2001 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.
6. AsDB plans to prepare a full country strategy and program in 2003 based on a national poverty reduction strategy for Tajikistan.

TAJIKISTAN: STATISTICAL ISSUES

Data Weaknesses

1. Efforts to improve the quality of economic statistics by the authorities have been hampered by tight budgetary constraints and limited international assistance. The latter has not been forthcoming despite improvements in the domestic security situation. Some weaknesses in coverage, quality, frequency, and timeliness of the data remain which continue to affect the authorities' ability to formulate and implement macroeconomic policies. A draft country page on Tajikistan for possible publication in *International Financial Statistics (IFS)* was developed in early 2001. Staff sent the draft *IFS* page to the authorities for their review and approval but have yet to receive a reply. A forthcoming STA mission will work with the authorities to develop a mechanism for updating the *IFS* page in a timely manner.

National Accounts Statistics

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

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

Price Statistics

4. Since January 1994, Tajikistan's State Statistical Committee has compiled a consumer price index (CPI) on a monthly basis. The Statistical Committee acknowledges the need for methodological assistance in this area. 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. From January 2000, the classification of fiscal accounts followed a new system in line with the Government Finance Statistics (GFS) manual, which has been developed with FAD technical assistance. The 2002 budget has been prepared under the GFS classification, 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 have been reported by Tajikistan—for the second time—for publication in the *2001 GFS Yearbook*. Further work could usefully target, in particular, improving the financing information (classification and valuation of transactions), consistent with the government debt. In addition, steps should be taken to ensure availability of information on the public sector as well as on quasi-fiscal operations.

Money and Banking Statistics

7. Money and banking statistics reported to the Fund have improved and are broadly adequate for policy and analytical purposes following the introduction of new charts of accounts based on IAS standards for the NBT and commercial banks on January 1, 1999.

8. Received data, however, suffers from weaknesses in quality stemming from the lack of a centralized coordination of work among several accounting departments of the NBT and full implementation of the IAS. Further work is needed to improve the quality of data on commercial banks, especially with respect to full implementation of the IAS. In addition, the authorities should be encouraged to resume their data reporting to STA, which has ceased following a reorganization of the NBT in mid-2000. A follow-up mission on monetary statistics is scheduled for October 29-November 14, 2002.

Balance of Payments Statistics

9. In April 1997, the NBT established a division responsible for the preparation of balance of payments data. The authorities have invested a significant effort in the compilation of the balance of payments, but the quality of data remains poor owing mainly to uneven response to surveys by commercial enterprises and partial information provided by the State Statistical Committee and by the NBT on financial flows. The NBT experiences methodological difficulties in quantifying export and import price indices. A technical assistance mission from STA during March 2002 found that most of the recommendations from previous missions had been implemented, though problems remain in the areas of coordination between government agencies and between the government and donor agencies.

Tajikistan: Core Statistical Indicators
(As of October 15, 2002)

	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	10/11/02	9/30/02	9/30/02	9/30/02	9/30/02	9/25/02	9/02	Q2/02	Q2/02	8/30/02	9/30/02	Q2/02
Date Received	10/11/02	10/4/02	10/4/02	10/4/02	10/9/02	10/16/02	10/8/02	7/15/02	7/30/02	9/30/02	10/14/02	7/15/02
Frequency of Data	D	D	D	D	M	M	M	Q	Q	M	Q	Q
Frequency of Reporting	D	D	D	D	M	M	M	Q	Q	M	M	Q
Source of Update	A	A	A	A	A	A	A	A	A	A	A	A
Mode of Reporting	RR	RR	RR	RR	RR	RR	RR	RR	RR	RR	RR	RR
Confidentiality	-	-	-	-	-	-	-	-	-	-	-	-
Frequency of Publication	W	W	W	W	M	V	M	V	V	M	V	V

1/ Annual interest rate on treasury bills.

Notes:

Explanation of abbreviations:

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

Source of updating: A-authorities.

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

TAJIKISTAN: EXTERNAL DEBT MANAGEMENT AND SUSTAINABILITY

A. Introduction

1. Tajikistan had no foreign debt at independence. The accumulation of debt during the 1990s was due to a delay in adjusting to the loss of budget transfers after 1990 and borrowing associated with the civil war. Tajikistan borrowed from China, Pakistan, Turkey, the United States, and the European Union (EU) to finance imports of grains and consumer goods. During this time the authorities also extended government guarantees to state-owned enterprises for borrowing abroad. In many cases, these obligations were not serviced by either the enterprises or the budget and gave rise to external payment arrears. Recognizing the consequences of the growing debt problem, Tajikistan initiated a series of bilateral rescheduling negotiations in 1995. By mid-1998, debt restructuring agreements had been concluded with Kazakhstan, Russia, Uzbekistan, Turkey, and the Kyrgyz Republic. Debt management, however, remained uncoordinated and external payment arrears continued to be a problem.

2. At end-2001, Tajikistan's total external debt amounted to US\$1,024 million, equivalent to 100 percent of GDP. The share of the government debt was US\$906 million or 89 percent of total debt at end-2001. During 2001, the terms of debt service improved because of the rescheduling of bilateral debts and because a greater share of the total debt was on concessional terms. While most of this debt is concessional—the NPV of public sector debt was US\$598 million at end-2001—debt service costs are high. The NPV of the debt as a share of exports and fiscal revenue was 136 percent and 378 percent, respectively, and debt service payments were equivalent to 46 percent of fiscal revenue in 2001. The resumption of debt service to Russia and the early repayment to the IMF increase the share of fiscal revenue allocated to debt service payments to 60 percent in 2002.

B. Recent Developments and Outstanding Issues

3. In 2002, the authorities again entered into restructuring negotiations with bilateral creditors. Agreements were signed with Uzbekistan (February 2002) and Kazakhstan (April 2002). The agreement with Uzbekistan included a 10 percent reduction in the debt stock and improved the terms by decreasing the interest rate from 2.8 percent to 0.8 percent and extending the maturity to 10 years (including a 2-year grace period) beginning in 2003. Debt service obligations for the remainder of 2002 would continue to be met by transit services provided by Tajik Rail. Under the terms of the agreement with Kazakhstan, the debt stock was reduced by 33 percent. The repayment period is 15 years (including a 5-year grace period) and the interest rate kept at 2.8 percent. Additionally, Tajikistan reconciled its correspondent account debt with Belarus and signed a restructuring agreement. The Government of Pakistan notified Tajikistan that the debt restructuring agreement negotiated with the previous government would be honored.

4. Tajikistan's debt to Russia was US\$323 million (61 percent of bilateral debt) as of end-2001. Debt service payments for 2002 total US\$38 million. In April 2002, the parties

agreed on a tentative debt restructuring, which set the reconciled debt at US\$323.2 million including US\$23.13 million in interest payment arrears. These arrears were to be paid using part of the NBT's credit balance (US\$49.8 million) with the Central Bank of Russia. The terms of the tentative agreement with Russia include an interest rate of 2.8 percent, a maturity of 17 years and a 3 year grace period.

5. Debt management has been improving slowly. The authorities completed the inventory of the status, terms, sources and the size of the government and government-guaranteed debts, and the debt of state-owned enterprises. They have also sent letters to their bilateral creditors to confirm the status of Tajikistan's debt. Nonetheless, the vestiges of earlier weaknesses in debt management continue to cause problems for the authorities. For example, the restructuring negotiations of the government-guaranteed debt to Germany could be undermined by the unwillingness of the government to take over the service of these debts. The authorities missed debt service payments to AKA Ausfuhrkredit-Gesellschaft mbH due on February 1, 2002 and August 1, 2002 in the amount of €0.327 million and €0.428, respectively, and were late on interest payments to Bank Gesellschaft Berlin. As of the end of September, the authorities had cleared all arrears or initiated rescheduling negotiations.

C. External Debt Sustainability

6. The authorities' debt strategy recognizes the need to (a) improve debt management; (b) restructure existing bilateral debt obligations; (c) ensure timely servicing of debt; (d) limit future borrowing; and (e) implement a sustainable macroeconomic framework.

7. The medium-term macroeconomic assumptions underlying the debt sustainability analysis include (i) modest fiscal consolidation, with an overall fiscal deficit averaging 3 percent of GDP in 2004-2006, reflecting the size of the Public Investment Program (PIP); (ii) monetary policy aimed at lowering inflation; and (iii) the implementation of structural reforms designed to sustain high growth. The PIP will be financed through new concessional borrowings. The scenario assumes an improvement in the terms of trade in 2003-2007. Real GDP is expected to grow at an annual rate of 6 percent in 2003, and would slow to about 4 percent thereafter. Exports and imports are expected to grow at an annual average of 6 percent and 5 percent, respectively.

8. Without restructuring, Tajikistan's external debt burden would remain high. Debt service obligations would absorb, on average, nearly a third of fiscal revenue, with the NPV of debt exceeding 250 percent of fiscal revenue through 2005.

9. To reduce this debt burden, the authorities intend to continue bilateral debt restructuring. The effects of a debt restructuring with Russia or with Paris Club creditors are illustrated in Table 2. A debt restructuring with Russia would allow Tajikistan to reduce its debt service to Russia, and the net present value of debt would decline in 2002 compared with the baseline scenario (US\$566 million compared with US\$602 million) owing to a slightly longer repayment period.

10. Scenario 3 highlights the potential effect of a Paris Club rescheduling on terms similar to those recently granted to the Kyrgyz Republic. In this case, Tajikistan would reduce its debt service relative to the baseline (the Paris Club agreement is assumed to start in 2003) but when the grace period expires in 2005, the debt service falling due would be higher than under the scenario involving debt rescheduling with Russia. The net present value of debt would decline in 2002 compared with the baseline scenario (US\$493 million compared to US\$622 million) owing to a reduction in the consolidated debt stock and a longer repayment period.

D. Conclusion

11. Tajikistan's debt burden is expected to remain high in the next 10 years, due to its amortization profile and the necessity to contract new borrowing on concessional terms to finance public sector investment.

12. The authorities decided to pursue a bilateral debt rescheduling with Russia rather than approach the Paris Club because (a) the debt service payments falling due in the next three years are slightly lower, (b) there is less uncertainty about the terms of the agreement, and (c) the agreement is part of a more complex bilateral relationship with Russia.

Tajikistan: Non-Financial Public Sector Debt Restructuring Options

	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Scenario 1. Baseline scenario: no restructuring										
NPV of debt (in millions of US\$)	598	602	622	632	641	603	560	511	460	403
In percent of exports	136	129	122	113	104	92	81	71	62	53
In percent of revenue	378	339	306	303	291	255	218	184	153	124
Debt service due (in millions of US\$)		72	59	66	70	73	80	89	94	100
In percent of exports		15	10	11	11	11	11	12	12	13
In percent of revenue		41	29	32	32	31	31	32	31	31
Scenario 2. Bilateral restructuring agreement with Russia										
NPV of debt (in millions of US\$)	526	566	626	676	709	693	661	624	584	539
In percent of exports	120	121	123	121	115	106	96	87	78	70
In percent of revenue	332	319	308	324	322	293	257	224	194	165
Debt service due (in millions of US\$)		31	18	25	49	54	75	84	89	96
In percent of exports		6	3	4	7	8	10	11	12	12
In percent of revenue		18	9	12	22	23	29	30	30	29
Scenario 3. Paris Club restructuring on terms similar to those granted to the Kyrgyz Republic 1/ 2/										
NPV of debt (in millions of US\$)	493	552	615	666	713	676	634	586	535	478
In percent of exports	112	118	121	119	116	103	92	82	72	62
In percent of revenue	311	311	303	320	324	286	246	211	178	147
Debt service due (in millions of US\$)		31	25	25	34	76	84	93	97	104
In percent of exports		6	4	4	5	11	12	12	13	13
In percent of revenue		18	12	12	15	32	33	33	32	32
Memorandum items (In millions of US\$)										
Exports	468	485	576	619	654	690	720	744	767	788
Exports 3/	440	468	510	560	617	654	688	718	744	766
Government revenue 4/	158	178	203	208	220	237	257	278	301	326

1/ The debts to Kazakhstan and Uzbekistan are not included in the debt restructuring scenario, since they had recently been restructured bilaterally. The debts to Iran and China were not included in the restructuring either because the repayment periods have not started.

2/ The sovereign debt of the Kyrgyz Republic was restructured on nonconcessional terms. The maturity of the non-ODA loans was extended to 20 years, including a 5-year grace period, and a commercial interest rate. The consolidated ODA debt was restructured for 20 years, including a 10-year grace period. The interest rate is to be determined bilaterally, but at least as concessional as that on the original loan.

3/ Three-year moving average of good and services exports, excluding alumina and electricity imports which are traded on a barter basis.

4/ Total government revenue, excluding grants.

**TAJIKISTAN: THREE-YEAR ARRANGEMENT UNDER
THE POVERTY REDUCTION AND GROWTH FACILITY**

Attached hereto is a letter dated November 13, 2002 (“the Letter”), with an annexed Memorandum of Economic and Financial Policies for the Period October 1, 2003 to September 30, 2005 (the “Memorandum”), from the President of the Republic of Tajikistan requesting from the International Monetary Fund as Trustee of the Poverty Reduction and Growth Facility Trust (“the Trustee”) a three-year arrangement under the Poverty Reduction and Growth Facility, and setting forth:

(a) the objectives and policies of the program that the authorities of the Republic of Tajikistan intend to pursue during the three-year period of the arrangement;

(b) the objectives, policies and measures that the authorities of the Republic of Tajikistan intend to pursue during the first year of the arrangement; and

(c) understandings of the Republic of Tajikistan with the Trustee regarding reviews that will be made of progress in realizing the objectives of the program and of the policies and measures that the authorities of the Republic of Tajikistan will pursue for the second and third years of the arrangement.

To support these objectives and policies, the Trustee grants the requested three-year arrangement in accordance with the following provisions, and subject to the provisions applying to assistance under the Poverty Reduction and Growth Facility Trust.

1. (a) For a period of three years from [December 11], 2002, the Republic of Tajikistan will have the right to obtain loan disbursements from the Trustee in a total amount equivalent to SDR 65 million, subject to the availability of resources in the Poverty Reduction and Growth Facility Trust.

(b) Disbursements under this arrangement shall not exceed the equivalent of SDR 25.8 million until [December 11], 2003 and the equivalent of SDR 45.4 million until [December 11], 2004.

(c) During the first year of the arrangement:

- (i) The first disbursement, in an amount equivalent to SDR 8 million, will be available on [December 20], 2002, at the request of the Republic of Tajikistan;
- (ii) the second disbursement, in an amount equivalent to SDR 8 million, will be available on or after May 15, 2003, at the request of the Republic of Tajikistan and subject to paragraph 2 below; and

- (iii) the third disbursement, in an amount equivalent to SDR 9.8 million, will be available on or after November 15, 2003, at the request of the Republic of Tajikistan and subject to paragraph 2 below.

(d) The right of the Republic of Tajikistan to request disbursements during the second and third years of this arrangement shall be subject to such phasing and conditions as shall be determined. The phasing of, and conditions for, disbursements during the second year of this arrangement shall be determined in the context of a review of the Republic of Tajikistan's program with the Trustee, the timing of which shall be established at the first review contemplated in paragraph 2(I)(c) of this arrangement.

2. The Republic of Tajikistan will not request:

I. Any disbursement specified in paragraph 1(c) above,

(a) if the Managing Director of the Trustee finds that, with respect to the second disbursement specified in paragraph 1(c)(ii), the data as of March 31, 2003 and, with respect to the third disbursement specified in paragraph 1(c)(iii), the data as of September 30, 2003, indicate that:

(i) the ceiling on the net credit of the banking system to the general government, or

(ii) the ceiling on the net domestic assets of the National Bank of Tajikistan, or

(iii) the floor on the net international reserves of the National Bank of Tajikistan, or

(iv) the ceiling on the cumulative overall fiscal deficit of the general government (excluding the foreign financed public investment program), or

(v) the floor on tax collection of the Ministry of State Revenues and Duties, or

(vi) the ceiling on the contracting or guaranteeing by the government, the National Bank of Tajikistan or any other agency acting on behalf of the government of new non-concessional external debt with an original maturity of more than one year, or

(vii) the ceiling on the contracting or guaranteeing by the government, the National Bank of Tajikistan or any other agency acting on behalf of the government of new non-concessional external debt with an original maturity of up to and including one year

as specified in paragraph 47 and Annex I of the Memorandum and further specified in the Technical Memorandum of Understanding (“TMU”), was not observed; or

(b) if the Managing Director of the Trustee finds:

(i) with respect to the second disbursement, that by December 31, 2002 the Republic of Tajikistan has not carried out its intentions with respect to the introduction of a unified gas tariff of SM 140 per thousand cubic meters, as specified in paragraph 38 and Annex II of the Memorandum; and

(ii) with respect to the third disbursement, that by June 30, 2003 the Republic of Tajikistan has not carried out its intentions with respect to increasing the collection rates of Tajikgas so that on average 60 percent of all households pay for the gas they receive, as specified in paragraph 39 and Annex II of the Memorandum; or

(c) until the Trustee has determined, with regard to the second disbursement, that the first review of the Republic of Tajikistan's program scheduled for completion on May 15, 2003 and referred to in paragraph 6 of the Letter has been completed and, with regard to the third disbursement, that the second review of the Republic of Tajikistan's program scheduled for completion on November 15, 2003 and referred to in paragraph 6 of the Letter has been completed.

II. Any disbursement under this arrangement,

(a) if, at any time during this arrangement,

(i) the government or the National Bank of Tajikistan accumulates any new external payments arrears except for arrears that are subject to debt-rescheduling negotiations as specified in paragraph 47 and Annex I of the Memorandum and further specified in Section II.C of the TMU; or

(ii) the National Bank of Tajikistan issues directed credits as specified in paragraph 29 and Annex II of the Memorandum and further specified in Section II.A of the TMU; or

(iii) the National Bank of Tajikistan makes expenditures not related to its core business activities or pays dividends while it has negative net worth as specified in paragraph 29 and Annex II of the Memorandum and further specified in Section II.B of the TMU; or

(iv) the government incurs new arrears on wage payments by the general government or on transfer payments for nonworking pensioners' pension payments from the Social Protection Fund to its regional offices as specified in paragraph 18 and Annex I of the Memorandum and further specified in Section II.E of the TMU; or

(b) if the Republic of Tajikistan has:

(i) imposed or intensified restrictions on the making of payments and transfers for current international transactions, or

(ii) introduced or modified multiple currency practices, or

(iii) concluded bilateral payments agreements that are inconsistent with Article VIII, or

(iv) imposed or intensified import restrictions for balance of payments reasons.

When the Republic of Tajikistan is prevented from requesting disbursements under this arrangement because of this paragraph 2, such disbursements may be made available only after consultation has taken place between the Trustee and the Republic of Tajikistan and understandings have been reached regarding the circumstances in which the Republic of Tajikistan may request the disbursements.

3. In accordance with paragraph 7 of the Letter, the Republic of Tajikistan will provide the Trustee with such information as the Trustee requests in connection with the progress of the Republic of Tajikistan in implementing the policies and reaching the objectives of the program supported by this arrangement.

4. In accordance with paragraph 7 of the Letter, during the period of this arrangement the Republic of Tajikistan, shall consult with the Trustee on the adoption of any measures that may be appropriate at the initiative of the Government or whenever the Managing Director of the Trustee requests such a consultation. Moreover, after the period of this arrangement and while the Republic of Tajikistan has outstanding financial obligations to the Trustee arising from loan disbursements under this arrangement, the Republic of Tajikistan will consult with the Trustee from time to time, at the initiative of the Government or whenever the Managing Director of the Trustee requests consultation on the Republic of Tajikistan's economic and financial policies. These consultations may include correspondence and visits of officials of the Trustee to the Republic of Tajikistan or of representatives of the Republic of Tajikistan to the Trustee.

November 13, 2002

Mr. Horst Köhler
Managing Director
International Monetary Fund
700 19th Street, NW
Washington, DC 20431

Dear Mr. Köhler:

1. Over the past several years, the Government of Tajikistan has implemented a program of economic reform with support from the IMF's Poverty Reduction and Growth Facility (PRGF). In June 1998, a three-year PRGF arrangement was approved in an amount equivalent to SDR 96 million (or 110 percent of quota). In response to the Russian crisis, access was raised to SDR 100.3 million. This arrangement expired in December 2001 with SDR 78.3 million having been disbursed.
2. Under that program, we significantly improved macroeconomic stability through the implementation of appropriate macroeconomic policies. The implementation of structural reform was somewhat less successful, but over the past year our efforts in this regard have also improved. We recognize the importance of structural reform to ensuring sustainable growth and we plan to intensify our efforts in this area.
3. During the first half of this year, we implemented a Staff Monitored Program (SMP) aimed at reinvigorating our commitment to economic reform. Under the SMP, we observed nearly all of the quantitative targets and implemented most of the structural measures. In particular, we adopted measures that enhanced fiscal transparency; strengthened the independence of the National Bank of Tajikistan; reduced quasi-fiscal deficits in the energy sector; and improved our debt management capacity. We have also recently submitted our Poverty Reduction Strategy Paper that sets out the actions we plan to take in order to reduce poverty in Tajikistan.
4. Unfortunately, effective debt management has continued to be a challenge for us. We regret the earlier incidents of misreporting and are committed to strengthening our institutional capacity to avoid such incidents in future. Unfortunately, under the SMP we allowed external payment arrears to again accumulate on government-guaranteed debt. This stemmed, in part, from confusion over the requirements for entering into negotiations with our commercial creditor. These arrears, however, have now been cleared.
5. Building institutions including the National Bank of Tajikistan (NBT) is an important element of our economic strategy. We will work to strengthen central bank independence, bolster its financial condition, and improve its operation. In this regard, I would like to advise you that the NBT has received full repayment for the directed credits it issued in July and August of this year.

6. Together with the IMF missions that visited Dushanbe in April, July and October this year, we reached understandings on an economic program. We are requesting support through the IMF's Poverty Reduction and Growth Facility (PRGF), in an amount equivalent to SDR 65 million (75 percent of quota). The Memorandum of Economic and Financial Policies attached to this letter sets out the details of the economic program covering the period October 1, 2002–September 30, 2005. The first and second reviews under the PRGF arrangement are scheduled to take place by May 15, 2003 and November 15, 2003, respectively.

7. We have also recently submitted our Poverty Reduction Strategy Paper that sets out the actions we plan to take in order to reduce poverty in Tajikistan. In this regard, we would note that since the PRSP was finalized, more recent data has become available that has led us to revise slightly some of our projections for 2002 and the medium term. These latter projections form the basis for our current policies and we plan to realign the PRSP with these projections at the time of the first annual progress report.

8. The Government believes that the policies described in the Memorandum will enhance the prospects for achieving the objectives of our economic program for 2002. 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 consultation, and will provide the staff with information it requests for monitoring economic developments and progress in the implementation of policies and in reaching the objectives of the program supported by the PRGF arrangement. In addition, the Government stands ready to take any further measures, in consultation with Fund staff, on economic and financial policies that might be necessary to ensure that the overall objectives of the program can be attained. In order to enhance transparency of our economic policies, we request that this letter, the Memorandum of Economic and Financial Policies, and the Staff Report be published on the Fund's website.

Very truly yours,

/s/

Emomali Rakhmonov
President of the Republic of Tajikistan

Attachments

REPUBLIC OF TAJIKISTAN

Memorandum of Economic and Financial Policies for the Period October 1, 2002 to September 30, 2005 Supported under the Poverty Reduction and Growth Facility

I. INTRODUCTION

1. Since 1996, the International Monetary Fund (IMF) has supported economic reform in Tajikistan, most recently with a three-year arrangement under the Poverty Reduction and Growth Facility (PRGF) Trust.¹ Economic reform has been uneven due to weak institutions, the civil war and external shocks. In the early stages of the program, this uneven implementation was reflected in an erratic macroeconomic performance.
2. During the PRGF arrangement, we observed many of the quantitative performance criteria but some of the structural reform measures were not fully implemented. Fiscal policy was generally satisfactory but monetary policy targets were frequently missed. Although external shocks complicated monetary policy, inadequate policy instruments, a weak banking sector, and a lack of independence hindered the operations of the National Bank of Tajikistan (NBT). In particular, the NBT's inability to resist pressure for directed credits was responsible for many of the missed targets and periodic surges in inflation.
3. During the third annual arrangement, we observed more of the quantitative targets and improved macroeconomic stability. Our progress with structural reform continued to be uneven and we accrued external payments arrears that resulted in misreporting to the Fund and several noncomplying disbursements. While the first and second reviews of the third annual arrangement were completed, the third and final reviews were not.
4. In 2001, real GDP grew 10 percent and during the first eight months of this year increased by 8 percent. The leading sectors continue to be agriculture (cotton and wheat) and aluminum. Inflation performance improved last year and in early 2002, but subsequently it weakened. During the first nine months of 2002, cumulative inflation was 10.2 percent and it will likely be higher than we anticipated at the end of the year. Both spillover effects of strong regional demand and another lapse in monetary policy account for this development. The recent expansion of reserve money also contributed to a depreciation of the somoni in the curb market, after remaining relatively stable through most of the past 18 months.

¹ The Executive Board of the IMF approved the arrangement in June 1998, with access of SDR 96 million. Access was raised to SDR 100.3 million (115 percent of quota) in December 1998. The arrangement expired on December 24, 2001 with total disbursements of SDR 78.3 million having been made.

5. The current account deficit widened in 2001 because of a deterioration in the terms of trade and a sharp decline in exports. While we received sufficient inflows to finance our balance of payments deficit last year, future financing may be problematic because of concerns about our heavy external debt burden. The current account deficit is projected to decline to 4.2 percent of GDP this year because of an increase in the volume of exports. At the end of 2001, gross international reserves were equivalent to 1.9 months of import cover and are projected to rise to 2¼ months by the end of this year.

6. In the context of a Staff Monitored Program (SMP) covering January-June 2002, we continued our efforts to achieve greater macroeconomic stability and to reconfirm our commitment to structural reform. We observed most of the targets for key fiscal and monetary variables for end-March and end-June 2002, and did not accumulate new wage or pension arrears. Regrettably, external payments arrears accrued to a German commercial bank in conjunction with our efforts to restructure that loan, however, we have now cleared all arrears. Our fiscal performance during this time was particularly strong, with a surplus of SM 14.8 million, compared with a projected half-year deficit. Since the end of the SMP, our fiscal performance has remained strong. Monetary policy, however, moved off track with reserve money exceeding its target because of weak institutional capacity that led to unsterilized intervention in the foreign exchange market and directed credits. The NBT has since removed this excess liquidity and taken steps to improve policy implementation including better supervision of liquidity management and improved coordination between departments.

7. Under the SMP, we implemented most of the measures that constituted structural benchmarks, although some with a delay. We introduced measures to strengthen the independence and financial condition of the central bank; addressed weaknesses in the banking sector; amended legislation to enhance the transparency of the state audit agency; reduced energy sector arrears; and we developed a detailed inventory of our external public- and publicly-guaranteed debt. In connection with this exercise, we have written to our external creditors asking them to confirm our understanding of our external debt obligations. In October we issued a presidential decree regularizing financial relations between the NBT and the government including the reconciliation of all obligations on market terms. We also issued a resolution that eliminated the role of local government officials in planning or allocating cotton production and cotton exports.

8. At end-2001, the total of public and publicly guaranteed external debt was US\$1,024 million, equivalent to 100 percent of GDP. We recently restructured our debts to Kazakhstan, Belarus and Uzbekistan on significantly better terms. We have also initiated discussions on debt restructuring with Russia in order to achieve full financing of the program for the first year. In our view, the debt service relief offered through such a restructuring will allow us some room to expand social programs and raise public sector wages, in an effort to alleviate poverty.

9. Since the beginning of this year, we have demonstrated our strong commitment to macroeconomic stabilization and structural reform. This Memorandum of Economic and Financial Policies (MEFP) outlines our strategy for continuing this reform and is derived from and is consistent with the Poverty Reduction Strategy Paper (PRSP) that we submitted to the Executive Board of the Fund in October 2002.

II. PROGRAM OBJECTIVES AND POLICIES

10. The goals of the PRSP can best be accomplished through sustained growth, low inflation, exchange rate stability, and effective policy implementation. For 2002-05, we project real GDP growth to be at least 5 percent annually and inflation to decline to 5 percent by the end of the period. These goals, together with a stable exchange rate, would lead to an improvement in per capita incomes (in U.S. dollar terms) of about 15 percent over the next several years.

11. An important focus of our economic program will be to improve debt management and fiscal sustainability. We plan to limit the size of our foreign-financed public investment program (PIP) to no more than 3 percent of GDP and to reduce the quasi-fiscal deficit in the energy sector. The anticipated debt restructuring with Russia will provide significant debt service relief. Taken together, these measures will help bring about the needed adjustment in the balance of payments. Over the period 2002-05, we expect the current-account deficit to decline to 3.6 percent of GDP, and our gross international reserves to increase to 3.2 months of imports.

12. Implementing restrictive fiscal and monetary policies will be necessary to meet the program's quantitative targets (Annex I). To improve the prospects for sustaining economic growth, we will implement key structural reform measures (Annex II). To demonstrate our ownership of the new program we will implement a number of prior actions before the scheduled Executive Board meeting on December 11, 2002 (Annex III).

A. Fiscal Policy

13. We have improved our fiscal discipline and reduced the overall budget deficit to $\frac{1}{4}$ percent of GDP (excluding the foreign-financed PIP) this year from 3 percent in 1999. This reflects our success in controlling current public expenditures and increasing tax revenue collections. Over the period 2002-05, we project only a modest increase in current expenditures to 15 percent of GDP reflecting our desire to maintain tight fiscal control. This increase in spending will be financed by increased tax revenues resulting mainly from better tax and customs administration (see below).

14. We have reduced our medium-term public-investment project (PIP) plans and the associated foreign financing requirement in recognition of our high external debt, limited absorptive capacity, and the implications for recurrent costs in the budget (for operation and maintenance). The PIP is projected to be no more than 3 percent of GDP annually for the

program period. If we can further strengthen our revenue collection and institutional capacity, we will (in consultation with Fund staff) reassess the size of the PIP at a future date.

15. During the remainder of 2002, we expect to achieve a small improvement over the fiscal parameters contained in the Staff Monitored Program. Instead of an overall fiscal deficit of 1 percent of GDP (excluding the PIP), we expect a deficit of $\frac{1}{4}$ percent of GDP for 2002. If there is an over-performance on tax revenues, we will allocate this toward further social spending to alleviate poverty, while maintaining the overall deficit target.

16. In accordance with understandings contained in the SMP, we increased civil service wages by 40 percent effective January 1, 2002. Due to savings from attrition and the reduction of bonus payments, however, the wage bill is projected to increase by only 25 percent this year. Although this increase is significant, it is necessary given the serious erosion in public sector real wages in recent years. (The majority of public sector employees live below the poverty line.) The 2002 budget allocated SM 110 million for wages, but under the SMP we reached understandings that SM 103 million would be sufficient given anticipated vacancies. We now estimate, however, that SM 105 million will be required to finance the wage bill because attrition was slightly less than anticipated.

17. For 2003, we plan to increase civil service wages by 20 percent beginning April 1, thereby increasing the total wage bill for the 2003 budget by 15 percent to SM 120 million. Expenditure on pensions, stipends and benefits will be increased accordingly. By end-June 2003, we will establish a public sector payroll database and a monitoring system for vacancies that will improve control over the wage bill. In addition, we will finalize a timetable for rationalizing the civil service by end-March 2003. In June 2003, we will, in consultation with Fund staff, re-assess the prospects for a further increase in public sector wages based on achieving our tax revenue targets and reducing civil service employment.

18. As for social sector spending, the 2002 budget allowed for a small increase compared with 2001. This reflects higher education outlays and transfers to households including social security and pensions. By the end of this year, the Ministry of Finance will develop a detailed classification of budgetary expenditures to allow for better monitoring of expenditures. During the program period, we will also ensure the timely payment of pensions, wages, and transfers at all levels of government. As such, maintaining a zero ceiling on pension and wage arrears will constitute a quantitative performance criteria in our program that will be monitored on a continuous basis.

19. The successful execution of our fiscal policy will depend on our ability to improve revenue collection. In the 2002 budget, we plan to increase tax revenue collection to 15.4 percent of GDP. Because we are not ready to introduce a VAT on cotton, we will not implement the planned reduction of the sales tax on cotton and instead will maintain this tax at 10 percent through the end of 2003, at which time we will assess the prospects for moving to a VAT.

20. Recently we created a Ministry of State Revenues and Duties (MSRD) to improve tax and customs administration. We have also simplified the income tax rate structure and broadened the tax base, and increased the rates on excise taxes (for example, alcohol and tobacco). (By the end of the year, we will, however, unify the excise tax on domestic and imported alcohol.) Parliament has authorized the government to introduce a pilot unified agricultural tax in several regions, and we will introduce this initiative from January 1, 2003. Taken together, these measures should help to ensure that our tax revenue target for this year is met.

21. We will continue to improve tax and customs administration, using the guidance provided by recent Fund technical assistance. We will establish by end-November 2002 a modernization office within the MSRD that will coordinate and oversee implementation of reform. Our main priorities are to restructure the ministry, reform and simplify the tax code, and to strengthen the large taxpayer inspectorate. We plan to request further Fund assistance in pursuing these measures so that we can complete this strategy by the end of this year.

22. In the meantime, we will continue to make incremental improvements in tax administration, by expanding the number of taxpayers under the jurisdiction of the large taxpayer inspectorate based on a number of criteria; appointing a commission (with participation of government officials and the private sector) with a mandate to simplify the tax code (end-November 2002); and encouraging strong tax collections through the introduction of a performance-based remuneration scheme. As an interim measure, we will include a provision in the 2003 budget law that allows the MSRD to retain 20 percent of tax revenues derived from undeclared revenues discovered during the course of audits by the ministry.

23. An important priority for the government is to raise the efficiency and return on capital expenditures, especially those related to the foreign-financed PIP. For 2002, we have limited foreign-financed PIP expenditures to US\$30 million (3 percent of GDP) although our investment requirements are significantly larger than this amount at present. PIP expenditures are limited by our capacity to: (i) absorb investment funds; (ii) provide counterpart funds for projects; (iii) finance future operation and maintenance costs associated with these investments; and (iv) to prioritize projects to reflect our required (social) rate of return. To enhance the transparency of public spending on the PIP and its impact on both the budget and external debt, we will incorporate fully such spending into the 2003 and subsequent budgets. In addition, we will improve the monitoring of PIP expenditures, through the establishment of a PIP unit within the Ministry of Finance by end-March 2003. This unit will be responsible for tracking such expenditures, and for developing criteria on which to judge the costs and benefits of current and proposed projects. To further improve fiscal management, we will also include all extra-budgetary revenues and expenditures of budget entities in the government's quarterly budget plans. To facilitate the reconciliation of discrepancies between the treasury and the NBT we will develop a bank reconciliation form by end-December 2002.

B. Monetary and Exchange Rate Policies

24. The success of our program depends heavily on the ability of the NBT to maintain a disciplined monetary policy to reduce inflation. This can only be accomplished if the central bank acts responsibly and is independent. During the second half of this year, we expect a modest increase in money demand. The central bank has targeted reserve money growth of 9.3 percent during July-December 2002. Given the greater confidence in the banking system and the local currency, we anticipate a further decline in the velocity of broad money and an increase in the money multiplier during 2003, such that reserve money is projected to increase by 11.8 percent. Net domestic assets of the NBT are programmed to be SM 97.8 million at end-December 2002. We expect our net international reserves (NIR) to improve substantially and to reach US\$41.2 million by the end of 2003.

25. In order to encourage a more efficient distribution of credit between banks, the NBT will introduce and supervise an interbank credit market by end-November 2002. NBT intervention in this market on a trial basis will begin in December 2002. To ensure equitable treatment of all banks, the NBT will revise the reserve requirement regulation such that all deposits are subject to reserve requirements with the exception of government deposits and foreign liabilities by end-November 2002.

26. The loan collection agency of the NBT (ALCO) was reestablished as a department within the central bank with responsibility for collecting loans on behalf of the NBT. It will attempt to collect the outstanding stock of overdue private sector loans, currently totaling SM 151.7 million, by end-June 2003. To help this effort, the government will form a working group by end-November 2002 to examine the asset portfolio of ALCO and develop proposals for terminating ALCO's operation by end-June 2003. The working group will have representatives from MOF, the NBT and other government agencies as appropriate. The assets in the portfolio will be assessed in terms of the likelihood of repayment. Further, the working group will make proposals as to the guarantor of the loan. There will also be an audit of ALCO to ascertain its assets. In light of the decision to close ALCO, the NBT will (by end-November 2002) repay the charter capital that was paid into ALCO by commercial banks.

27. The NBT will maintain a managed floating exchange rate regime. In the event of unexpected private capital inflows, the central bank will accumulate reserves beyond the program targets. In the case of unexpected outflows, the central bank could allow a depreciation of the somoni. In order to comply with the obligations under Article VIII, Sections 2, 3 and 4, of the Fund's Articles of Agreement, we will work with Fund staff to remove all restrictions that are identified on payments and transfers for current international transactions.

28. Recognizing the importance of central bank independence in October we issued a presidential decree that (i) eliminates the requirement that the NBT refund or transfer any part of the difference between interest payments due to the NBT on bonds and securities issued by the government and interest payments due to the government on deposits at the NBT, and

(ii) requires that market interest be paid on all government deposits at the NBT and all obligations of the government held by the NBT. In order to improve the efficiency of the NBT, we will finalize a plan for rationalizing operations by end-December 2002. This rationalization will be completed by end-March 2003. We will, however, reduce staff by 10 percent by end-December 2002 and another 10 percent by end-June 2003. We will close two branches of the NBT by end-March 2003. We also plan to improve the efficiency of monetary operations by centralizing all accounting functions in a single department by end-March 2003.

29. Further, the NBT will continue to be prohibited from issuing directed credits or other forms of preferential access to credit. This prohibition will be a continuous structural performance criterion under our program. It will ensure that market interest rates are paid on all NBT credit transactions, including credit auctions and sales of NBT bills. In line with the Fund's Safeguard Assessment of the NBT, a further continuous structural performance criterion will be established to ensure that the NBT does not engage in any activities or expenditures that are unrelated to its core business activities or pay dividends while it has negative net worth. We will ensure that the NBT completes (by end-December 2002) an unqualified external audit of its financial statements for the financial year ending April 30, 2002 in accordance with international accounting standards. We will also put in place a mechanism to reconcile reserves data by external audit semi-annually (during the interim and final audits) and by the Internal Audit Department on a regular basis.

C. External Policies and Debt Management

30. We are committed to maintaining a liberalized trade and investment regime. We do not impose any non-tariff barriers to trade and we further reduced average import tariffs as of May 1, 2002. We recently reduced the number of tariff-exempt goods but continue to exempt humanitarian aid and goods imported by international organizations, from tariffs. We have also applied for accession to the World Trade Organization and are receiving technical assistance to facilitate our membership.

31. During the program period under the PRGF arrangement, neither the government nor the NBT will, without Fund approval, introduce new or intensify existing restrictions on the making of payments and transfers for current international transactions. Nor will we 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.

32. Our heavy external debt burden poses a threat to economic stability. Consequently, we will pursue further fiscal consolidation and limit all foreign borrowing. To better manage our external debt, we will adhere strictly to the law that vests sole authority to undertake and guarantee external loans in the MOF. Further, we will not draw on any outstanding non-concessional credit facilities. In particular, we will advise the Iranian authorities that no further borrowing under their export financing facility will be made unless the terms of the facility are renegotiated on concessional terms. To improve the transparency of our external

obligations, the government will submit quarterly reports to parliament on its external debt situation, including debt service obligations and accumulated arrears.

33. We continue to strengthen our debt management capacity and have completed a detailed inventory of the status, terms, source and size of our external stock of government and government-guaranteed debt. This inventory also includes the debt of state-owned enterprises. We have written to all of our bilateral external creditors to confirm the details and status of our external obligations. We will update the information contained in this inventory on a quarterly basis, so that concerns about the timely reporting and servicing of our external debt obligations can be minimized. The Swiss authorities, in collaboration with the IMF have agreed to finance technical assistance, training, and equipment to further strengthen our debt management capacity in the Ministry of Finance beginning in November 2002.

D. Structural Reform

34. There are numerous structural reform measures that need to be implemented to achieve sustainable economic growth. Foremost among these are weaknesses in the banking sector, distortions in the energy sector, government interference in the agricultural sector; and weak governance.

35. To prevent weak banks from eroding the growing but fragile confidence in the banking sector, we have introduced several measures. We have developed a strategy for restructuring Amonatbank. By end-December 2002, the budget will contribute SM 575,000 to Amonatbank's capital stock and the bank will be allowed to resume limited lending operations (25 percent of eligible loanable funds can be invested in non-government assets) beginning November 1, 2002. The budget law for 2003 will require that all government agencies using the services of Amonatbank pay fees for these services beginning January 1, 2003. At that time, Amonatbank will also begin to pay interest on all government deposits. The 2003 budget will contribute SM 1 million to the capital of Amonatbank. Further, we will waive the minimum capital requirement until end-June 2003 for Amonatbank because it is still operating under a restructuring agreement. We plan to divide Agroinvestbank (AIB) in two; i) a non-bank financial institution that concentrates on cotton financing and (ii) a commercial bank that fully satisfies all prudential requirements. This may include recapitalization of the bank by issuing long-term government bonds for a portion of the loans in the bank's portfolio. We will submit a plan that includes these elements to Fund staff by end-November 2002.

36. In order to prevent the emergence of new problem banks in the future, we will enforce all prudential requirements for all banks by end-March 2003. Banks that are not being restructured and do not fulfill the prudential requirements by end-March 2003 will be closed or merged by end-September 2003. We will increase the minimum capital requirement from US\$1.5 million to US\$2 million by end-December 2003 but make special provision for smaller banks that meet the other prudential requirements. Waivers to the liquidity requirements will be removed and the liquidity requirement on all deposits will be reduced

from 75 percent to 35 percent for those banks that meet the prudential requirements during the preceding six months. Enforcement of prudential requirements will be strengthened by on-site inspections of at least 4 banks by end-March 2003.

37. Over the next three years, we will pursue a comprehensive energy sector reform with a view toward eliminating quasi-fiscal activities. We are working closely with the Asian Development Bank in the electricity sector to improve collection rates, raise tariffs to cost recovery levels, and provide the state-owned enterprise (Barki Tajik) with funding for upgrading its capital equipment and management restructuring. We plan to move quickly to improve the financial prospects of the other state-owned enterprises in the energy sector. We will improve payment discipline by ensuring that Nafrason does not accrue any new arrears.

38. Beginning in December 2002, we will adjust all utility tariffs on a quarterly basis to account for changes in the nominal exchange rate. We will increase gas tariffs in order to reflect 80 percent of the cost of importing and distributing gas. By end-March 2003, we will increase gas tariffs to 100 percent of the cost of importing and distributing gas. Specifically, by end-December 2002 (structural performance criterion) we will introduce a uniform gas tariff of SM 140 per thousand cubic meters and to SM 175 per thousand cubic meters by end-March 2003. We will also unify all tariffs for industry, services, budgetary organizations and agriculture.

39. We will move aggressively to raise collection rates among consumers of gas. As of end-September 2002, Tajikgas had increased its collection rates to 30 percent for households and to 100 percent for all other categories of gas users, where the collection rate is defined as percent of payments not more than 60 days overdue. Collection rates for households will be increased further to 60 percent by end-June 2003 (structural performance criterion), 75 percent by end-December 2003, and 90 percent by end-June 2004.

40. To reduce the social impact of energy sector reforms, we will prepare a plan in consultation with Fund staff by end-November 2002 for mitigating the effects of higher energy tariffs on low-income households. This plan will include a timetable for the mandatory installation of gas meters in all households and enterprises. The 2003 budget law will provide SM 12 million for the compensation mechanism. In this regard, we will complete preparation of a compensation scheme that will take effect January 1, 2003 that is targeted to low-income households. Given our intention to focus compensation on all low-income households, we will eliminate all other privileged categories of consumers of electricity, gas and heat by end-December 2003.

41. A critical element of our structural reform program is focused on increasing private sector activity in agriculture in order to improve productivity and reduce poverty. We plan to privatize the remaining 225 state-owned farms by the end of 2005 through the issuance of land use and land share certificates. During the period July-December 2002, we will restructure 40 large state farms and issue the corresponding land use and land share certificates. During 2003, we will restructure 75 large state owned farms and issue the corresponding land use and land share certificates.

42. Public sector intervention in the agricultural sector remains an obstacle to productivity gains and to attracting private investors to the sector, especially with regard to cotton. We will continue to impress on local authorities that they cannot interfere with financing, production, and pricing decisions of any farm. We have reinforced this message by issuing a presidential decree on September 25, 2002 that abolishes "cotton balances" as a tool for planning or allocating cotton production and export proceeds and that effective immediately, cotton financing and export contracts need to be vetted and registered with only the Cotton Exchange. The same resolution abolished the monopoly of the Agroinvestbank in granting "deal passports" as export authorization and indicate that such authorization will be issued only by the commercial bank responsible for financing the inputs of the particular exporter.

43. Agriculture, and in particular the cotton sector, debts have grown to an unsustainable level. While the government cannot assume financial responsibility for all of these debts, the level of debt has become an impediment to farm restructuring and privatization. To eliminate the current moral hazard problem, a government resolution clarifying that the debts of state farms are to be passed on to the dekhan farms in proportion to their land share in the former state farm will be issued no later than end-November 2002. A mechanism for dealing with the debts of state farms that are too large to be assumed by any potential private farmers will be submitted for government consideration no later than end-December 2002.

44. Over the course of our program, we will also work to improve economic governance by reducing excessive government intervention in economic affairs, enhancing transparency, accountability and economic management, and by further establishing a stable, rule-based competitive environment. A number of measures we plan to adopt address these issues, for example, including the PIP and extra-budgetary revenues and expenditures in future budgets; strengthening the independence of the central bank and supervision of commercial banks; and addressing quasi-fiscal activities in the energy sector. These measures will reduce economic distortions and the potential for corruption, and thus lead to more efficient resource allocation.

45. An important element in our effort to improve governance is the state audit agency that we created last year. The agency's role is to monitor all government and commercial entities to ensure that any public resources they receive are not misappropriated. The agency is now fully operational, however, it is too early to assess its impact. We are developing a program of audits for the agency and we will consult with Fund staff on the agency's audit priorities to make sure it is effective in fulfilling its intended role. In this regard, we will give high priority to overseeing the activities of regional and local authorities.

III. PROGRAM MONITORING

46. The PRGF arrangement is anticipated to support the program for the three-year period October 1, 2002-September 30, 2005, with the first year extending over the period October 1, 2002-September 30, 2003. The first year of the arrangement will be monitored through two reviews by the Fund's Executive Board based on semi-annual performance criteria (for end-

March 2003 and end-September 2003), structural performance criteria, indicative targets, and structural benchmarks.

47. Quantitative performance criteria and indicative targets for the first year program are specified in Annex I. The quantitative performance criteria are: a floor on net international reserves of the NBT; a ceiling on net domestic assets of the NBT; a ceiling on net credit by the banking system to the government; a ceiling on the cumulative overall fiscal deficit of the general government, excluding the foreign financed public investment program; a floor on cumulative tax collections of the Ministry of State Revenues and Duties; a zero ceiling on the contracting or guaranteeing of new short-term nonconcessional external debt with original maturity of up to and including one year; and a zero ceiling on the contracting or guaranteeing of new medium- and long-term nonconcessional external debt with original maturity of more than one year. No new wage and non-working pensioners' pension payments arrears and no new external payments arrears (except for arrears that are subject to debt-rescheduling negotiations) shall be accumulated (monitored on a continuous basis). Detailed definitions and reporting requirements for these performance criteria are contained in the Technical Memorandum of Understanding attached to this memorandum. In addition, the program includes adjustors on net domestic assets of the NBT; net international reserves; net credit by the banking system to the government; and the overall fiscal deficit (excluding PIP) 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 are detailed in Annex II.

48. The first review of the program is scheduled to take place on or after May 15, 2003, based on performance as of March 31, 2003, and the second review is scheduled for November 15, 2003, based on performance as of September 30, 2003. At the time of the first review, those quantitative and structural performance criteria for September 30, 2003, as well as structural benchmarks, may be revised in light of developments.

49. 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.

50. To promote transparency, we hereby request that the letter of transmittal, and the Memorandum of Economic and Financial Policies be published on the IMF website.

Tajikistan: Quantitative Performance Criteria for the First Annual Program Under
the Proposed PRGF Arrangement, October 2002–September 2003
(In stocks; unless otherwise indicated)

	2002	2003		
	End-Dec. Indicative targets	End-Mar. Performance criteria	End-Jun. Indicative targets		End-Sep. Performance criteria
(In millions of somoni)				
1. Ceiling on net domestic assets of the NBT	97.8	87.7	91.5	55.5
2. Ceiling on net credit of the banking system to general government	-75.6	-81.3	-78.5	-113.8
3. Ceiling on the cumulative overall fiscal deficit of the general government 1/ 2/ (excluding foreign-financed public investment program)	-25.8	-24.2	-31.1	-37.4
4. Ceiling on general government wage, and nonworking pensioners' pension arrears 3/	0.0	0.0	0.0	0.0
5. Floor on tax collection of the Ministry of State Revenues and Duties 1/	93.3	191.3	302.6	401.0
(In millions of U.S. dollars)				
6. Floor on total net international reserves	22.4	26.0	27.3	42.4
7a. Ceiling on the net disbursement of short-term external debt with original maturity of up to and including one year 4/	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 4/	0.0	0.0	0.0	0.0
8. New external payments arrears 3/	0.0	0.0	0.0	0.0
(In millions of somoni)				
<i>Indicative target:</i> Reserve money	165.1	165.8	173.2	182.6
<i>Memorandum items:</i>				
Program exchange rate (SM/US\$)	3.0	3.0	3.0	3.0
Disbursements of balance of payment support (in millions of U.S. dollars) 5/	26.7	0.0	0.0	12.5

Sources: Tajik authorities; and Fund staff estimates.

1/ Cumulative from October 1, 2002.

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

3/ A continuous performance criterion.

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

5/ Disbursements in Q4 2002 and Q3 2003 are expected from the World Bank and the European Union.

**Tajikistan: Structural Performance Criteria and Benchmarks for the
First Annual Program Under the Proposed PRGF Arrangement,
October 2002–September 2003**

Structural Performance Criteria

- Continuous: Prohibit the National Bank of Tajikistan (NBT) from issuing directed credit.
- Continuous: Prohibit the NBT from making expenditures not related to its core business activities or paying dividends while it has negative net worth.
- By end-December 2002, the government will introduce a uniform gas tariff of SM 140 per thousand cubic meters.
- By end-June 2003, increase the collection rates of Tajikgas so that on average 60 percent of all households pay for the gas they receive.

Structural Benchmarks

- By end-December 2002, the NBT will finalize an inventory of all guarantees, pledges, and other NBT contingencies under the control of the Head of the Accounting Department with required inputs from all areas of the NBT.
- By end-December 2002, the government will finalize a plan for mitigating the effects of higher energy tariffs on low-income households and ensure that the 2003 budget provides adequate resources for implementing the plan.
- By end-December 2002, the government will implement automatic quarterly adjustments of all utility tariffs to account for changes in the nominal exchange rate.
- By end-March 2003, the government will finalize a timetable for downsizing the civil service.
- By end-September 2003, close or merge all banks that are not being restructured and do not fulfill the prudential requirements as of end-March 2003.

**Tajikistan: Prior Actions for Executive Board Consideration
of the Proposed PRGF Arrangement**

Prior Actions

- Submit to parliament a draft budget for 2003 that is consistent with the parameters and main macroeconomic framework as discussed with Fund staff.
- Initiate debt restructuring discussions with Russia to achieve full financing of the program for the first year.
- Ensure that all external payments arrears are cleared, in particular, those pertaining to two government-guaranteed loans from two German banks.
- Complete the regularization of financial relations between the NBT and the government by issuing a government resolution that will convert outstanding private sector credits held by the NBT into domestic government debt.
- Issue a presidential decree that will prohibit intervention of local authorities in the financing, production, and pricing decisions of cotton farmers and cotton producers. In particular, we will abolish the use of “cotton balances” that allocate cotton production and cotton export proceeds.

REPUBLIC OF TAJIKISTAN

Technical Memorandum of Understanding
for the PRGF Arrangement 2002-2005

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 Deficit of the General Government

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

	(In millions of somoni)
Cumulative deficit from October 1, 2002 to:	
December 31, 2002 (indicative target)	-25.8
March 31, 2003	-24.2
June 30, 2003 (indicative target)	-31.1
September 30, 2003	-37.5

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 deficit** 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 for September 2002 to March 2003 are based on a program exchange rate of SM 3.0 = US\$1 and SDR 1 = US\$1.299. Quantitative targets for June to December 2003 are based on a program exchange rate of SM 3.0 = US\$1 and SDR 1 = US\$1.333, unless otherwise indicated.

(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 and amortization of government debt to foreign financial and nonfinancial institutions.

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

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 deficit 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, 2002 to:	
December 31, 2002 (indicative target)	93.3
March 31, 2003	191.3
June 30, 2003 (indicative target)	302.6
September 30, 2003	401.0

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 is: any tax offsets or in-kind payments, sales taxes on cotton and aluminum exports, taxes, charges, and fees collected by the Social Protection Fund, and 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, 2002 (indicative target)	97.8
March 31, 2003	87.7
June 30, 2003 (indicative target)	91.5
September 30, 2003	55.5

Definitions

7. **Net domestic assets of the NBT** are defined as: reserve money minus net foreign assets of the NBT. Reserve money is composed of currency in circulation, required reserves, other bank reserves, and deposits of non-government non-banks with the NBT. Net foreign assets of the NBT 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; and (iii) downward by 100 percent for any overdue or rescheduled debt service obligations.

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, 2002 (indicative target)	-75.6
March 31, 2003	-81.3
June 30, 2003 (indicative target)	-78.5
September 30, 2003	-113.8

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, 2002 (indicative target)	22.4
March 31, 2003	26.0
June 30, 2003 (indicative target)	27.3
September 30, 2003	42.4

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\$320.0 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; and (iii) upward by 100 percent for any overdue or rescheduled debt service obligations.

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 2002 to:		
December 31, 2002 (indicative target)	0	0
March 31, 2003	0	0
June 30, 2003 (indicative target)	0	0
September 30, 2003	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 concessionalality, 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 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 related to the planned payments. A monthly disbursement plan will be presented to the Fund staff by the 15th day of the month preceding the month of actual wage and pension payments.

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 TARGET

A. Reserve Money

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

	(In millions of somoni)
December 31, 2002	165.1
March 31, 2003	165.8
June 30, 2003	173.2
September 30, 2003	182.6

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.

INTERNATIONAL MONETARY FUND

REPUBLIC OF TAJIKISTAN

Staff Report for the 2002 Article IV Consultation and Request for a Three-Year Arrangement Under the Poverty Reduction and Growth Facility—Supplementary Information

Prepared by European II and Policy Development and Review Departments

Approved by Oleh Havrylyshyn and Michael Hadjimichael

December 10, 2002

1. This supplement reports on developments since the staff report was issued and on the implementation of prior actions to be fulfilled before Executive Board consideration of the authorities' request for a new PRGF arrangement.
2. Over the ten months through October 2002, real GDP expanded by 10 percent year-on-year, with strong wheat and cotton harvests being the main sources of growth. On this basis, real GDP growth for this year will likely be higher than projected, increasing to 8.0 percent from 7.5 percent. At the same time, consumer price inflation moderated in October, with a monthly increase of 0.4 percent. Since mid-October, the exchange rate in the curb market has remained steady at SM 3.05/US\$. Recent monetary data suggest that the end-2002 targets for net domestic assets of the National Bank of Tajikistan (NBT), net credit to the general government, and net international reserves will be achieved (Box 1). The recent accumulation of funds in the government's budget account in the NBT and strong tax collections in October suggest that the fiscal program remains on track.

Box 1. Revised Monetary Targets and Performance

(In millions of somoni; unless otherwise indicated)

	Target End-December 1/	November 20
Ceiling on net domestic assets of the NBT	106.8	169.8
Ceiling on net credit of the banking system to government 2/	12.9	-30.3
Floor on net international reserves (In millions of U.S. dollars)	19.4	2.5
Reserve money	165.1	177.3

1/ The targets have been revised to reflect the debt restructuring agreement with Russia.

2/ Preliminary data as of October 31, 2002.

3. The five prior actions specified in the program (Annex III of the Memorandum of Economic and Financial Policies) have been completed:

- On November 1, 2002, **the authorities submitted to parliament a draft budget for 2003** that is consistent with the parameters and main macroeconomic framework discussed with Fund staff.
- On December 2, 2002, **Tajikistan advised Russia of its intention to sign the debt restructuring agreement** that was initialed in April 2002. This agreement will ensure full financing of the program.
- The authorities have advised staff that previous **external payments arrears have been cleared**, including those pertaining to two government-guaranteed loans from two German banks.
- **The regularization of financial relations between the NBT and the government** was completed following the issuance on October 21, 2002 of a government resolution that confirms the conversion of outstanding private sector credits held by the NBT into domestic government debt. This resolution also confirms the outstanding amount of the credit at SM 156.8 million, establishes market-related remuneration of these bonds (and treasury bills), and suspends the payment of dividends and profits by the NBT as long as it has a negative net worth.
- On September 23, 2002, a presidential decree was issued prohibiting intervention of local authorities in the financing, production, and pricing decisions of cotton farmers and producers. That decree also abolished the use of a “cotton balance,” a mechanism that had been used to allocate cotton production and export proceeds.

4. The Tajik authorities have agreed on a restructuring of bilateral debt with Russia. The outstanding debt stock at end-2001 was US\$323 million including external payments arrears. The terms of the agreement are the same as those reported in Appendix V of the staff report (EBS/02/188), except that the interest rate is 4 percent, instead of 2.8 percent. Under the present agreement, the grant element is estimated at 12.8 percent, compared with 21.5 percent at the lower interest rate. The original interest rate assumption of 2.8 percent was based on the Tajik authorities' proposal to the Russian authorities. The restructuring agreement becomes effective in 2002, allows for a 17-year maturity and a 3-year grace period. In connection with the restructuring, agreement was reached on the credit balance (US\$49.8 million) with the Central Bank of Russia from the recent return of Russian currency several years ago. The terms of the restructuring agreement require that the interest due be paid by a drawdown of the credit balance with the Central Bank of Russia and partly by cash. A total of US\$23 million of the NBT's credit balance will be used to finance interest arrears as of end-2001 and the remaining US\$26.8 million for interest payments due during 2002-2006. (To meet the cash payments, the level of gross international reserves is US\$3 million and US\$5 million lower than projected in the original program for 2002 and

2003.) The revised terms of the debt restructuring with Russia affect the financial program contained in the new PRGF arrangement (Box 2) as well as the performance criteria (Attachment I, Annex I).

Box 2. Treatment of the Debt Restructuring with Russia in the Financial Program

The US\$49.8 million credit balance from the Central Bank of Russia was confirmed as part of the bilateral debt restructuring agreement between Tajikistan and Russia and incorporated as an asset on the NBT's balance sheet. The NBT's balance sheet (Table 1) and the monetary survey (Table 2) have been revised to show an increase in the NBT's net credit to government to reflect the government's use of the credit balance with the CBR and interest payments due in cash. These cash payments are also reflected in a drawdown in the NBT's NIR. The budget (Table 3) has been revised to reflect the repayment of arrears as of end-2001 (US\$23 million), interest payments due to Russia, and associated NBT financing. Further, the external sector (Table 4) has been adjusted to show the increased use of international reserves, the use of the NBT's credit balance with the CBR, and the settlement of arrears on the debt with Russia.

5. The results of the debt sustainability analysis are shown in Table 5, including restructuring of obligations to Russia with both the higher and lower rates of interest. In the former case, the NPV of debt is US\$610 million in 2002, compared with US\$582 million in the latter. The profile of the debt service due changes as a result of the restructuring agreement and the higher interest rate results in higher debt service payments of US\$12 million during 2002-2005. This higher debt service is assumed to be financed by a drawdown of international reserves (Table 4) which would allow import cover to be maintained above 3 months of imports, and the Fund-supported program fully financed.

Staff Appraisal

6. In the staff's view, the completion of the five prior actions further demonstrates the authorities' commitment to economic reform and their ownership of the proposed program. While the terms of the debt restructuring agreement with Russia are less favorable than originally envisioned, the outcome does provide considerable short-term debt service relief compared with the baseline. It must be stressed also, that Tajikistan will continue to face important debt sustainability challenges in the medium term. The staff continues to support the authorities' request for a new three-year PRGF arrangement.

7. A supplemental Letter or Intent is provided as Attachment I. A revised draft decision and PRGF arrangement (Attachment II) reflecting changes in the performance criteria as set out in the supplementary letter of intent are attached.

Table 1. Tajikistan: Accounts of the National Bank of Tajikistan, 2001-2003
(End-of-period stock; unless otherwise specified)

	2001		2002				2003				
	Dec.	Dec.	Mar.	Jun.	Sep.	Dec.	Mar.	Jun.	Sep.	Dec.	
	Act. 1/	Act. 2/	Act. 1/	Act. 1/	Act. 1/	Act. 2/	Prog. 2/	Program 2/			
Net international reserves	-14.5	-18.4	-8.5	-8.8	-3.3	-1.9	19.4	20.4	21.6	34.2	33.1
Gross assets	95.7	95.7	99.3	91.7	88.4	88.4	109.5	101.1	113.8	126.4	135.9
Gross liabilities	110.2	114.1	107.8	100.5	91.7	90.4	90.1	80.7	92.2	92.2	102.9
Official exchange rate (Sm/US\$)	2.55	...	2.68	2.70	2.92	...	...	...	...	...	...
Net foreign assets	-37.0	-55.2	-22.8	-23.8	-9.5	-5.8	58.3	61.2	64.9	102.7	99.2
Gross assets	244.0	287.1	266.2	248.1	258.7	265.3	328.6	303.2	341.4	379.3	407.8
Gross liabilities	281.0	342.3	288.9	271.9	268.2	271.1	270.3	242.0	276.6	276.6	308.6
Net domestic assets	190.5	212.0	171.2	173.7	182.9	179.5	106.8	104.6	108.3	79.9	85.4
Net credit to general government	-31.1	-48.5	20.1	16.7	1.5	-1.4	9.4	21.1	22.9	3.7	9.1
<i>Of which:</i>											
Somoni credits	89.7	89.7	89.7	89.7	89.7	89.7	169.2	179.7	179.7	190.2	190.2
<i>Of which:</i>											
Drawdown of credit balance with CBR 3/	...	...	...	...	...	...	79.5	90.0	90.0	100.5	100.5
Long-term bonds 4/	0.0	0.0	64.3	64.3	64.3	64.3	64.3	64.3	64.3	64.3	64.3
Treasury bills	3.0	3.0	2.8	3.0	3.0	3.0	3.0	3.0	3.0	3.0	3.0
Deposits (-) 5/	-38.0	-40.3	-50.4	-52.0	-62.4	-62.9	-66.5	-69.8	-75.9	-72.6	-82.6
Counterpart deposits	-85.8	-101.0	-86.4	-88.4	-93.2	-95.6	-160.7	-156.2	-148.3	-181.3	-165.9
EU	-21.4	-25.2	-19.9	-21.4	-23.4	-24.1	-30.1	-33.1	-36.1	-39.1	-42.1
World Bank	-47.2	-55.6	-48.4	-48.9	-50.1	-51.4	-110.5	-103.0	-92.1	-122.1	-103.7
AsDB	-17.1	-20.1	-17.9	-18.1	-19.6	-20.1	-20.1	-20.1	-20.1	-20.1	-20.1
Credit to the private sector	253.3	291.3	192.1	189.6	202.4	206.0	205.3	205.1	205.9	205.9	205.9
<i>Of which:</i>											
Claims on banks	37.6	39.0	33.9	34.0	36.1	36.2	36.8	37.3	38.1	38.1	38.1
Claims on private sector	12.4	14.2	8.2	3.9	4.7	4.8	3.6	3.6	3.6	3.6	3.6
ALCO 4/	203.3	238.1	150.0	151.7	161.5	165.0	164.9	164.2	164.2	164.2	164.2
Other items, net	-31.7	-30.8	-41.0	-32.5	-21.0	-25.2	-107.9	-121.6	-120.4	-129.7	-129.6
<i>Of which:</i>											
NBT bills	-0.2	-0.2	-3.5	-5.8	-6.8	-6.8	-2.0	-3.0	-0.5	-1.2	-4.2
Reserve money	153.5	156.8	148.5	149.9	173.4	173.7	165.1	165.8	173.2	182.6	184.6
Currency in circulation	110.8	110.8	116.1	122.8	146.3	146.3	138.6	138.1	142.5	152.0	153.9
Bank reserves	32.5	34.2	25.8	23.4	19.3	19.5	19.2	20.4	22.8	23.0	23.8
<i>Of which:</i>											
Required reserves	8.8	9.1	8.7	10.3	10.9	11.0	15.5	15.9	16.3	17.8	17.6
Somoni	7.0	7.0	6.0	6.8	6.7	6.7	11.2	12.0	12.1	13.6	13.4
Foreign exchange	1.8	2.1	2.6	3.5	4.2	4.3	4.3	3.9	4.2	4.1	4.2
Other deposits	10.2	11.8	6.5	3.8	7.8	7.9	7.4	7.4	7.9	7.6	7.0
Somoni	1.5	1.5	2.4	0.4	1.8	1.8	1.4	1.6	0.8	0.8	1.0
Foreign exchange	8.7	10.2	4.1	3.4	6.0	6.2	6.0	5.8	7.0	6.8	6.0
<i>Memorandum items:</i>											
Net international reserves	12.9	12.1	31.2	28.1	13.5	21.8	78.2	77.3	72.5	76.6	34.1
Net domestic assets	15.9	16.1	-3.3	-9.2	18.6	5.7	-72.8	-66.3	-57.9	-71.4	-22.3
Reserve money	28.9	28.2	27.9	18.9	32.1	27.5	5.3	11.0	14.6	5.1	11.8

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 end-period program exchange rate of Sm3.0 = US\$1 and SDR1 = US\$1.299; from June 2003 SDR1 = US\$1.333 in line with the World Economic Outlook, October 2003, assumptions.

3/ Cumulative drawdown of NBT's credit balance with the Central Bank of Russia (CBR).

4/ On February 11, 2002, Sm64.348 million were transferred out of ALCO into long term government bonds as agreed in the agreement signed by the NBT and the government.

5/ Includes accumulation of deposits due to privatization receipts.

Table 2. Tajikistan: Monetary Survey, 2001–2003
(In millions of somoni; end-of-period stock unless otherwise specified)

	2001		2002					2003			
	Dec.		Mar.	Jun.	Sep.	Dec.	Mar.	Jun.	Sep.	Dec.	
	Act. 1/ Act. 2/	Act. 2/ Act. 2/	Act.1/ Act. 1/	Act. 1/ Act. 1/	Act. 1/ Act. 2/	Act. 2/ Prog. 2/	Act. 1/ Program 2/	Act. 2/ Program 2/	Act. 1/ Program 2/	Act. 2/ Program 2/	
Net foreign assets	-251.0	-306.1	-331.6	-319.0	-244.3	-246.4	-198.7	-239.3	-261.1	-220.3	-142.8
National Bank of Tajikistan	-37.0	-55.2	-22.8	-23.8	-9.5	-5.8	58.3	61.2	64.9	102.7	99.2
Commercial banks	-214.0	-250.9	-308.8	-295.2	-234.7	-240.5	-257.0	-300.5	-326.0	-323.0	-242.0
Net domestic assets	450.4	515.9	542.5	549.8	508.5	512.6	475.2	520.3	554.7	531.7	466.8
Net credit to general government	-36.9	-54.4	7.6	8.0	-7.4	-10.2	12.9	25.6	28.4	11.2	18.6
<i>Of which:</i>											
Sm credits	90.4	90.4	90.3	90.2	90.0	90.0	169.9	180.4	180.4	190.9	190.9
Long-term bonds 3/	0.0	0.0	64.3	64.3	64.3	64.3	64.3	64.3	64.3	64.3	64.3
Treasury bills	5.5	5.5	4.7	4.8	4.6	4.6	4.9	4.3	4.4	4.4	4.4
Deposits (-)	-46.9	-49.3	-65.4	-62.9	-73.2	-73.6	-65.5	-67.3	-72.4	-67.1	-75.1
Counterpart deposits	-85.8	-101.0	-86.4	-88.4	-93.2	-95.6	-160.7	-156.2	-148.3	-181.3	-165.9
Credit to the private sector 3/	575.2	658.7	627.2	615.2	587.1	598.3	620.8	665.9	698.9	701.6	626.3
Other items net	-87.9	-88.5	-92.3	-73.4	-71.3	-75.4	-158.5	-171.2	-172.6	-181.1	-178.0
Broad money	199.4	209.8	210.9	230.8	264.3	266.3	276.5	281.0	293.6	311.4	324.0
Somoni broad money	140.5	140.5	150.9	161.2	185.2	185.2	175.4	176.9	190.6	206.3	218.9
Currency outside banks	103.6	103.6	108.9	112.2	137.3	137.3	135.6	136.2	139.4	145.2	149.7
Deposits	36.8	36.8	41.9	48.9	47.8	47.8	39.7	40.7	51.2	61.1	69.2
Foreign currency deposits	58.9	69.3	60.0	69.7	79.1	81.1	101.1	104.1	103.0	105.1	105.2
<i>Memorandum items:</i>											
Year-to-year average of quarterly velocity 4/	3.7	3.7	3.6	3.6	3.2	3.2	3.0	2.9	2.8	2.8	2.9
Money multiplier 5/	1.3	1.3	1.4	1.5	1.5	1.5	1.7	1.7	1.7	1.7	1.8
Broad money (12-month percent change)	33.4	27.2	44.1	50.1	61.6	51.3	31.8	28.9	23.1	16.9	17.2

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 Sm3.0 = US\$1 and SDR1 = US\$1.299; from June 2003 SDR1 = US\$1.333 in line with the World Economic Outlook, October 2003, assumptions.

3/ On February 11, 2002, Sm 64.348 million were transferred out of ALCO into long term government bonds as agreed in the agreement signed by the NBT and the government.

4/ Quarterly GDP divided by end-period broad money for the quarter.

5/ Total broad money divided by reserve money.

Table 3. Tajikistan: General Government Operations, 2000-2003
(In millions of somoni)

	2000	2001	2002					2003				
	Year	Year	Q1	Q2	Q3	Q4	Year	Q1	Q2	Q3	Q4	Year
	Act.	Act.	Act.	Act.	Program			Program				
Overall revenues and grants	245.7	381.9	113.4	134.8	123.2	142.1	513.4	142.8	166.3	141.3	186.6	637.1
Tax revenues	232.3	353.1	106.8	120.8	114.6	128.3	470.4	129.5	148.5	125.0	165.4	568.4
Income and profit tax	33.3	47.1	14.6	15.4	14.5	14.0	58.5	15.7	18.8	16.4	19.9	70.7
Payroll taxes	28.9	44.8	12.7	15.4	15.2	14.9	58.2	13.7	19.0	17.3	21.0	70.9
Property taxes	11.5	14.8	3.6	4.3	4.3	5.7	17.9	3.8	5.2	4.8	7.4	21.2
Internal taxes on goods and services	70.4	128.5	45.8	58.5	50.9	55.1	210.3	58.9	68.3	58.9	72.7	258.8
VAT	44.5	86.0	31.3	41.2	33.7	39.1	145.4	43.3	47.6	39.8	50.7	181.4
International trade and operations tax	86.3	114.4	29.1	26.2	28.6	37.4	121.3	36.3	36.1	26.5	42.8	141.8
Total sales taxes	58.9	62.8	15.0	12.1	12.8	20.1	59.9	17.8	18.2	9.3	22.6	67.9
Import duties	27.4	51.6	14.1	14.1	15.8	17.3	61.3	18.5	17.9	17.3	20.2	73.9
Other taxes	2.0	3.5	1.0	1.0	1.0	1.3	4.2	1.0	1.2	1.1	1.7	5.0
Non-tax duties	11.7	28.8	6.5	13.9	5.9	5.1	31.4	6.5	11.1	9.6	14.5	41.6
Grants	1.7	0.0	0.0	0.1	2.7	8.7	11.5	6.8	6.8	6.8	6.8	27.0
Total expenditures and lending minus repayments	346.1	462.0	117.0	159.4	145.2	186.0	607.6	165.5	200.5	175.0	221.7	762.7
Current expenditures	225.3	332.4	91.5	122.5	99.0	121.1	434.1	110.7	149.7	122.0	146.5	528.9
Expenditures on goods and services	148.1	222.0	62.7	82.4	55.9	74.8	275.8	69.0	93.9	78.3	93.6	334.7
Wages and salaries	66.5	82.4	24.9	29.8	28.4	21.9	105.1	24.9	35.8	34.1	26.0	120.8
Others	81.6	139.6	37.8	52.5	27.5	52.9	170.8	44.1	58.1	44.2	67.6	213.9
Interest payments (due) 1/	23.9	38.3	11.5	13.9	20.0	20.7	66.0	14.4	17.7	11.4	16.1	59.7
Transfers to households	40.0	59.9	14.4	20.8	20.7	21.7	77.5	20.2	27.6	25.6	27.7	101.1
Subsidies and other current transfers	13.3	12.2	2.9	5.4	2.5	3.9	14.7	7.1	10.5	6.8	9.1	33.4
Capital expenditures	119.4	127.1	25.2	36.5	45.7	64.4	171.9	54.3	50.3	52.5	74.7	231.9
External financed PIP	71.6	53.5	11.5	18.1	21.0	35.9	86.5	24.3	27.3	27.3	29.1	108.0
Lending minus repayments	1.4	2.5	0.3	0.5	0.4	0.4	1.6	0.5	0.5	0.5	0.4	1.9
Overall balance (incl. externally financed PIP)	-100.4	-80.1	-3.6	-24.7	-22.0	-43.9	-94.2	-22.7	-34.2	-33.7	-35.0	-125.6
Net arrears (- decrease)	17.4	24.5	7.1	4.7	5.9	-17.7	0.0	0.0	0.0	0.0	0.0	0.0
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
Overall balance (incl. externally financed PIP, cash basis)	-82.9	-55.6	3.5	-20.0	-16.0	-61.7	-94.2	-22.7	-34.2	-33.7	-35.0	-125.6
Overall balance (excl. externally financed PIP, cash basis)	-11.3	-2.1	15.0	-1.9	5.0	-25.8	-7.7	1.6	-6.9	-6.4	-6.0	-17.6
Total financing	82.9	55.6	-3.5	20.0	16.0	61.7	94.2	22.7	34.2	33.6	35.0	125.6
Net external	118.3	74.5	9.1	16.2	18.9	39.5	83.7	6.0	27.4	46.8	23.6	103.9
Disbursements	120.7	113.0	11.5	18.1	21.0	110.0	160.6	24.3	27.3	64.8	29.1	145.5
Amortization	-4.9	-49.2	-23.0	-23.2	-25.8	-31.3	-103.3	-27.2	-27.2	-27.2	-32.7	-114.2
Arrears (+ increase)	2.5	-119.5	20.6	21.3	23.7	-134.6	-69.0	0.0	0.0	0.0	0.0	0.0
Debt rescheduling 2/	0.0	130.2	0.0	0.0	0.0	95.5	95.5	8.9	27.3	9.1	27.3	72.5
Net domestic	-35.4	-19.0	-12.6	3.8	-2.9	22.1	10.5	16.7	6.8	-13.2	11.4	21.7
NBT 3/	-38.4	-22.1	-8.1	-2.5	-6.5	10.7	-6.4	11.7	1.8	-19.2	5.4	-0.3
Commercial banks	-6.4	3.8	-6.7	3.9	-0.2	12.4	9.4	1.0	1.0	2.0	2.0	6.0
Tajik Rail repayment	-8.3	-8.0	-3.1	-2.6	-2.6	-1.7	-10.0	0.0	0.0	0.0	0.0	0.0
Gross proceeds from privatization	17.5	7.4	5.3	5.1	6.4	0.8	17.5	4.0	4.0	4.0	4.0	16.0
Other nonbank	0.2	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)	1,807	2,512	508	686	868	982	3,045	542	820	965	1,272	3,600

Sources: Tajik authorities; and Fund staff estimates.

1/ Excludes payments to Uzbekistan which are paid in kind by Tajik Rail.

2/ This reflects the debt rescheduling agreement with Russia that results in full financing of the program for the first and subsequent years of the program. The terms include an interest rate of 4.0 percent, a three-year grace period and 17-year maturity, and a provision that US\$23 million of the NBT's credit balance with the Central Bank of Russia (\$49.8 million) is used to clear outstanding interest arrears. The remainder of the credit balance is applied to interest payments falling due during the grace period.

3/ Differences between these figures and those in the accounts of the NBT reflect the revaluation of foreign exchange deposits. Excludes the reclassification of Sm64.348 million as net credit to government on February 11, 2002.

Table 4. Tajikistan: Balance of Payments, 2001-2010
(In millions of US dollars)

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Current account	-62	-74	-46	-48	-47	-47	-37	-26	-17	-16	-18
Balance on goods and services	-42	-128	-110	-44	-56	-49	-40	-27	-20	-17	-16
Balance on goods	-46	-121	-96	-38	-46	-41	-34	-22	-14	-11	-10
Exports	788	652	723	805	870	917	961	999	1,030	1,059	1,087
<i>Of which:</i> aluminium	424	398	432	475	506	524	533	542	547	550	552
cotton fiber	92	71	103	131	145	164	184	198	208	216	222
Imports	834	773	819	843	916	959	995	1,020	1,044	1,070	1,097
Balance on services	4	-7	-14	-7	-9	-7	-6	-6	-6	-7	-7
Balance on income	-57	-29	-25	-33	-21	-21	-17	-17	-12	-16	-17
Balance on transfers	37	84	88	30	29	22	21	18	16	18	15
Capital and financial account	63	64	49	32	36	25	28	27	24	28	27
Capital transfers	5	13	17	12	7	0	0	0	0	0	0
Public sector (net)	17	-19	-25	-9	-12	-14	-13	-17	-22	-23	-26
Disbursements	36	22	30	36	37	40	43	47	50	54	57
Amortization	-19	-41	-55	-45	-49	-54	-56	-64	-72	-77	-83
World Bank	13	25	25	13	13	13	13	13	13	13	13
AsDB	9	0	0	0	7	0	0	0	0	0	0
FDI	24	9	22	22	22	27	29	31	34	38	40
Commercial bank NFA (- increase)	24	20	2	-5	0	0	0	0	0	0	0
Electricity credit	23	20	8	0	0	0	0	0	0	0	0
Other capital and errors and omissions	-51	-3	0	0	0	0	0	0	0	0	0
Overall balance	1	-9	3	-15	-11	-22	-8	1	7	12	9
Use of international reserves (- increase)	-29	-8	-14	-27	-34	-26	-14	0	0	0	0
Financing items	28	18	11	42	45	32	-3	-26	-24	-15	-14
IMF (net)	16	3	-24	10	15	14	-15	-26	-24	-15	-14
Purchases/disbursements	26	15	11	24	26	26	0	0	0	0	0
Repurchases/repayments	10	12	35	13	11	13	15	26	24	15	14
Other reserve liabilities	2	0	0	0	0	0	0	0	0	0	0
Arrears (+ increase)	11	-41	0	0	0	0	0	0	0	0	0
Repayment of end-2001 capitalized arrears to Russia	0	0	-23	0	0	0	0	0	0	0	0
Drawdown of the credit balance with the CBR 1/	0	0	27	7	7	7	2	0	0	0	0
Rescheduling 2/	0	55	32	24	23	11	10	0	0	0	0
Financing gap	0	0	0	0	0	17	25	26	16	3	6
As a share of GDP	...	...	0.0	0.0	0.0	1.4	1.9	1.8	1.0	0.2	0.3
<i>Memorandum items:</i>											
Current account balance in percent of GDP	-6.5	-7.1	-4.2	-4.0	-3.9	-3.8	-2.7	-1.8	-1.0	-0.9	-1.0
(excluding transfers)	-10.4	-15.3	-12.3	-6.5	-6.4	-5.5	-4.3	-3.0	-2.1	-2.0	-1.9
Net international reserves	-23.8	-14.5	19.4	33.1	51.9	65.7	98.2	127.9	155.2	174.1	189.3
Gross reserves	87.2	95.7	109.5	136.0	170.3	196.3	210.5	210.5	210.5	210.5	210.5
(in months of imports)	2.1	1.9	2.2	2.6	3.0	3.4	3.5	3.4	3.3	3.2	3.1
Total debt service due	79	119	152	130	111	120	122	141	147	143	150
(in percent of relevant exports)	17.5	25.4	31.3	22.6	17.9	18.3	17.7	19.6	19.7	18.7	19.1
Total external debt	1,226	1,024	1,010	1,068	1,117	1,185	1,209	1,223	1,226	1,229	1,234
(in percent of GDP)	128.3	99.0	92.7	89.0	93.0	94.5	90.9	85.0	79.6	74.5	69.9

Sources: Tajik authorities; and Fund staff estimates.

1/ The rescheduling agreement with Russia includes the recognition of the NBT's return of Russian currency to the Central Bank of Russia (CBR) several years ago. This credit amounts to US\$49.8 million, and is being used to finance interest arrears for 2001 and interest due over the period 2002-2006.

2/ The rescheduling in 2001 reflects restructuring of Tajikistan's debt to the European Union. The rescheduling in 2002 reflects the debt rescheduling agreement with Russia that results in full financing of the program for the first and subsequent years of the program. The terms include an interest rate of 4.0 percent, a three-year grace period and 17-year maturity, and a provision that US\$23 million of the NBT's credit balance with the Central Bank of Russia (\$49.8 million) is used to clear outstanding interest arrears. The remainder of the credit balance is applied to interest payments falling due during the period 2002-2006.

Table 5. Tajikistan: Non-financial Public Sector Debt Restructuring Options

	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Scenario 1. Baseline scenario: No restructuring										
NPV of debt (in millions of US\$)	598	602	622	632	641	603	560	511	460	403
In percent of exports	136	129	122	113	104	92	81	71	62	53
In percent of revenue	378	339	306	303	291	255	218	184	153	124
in percent of GDP	58	55	52	53	51	45	39	33	28	23
Debt service due (in millions of US\$)	...	72	59	66	70	73	80	89	94	100
In percent of exports	...	15	10	11	11	11	11	12	12	13
In percent of revenue	...	41	29	32	32	31	31	32	31	31
Scenario 2. Bilateral restructuring agreement with Russia, 4 percent interest rate 1/										
NPV of debt (in millions of US\$)	595	610	659	700	728	709	675	635	593	546
In percent of exports	135	130	129	125	118	108	98	88	80	71
In percent of revenue	376	343	324	336	331	300	262	228	197	168
In percent of GDP	58	56	55	58	58	53	47	41	36	31
Debt service due (in millions of US\$)	...	61	30	38	55	59	78	86	91	98
In percent of exports	...	12	5	6	8	8	11	12	12	12
In percent of revenue	...	34	15	18	25	25	30	31	30	30
Scenario 3. Bilateral restructuring agreement with Russia, 2.8 percent interest rate 2/										
NPV of debt (in millions of US\$)	570	582	634	676	709	693	661	624	584	539
In percent of exports	130	124	124	121	115	106	96	87	78	70
In percent of revenue	360	328	312	324	322	293	257	224	194	165
In percent of GDP	55	53	53	56	57	52	46	41	35	31
Debt service due (in millions of US\$)	...	63	26	34	49	54	75	84	89	96
In percent of exports	...	13	5	5	7	8	10	11	12	12
In percent of revenue	...	35	13	16	22	23	29	30	30	29
Memorandum items:										
	(in millions of US\$)									
Exports	468	485	576	619	654	690	720	744	767	788
Exports 3/	440	468	510	560	617	654	688	718	744	766
Government revenue 4/	158	178	203	208	220	237	257	278	301	326
Nominal GDP	1,033	1,089	1,200	1,202	1,254	1,331	1,439	1,540	1,649	1,765

1/ This scenario reflects the debt rescheduling agreement with Russia that results in full financing of the program for the first and subsequent years of the program. The terms include an interest rate of 4.0 percent, a three-year grace period and 17-year maturity, and a provision that US\$23 million of the NBT's credit balance with the Central Bank of Russia (\$49.8 million) is used to clear outstanding interest arrears. The remainder of the credit balance is applied to interest payments falling due during the period 2002-2006.

2/ This scenario differs from the scenario highlighted in Appendix V of the staff report as it reflects the precise terms of the rescheduling agreement with Russia.

3/ Three-year moving average of good and services exports, excluding alumina and electricity imports which are traded on a barter basis.

4/ Total government revenue, excluding grants.

December 8, 2002

Mr. Horst Köhler
Managing Director
International Monetary Fund
700 19th Street, N.W.
Washington, D.C. 20431

Dear Mr. Köhler:

1. This letter supplements my letter, the Memorandum of Economic and Financial Policies (MEFP), and Technical Memorandum of Understanding (TMU), dated November 13, 2002 that was sent to you in support of our request for a new three-year PRGF arrangement from the Fund.
2. We are scheduled to sign a debt restructuring agreement with Russia on December 10, 2002. As part of that agreement, we have agreed that the amount of the credit that the National Bank of Tajikistan (NBT) has with the Central Bank of Russia is US\$49.8 million. This credit is in recognition of the Russian rubles that were returned by the NBT to Russia several years ago. As part of our debt restructuring agreement with Russia, we have agreed to allocate US\$23 million of the credit balance to finance interest arrears as of end-2001 and the remaining US\$27 million for interest payments due during 2002-2006. The use of the NBT's credit balances will, in turn, give rise to claims on the government by the NBT. Finally, the terms of the debt restructuring will result in a somewhat lower pace of reserve accumulation than had been envisaged earlier. To reflect these changes it is necessary to adjust the quantitative performance criteria (specified in paragraph 47 and Annex I of the MEFP, and Tables 3, 4, and 5 of the TMU) on net international reserves, net domestic assets and net credit of the banking system to general government. The adjusted performance criteria are provided in Annex I to this letter.
3. Further, we would like to clarify that the performance criterion on short term external debt applies to the contracting or guaranteeing of new non-concessional short term external debt.

Very truly yours,

/s/

Emomali Rakhmonov
President of the Republic of Tajikistan

Table 1. Tajikistan: Quantitative Performance Criteria for the First Annual Program Under the Proposed PRGF Arrangement, October 2002–September 2003
(In stocks; unless otherwise indicated)

	2002	2003		
	End-Dec. Indicative targets	End-Mar. Performance criteria	End-Jun. Indicative targets	End-Sep. Performance criteria
(In millions of somoni)				
1. Ceiling on net domestic assets of the NBT	106.8	104.6	108.3	79.9
2. Ceiling on net credit of the banking system to general government	12.9	25.6	28.4	11.2
3. Ceiling on the cumulative overall fiscal deficit of the general government 1/ 2/ (excluding foreign-financed public investment program)	-25.8	-24.2	-31.1	-37.4
4. Ceiling on general government wage, and nonworking pensioners' pension arrears 3/	0.0	0.0	0.0	0.0
5. Floor on tax collection of the Ministry of State Revenues and Duties 1/	93.3	191.3	302.6	401.0
(In millions of U.S. dollars)				
6. Floor on total net international reserves	19.4	20.4	21.6	34.2
7a. Ceiling on the net disbursement of short-term external debt with original maturity of up to and including one year 4/	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 4/	0.0	0.0	0.0	0.0
8. New external payments arrears 3/	0.0	0.0	0.0	0.0
(In millions of somoni)				
<i>Indicative target:</i> Reserve money	165.1	165.8	173.2	182.6
<i>Memorandum items:</i>				
Program exchange rate (SM/US\$)	3.0	3.0	3.0	3.0
Disbursements of balance of payment support (in millions of U.S. dollars) 5/	26.7	0.0	0.0	12.5

Sources: Tajik authorities; and Fund staff estimates.

1/ Cumulative from October 1, 2002.

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

3/ A continuous performance criterion.

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

5/ Disbursements in Q4 2002 and Q3 2003 are expected from the World Bank and the European Union.

**Republic of Tajikistan—Three-Year Arrangement Under
the Poverty Reduction and Growth Facility**

Attached hereto is a letter dated November 13, 2002 (“the Letter”), with an annexed Memorandum of Economic and Financial Policies for the Period October 1, 2003 to September 30, 2005 (the “Memorandum”), from the President of the Republic of Tajikistan and a letter dated December 8, 2002 (“the Supplementary Letter”) from the President of the Republic of Tajikistan requesting from the International Monetary Fund as Trustee of the Poverty Reduction and Growth Facility Trust (“the Trustee”) a three-year arrangement under the Poverty Reduction and Growth Facility, and setting forth:

(a) the objectives and policies of the program that the authorities of the Republic of Tajikistan intend to pursue during the three-year period of the arrangement;

(b) the objectives, policies and measures that the authorities of the Republic of Tajikistan intend to pursue during the first year of the arrangement; and

(c) understandings of the Republic of Tajikistan with the Trustee regarding reviews that will be made of progress in realizing the objectives of the program and of the policies and measures that the authorities of the Republic of Tajikistan will pursue for the second and third years of the arrangement.

To support these objectives and policies, the Trustee grants the requested three-year arrangement in accordance with the following provisions, and subject to the provisions applying to assistance under the Poverty Reduction and Growth Facility Trust.

1. (a) For a period of three years from December 11, 2002, the Republic of Tajikistan will have the right to obtain loan disbursements from the Trustee in a total amount equivalent to SDR 65 million, subject to the availability of resources in the Poverty Reduction and Growth Facility Trust.

(b) Disbursements under this arrangement shall not exceed the equivalent of SDR 25.8 million until December 11, 2003 and the equivalent of SDR 45.4 million until December 11, 2004.

(c) During the first year of the arrangement:

(i) The first disbursement, in an amount equivalent to SDR 8 million, will be available on December 20, 2002, at the request of the Republic of Tajikistan;

(ii) the second disbursement, in an amount equivalent to SDR 8 million, will be available on or after May 15, 2003, at the request of the Republic of Tajikistan and subject to paragraph 2 below; and

- (iii) the third disbursement, in an amount equivalent to SDR 9.8 million, will be available on or after November 15, 2003, at the request of the Republic of Tajikistan and subject to paragraph 2 below.

(d) The right of the Republic of Tajikistan to request disbursements during the second and third years of this arrangement shall be subject to such phasing and conditions as shall be determined. The phasing of, and conditions for, disbursements during the second year of this arrangement shall be determined in the context of a review of the Republic of Tajikistan's program with the Trustee, the timing of which shall be established at the first review contemplated in paragraph 2(I)(c) of this arrangement.

2. The Republic of Tajikistan will not request:

I. Any disbursement specified in paragraph 1(c) above,

(a) if the Managing Director of the Trustee finds that, with respect to the second disbursement specified in paragraph 1(c)(ii), the data as of March 31, 2003 and, with respect to the third disbursement specified in paragraph 1(c)(iii), the data as of September 30, 2003, indicate that:

(i) the ceiling on the net credit of the banking system to the general government, or

(ii) the ceiling on the net domestic assets of the National Bank of Tajikistan, or

(iii) the floor on the net international reserves of the National Bank of Tajikistan, or

(iv) the ceiling on the cumulative overall fiscal deficit of the general government (excluding the foreign financed public investment program), or

(v) the floor on tax collection of the Ministry of State Revenues and Duties, or

(vi) the ceiling on the contracting or guaranteeing by the government, the National Bank of Tajikistan or any other agency acting on behalf of the government of new non-concessional external debt with an original maturity of more than one year, or

(vii) the ceiling on the contracting or guaranteeing by the government, the National Bank of Tajikistan or any other agency acting on behalf of the

government of new non-concessional external debt with an original maturity of up to and including one year

as set out in Annex I of the Supplementary Letter and specified in paragraph 47 of the Memorandum and further defined in the Technical Memorandum of Understanding (“TMU”), was not observed; or

(b) if the Managing Director of the Trustee finds:

(i) with respect to the second disbursement, that by December 31, 2002 the Republic of Tajikistan has not carried out its intentions with respect to the introduction of a unified gas tariff of SM 140 per thousand cubic meters, as specified in paragraph 38 and Annex II of the Memorandum; and

(ii) with respect to the third disbursement, that by June 30, 2003 the Republic of Tajikistan has not carried out its intentions with respect to increasing the collection rates of Tajikgas so that on average 60 percent of all households pay for the gas they receive, as specified in paragraph 39 and Annex II of the Memorandum; or

(c) until the Trustee has determined, with regard to the second disbursement, that the first review of the Republic of Tajikistan's program scheduled for completion on May 15, 2003 and referred to in paragraph 6 of the Letter has been completed and, with regard to the third disbursement, that the second review of the Republic of Tajikistan's program scheduled for completion on November 15, 2003 and referred to in paragraph 6 of the Letter has been completed.

II. Any disbursement under this arrangement,

(a) if, at any time during this arrangement,

(i) the government or the National Bank of Tajikistan accumulates any new external payments arrears except for arrears that are subject to debt-rescheduling negotiations as specified in paragraph 47 and Annex I of the Memorandum and further specified in Section II.C of the TMU; or

(ii) the National Bank of Tajikistan issues directed credits as specified in paragraph 29 and Annex II of the Memorandum and further specified in Section II.A of the TMU; or

(iii) the National Bank of Tajikistan makes expenditures not related to its core business activities or pays dividends while it has negative net worth as specified in paragraph 29 and Annex II of the Memorandum and further specified in Section II.B of the TMU; or

(iv) the government incurs new arrears on wage payments by the general government or on transfer payments for nonworking pensioners' pension payments from the Social Protection Fund to its regional offices as specified in paragraph 18 and Annex I of the Memorandum and further specified in Section II.E of the TMU; or

(b) if the Republic of Tajikistan has:

(i) imposed or intensified restrictions on the making of payments and transfers for current international transactions, or

(ii) introduced or modified multiple currency practices, or

(iii) concluded bilateral payments agreements that are inconsistent with Article VIII, or

(iv) imposed or intensified import restrictions for balance of payments reasons.

When the Republic of Tajikistan is prevented from requesting disbursements under this arrangement because of this paragraph 2, such disbursements may be made available only after consultation has taken place between the Trustee and the Republic of Tajikistan and understandings have been reached regarding the circumstances in which the Republic of Tajikistan may request the disbursements.

3. In accordance with paragraph 7 of the Letter, the Republic of Tajikistan will provide the Trustee with such information as the Trustee requests in connection with the progress of the Republic of Tajikistan in implementing the policies and reaching the objectives of the program supported by this arrangement.

4. In accordance with paragraph 7 of the Letter, during the period of this arrangement the Republic of Tajikistan, shall consult with the Trustee on the adoption of any measures that may be appropriate at the initiative of the Government or whenever the Managing Director of the Trustee requests such a consultation. Moreover, after the period of this arrangement and while the Republic of Tajikistan has outstanding financial obligations to the Trustee arising from loan disbursements under this arrangement, the Republic of Tajikistan will consult with the Trustee from time to time, at the initiative of the Government or whenever the Managing Director of the Trustee requests consultation on the Republic of Tajikistan's economic and financial policies. These consultations may include correspondence and visits of officials of the Trustee to the Republic of Tajikistan or of representatives of the Republic of Tajikistan to the Trustee.



INTERNATIONAL MONETARY FUND

Public Information Notice

EXTERNAL
RELATIONS
DEPARTMENT

Public Information Notice (PIN) No. 03/04
FOR IMMEDIATE RELEASE
January 3, 2003

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

IMF Concludes 2002 Article IV Consultation with the Republic of Tajikistan

On December 11, 2002, the Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation with the Republic of Tajikistan.¹

Background

During 2001 and the first half of 2002, Tajikistan's real GDP growth continued to be strong. Although growth was derived largely from increased agricultural output, some evidence suggests that growth is becoming more broad based. Domestic demand continues to be supplemented by remittances from seasonal workers employed in neighboring countries. Inflation was moderate during much of 2001 and 2002 except for occasional spikes attributed to regional trade factors and lapses in monetary discipline. The nominal exchange rate depreciated by 33 percent since end-2000. The current account deficit widened during 2001 as prices for the main exports (cotton and aluminum) fell to a three-year low.

Macroeconomic management generally improved during 2001 and the first half of 2002. The implementation of monetary policy was, however, sometimes uneven. Strong tax revenue collections and continued expenditure restraint contributed to a near balanced budget in 2001. Weaknesses in debt management contributed to several incidents of misreporting and noncomplying disbursements in the last 18 months. The authorities have, however, taken steps

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

to address these weaknesses, including the establishment of a debt inventory, to improve debt monitoring.

Uneven progress in structural reform prevented the conclusion of the third and fourth reviews of the third year program under the Poverty Reduction and Growth Facility (PRGF). Progress was particularly slow with respect to regularizing relations between the NBT and the government, improving the operation of the treasury and tax administration, and enhancing fiscal transparency. The implementation of structural reforms improved during the Staff Monitored Program (January-June 2002) and subsequently. The creation of a Ministry of State Revenues and Duties contributed to improved tax and customs administration in 2002. Measures to enhance fiscal transparency were implemented and governance was enhanced by the issuance of a resolution that restricts the involvement of local authorities in the agricultural sector. The authorities have also taken initial steps to reduce quasi-fiscal activities in the energy sector. The banking system has been strengthened with the implementation of restructuring agreements.

Tajikistan became a member of the Fund in 1993, and since then has had a number of Fund-supported programs. A three-year PRGF arrangement was approved on June 24, 1998 covering the period 1998-2001. After successful implementation of a staff monitored program in January-June 2002, the Executive Board approved a second three-year arrangement under the PRGF on December 11, 2002.

Executive Board Assessment

Directors welcomed Tajikistan's steady economic progress in recent years based on strengthened ownership and commitment to reform, despite adverse exogenous shocks and domestic constraints, as evidenced by a decline in inflation and continued strong economic growth that is becoming increasingly broad-based. Nevertheless, they noted that Tajikistan's economy remains extremely vulnerable, with low per capita income, a narrow export base, high external debt, and limited capacity to undertake reforms. Directors agreed that the authorities' new medium-term economic program constitutes an appropriate response to these problems, and that success in achieving the program's objectives will hinge in considerable part on the authorities' determination in implementing the program.

Directors welcomed the focus of monetary policy on reducing inflation and increasing exchange rate stability, but regretted the recent lapse in monetary discipline and the resumption of directed credits by the National Bank of Tajikistan (NBT). They urged the authorities to adhere to their commitment to refrain from issuing such credits and to pursue a firm and consistent monetary stance. They also urged the authorities to address the administrative weaknesses at the central bank identified by the safeguards assessment and the recent international audit report, to formulate a comprehensive restructuring strategy that will enhance the effectiveness of monetary policy, and to take steps to reinforce the independence of the central bank. They also stressed the importance of developing an interbank market. Continued restructuring of the banking system was also considered important to reduce the demand for directed credits from the NBT. Directors encouraged the authorities to take further action to combat money laundering and the financing of terrorism.

Directors welcomed the authorities' plans to maintain the managed floating exchange rate regime, with no pre-determined path, as the best protection against external shocks. They welcomed the intention to prepare the ground for acceptance of Article VIII obligations.

Directors commended the good fiscal performance in 2001 and 2002, when the budget—excluding externally-financed investment spending—achieved near balance. Directors supported the emphasis on continuing fiscal discipline in the authorities' economic program, as they considered this crucial to achieving macroeconomic stability and reversing the adverse debt dynamics. They stressed the need to eliminate lingering quasi-fiscal activities, and to restructure civil service wages in the context of civil service reform. Expressing concern about the low level of spending on education and health, they endorsed the reallocation of budgetary resources toward the social sectors. Noting the relatively low revenue effort, Directors advised that the revenue base be broadened, and hoped that the efforts underway to strengthen tax administration and reform the tax system will help generate the resources needed for poverty alleviation. They were encouraged to seek further technical assistance by the Fund to support these efforts.

Directors noted that the medium-term outlook could be complicated by Tajikistan's external debt burden. While welcoming the fiscal consolidation projected for the next few years, they stressed that additional measures will be necessary to further enhance debt sustainability. In this context, Directors welcomed the recent progress with bilateral debt restructuring agreements, but stressed that a lasting improvement in Tajikistan's debt service profile will require more comprehensive debt restructuring and improved debt management. A few Directors noted that, for such further restructuring to be considered, it would be important for the authorities to stay on track with the Fund program and build up good relations with creditors. While acknowledging the authorities' efforts to strengthen debt management, they believed that additional measures are urgently needed, especially to streamline the public investment program and to limit new borrowing to concessional loans.

Directors noted that progress with structural reform improved in 2002, following an uneven pace in 2001. In particular, they welcomed the regularization of financial relations between the NBT and the government, the steps taken to reduce quasi-fiscal deficits in the energy sector, and the progress in bank restructuring and in strengthening financial sector regulation. Nevertheless, they noted that the structural agenda remains large, and encouraged the authorities to redouble their efforts to implement key reforms. Directors considered institution strengthening and capacity building to be a major priority, and advised the authorities to work closely with the Fund, Bank and other international donors in this area.

In view of the limited implementation capacity, Directors underlined the importance of appropriately pacing and sequencing the reforms. They considered farm privatization to be a key reform for future economic growth and poverty reduction. They noted the decline in foreign direct investment, and recommended that action be taken to improve the business climate, strengthen governance, and revise the legal and judicial system in order to reverse this trend.

Directors welcomed the completion of the authorities' Poverty Reduction Strategy Paper (PRSP), noting that it was developed through a broad participatory process and has been endorsed by the Parliament. They looked forward to its further refinement in the context of the Annual Progress Report, noting the need for costing and prioritization of measures.

Directors noted that while data availability and quality are adequate for surveillance purposes, there are several weaknesses that hinder policy implementation. They encouraged the authorities to continue their efforts to improve data quality.

Public Information Notices (PINs) are issued, (i) at the request of a member country, following the conclusion of the Article IV consultation for countries seeking to make known the views of the IMF to the public. This action is intended to strengthen IMF surveillance over the economic policies of member countries by increasing the transparency of the IMF's assessment of these policies; and (ii) following policy discussions in the Executive Board at the decision of the Board.

Republic of Tajikistan: Selected Economic Indicators

	1998	1999	2000	2001
	(Annual percent change)			
Production and prices				
Real GDP	5.3	3.7	8.3	10.2
CPI (e.o.p.)	2.7	30.1	60.6	12.5
	(In percent of GDP)			
General government				
Total revenue and grants	12.0	13.5	13.6	15.2
Total expenditures	15.8	16.6	14.2	15.3
Cash balance	-3.8	-3.1	-0.6	-0.1
	(Somoni per U.S. dollar, e.o.p.)			
Monetary indicators				
Reserve money	12.5	29.4	51.4	28.9
Somoni broad money	18.8	29.3	48.4	31.5
Velocity 1/	21.1	22.4	22.2	22.2
	(In millions of U.S. dollars, unless otherwise specified)			
External sector				
Exports of goods	586	666	788	652
Imports of goods	725	693	834	773
Current account balance	-120	-36	-62	-74
In percent of GDP	-8.3	-3.4	-6.5	-7.1
Gross international reserves	65	58	87	96
In months of imports 2/	1.5	1.7	2.1	1.9

Sources: Tajik authorities; and IMF staff estimates.

1/ Annual GDP divided by average broad money.

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



Press Release No. 02/54
FOR IMMEDIATE RELEASE
December 11, 2002

International Monetary Fund
Washington, D.C. 20431 USA

IMF Approves Three Year, US\$87 Million Poverty Reduction and Growth Facility Arrangement for the Republic of Tajikistan

The Executive Board of the International Monetary Fund (IMF) today approved a three year, SDR 65 million (about US\$87 million) arrangement under the Poverty Reduction and Growth Facility (PRGF) for the Republic of Tajikistan to support the government's economic program through September 2005. The decision will enable the Republic of Tajikistan to draw up an amount equivalent to SDR 8 million (about US\$11 million) from the IMF in December.

The PRGF is the IMF's concessional facility for low-income countries. It is intended that PRGF-supported programs are based on country-owned poverty reduction strategies adopted in a participatory process involving civil society and development partners, and articulated in a PRSP. This is intended to ensure that PRGF-supported programs are consistent with a comprehensive framework for macroeconomic, structural, and social policies to foster growth and reduce poverty. PRGF loans carry an annual interest rate of 0.5 percent, and are repayable over 10 years with a 5 ½-year grace period on principal payments.

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

"Tajikistan experienced strong economic growth and reduced inflation during the last 18 months. Macroeconomic policies have generally been appropriate, but implementation has been uneven and will need to improve to achieve the objectives of the government's new three-year economic program. Particular attention will need to be paid to monetary policy and structural reform.

"Fiscal performance has been strong over the past two years. Further improvements in tax administration and the tax system will help ensure that adequate resources are available for poverty alleviation. Efforts to raise civil service wages will need to be linked to civil service reform to make the increases sustainable.

"The central bank will need to pursue a more disciplined monetary policy to bring inflation down further. In particular, it should adhere to the commitment to refrain from issuing directed credits. Also the planned restructuring of the central bank to enhance the implementation of monetary policy and improve operational efficiency should be completed as quickly as possible.

"The recent debt rescheduling agreement with Russia, along with the authorities' decision to limit foreign-financed public investment to 3 percent of GDP, have improved the prospects for external debt sustainability. The most recent case of misreporting of data again illustrates the need to strengthen key institutions to prevent a repetition of such incidents. The current case of misreporting of minor and quickly cleared external arrears is regrettable; as this incident relates to the same disbursements for which earlier repayment expectations have been decided by the Board, no additional remedial action is called for.

"The structural reform agenda remains extensive. The recent restructuring of commercial banks and improvements in the regulatory environment have bolstered confidence in the banking system, while important initial steps have been taken to reduce quasi-fiscal deficits in the energy sector. Nevertheless, much more remains to be done. A key reform will be privatization of state-owned farms to enhance resource efficiency and reduce poverty. The recently-completed poverty-reduction strategy paper provides an appropriate framework for the implementation of the structural reforms," Mr. Aninat said.

Recent Developments

Tajikistan continues to experience strong growth with increases in GDP averaging 7 percent annually since the end of the civil war in 1997. Much of this growth has been based on the recovery of traditional exports -- aluminum and cotton -- and there are signs that light manufacturing and private farming are also expanding.

The strong growth in recent years will only be sustained if structural reform is accelerated. Until now structural reform has been erratic due to a narrow base of ownership, weak institutions, uneven political support, inexperience, and a reform agenda that was perhaps too ambitious for the immediate post-civil war period. Given the important link between structural reform and economic growth, Tajikistan's program places great weight on strong structural policies.

Tajikistan has made substantial progress on macroeconomic stabilization although inflation performance has been uneven in recent years mainly due to occasional lapses in monetary policy. The limited development of the financial sector poses challenges for conducting monetary policy. Weak institutional capacity and the lack of a secondary market for treasury bills has precluded the use of open market operations. To improve this situation, the National Bank of Tajikistan (NBT) is developing an interbank credit market in which it could participate as necessary.

External debt to GDP ratio at 100 percent remains one of the highest in the CIS; debt management capacity is still weak, though there are signs of improvement. The authorities have completed an inventory of government, government-guaranteed, and state-enterprise debts. At present, Tajikistan is current on its external obligations or is in the process of negotiating or rescheduling those debts. The terms of debt service have gradually improved as bilateral debt has been rescheduled on more favorable terms (Belarus, Kazakhstan, Russia and Uzbekistan) and concessional borrowing replaced bilateral debt. The authorities have also regularized financial relations between the NBT and the government, by reducing the central bank's portfolio of non-performing loans and ensuring that their respective obligations are settled on market terms.

The major challenges facing Tajikistan's economic reform process are; (a) achieving more extensive ownership of core structural reforms; (b) enhancing stabilization through better implementation of fiscal and monetary policy and (c) restructuring debt and improving debt management.

Program Summary

The program primarily aims to sustain growth, accelerate structural reform, maintain low inflation and exchange rate stability, and strengthen debt management. For the period 2002-2005, the program targets real GDP growth to be at least 5 per cent annually and inflation to decline to 5 per cent by the end of the period. These targets, together with a stable exchange rate,

would lead to an improvement in per capita incomes (in U.S. dollar terms) of about 15 per cent over the next several years.

To improve the prospects for sustaining economic growth, the program will implement key **structural reforms** aimed at eliminating weaknesses in the banking sector, distortions in the energy sector, government interference in the agricultural sector; and weak governance. The NBT will be prohibited from issuing directed credit and making expenditures not related to its core business activities or paying dividends while it has negative net worth. The remaining state-owned farms will be restructured and privatized by the end of 2005 through the issuance of land use and land share certificates. As well, economic governance will be improved by reducing excessive government intervention in economic affairs, enhancing transparency, accountability and economic management.

The program envisions implementation of restrictive **fiscal and monetary policies**. During this year the overall budget deficit is expected to be $\frac{1}{4}$ percent of GDP (excluding the foreign-financed public investment program). For the period 2002-2005, only a modest increase in current expenditures to 15 percent of GDP is envisioned in accordance with the program target to maintain tight fiscal control.

One of the program priorities will be to improve **debt management and fiscal sustainability**. The program will pursue further fiscal consolidation and limit all foreign borrowing. The authorities will not draw on any outstanding non-concessional credit facilities. The program will aim at limiting the size of the foreign-financed public investment program to no more than 3 percent of GDP and to reduce the quasi-fiscal deficit in the energy sector. The recent debt restructuring with Russia will provide significant short-term debt service relief. The Tajik authorities will advise the Iranian authorities that no further borrowing under an Iranian export financing facility will be made by Tajikistan unless the terms of the facility are renegotiated on concessional terms. Over the period 2002 -2005, the program will aim to reduce the current account deficit to below 4 percent of GDP, and gross international reserves to increase to about $\frac{3}{2}$ months of import.

The program will maintain a liberalized trade and investment regime. During the program period, neither the government nor the NBT will, without the approval of the IMF, introduce new or intensify existing restrictions on making of payments and transfers for current international transactions.

Tajikistan joined the IMF on April 27, 1993, and its quota¹ is SDR 87.0 million (about US\$116 million). Its outstanding use of IMF financing currently totals SDR 65.6 million (about US\$88 million).

¹ A member's quota in the IMF determines, in particular, the amount of its subscription, its voting weight, its access to IMF financing, and its allocation of SDRS.

Republic of Tajikistan: Selected Economic Indicators

	1998	1999	2000	2001
	(Annual percent change)			
Production and prices				
Real GDP	5.3	3.7	8.3	10.2
CPI (e.o.p.)	2.7	30.1	60.6	12.5
	(In percent of GDP)			
General government				
Total revenue and grants	12.0	13.5	13.6	15.2
Total expenditures	15.8	16.6	14.2	15.3
Cash balance	-3.8	-3.1	-0.6	-0.1
	(Somoni per U.S. dollar, e.o.p.)			
Monetary Indicators				
Reserve money	12.5	29.4	51.4	28.9
Somoni broad money	18.8	29.3	48.4	31.5
Velocity 1/	21.1	22.4	22.2	22.2
	(In millions of U.S. dollars, unless otherwise specified)			
External sector				
Exports of goods	586	666	788	652
Imports of goods	725	693	834	773
Current account balance	-120	-36	-62	-74
In percent of GDP	-8.3	-3.4	-6.5	-7.1
Gross international reserves	65	58	87	96
In months of imports 2/	1.5	1.7	2.1	1.9

Sources: Tajik authorities; and IMF staff estimates.

1/ Annual GDP divided by average broad money.

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

**Statement by Fritz Zurbrugg, Executive Director for the Republic of Tajikistan
December 11, 2002**

The Tajik authorities have requested a new three-year PRGF arrangement to support their ambitious economic reform and poverty reduction program described in the Memorandum of Economic and Financial Policies (MEFP). This request comes after a relatively long period without financial assistance from the Fund following the slippages in policy implementation in the second half of last year. My authorities firmly believe that their request is fully justified by both the solid implementation of the Staff Monitored Program (SMP) during the first half of this year and the strength of this new program. They would like to take this opportunity to thank staff and management for the intensive work over the past year and their continuing support of Tajikistan's reform efforts.

General Observations

As acknowledged by the staff, nearly all quantitative targets and the vast majority of structural benchmarks of the SMP were observed and macroeconomic performance has generally been better than expected. This is particularly true for GDP growth, which is estimated at 10 percent for the first ten months of the current year, after reaching 10.2 percent in 2001 and 8.3 percent in 2000. With the budget close to balance, the fiscal results have also been better than projected. The exchange rate has remained largely stable and inflation is expected to only slightly exceed the forecasted level. My authorities acknowledge that the implementation of structural reforms has, at times, been uneven and less rapid than desirable. Nevertheless, progress in this area is also clearly visible, especially in restructuring and privatization of agriculture, trade liberalization and, more recently, energy sector reform and debt management.

My authorities broadly share the staff's assessment and fully agree that further efforts to reinforce macroeconomic stability and the acceleration of structural reforms are the best way to ensure the achievement of their long-term development goals. As regards the main risks to the program, staff highlighted the relatively narrow ownership. In my authorities' view, the strong ownership of the program should not be put into question and the emphasis should rather be on the multiple constraints that limit the speed at which the reform process can move forward. It is worth reminding ourselves that Tajikistan is a relatively small, landlocked country with a per capita GDP of only US\$166, which only in 1997, after years of a devastating civil war, could start more serious economic reforms. The authorities are still faced with relatively weak basic institutions, a lack of adequate skills and capital resources, a poorly developed infrastructure, and large difficulties in securing the provision of basic social services for the population. More than eighty percent of the Tajik population is considered to be poor and only about fifty percent has access to potable water. Furthermore, these challenges have been compounded over the past years by several external shocks, including the Russian crisis, the large decline in prices of Tajikistan's two main export products (aluminum and cotton), two years of a severe drought, and the regional instability caused by the conflict in Afghanistan.

While all these factors severely limit the authorities' scope for action, they also strengthen the authorities' resolution to proceed with reforms that will ultimately lead to a higher standard of living for the whole population. I am thankful to staff for explicitly recognizing the challenges faced by my authorities and for taking them into account in the program design. I agree with staff's frank admission that structural conditionality under the previous PRGF arrangement with 113 various conditions might have been too ambitious in light of the institutional constraints. The significant streamlining of structural conditionality on the four key areas will be helpful in focusing the efforts of the authorities.

Fiscal Policy

My authorities welcome staff's generally favorable assessment of Tajikistan's fiscal policy. Thanks to the gradually improving revenue performance and tight expenditure control, the fiscal deficit could be reduced from about 4 percent in 1998 to near balance in 2001. This good performance continued in 2002. While strong GDP growth certainly contributed to achieving higher revenues, the budget also benefited from the authorities' efforts to broaden the tax base and to improve tax administration, including through the recent reorganization of the tax and customs services into the Ministry of State Revenues and Duties (MSRD). Additional proposals to simplify the tax system will be worked out by the special commission (with the participation of private sector representatives), which is in the process of being established. The reforms in the tax and customs area will be coordinated by the modernization office that in accordance with the MEFP has been established within the MSRD at the beginning of December.

The recently approved 2003 budget envisages the continuation of a prudent fiscal policy. Despite the introduction of several new expenditure items, the overall deficit (excluding the public investments program) is projected not to exceed 0.5 percent of GDP. The tax revenue to GDP ratio is expected to increase further to 15.8 percent. While this gradual increase in tax revenues is very encouraging, my authorities are fully aware that their absolute level is still very low. As a temporary measure to increase tax collection by providing special incentives to the underfunded tax administration, the 2003 budget allows the MSRD to retain 20 percent of taxes imposed on the uncovered and previously undisclosed corporate incomes.

The approval of the 2003 budget brings about a significant improvement in fiscal transparency. For the first time full information is included on spending regarding the foreign-funded public investments program (PIP) and on all extra-budgetary revenues and expenditures of budget entities. Despite the very large demand for additional investments, my authorities agreed to limit the next year's PIP level to about 3 percent of GDP, thus recognizing both Tajikistan's limited absorptive capacity and the large external debt burden. They hope, however, that further progress in eliminating macroeconomic imbalances and improving project-implementation capacity will soon allow them to raise the level of much needed investments in infrastructure and other sectors of the economy.

Monetary and Exchange Rate Policies

Judging by the overall progress in reducing inflation (from over 60 percent in 2000 to about 12.5 percent at the end of 2001) the Tajik monetary authorities were quite successful in the implementation of their policies. However, the relatively large fluctuations in the inflation rate over the last several years and the failure to achieve the planned further reduction of inflation in the course of this year could reflect not only the structural characteristics of the Tajik economy, but also some deficiencies in the conduct of monetary policy. Unfortunately, the effectiveness of the policies implemented by the National Bank of Tajikistan (NBT) remains severely constrained by the insufficient availability of instruments to conduct market operations, by the lack of a well-functioning money market, and by the general weakness of the Tajik banking sector.

My authorities have designed and already started implementing several measures to address these deficiencies. The NBT has prepared a new regulation to promote the development of a modern interbank credit market and has reviewed the rules for reserve requirements to create a level playing field for all banks. The presidential decree issued in October clarified the relations between the NBT and the Ministry of Finance and provided for the payment of market interest on their mutual claims. Members of the special working group to review the loan portfolio and operations of ALCO (the loan collection agency of the NBT) have been selected and the NBT has fully repaid the commercial banks' contributions to the capital of ALCO. In accordance with Fund program, the NBT has terminated its involvement in the provision of directed credits and has already received a full repayment of such credits extended earlier this year. The NBT is in the process of preparing a comprehensive plan for restructuring its operations and has already started the reduction of its workforce. All these measures, complemented by the ongoing improvement in the condition of the commercial banks, should contribute to enhancing the effectiveness of monetary policy and making the achievement of the next year's inflation target of 7 percent feasible. The recent NBT efforts to correct the temporary deviations from the money supply targets in the third quarter of this year have already resulted in bringing the monthly inflation rate to 0.4 percent in October, and preliminary estimates suggest a similarly low rate for November.

My authorities reaffirm their commitment to maintaining a flexible exchange rate (with very limited official intervention) as it provides the best protection against fluctuations in the inflow of foreign resources. The exchange rate has remained broadly stable in the course of this year and its recent movements had no significant impact on Tajikistan's external competitiveness. Official reserves have also remained relatively stable at about US\$90 million but their level (equivalent to slightly more than 2 months of imports) can still be considered insufficient. Tajikistan has declared its intention to accept the obligations of Article VIII, Sections 2, 3 and 4, and my authorities have been cooperating with the staff in identifying the remaining inconsistencies.

External Debt and the Misreporting of External Debt Arrears

Tajikistan's external debt at the end of 2001 was equal to almost 100 percent of GDP and the debt to fiscal revenue ratio (in NPV terms) amounted to 476 percent, well above the relevant HIPC threshold. Clearly, the heavy debt burden is the major challenge facing the Tajik authorities and the main obstacle to this country's long-term development. To address this problem, my authorities undertook serious efforts to restructure their external obligations. After concluding agreements on favorable terms with Uzbekistan, Kazakhstan and several smaller creditors, these efforts culminated in signing the landmark restructuring agreement with Russia on December 9, 2002. This agreement significantly alleviates the debt service burden during the next several years and ensures the full financing of the proposed PRGF program. Even though the final terms of the agreement with Russia were somewhat less favorable than initially assumed, my authorities decided that it will be beneficial to fully regularize their relations with all external creditors and move forward with the implementation of the Fund-supported program. My authorities are grateful to all creditor countries for their cooperation in reducing Tajikistan's current debt servicing obligations to a more manageable level. However, they recognize that debt sustainability remains a problem in the medium term and additional debt restructuring may be necessary.

As regards the misreporting, the Tajik authorities strongly regret the occurrence of another instance of misreporting. It is important to underscore that this unfortunate event is yet another manifestation of the weaknesses in external debt management that caused the previous cases of misreporting, for which Tajikistan has already been severely sanctioned by being asked to repay to the Fund SDR 25.3 million (i.e. an amount equal to about 1/3 of its gross foreign exchange reserves). My authorities thus warmly welcome the Managing Director's recommendation that the current case of misreporting should not lead to any additional remedial action given the insignificant amount of the missed payment (US\$ 2,333.30), the prompt clearance of these arrears and Tajikistan's broader efforts to improve debt management. The already implemented measures include the establishment of a computerized inventory of the government, government-guaranteed and state-owned enterprises foreign debt, the centralization of the debt management function and guarantee-issuance authority in the Ministry of Finance, and the provision of regular reports on the external debt situation to parliament. My Tajik authorities also expect that the Fund will soon be able to provide the requested technical assistance to strengthen the debt management capacity. My Swiss authorities have already declared their willingness to finance such assistance.

Structural Reform

As documented in Table 2 of the staff report, Tajikistan has observed the vast majority of structural benchmarks under the SMP, albeit some of them either incompletely or with a small delay. This improved performance reflects both the authorities' increased determination to advance the reform process and the benefits from streamlining the program conditionality. As reported by the staff, the reforms implemented in the past have already started bringing fruit in the form of increased productivity in agriculture (with a record-high

cotton crops achieved this year), a gradually improving situation in the banking sector, and rising collection rates in the energy sector.

The proposed PRGF program envisages several important structural reform measures in the agriculture, banking, and energy sectors, as well as governance. My authorities have already started implementing some of the agreed measures, for example, by transferring additional capital to the Amonatbank, by securing additional funds for this bank in the 2003 budget and by allowing Amonatbank to partially resume its lending activities. Starting from end-March 2003 the authorities intend to fully enforce all prudential requirements, and proceed with closures or mergers of banks which fail to observe these norms. My authorities are committed to restructuring and privatizing all state farms by 2005. To facilitate the restructuring of farms, on October 1, 2002, the Tajik government has adopted a special resolution which deals, among others, with the problem of the large indebtedness of many state farms and agricultural enterprises.

The new program includes particularly bold measures to address the problem of quasi-fiscal deficits in the energy sector. By end-2002 the gas prices are set to be unified and raised to 80 percent of the actual cost, and by the end of March 2003, they should be further increased to ensure full cost recovery. At the same time the collection rates should be gradually increased, which is a very challenging tasks when the prices are strongly rising and only about 10 percent of households are equipped with gas meters. To mitigate the hardship imposed by the rising energy prices the authorities intend to establish a compensation scheme targeted at low-income families. They have already allocated the necessary resources in the next year's budget.

Poverty Reduction Strategy Paper (PRSP)

Given the pervasive nature of poverty in Tajikistan, it is imperative to make rapid progress in numerous areas to meaningfully reduce poverty over the medium term. However, as outlined above, demands on scarce domestic and external resources are high and come from all sides. My authorities are confident that the PRSP provides a good basis to identify and prioritize the necessary poverty reduction measures. The relatively recent household survey data used and the broad participatory approach ensure that the PRSP accurately reflects the current situation. The PRSP also contains initial measures to allow for a monitoring of progress in the various areas. My authorities agree with staff that further efforts are necessary to enhance data availability and institutional capacity to ensure a comprehensive monitoring system.

As in many other countries, the success of the poverty reduction strategy will hinge on a realistic costing of the wide range of measures that are included in the PRSP, their prioritization, and, last but not least, ensuring the allocation of appropriate budgetary resources. The well-know limitations in institutional capacity and the difficult fiscal situation pose important challenges for the implementation of the PRSP, which my authorities stand ready to tackle. In this context, they look forward to continuing the intensive collaboration with multilateral institutions and bilateral donors.