INTERNATIONAL MONETARY FUND

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REPUBLIC OF TAJIKISTAN

2013 ARTICLE IV CONSULTATION—PRESS RELEASE AND STAFF REPORT

September 2021

Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. In the context of the 2013 Article IV consultation with the Republic of Tajikistan, the following documents have been released and are included in this package:

- A **Press Release** summarizing the views of the Executive Board as expressed during its July 19, 2013 consideration of the staff report that concluded the Article IV consultation with the Republic of Tajikistan.
- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on July 19, 2013 following discussions that ended on April 11, 2013, with the officials of the Republic of Tajikistan on economic developments and policies. Based on information available at the time of these discussions, the staff report was completed on July 1, 2013.
- A **Debt Sustainability Analysis** prepared by the staffs of the IMF and the International Development Association.
- An **Informational Annex** prepared by the IMF staff.

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IMF Executive Board Concludes 2013 Article IV Consultation with Republic of Tajikistan

On July 19, 2013, the Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation with Republic of Tajikistan.[1]

Background

While growth in Tajikistan has been robust, it is non-inclusive, leading to large-scale outmigration that makes the country the most remittance-dependent in the world. Tajikistan remains the poorest of the eight countries in the Caucasus and Central Asia (CCA) and stands next to last among the seven with rankings in the ease of doing business. Reliance on commodity imports, a narrow export base, and low fiscal and external buffers leave the economy vulnerable. Weak macroeconomic policy frameworks restrict the authorities' ability to dampen shocks and state-directed lending and investment displace market-financed activity and create fiscal risks. Presidential elections are scheduled for November.

Supported by a strong remittance-led service sector, agriculture, and industry, real GDP grew at a robust pace of 7.5 percent in 2012. Headline inflation declined to 6.4 percent in 2012, moving in line with international food prices. Growth and inflation held steady in the first quarter of 2013. Slower import growth and rapid growth of remittances helped to put the current account deficit on a downward path, to 1.3 percent of GDP in 2012.

[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. An explanation of any qualifiers used in summing up can be found here: http://www.imf.org/external/np/sec/misc/qualifiers.htm.

Public and publicly guaranteed (PPG) external debt fell to 28.3 percent of GDP at end 2012 from 32.1 percent of GDP a year earlier due to large amortization payments to China and a temporary slowdown in external loan disbursements during the year. The REER remained broadly in line with medium-term fundamentals and historical averages while gross international reserves were at just 1.6 months of imports at end 2012.

Fiscal policy over-performed the 2012 budget target and staff estimates. Driven by stronger tax and non-tax revenues and lower capital expenditure—which declined in large part due to an agreed temporary halt in Roghun hydropower plant construction while feasibility studies are being completed—the fiscal position (excluding externally financed public investment projects (PIP)) moved to a surplus of 1.9 percent of GDP. Budgeted social spending was fully implemented and the fiscal outcome was consistent with the anchor of bringing, and maintaining, total PPG debt below 35 percent of GDP.

Reserve money growth in 2012 was slower than expected, due in part to over-performance of the budget and the decline in liquidity lending to banks. Credit to the private sector grew by about 9 percent, after accounting for the write-off of bad loans at Agroinvestbank (AIB) in 2012. With headline inflation declining, the NBT lowered its refinance rate and reduced reserve requirements. The banking system continued to show signs of challenges, with relatively low profitability when compared to other countries in the region, rising non-performing loans, and high lending-deposit spreads. System-wide capital adequacy remained high (23.3 percent), but masked vulnerabilities in some large banks. Repeated acts of large directed lending compromised central bank independence. Weak governance and financial sector accountability, and the poor business climate put a dent in financial sector and government debt market development.

Though Tajikistan's medium-term outlook is generally favorable if macroeconomic policies remain prudent and fiscal risks are contained, the country remains vulnerable. Downside risks include deteriorating terms of trade, slowing growth in Russia, weak reforms in public financial management, and financial sector and contingent liabilities. Additional risks stem from the pace of construction and financing terms of major energy projects, limited transport links, strained relations with Uzbekistan, and the planned drawdown of NATO troops from Afghanistan. Growth dividends from stronger structural reforms, higher remittances, and possible hydrocarbon production are possible upside.

Executive Board Assessment

Executive Directors agreed with the thrust of the staff appraisal. They welcomed Tajikistan's track record of robust growth and the favorable medium-term outlook. They noted, however, that the economy remains vulnerable to external shocks, fiscal risks, and financial sector fragilities. Against this background, Directors underscored the importance of rebuilding fiscal and external buffers, strengthening governance, and resolving financial sector weaknesses. The main challenge in the medium term is to create the conditions for private-sector-led, sustainable, and inclusive growth.

Directors welcomed the authorities' prudent monetary stance, which has kept inflation low. They agreed that policy should continue to focus on safeguarding price stability and that greater flexibility in exchange rate management would cushion external shocks and support a needed buildup of international reserves.

Directors commended the authorities for the strong recent fiscal performance and encouraged them to rebuild fiscal buffers. In light of significant fiscal risks, they supported the authorities' commitment to continued gradual fiscal consolidation. In this context, they agreed that further tax administration reforms and a dividend policy for all state-owned enterprises are necessary to support revenue mobilization. They also encouraged the authorities to cooperate closely with the World Bank and other donors to develop an adequate and well-targeted safety net. Directors noted that the debt position remains vulnerable and welcomed the authorities' intention to continue to seek external financing only on concessional terms.

Directors noted that improving transparency and public financial management is key to reducing fiscal risks. They agreed that funds should be allocated in the budget for government priorities currently financed by directed lending, which displaces market-financed activity and undermines bank balance sheets. They commended progress on the transparency of operations at state-owned enterprises, but noted that additional steps are warranted, including publishing the audits of the Roghun Open Joint Stock Company and incorporating Talco Management into the public sector.

Directors called for a comprehensive effort to address financial sector vulnerabilities and deepen financial intermediation. A prompt resolution of Agroinvestbank remains a top policy priority, while developing a market for government securities would help mobilize domestic savings and strengthen monetary policy transmission. Directors also agreed on the need to enforce strictly prudential norms across all banks, and to ensure the elimination of directed lending through improved coordination between the central bank and the Ministry of Finance. Directors encouraged the authorities to continue to implement the action plan approved by the Financial Action Task Force to strengthen prevention of money laundering and the financing of terrorism.

Directors stressed the importance of structural reforms to improve the business climate and competitiveness, thus laying the ground for sustainable and inclusive growth. They welcomed Tajikistan's accession to WTO membership and supported the authorities' efforts to reduce business administrative costs and to diversify markets and products.

It is expected that the next Article IV consultation with the Republic of Tajikistan will be held on the regular 12-month cycle.

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

Tajikistan: Selected Economic Indicators, 2010–13

	2010 Act.	2011 Est.	2012 Est.	2013 Proj.
	(Annual percent change, unless otherwise indicated)			
National accounts				
Real GDP	6.5	7.4	7.5	6.8
GDP deflator (cumulative)	12.5	13.3	11.9	8.0
Headline CPI Inflation (end-of-period)	9.8	9.3	6.4	7.0
Headline CPI Inflation (period average)	6.4	12.4	5.8	7.5
Core CPI inflation (period average)	5.9	6.0	8.4	5.2
	(In percent of GDP, unless otherwise indicated)			
Investment and saving 1/				
investment	17.9	20.5	17.5	18.5
Fixed capital investment	12.9	15.5	13.0	15.5
Government	10.9	12.5	9.0	10.3
Private	2.0	3.0	4.0	5.2
Gross national savings	16.7	15.8	16.2	16.8
Public	7.2	10.5	9.6	7.9
Private	9.5	5.3	6.5	8.8
General government finances				
Revenue and grants	23.2	24.9	25.1	26.1
Tax revenue	18.0	19.4	19.8	19.6
Expenditure and net lending 2/	26.9	26.9	24.5	28.4
Current 2/	15.0	14.7	15.7	18.2
Capital	10.9	12.5	9.0	10.3
Overall balance (excl. PIP and stat. discrepancy)	-0.4	0.9	1.9	-0.1
Overall balance (incl. PIP and stat. discrepancy)	-3.7	-2.0	0.7	-2.3
Domestic financing	-0.4	-0.5	-0.9	1.2
External financing	4.1	2.6	0.3	1.1
Total public and publicly-guaranteed debt	36.3	35.4	32.3	30.7
Monetary sector				
Broad money (12-month percent change)	25.4	46.8	15.5	18.1
Reserve money (12-month percent change)	15.8	27.9	18.5	16.5
Credit to private sector (12-month percent change) 3/	-25.7	23.9	8.9	17.2
Velocity of broad money (eop)	4.9	4.1	4.2	4.1
Refinancing rate (in percent, eop/ latest value)	8.25	9.80	6.50	…
	(In percent of GDP, unless otherwise indicated)			
External sector 4/				
Exports of goods and services (U.S. dollar, percent change)	14.6	34.5	18.9	4.2
Import of goods and services (U.S. dollar, percent change)	9.4	47.6	11.7	11.3
Current account balance	-1.2	-4.7	-1.3	-1.7
Trade balance (goods)	-37.0	-47.7	-42.4	-44.8
FDI	0.3	1.0	1.9	1.8
Total public and publicly guaranteed external debt	34.1	33.1	28.3	27.0
Export of goods and services, in millions of U.S. dollars	866	1,164	1,384	1,443
Import of goods and services, in millions of U.S. dollars	2,968	4,382	4,894	5,449
Current account balance, in millions of U.S. dollars	-69	-307	-99	-145
Total public and publicly guaranteed external debt, in millions of U.S. dollars	1,911	2,094	2,150	2,248
Gross official reserves (in millions of U.S. dollars)	476	572	699	935
In months of next year's imports 5/	1.3	1.4	1.6	1.9
In percent of broad money	21.4	16.8	17.2	19.0
Memorandum items:				
Nominal GDP (in millions of somoni)	24,705	30,069	36,161	41,690
Nominal GDP (in millions of U.S. dollars)	5,642	6,523	7,592	8,537
Social and poverty-related spending (in percent of GDP)	9.0	9.7	10.9	11.1
Nominal effective exchange rate (Index 2005=100)	69.5	64.4	64.6	…
Real effective exchange rate (Index 2005=100)	92.1	90.9	91.8	…
Average exchange rate (somoni per U.S. dollar)	4.38	4.61	4.76	…

Sources: Data provided by the Tajikistan authorities and IMF staff estimates and projections.
1/ Private investment and savings are estimates. Investment includes changes in stocks.
2/ Including statistical discrepancy.
3/ Decline in 2010 is due to resolution of Kredit Invest (KI) carrying large nonperforming loans to the cotton sector. Slowdown in 2012 is due to bad loans write-off at Agroinvestbank.
4/ Receipts from aluminum exports under the tolling arrangements are booked as services exports.
5/ Excluding electricity, which is on barter basis, and imports related to Roghun and projects financed with loans from China.

INTERNATIONAL MONETARY FUND

REPUBLIC OF TAJIKISTAN

STAFF REPORT FOR THE 2013 ARTICLE IV CONSULTATION

July 1, 2013

KEY ISSUES

Context: Tajikistan successfully completed a 3-year ECF-supported program in May 2012 and needs to continue with ambitious reforms. While growth is robust, it is non-inclusive, leading to large-scale outmigration that makes Tajikistan the most remittance-dependent country in the world. The country remains the poorest of the eight in the Caucasus and Central Asia (CCA) and stands next to last among the seven with rankings in the ease of doing business. Reliance on commodity imports, a narrow export base, and low buffers leave the economy vulnerable. Weak macroeconomic policy frameworks restrict the authorities' ability to dampen shocks. State-directed lending and investment displace market-financed activity and create fiscal risks. Presidential elections are scheduled for November.

Outlook and risks: Tajikistan's medium-term outlook is generally favorable if macroeconomic policies remain prudent and fiscal risks are contained. Downside is marked by negative terms of trade shocks, slowing growth in Russia, and weak reforms in public financial management (PFM) and the financial sector because of resistance from strong vested interests. Upside includes growth dividends from stronger structural reforms, higher remittances, and possible hydrocarbon production. Other risks derive from limited transport links, strained relations with Uzbekistan, the planned drawdown of NATO troops from Afghanistan, and the pace of construction and the terms of financing of major energy projects.

Key Article IV policy recommendations: Tajikistan's principal economic challenge is to create an environment suitable for private sector development and sustainable and inclusive economic growth, while working within domestic and external financing constraints.

- Rebuild fiscal and external buffers to create space to respond to shocks.
- Invest in transparency of doing business and financial accountability to expand private investment, boost job growth, and diversify output and the export base.
- Sharply curtail directed lending, strengthen financial sector supervision—including through proper bank resolution, and develop financial markets (government securities market in particular) to level the playing field for private investment.

Approved By
Juha Kähkönen (MCD) and Dhaneshwar Ghura (SPR))

The team comprised: Jonathan Dunn (head), Ritu Basu, Svetlana Cerovic, Maxym Kryshko (all MCD), Tamon Asonuma (SPR), and Ari Aisen (Resident Representative). Amirjon Ubaidulloev, Advisor to the Executive Director, joined the policy discussions. The mission liaised with the World Bank on financial sector and debt sustainability issues.

Discussions were held in Dushanbe during March 28–April 11, 2013. The mission met with President Rahmon, Prime Minister Aqilov, First Deputy Prime Minister Davlatov, Minister of Finance Nadjmuddinov, National Bank of Tajikistan (NBT) Chairman Shirinov, Minister of Economic Development and Trade Rahimzoda, other senior government officials, and representatives of the donor community and the private sector.

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CONTEXT

1. Tajikistan is the poorest of the CCA countries (Figure 1)—2012 per capita GDP US$943—and is vulnerable to shocks. The country relies heavily on imports of food (58 percent share in the CPI) and fuel, and inflation tends to fluctuate with international prices for these commodities. The export base is narrow and commodity driven (aluminum and cotton). Tajikistan exhibits an extraordinary dependence on remittances, earned mainly by workers in Russia and equivalent to 48 percent of GDP and more than five times export earnings. The country's remote and landlocked location makes transport costs to global markets high, and transport links are periodically interrupted by Uzbekistan. The expected drawdown of NATO troops from Afghanistan—with which Tajikistan shares a long and porous border and a sizeable ethnic group—adds to uncertainty in coming years. Periodic outbreaks of domestic violence reflect tensions remaining from the civil war of the 1990s. Presidential elections are scheduled for November 2013.

2. Tajikistan's vulnerability is exacerbated by a poor business climate and weak policy frameworks. Growth in recent years has been strong, but not inclusive, with job growth held back by state-directed lending and investment that displace opportunities for private investment and help fuel rent seeking.[1] Though the authorities' medium-term fiscal framework is consistent with maintaining public debt below 35 percent of GDP, contingent liabilities arise from quasi-fiscal spending directed through SOEs and banks. Monetary policy traction is weak due to underdeveloped financial markets, and the NBT's policy framework is effectively based on an exchange rate anchor to the U.S. dollar. While the 2011 central bank law is based on best practice, NBT independence is weak in the face of pressure to support quasi-fiscal activities through uneven application of prudential norms and liquidity loans to banks. Tajikistan's anti-money laundering and combating the financing of terrorism (AML/CFT) framework is gradually being strengthened, including through recent measures on customer due diligence, although certain deficiencies remain. Progress on recommendations from the last Article IV remains uneven, especially on structural reforms, (Box 1). The authorities have expressed interest in a successor ECF arrangement. Discussions on a possible Fund-supported program have started and are likely to continue after the November 2013 presidential elections.

[1] While the business environment remains weak, potential improvements lie in the implementation of the new tax code, fewer steps required to start a business (2012 World Bank Doing Business), and rules for investor protection (Tajikistan acceded to the Convention on Recognition and Enforcement of Foreign Arbitral Awards in May 2012).

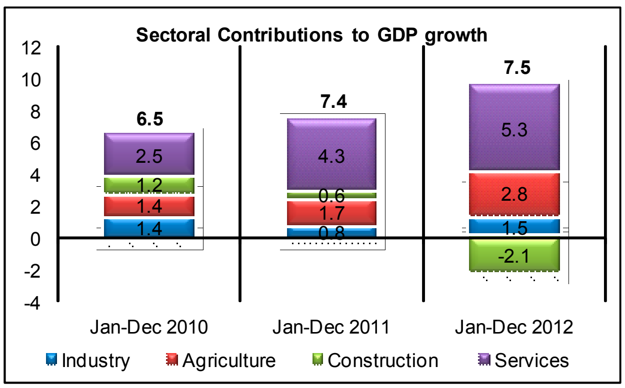
Box 1. Tajikistan: How Much Traction Did Previous IMF Advice Receive?

Staff advice	**Policy action**
Fiscal Policy	
Pursue fiscal consolidation to ensure medium-term fiscal and debt sustainability while maintaining a careful balance between current and capital expenditures to meet resource constraints and social and developmental objectives.	The fiscal position moved from a deficit of 0.4 percent of GDP (excluding PIP) in 2010 to a surplus of 1.9 percent of GDP in 2012. Social and poverty related expenditure has been increasing, while capital investment remains high.
Facilitate tax revenues by improving tax administration, simplifying the tax regime, expanding the tax base.	A new tax code was introduced on 1/1/13. It simplifies the tax regime and broadens the tax base. IMF TA recommendations on tax administration are largely being implemented.
Continue development of the domestic debt market.	T-bills are auctioned once a month, but yields do not reflect market pricing and there is a single maturity of 91-days.
Operations to procure food and fuel for strategic reserves should be carried out as a fiscal operation rather than through the banking system, and blanket subsidies should be avoided.	The authorities continue to use directed lending for such operations, as evidenced by the large loan AIB was directed to extend to the State Materials Reserve Agency in Q1 2013.
Monetary, exchange rate and financial sector policies	
Monetary policy to focus on containing inflation through a reduction of liquidity lending in line with a path for net domestic assets and reserve money consistent with macroeconomic stability	NBT liquidity lending fell sharply following the government bailout of AIB in April 2012. Monetary policy stance is now consistent with single-digit inflation.
Take a flexible approach to exchange rate management to facilitate external adjustment and protect the limited stock of FX reserves.	Partially met, but further effort is needed to increase flexibility of exchange rate.
Address structural weaknesses in the financial system by ending directed lending, requiring banks to fully provision for the uncollateralized portion of NPLs, and applying a uniform classification of NPLs, together with tighter standards on reclassification.	Directed lending continues. Provisioning requirements have been tightened, and uniform classification now applies. Provisioning for NPLs continues to fall short of NBT regulations.
Structural Reforms	
Create a self-sustaining mechanism for agricultural financing to prevent future recourse to the NBT or directed lending by the banking system to meet agricultural financing needs.	While agricultural reforms have progressed, a sustainable model of agricultural financing has not emerged and directed lending is still targeted at the sector.
Enhance Tajikistan's AML/CFT framework, notably by implementing the recommendations made during the Eurasian group 2008 mutual evaluation	Tajikistan is making timely progress on the action plan agreed with FATF to address these recommendations, although certain deficiencies remain.
Enhance social safety nets through better targeting of social assistance.	Slow progress is being made, including through pilot projects with EU and World Bank assistance in districts outside of Dushanbe.

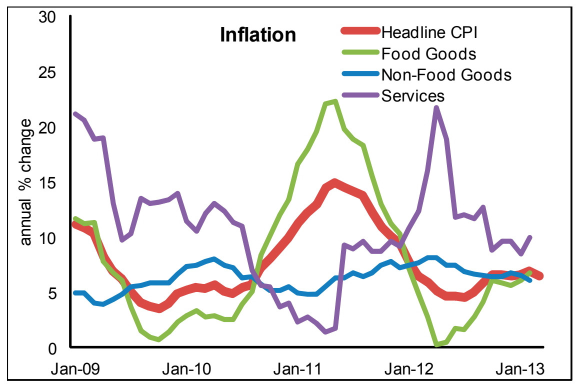
RECENT DEVELOPMENTS AND SHORT-TERM OUTLOOK

3. **GDP growth remains robust and headline inflation has declined.** Supported by strong services (fueled by growing remittance inflows), agriculture, and industry, real GDP grew 7.5 percent in 2012. While holding almost steady at 7.3 percent through the first quarter of 2013, growth is projected to ease to under 7 percent by year-end due to slowing growth in Russia and anticipated declines in aluminum production and exports. Headline inflation moved with international food prices and declined from 9.3 percent at end 2011 to 6.4 percent by end 2012.[2] Annual CPI inflation in the first quarter of 2013 held steady at 6.5 percent. Inflation pressures should remain low in light of projected food and fuel prices and the stances of macro policies.

Growth driven by remittances and services



Inflation driven by international prices



4. **The external current account (CA) deficit shrank from 4.7 percent of GDP in 2011 to 1.3 percent of GDP in 2012.** Slower import growth—partially underpinned by a temporary slowdown in external loan disbursements for the public investment program (PIP)—and rapid growth of gross remittances (26.8 percent) helped to put the CA deficit on a downward path.[3] As a consequence of slower external loan disbursements and large amortization payments to China, total public and publicly guaranteed external debt fell to 28.3 percent of GDP at end 2012 from 32.1 percent of GDP a year earlier. The somoni has been relatively stable vis-à-vis the U.S. dollar and gross international reserves settled at just 1.6 months of imports at end 2012. Despite appreciating somewhat in recent months, the REER remains broadly in line with medium-term fundamentals and historical averages (Annex I).

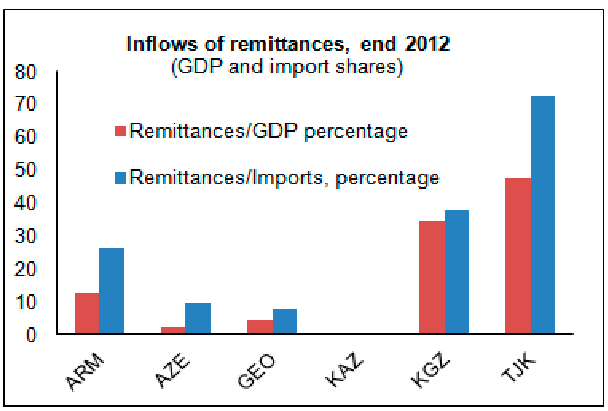
[2] Tariff increases for transportation (rail and air) and communication contributed to core inflation (CPI excluding food and energy) of 7.1 percent through end 2012.

[3] The authorities revised upward import estimates for 2011. More generally, the NBT changed the methodology for compiling various BOP accounts, causing a break in the series. There are measurement issues in the computation of remittances at the NBT, and the current value may be overstating remittance flows to Tajikistan.

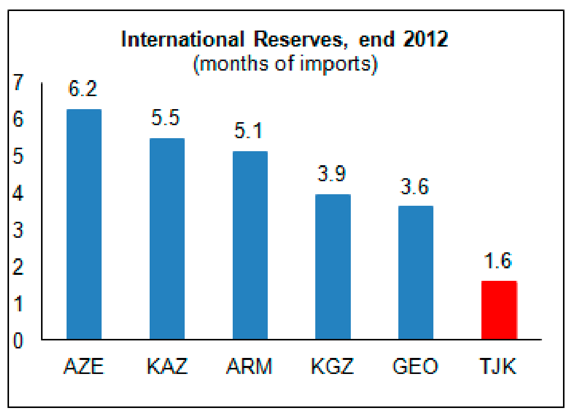
5. Fiscal policy over-performed the 2012 budget target. Data for 2012 indicate that the fiscal position moved to a surplus of 1.9 percent of GDP (excluding the PIP; compared to earlier staff estimates of a deficit of 0.2 percent of GDP and a budgeted deficit of 0.5 percent of GDP). Fiscal saving (excluding PIP grants and expenditures) in 2012 was driven both by stronger tax and non-tax revenues and lower domestically financed capital expenditure, the latter in large part due to an agreed and appropriate temporary halt in Roghun construction while feasibility studies for that project are completed. Budgeted social spending (which incorporated double-digit minimum wage and pension increases that took effect in September) was fully implemented. The fiscal outcome was consistent with the anchor of bringing, and maintaining, public debt below 35 percent of GDP. Total public and publicly-guaranteed debt stood at just over 32 percent of GDP at end 2012.

6. The fiscal deficit (excluding externally-financed PIP) is projected to loosen in 2013 relative to the 2012 outcome. The projected loosening of 2 percent of GDP is consistent with the adopted 2013 budget and it accounts for possible challenges in implementing the new tax code (effective from January 1, 2013), the potential for higher election-related expenditures, and the full-year effect of 2012 social sector wage increases. The projected deficit remains consistent with medium-term debt sustainability. In practice, the fiscal outcome in 2013 may be less expansionary than projected due to conservative budgeting practices (e.g. the authorities often slightly inflate the wage bill and are conservative on revenue estimates).[4]

Remittances help with shock absorption



But reserve cover is lowest in the region



7. Reserve and broad money growth in 2012 were slower than expected (Table 1). As headline inflation declined, the NBT lowered its refinance rate—which serves as a floor for bank lending rates—and reduced reserve requirements. Reserve money growth was contained in 2012 through over performance of the budget, large end-year sterilization, and the decline in liquidity

[4] Though the 2013 budget and subsequent projections anticipated challenges in implementing the new tax code, preliminary results for Q1 2013 point to tax revenue over-performance of around 2 percent vis-à-vis budget projections.

lending.[5] Broad money growth was suppressed due in part to the transfer of large Roghun HPP deposits from commercial banks to the NBT. After accounting for the write-off of bad loans at Agroinvestbank (AIB) in 2012, credit to the private sector grew by about 9 percent.

8. **The banking system continues to show signs of weakness, and vulnerability of the system is high and escalating**. Profitability of the system in 2012 remained low by regional standards while non-performing loans keep rising (Annex III). Lending-deposit spreads are high, reflecting the poor business environment and elevated credit risk. Though system-wide capital adequacy is high (23.3 percent), stress tests indicate that this masks vulnerabilities in large banks. A vivid recent example was the 2012 government bailout of AIB, the largest bank by assets, through the Ministry of Finance (MOF) purchase of bad loans for SM 500 million at virtually no discount and injection of SM 200 million as capital. This operation came at a total fiscal cost of 2 percent of GDP and gave the government a 52 percent stake in AIB, while leaving existing private shareholders with the remaining equity in the bank and effective control of the bank's management. In early 2013, an unsecured government-directed loan to the State Materials Reserve Agency in the amount of SM 150 million added further strain to AIB by breaching the maximum single borrower exposure limit (74 percent of regulatory capital against an allowed maximum of 20 percent) and by further eroding AIB's liquidity position. Central bank independence, a level playing field for investors, and the credit culture were further compromised by this action.

MEDIUM-TERM OUTLOOK AND RISKS

9. **Tajikistan's medium-term outlook is generally favorable, provided prudent macroeconomic policies continue to be implemented.** The macroeconomic scenario is characterized by robust—yet moderating—growth, single-digit inflation, and a slight deterioration in the current account. Adverse projected global conditions are expected to weigh on growth in the near term, while growth eases further over the medium term due to the assumed slow pace of structural reforms. The outlook incorporates gradual fiscal consolidation consistent with debt sustainability, a moderate pace of construction of the Roghun HPP (to be reassessed following completion of the Roghun feasibility studies by the World Bank), and little improvement in electricity supply. Though fixed capital investment is projected to firm in the outer years—in part due to the pick-up in donor-financing for government investments—growth dividends are also muted by moderating remittance growth and slowing private consumption and investment, again in view of modest expected structural reforms. Expectation of benign global conditions for food and fuel prices, planned fiscal consolidation, and maintenance of an appropriate monetary policy stance should contain inflation. The external current account path is driven by the slower growth in remittances—tied to likely downside spillovers into Russia—and import growth consistent with the assumed pace of Roghun construction.

[5] The volume of emergency liquidity lending by the NBT slowed following the rescue of AIB (which had depended on this facility).

10. Tajikistan's risk of debt distress improves to moderate with remittances included in the updated LIC DSA. However, risks remain to the debt position. Fiscal costs arising from directed lending—such as in the case of AIB in 2012—and unreformed SOEs periodically increase public debt. Moreover, debt sustainability depends critically on a steady flow of remittances, with a standard shock to remittances assessed to lead to the breach of debt thresholds (Debt Sustainability Analysis, Figure 1 and Table I, 1a and 1b).

11. The outlook is subject to many risks (Box 2). Unfavorable shifts in import (food and fuel) and export (cotton and aluminum) prices would adversely affect inflation, the current account and international reserves. Sustained weak growth in Russia would put further pressure on the external position and reduce domestic growth through the remittance channel. Failure to resolve properly weak financial institutions and establish financial accountability—including by stopping directed lending—will limit financial market development, weaken fiscal sustainability, and further dent business confidence, investment, job creation and private-sector led growth. Developments surrounding NATO troop withdrawal from Afghanistan and periodic blockades of regional transport links also increase uncertainty. Upside risks come from a greater growth dividend if the pace of structural reforms picks up, stronger-than-expected remittance growth, and emerging substantial hydrocarbon discoveries.

12. Authorities' views. The authorities (NBT and the MOF) broadly shared the staff's views on the medium-term outlook and risks. They concurred with staff on the adverse impact of unfavorable shifts in commodity prices and of uncertainty generated by NATO troop withdrawal from Afghanistan and transport blockades from Uzbekistan. They remained ambivalent to lower growth prospects in Russia putting downward pressure on reserves and remittance inflows and did not see the urgent need to resolve weak banks or shift to market-based financing and stop directed lending.

Box 2. Tajikistan: Risk Assessment Matrix

		Likelihood	Up/down side	Impact/Policy response
Short-term risks	**Risks to the economic outlook**			
	Financial stress in Euro Area re-emerges (triggered by stalled or incomplete delivery of national and Euro area policy commitments and Emerging Markets capital flow reversal (associated with a strong unwinding of asset price overvaluation in some countries)	M *	↓	**Impact**: High. Direct financial linkages to Europe are small. Contagion is likely to occur from developments in Russia. It is the major source of remittance income for the population, and helps to finance imports and growth. Import compression and limited fiscal space will slow growth. A large financing gap (close to 3 percent of GDP) with little reserve buffer (1/2 month of import cover) is likely to appear (per shock estimated in VE-LIC). **Policy response:** Allow more flexibility in the exchange rate to stabilize foreign reserves; more external financing may be needed to cover financing gap. Increase social spending targeted at vulnerable groups.
	Deeper than expected slowdown in EMs (reflecting lower than anticipated potential growth), leading to severe slowdown of remittance growth	M *	↓	**Impact**: High. Remittances are the major source of income for many in the population. They are also closely correlated to imports (in part an automatic stabilizer), stimulate construction and services, and are an important source of foreign exchange reserves. Channels of transmission are same as above (taken from VE-LIC scenario). **Policy response.** Same as above.
	Escalation of domestic social and political tensions	M	↓	**Impact:** High. Social or regional unrest could severely alter the fragile political consensus on which the regime depends. **Policy response:** Use fiscal policy supportively and re-orient public expenditure to respond to the most pressing social needs.
	Global oil shock triggered by geopolitical events (driving oil prices to $140 per barrel);	L *	↓	**Impact**: Medium. Tajikistan's current account depends to a large extent on world market prices, particularly import bills for food and fuel. **Policy response:** Allow for internal price adjustment and focus on second round effects on inflation. Increase social spending to the vulnerable and use exchange rate flexibility as needed to help protect reserves.
	Risks to the financial sector			
	Insolvency of commercial banks, including because of problems arising from directed lending.	H	↓	**Impact**: High. Would result in much larger bank recapitalization needs and increased public debt, and would undermine the banking sector's contribution to growth. **Policy response:** Halt directed lending. Accelerate bank restructuring while minimizing fiscal costs, thereby helping to address moral hazard and strengthen the repayment culture. Fully enforce prudential norms, and relevant AML measures.
Medium-term risks	Instability in Afghanistan	M	↓	**Impact:** High. Due to ethnic ties to a large part of the population in Afghanistan, this could lead to an increase of refugees, increase the influence of potentially radical political factions, and further lower investors' confidence. **Policy response:** More external financing would be needed to weather adverse effects on Tajikistan.
	Escalation of dispute with Uzbekistan over the construction of Roghun HPP	M	↓	**Impact:** High. Trade disruptions for landlocked Tajikistan could become more severe and inflation could rise from higher transport costs. **Policy response:** Further diversify trading partners; improve other transport links to reduce reliance on roads and railways through Uzbekistan.

Source: IMF staff.

1/ The Risk Assessment Matrix (RAM) shows events that could materially alter the baseline path (the scenario most likely to materialize in the view of IMF staff).

The relative likelihood of risks listed is the staff's subjective assessment of the risks surrounding the baseline. The RAM reflects staff views on the source

*/ Taken from GRAM May 2013.

POLICY DISCUSSIONS

13. Against this backdrop, the policy discussions focused on (i) reducing Tajikistan's vulnerabilities to external shocks; (ii) making growth more inclusive and private-sector led, including by bolstering private investment and deepening financial intermediation, and (iii) addressing fiscal vulnerabilities and strengthening public sector governance.

A. Strengthening External Accounts

14. Reducing vulnerability to external shocks and strengthening competitiveness remain overarching policy objectives. Tajikistan's trade is commodity based, making the country vulnerable to external shocks. Food and fuel imports constitute 18 percent of merchandise imports.[6] The export base is very narrow (less than 18 percent of GDP in 2012) and commodity-driven (aluminum tolling fee and cotton at 12 percent and 15 percent, respectively, of goods and services exports). These factors, complemented by Tajikistan's reliance on remittance funding, remain key contributors to external vulnerability, which rests also on inadequate international reserves and increasing debt service. At end 2012, international reserves—at US$ 0.7 billion, or only 1.6 months of import cover—remained substantially below the level of 2.7 months of import cover calculated based on the costs and benefits of holding reserves using the reserve adequacy tool (Annex II). In addition, although trends in Tajikistan's REER compare favorably with other CCA countries, limited transport links, distance to markets, and the poor business climate raise Tajikistan's trading costs and weaken competitiveness.

15. Near- and longer-term measures were proposed to protect against external vulnerability and improve competitiveness. Staff urged the authorities to pursue an ambitious international reserve build-up through greater exchange rate flexibility, as warranted by market conditions, and by converting their stocks of non-monetary gold to monetary gold. Staff also emphasized that the authorities could take steps to improve transparency and the business climate—for instance through the even application of the new tax code, consistent enforcement of prudential regulations on banks, and rapid implementation of WTO commitments—to support competitiveness and diversification of domestic production and the export base over the medium term.

16. Authorities' views. The NBT is committed to allow greater exchange rate flexibility to support international reserves. While the NBT indicated that the conversion of its non-monetary to monetary gold is likely to be completed in the second half of this year, the MOF is still considering whether to convert its non-monetary gold and sell it to the NBT (which would also provide a liquid fiscal buffer). The authorities noted they are taking steps to improve competitiveness, product and market diversification, and the business climate. Following Tajikistan's entry into the WTO on March

[6] Changes in international food prices have major effects on headline inflation and household food security due to the 58 percent share of food in the CPI.

2, 2013, the authorities are assessing the impact of tariff rationalization on production and are taking measures to reduce administrative costs to help producers remain competitive. Discussions have started on transit agreements to facilitate trade through Afghanistan and with countries in South Asia.[7] Legislation to liberalize further the capital account—allowing individuals and businesses to open accounts abroad—is under consideration by parliament. The authorities are partnering with international organizations on projects to enhance private sector competitiveness as well as investments in energy and infrastructure projects. Finally, the business climate is expected to improve further with ongoing reforms in tax administration and implementation of the new tax code, which has reduced the number of taxes.

B. Making Growth Inclusive and Private-Sector Led

17. Staff stressed that while economic growth is strong, it is not inclusive because current policies do not support domestic job creation[8]. Domestic and foreign direct private investments are held back in part because of state-directed lending and investment.[9] These practices displace private sector activity, contribute to rent seeking, and weaken the business environment. They also put the financial sector at risk and limit its growth. Several large banks have weak governance frameworks and are often expected to lend at preferential interest rates and without regard to whether an activity may be profitable (e.g. AIB). The NBT's balance sheet and independence have repeatedly been put at risk by these practices, both through refinancing of directed-lending operations (e.g. for the cotton sector) and providing liquidity to problem banks.

18. Weak financial intermediation also hinders private sector development and inclusive growth. Tajikistan has made some progress in this area, particularly connected to financial market infrastructure. Work is underway to strengthen the payments system and reform the collateral registration system, and a private credit bureau is now operational. However, money and bank credit as a share of GDP remain low even by regional standards. The economy remains largely cash based, as reflected in small individual deposits in banks. Bank loans are predominantly short term and to provide working capital for domestic and international trade. Access to finance by micro, small, and medium enterprises is limited. The shallowness of the financial system and financial markets (the interbank and government securities markets in particular) hampers the shift toward greater market orientation, limits the sector's contribution to economic growth, undermines the effectiveness of monetary policy, and constrains the ability of the government to finance budget deficits from domestic sources. Financial market development would, therefore, play an important role in fiscal sustainability, create traction for monetary policy, and support growth.

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[7] Tajikistan is not yet considering membership in the Belarus-Kazakhstan-Russia customs union (CU) as it has no common border with any member state and views its WTO membership as complicating any effort to join the CU.

[8] Staff estimates indicate that real growth of at least 9 percent is needed just to absorb new entrants into the labor force and stabilize unemployment. The official unemployment rate is 2 to 3 percent; alternative sources report unemployment rates in the range of 10 to 40 percent, consistent with the amount of outmigration.

[9] The government often cites food security as a motive for directed lending, both to procure food reserves and to support agro-processing.

19. Staff noted that non-inclusive growth contributes to outmigration and the extraordinary reliance of Tajikistan's economy and many households on remittances. Given strong linkages with Russia (the source of over 90 percent of remittances), an intensified Euro area or emerging market crisis, or a global structural shift (e.g. shale oil) that slows growth in Russia could significantly reduce remittances and negatively affect debt sustainability and growth. This highlights again the need for structural reforms that support more balanced development through private investment and broad-based job-creating growth.

20. Staff proposed measures in three areas to relax key constraints to financial market development and support private investment and inclusive growth. This would also require supporting reforms in fiscal and monetary operations to displace successfully the command-based financing mechanism and move to a fully market-based system. First, it is a matter of urgency to halt the practice of directed lending and to resolve AIB properly to help establish financial accountability, improve governance, and create a level playing field for investors. Given the strength of vested interests, staff recommended that international managers be brought in to run AIB, and improve and protect the value of the bank. Second, complementary measures to develop the interbank and government debt markets—including increasing the range of T-bill maturities to other than 91 days and allowing price discovery (the current 2 percent rate on T-bills does not reflect appropriate market pricing and rates will have to rise)—are needed to provide banks with greater placement opportunities and the government with alternative financing instruments. Development of short-term government securities markets would also help strengthen the quality of collateral available for liquidity support from the NBT and the interbank market, thereby helping to strengthen monetary transmission. Third, exercising central bank independence to strengthen bank supervision and align regulatory standards to international practices (e.g., additional risk weighting for large exposure to government and government entities), stop regulatory forbearance, and apply prudential norms equitably across banks is essential for sustaining financial development.

21. Authorities' views. The authorities agreed that moving to a more market-based financial sector would spur private sector development. They commented that banks alone could not serve various scales of private investments and that microfinance institutions as well as savings institutions (such as pension and insurance funds) with longer horizons are required to support small scale (SME activities) and larger scale (infrastructure) investment projects, respectively. The NBT expressed the urgent need for development of the government securities market as well as other instruments for hedging risk (such as various insurance products), and noted that this would help in the medium term to generate government financing for prioritized spending and help protect against pressure for directed lending. The authorities agreed on the need to better coordinate among various agencies (i.e. the NBT and the MOF) to strengthen supervision and regulatory practices and with the need to align regulatory standards to international practice. While the NBT has expressed publicly its willingness to consider foreign management for AIB as part of a resolution strategy, there is no support for this from the broader economic team.

C. Reducing Fiscal Vulnerability and Strengthening Public Sector Governance

22. Staff noted that the medium-term fiscal framework is constrained and subject to contingent risks despite positive fiscal outcomes in the past two years. Government deposits (a key fiscal buffer) are—at just 15 percent of revenues—less than half the level of the pre-crisis period (Annex IV). Concomitantly, amortization of foreign debt is increasing sharply, which will—in the absence of measures to build other buffers (see below)—lead to the full depletion of this deposit buffer over the next two years. SOEs are not well integrated into the budget (no policy requires them to pay dividends; uneven reporting of financial statements) and many exhibit poor financial discipline (arrears, including on taxes, are high). Given Tajikistan's future resource needs for social and investment spending, and its low reserve and fiscal buffers, staff argued that it is important to gain greater control over potential revenue sources, prioritize expenditure, and limit contingent liabilities.[10]

23. Staff recommended that, given its limited fiscal space, Tajikistan should retain a zero limit on contracting or guaranteeing new external non-concessional debt, at least in the near term. Including remittances in the DSA threshold analysis—consistent with the new LIC DSA guidelines—moves Tajikistan from high to moderate risk of debt distress. Tajikistan is, however, assessed to remain vulnerable to shocks on non-debt creating flows (includes official and private transfers and FDI; Debt Sustainability Analysis, Figure 1).[11]

24. Staff noted a range of measures to reduce fiscal vulnerability and improve public sector governance. Gradually moving to small fiscal surpluses will stabilize overall public debt relative to GDP and keep the fiscal deficit within the limited domestic and external financing envelope, thereby helping to preserve reserves. A one-off sale of MOF non-monetary gold to the NBT would boost liquid fiscal buffers and could help support international reserves. Gradually increasing the borrowing envelope, particularly for domestic debt, would help support cash management and create room to finance needed social and infrastructure spending through the budget. This should also limit pressure for quasi-fiscal operations and new directed lending. Strengthening the large taxpayer inspectorate (LTI) and implementing a dividends policy for all SOEs—including Talco Management (TM)—would support tax collection and implementation of the new tax code.[12] Fiscal risks can be better managed if the government strengthens the SOE

[10] The first audit of Talco Management—the offshore arm of the state aluminum company—was completed in late 2011 and indicates that the company earned substantial profits that were not taxed. These funds form part of Tajikistan's government's offshore assets, and little is known or reported about them.

[11] This is shown by protracted breaching of debt burden indicators (PV of debt-to-GDP and remittances ratio; PV of debt-to exports and remittances ratio; and PV of debt-to-revenue ratio) under most extreme shock scenarios.

[12] Specific measures to strengthen the LTI include the development and application of new criteria for determining which firms should be included in the LTI, strengthening audit procedures and practices, and implementing—over the coming two years—the agreed new organizational structure of the LTI.

monitoring unit, brings more SOEs—again, including TM—under the unit's oversight, and develops a concrete plan to address fiscal risks emerging from SOEs and problem banks.

25. Authorities' views. The authorities acknowledged the need for continued prudent fiscal management, as well as the need to rebuild some fiscal buffers. They recognize that a tight fiscal stance is required to create room to service debt, and that additional risks exist if resources cannot be obtained through grants. They also highlighted pressing social expenditure needs (a point also emphasized by donors), with particular emphasis on the low level of capital spending in the social sector compared with that of other countries in the region. On financing, while acknowledging the importance of developing domestic debt markets, the MOF argued that concessional external borrowing—which it will continue actively to pursue—offers more favorable terms than t-bill issuance at domestic market rates. The authorities indicated they are considering a dividends policy for SOEs. However, they said they do not have the consensus at this time to include TM in the SOE monitoring division at MOF, to apply a possible future dividends policy for SOEs to TM, or to create greater transparency around TM's overall financial flows. The Tax Committee noted that it is developing new criteria for the inclusion of taxpayers in the LTU and an arrears management strategy to support implementation of the new tax code.

STAFF APPRAISAL

26. Tajikistan is weathering global economic stresses relatively well, but faces important development challenges and remains highly vulnerable to shocks. While near-term economic prospects remain reasonably robust, growth is likely to slow in the medium term due to the modest pace of structural reforms. Heavy reliance on remittances from Russia, a slowdown in Russia, and movements in international commodity prices create substantial risks for the population and the economy. Regional factors and Tajikistan's remote location and high transportation costs to global markets also complicate the economic environment. Early reports of substantial hydrocarbon discoveries may mean that the outlook will need to be reassessed in coming years.

27. There is a need to take a fresh look at medium-term fiscal objectives in the post-crisis environment, in particular the need to rebuild fiscal buffers. The authorities' plan to move the fiscal position (excluding PIP) over the medium term from small deficits to balance is welcome, and in practice small surpluses are likely to be achieved due to conservative budgeting. Strong tax administration reforms should be pursued to support revenue and the overall fiscal position, especially in the face of sharply higher external debt service. Fiscal buffers can be strengthened through the adoption of a dividends policy for SOEs, the sale of the MOF's stock of non-monetary gold to the NBT, strong efforts to collect on the bad loans the government purchased from AIB, and the re-privatization over the medium term of the government's share in AIB.

28. The authorities' intention to continue to seek only concessional external financing is welcome. Risks remain to the debt position even though public debt stands at just 32 percent of GDP and the risk of debt distress has improved to moderate with remittances included in the updated LIC DSA. Fiscal costs arising from directed lending—such as in the case of AIB in 2012—and unreformed SOEs periodically increase debt. A standard shock to non-debt creating flows (mostly remittances)—on which Tajikistan heavily depends—is assessed to lead to the breach of debt thresholds. Debt sustainability also depends critically on the government's decision on whether to build the full-height Roghun dam and the financing terms of the remainder of that project. The authorities' current view on concessional borrowing may be tested when the government tries to secure financing for the Roghun HPP.

29. Protecting the poor is an important priority, and should be done more efficiently and transparently. Blanket subsidies should be avoided. Furthermore, in the absence of adequate social safety nets, operations to procure food and fuel for strategic reserves should be carried out as a fiscal operation rather than as directed lending through the banking system. Going forward, the authorities are encouraged to cooperate closely with the World Bank and other donors to develop a more effective means of providing direct and targeted assistance to the poor. The authorities should also halt directed lending of all types and consider setting aside fiscal contingency funds in the budget—that are consistent with deficits that yield gradual fiscal consolidation—to allow them to manage the costs of potential unanticipated government priorities in a more transparent manner.

30. Monetary policy should continue to focus on containing inflation. The NBT's policy stance, which is supportive of low inflation, is welcome. Reserve money targets are consistent with single-digit inflation, the interest rates on liquidity lending are set to prevailing market levels, and the NBT is mindful of the need to extend liquidity loans only to solvent banks and against good collateral.

31. Exchange rate policy needs to retain flexibility and further structural reforms are needed to support competitiveness. The somoni is at present broadly in line with medium-term fundamentals and the nominal exchange rate has remained stable in the absence of major shocks. However, potential adverse movements in the terms of trade—through shifts in food, energy, or cotton prices—or shocks to remittances from a slowdown in Russia suggest the need for more exchange rate flexibility to strengthen reserves and competitiveness. The NBT's readiness to allow greater exchange rate flexibility—while intervening to smooth excess volatility—is, therefore, welcome, as is its decision to convert its non-monetary gold into monetary gold in 2013 to bolster reserves. Tajikistan's accession to WTO membership should support competitiveness and trade integration, including through the authorities' initiative to diversify markets, products, and market access, and to reduce administrative costs for businesses in line with WTO commitments.

32. A comprehensive and well-sequenced effort is needed to address financial sector vulnerabilities and limit the emergence of new fiscal liabilities. While Tajikistan is strengthening the payments system and reforming the collateral registration system, and a first private credit reporting bureau is now operational, the financial sector remains underdeveloped due to weak governance and the lack of effort to develop government debt markets. In view of this, the authorities should pursue a decisive resolution of AIB by hiring foreign managers to strengthen governance and protect the value of the bank, and this should be complemented by strict NBT enforcement of prudential norms across all banks and a halt to directed lending to protect the financial sector. The lack of aggressive action to date on AIB is protecting the vested interests of existing private shareholders and forfeiting the opportunity to minimize the fiscal cost of the intervention in the bank. This lost opportunity to strengthen financial accountability also weighs on the development of the interbank market. The MOF's reluctance to develop the government debt market—due to its concern about the potential cost of servicing domestic debt— is preventing the creation of instruments to strengthen the monetary policy framework, limiting Tajikistan's ability to deal with shocks, and creating rollover risks.

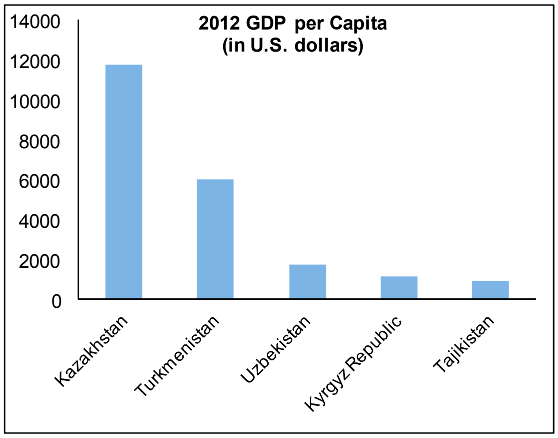
33. Structural reforms should continue to target governance and transparency, and seek to facilitate market orientation. Progress made under the 2009–12 ECF-supported program with respect to transparency of state enterprises and government operations is laudable. The potential benefits of the overhaul of the tax regime—in terms of boosting revenue and creating a more open business environment— are welcome. The establishment of the SOE monitoring unit in the MOF is positive and the authorities are encouraged to move forward quickly with the adoption of a dividends policy for SOEs. Further progress on transparency around SOEs and in public financial management is needed and is likely to be slow. The 2008–10 audits of the Roghun HPP open joint stock company should be published, and this practice should continue. Including Talco Management (TM) in the SOE monitoring unit at the MOF, applying a possible future dividends policy for SOEs to TM, and creating greater transparency around TM's financial flows are needed to strengthen public financial management and bolster revenues and fiscal buffers. Tajikistan should continue to implement in a timely manner the FATF-approved action plan on AML/CFT and to strengthen compliance with FATF standards, notably with respect to the terrorist-financing offense, confiscation, freezing of terrorist assets, and customer due diligence.

34. Data provision to the Fund for surveillance purposes is broadly adequate. Tajikistan participates in the GDDS and, while there are some weaknesses, data provision is broadly adequate for surveillance. Further technical assistance from the IMF would be helpful to improve national accounts, balance of payments, and external debt data.

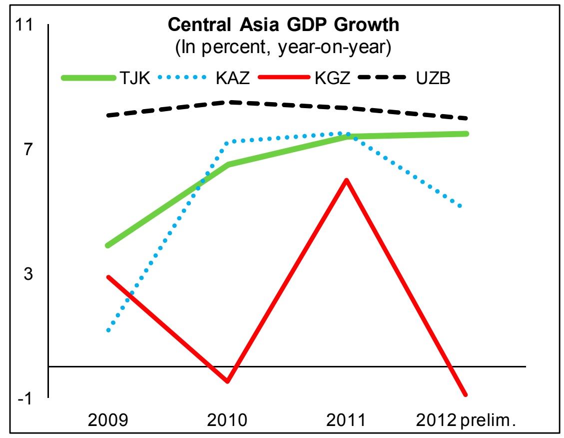
35. Staff recommends that the next Article IV consultation with Tajikistan be held on the regular 12-month cycle.

Figure 1. Tajikistan: Economic Developments Compared To Other Countries in the Region

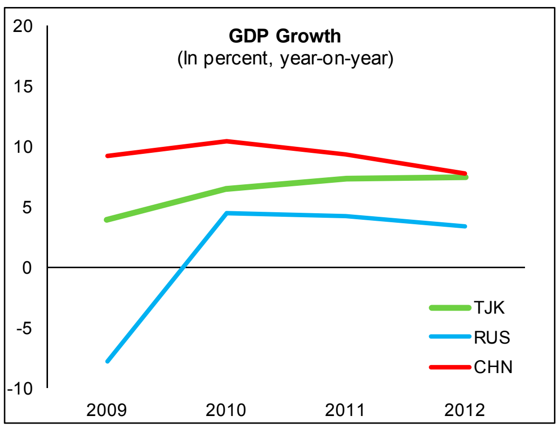
Tajikistan is the poorest CIS country in the region….



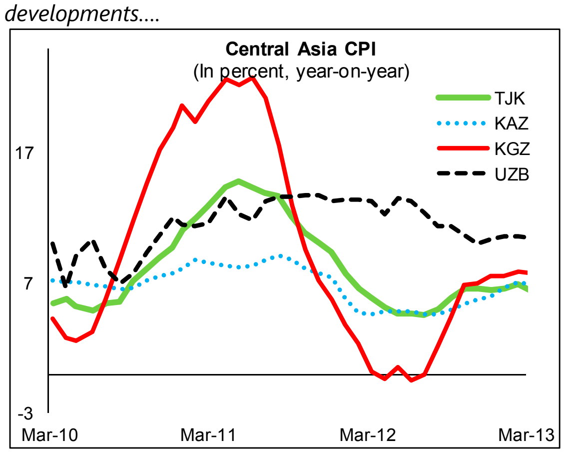
Growth was relatively stable in the past years….



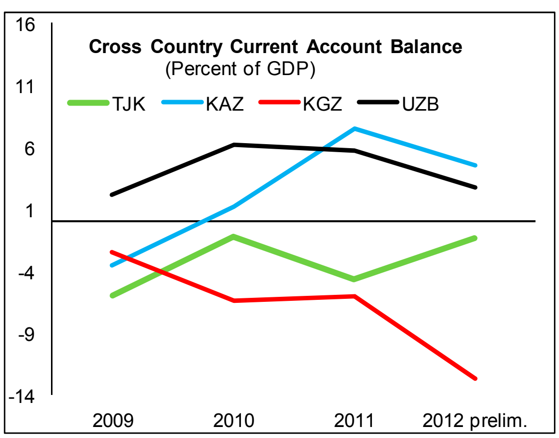
GDP growth crucially depends on developments in Russia….



Headline inflation rates in line with regional developments….



Current account balance relatively stable…



Key policy rates have been lowered in most neighboring countries….

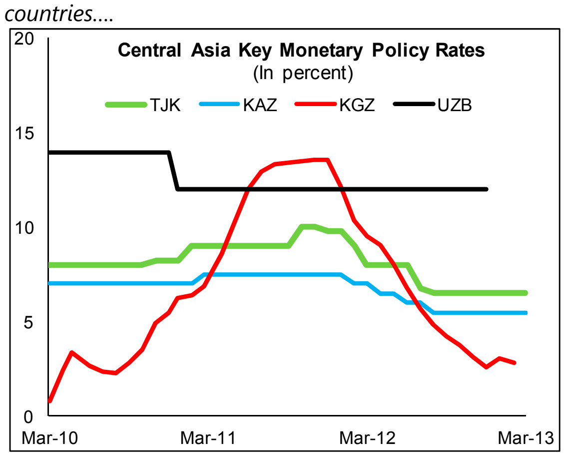
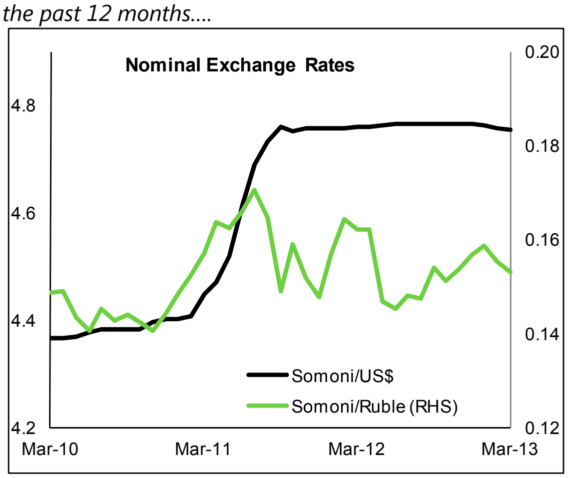
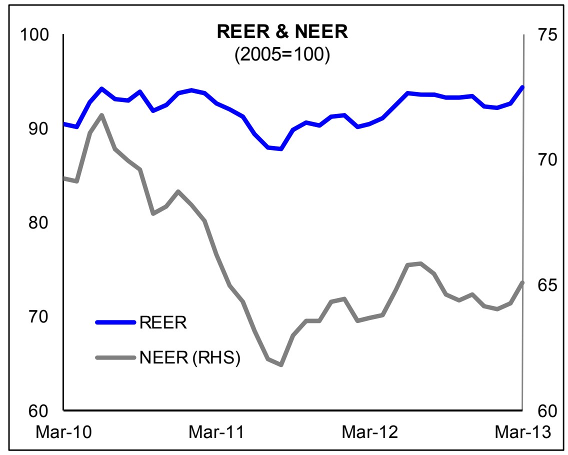


Figure 2. Tajikistan: Monetary Developments

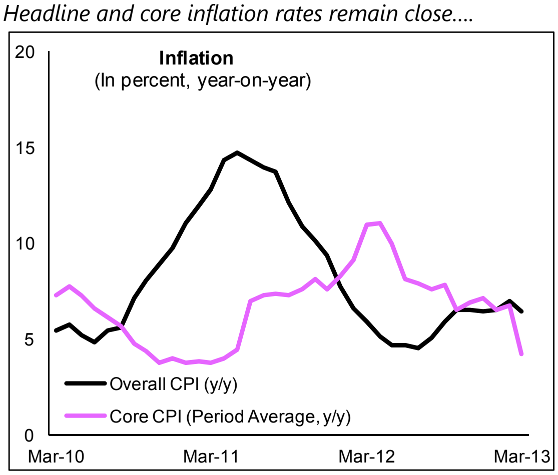
The exchange rate vs. the USD has been relatively stable the past 12 months….



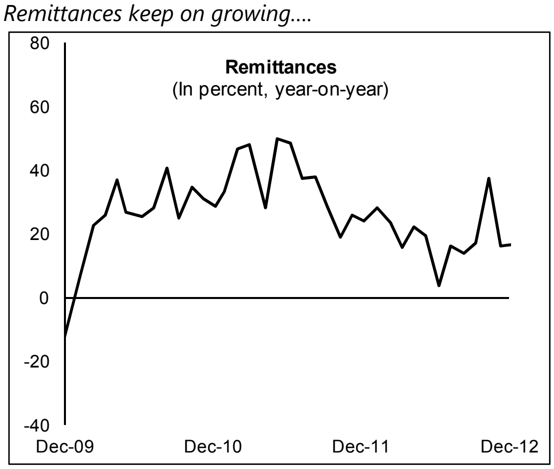
The REER appreciated slightly this year….



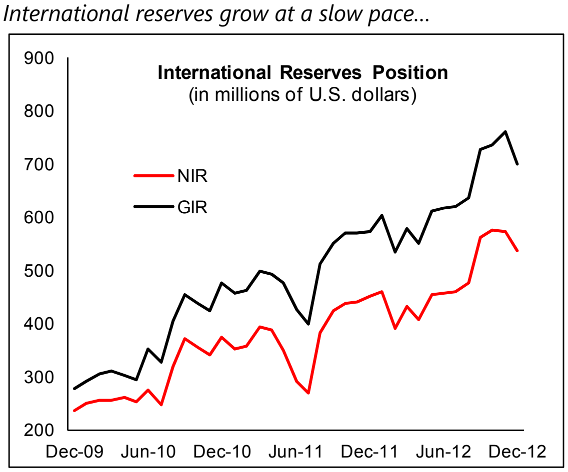
Headline and core inflation rates remain close….



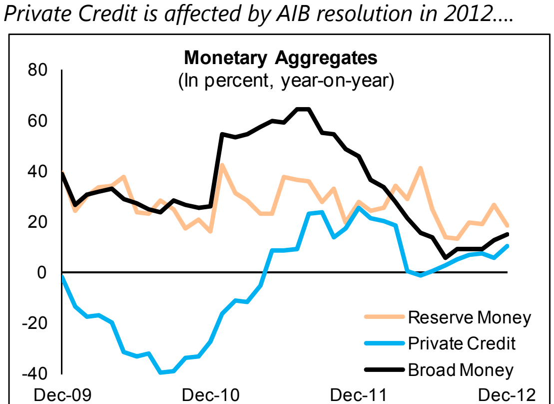
Remittances keep on growing….



International reserves grow at a slow pace…



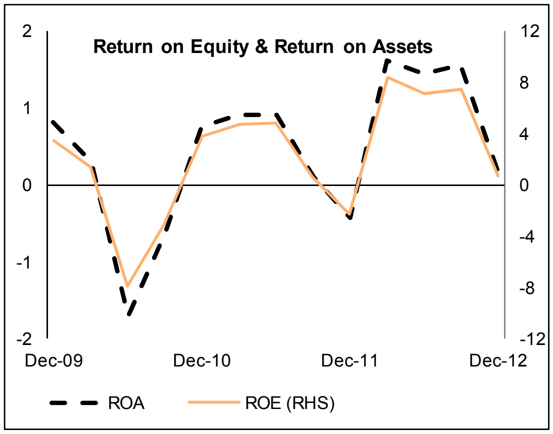
Private Credit is affected by AIB resolution in 2012….



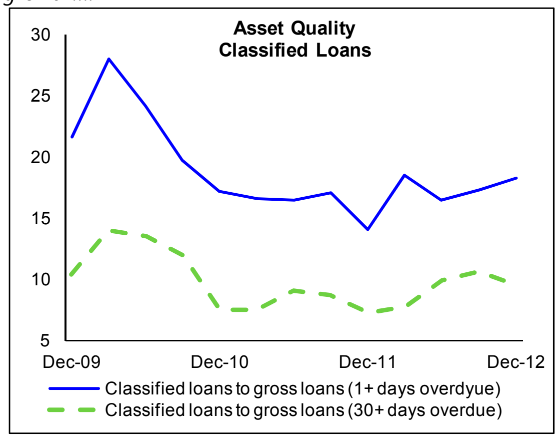
1/ As part of cotton debt resolution, KI loans were written off in 2010, affecting in turn credit indicators.

Figure 3. Tajikistan: Financial and Fiscal Developments

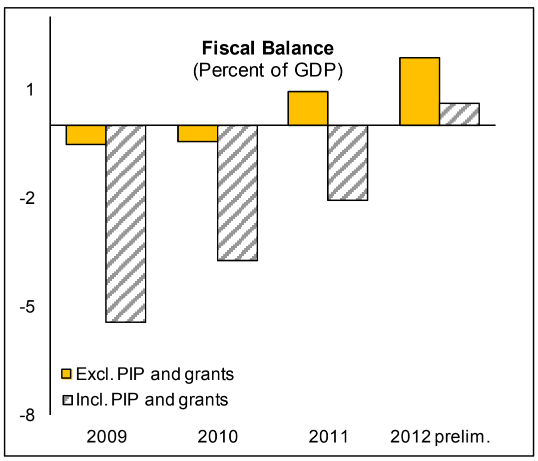
Profitability of financial sector remains problematic....



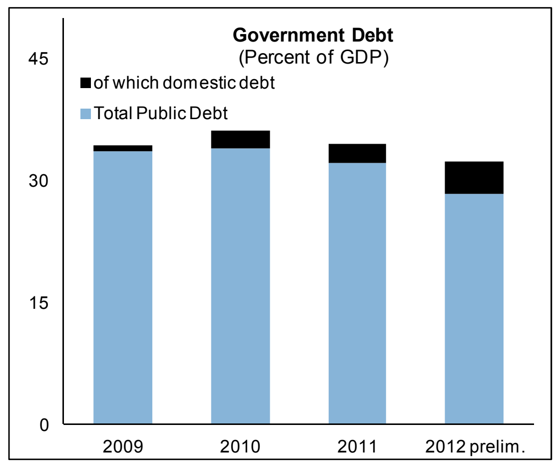
Classified loans increased in 2012 despite strong economic growth....



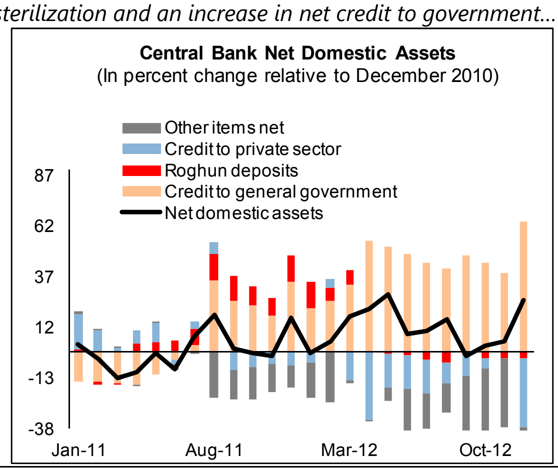
Fiscal position incl. PIP is close to balance....



Domestic debt is only small part of total government debt....



Central Bank's NDA reflected massive end-year sterilization and an increase in net credit to government...



Inward remittances largely explain imports....

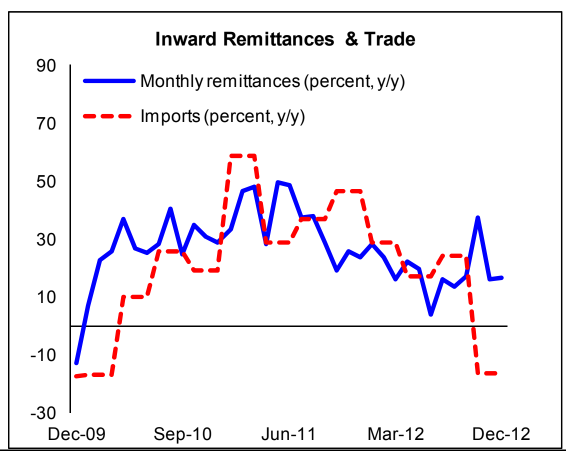


Table 1. Tajikistan: Selected Economic Indicators, 2010–18

	2010	2011	2012	2013	2014	2015	2016	2017	2018
	Act.	Est.	Est.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.
	(Annual percent change; unless otherwise indicated)								
National accounts									
Real GDP	6.5	7.4	7.5	6.8	5.8	5.8	5.8	5.8	5.8
GDP deflator (cumulative)	12.5	13.3	11.9	8.0	7.0	7.0	7.0	7.0	6.0
Headline CPI inflation (end-of-period)	9.8	9.3	6.4	7.0	7.0	7.0	7.0	7.0	6.0
Headline CPI inflation (period average)	6.4	12.4	5.8	7.5	7.2	7.0	7.0	7.0	6.0
Core CPI inflation (period average)	5.9	6.0	8.4	5.2	6.9	7.0	6.5	6.2	6.0
	(In percent of GDP; unless otherwise indicated)								
Investment and saving 1/									
Investment	17.9	20.5	17.5	18.5	17.1	17.6	17.4	18.4	20.9
Fixed capital investment	12.9	15.5	13.0	15.5	14.1	14.6	15.9	16.9	18.4
Government	10.9	12.5	9.0	10.3	8.3	7.8	8.5	9.2	10.6
Private	2.0	3.0	4.0	5.2	5.8	6.8	7.4	7.7	7.8
Gross national savings	16.7	15.8	16.2	16.8	14.9	15.2	15.1	16.2	18.8
Public	7.2	10.5	9.6	7.9	7.0	6.8	7.1	7.3	7.0
Private	9.5	5.3	6.5	8.8	7.9	8.4	8.0	8.9	11.8
General government finances									
Revenue and grants	23.2	24.9	25.1	26.1	24.9	24.6	25.0	25.2	25.9
Tax revenue	18.0	19.4	19.8	19.6	19.9	19.9	20.1	20.1	20.5
Expenditure and net lending 2/	26.9	26.9	24.5	28.4	26.2	25.6	26.5	27.1	28.7
Current 2/	15.0	14.7	15.7	18.2	17.9	17.8	17.9	17.9	18.1
Capital	10.9	12.5	9.0	10.3	8.3	7.8	8.5	9.2	10.6
Overall balance (excl. PIP and stat. discrepancy)	-0.4	0.9	1.9	-0.1	0.4	0.4	0.4	0.4	0.4
Overall balance (incl. PIP and stat. discrepancy)	-3.7	-2.0	0.7	-2.3	-1.3	-1.0	-1.4	-1.9	-2.7
Domestic financing	-0.4	-0.5	-0.9	1.2	0.7	0.6	0.6	0.6	0.5
External financing	4.1	2.6	0.3	1.1	0.6	0.4	0.8	1.4	2.2
Total public and publicly-guaranteed debt	36.3	35.4	32.3	30.7	31.4	31.0	31.2	31.8	31.5
Monetary sector									
Broad money (12-month percent change)	25.4	46.8	15.5	18.1	17.4	17.5	16.7	16.5	15.6
Reserve money (12-month percent change)	15.8	27.9	18.5	16.5	16.4	15.7	13.8	14.3	13.4
Credit to private sector (12-month percent change) 4/	-25.7	23.9	8.9	17.2	16.9	16.2	14.8	14.7	14.4
Velocity of broad money (eop)	4.9	4.1	4.2	4.1	4.0	3.8	3.7	3.6	3.5
Refinancing rate (in percent, eop/ latest value)	8.25	9.80	6.50	…	…	…	…	…	…
	(In percent of GDP; unless otherwise indicated)								
External sector 5/									
Exports of goods and services (U.S. dollar, percent change)	14.6	34.5	18.9	4.2	6.7	7.1	6.8	7.6	9.3
Imports of goods and services (U.S. dollar, percent change)	9.4	47.6	11.7	11.3	8.6	6.9	8.4	8.4	8.9
Current account balance	-1.2	-4.7	-1.3	-1.7	-2.2	-2.4	-2.4	-2.2	-2.1
Trade balance (goods)	-37.0	-47.7	-42.4	-44.8	-45.4	-44.6	-44.4	-44.1	-43.9
FDI	0.3	1.0	1.9	1.8	2.0	2.4	2.7	3.0	3.0
Total public and publicly guaranteed external debt	34.1	33.1	28.3	27.0	27.7	27.4	27.4	27.8	27.4
Exports of goods and services, in millions of U.S. dollars	866	1,164	1,384	1,443	1,540	1,650	1,761	1,895	2,072
Imports of goods and services, in millions of U.S. dollars	2,968	4,382	4,894	5,449	5,918	6,326	6,855	7,431	8,093
Current account balance, in millions of U.S. dollars	-69	-307	-99	-145	-207	-236	-257	-266	-273
Total public and publicly guaranteed external debt, in millions of U.S. dollars	1,911	2,094	2,150	2,248	2,501	2,698	2,954	3,281	3,538
Gross official reserves (in millions of U.S. dollars)	476	572	699	935	1,075	1,245	1,415	1,540	1,680
In months of next year's imports 6/	1.3	1.4	1.6	1.9	2.1	2.2	2.3	2.3	2.3
In percent of broad money	21.4	16.8	17.2	19.0	17.8	16.9	15.9	14.3	13.2
Memorandum items:									
Nominal GDP (in millions of somoni)	24,705	30,069	36,161	41,690	47,153	53,331	60,319	68,223	76,474
Nominal GDP (in millions of U.S. dollars)	5,642	6,523	7,592	8,537	9,221	10,028	10,956	11,994	13,079
Social and poverty-related spending (in percent of GDP)	9.0	9.7	10.9	11.1	11.9	12.5	13.1	13.7	14.3
Nominal effective exchange rate (Index 2005=100)	69.5	64.4	64.6	…	…	…	…	…	…
Real effective exchange rate (Index 2005=100)	92.1	90.9	91.8	…	…	…	…	…	…
Average exchange rate (somoni per U.S. dollar)	4.38	4.61	4.76	…	…	…	…	…	…

Sources: Data provided by the Tajikistan authorities, and Fund staff estimates.
1/ Private investment and savings are estimates. Investment includes changes in stocks.
2/ Including statistical discrepancy.
4/ Decline in 2010 is due to resolution of Kredit Invest (KI) carrying large nonperfoming loans to the cotton sector. Slowdown in 2012 is due to bad loans write-off at Agroinvestbank.
5/ Receipts from aluminium exports under the tolling arrangements are booked as services exports.
6/ Excluding electricity, which is on barter basis, and imports related to Roghun and projects financed with loans from China.

Table 2. Tajikistan: General Government Operations, 2010–14
(In millions of somoni, unless otherwise indicated)

	2010 Act.	2011 Act.	2012 Proj.	2013 Proj.	2014 Proj.
Overall revenues and grants	5,722	7,483	9,089	10,884	11,763
Total revenues	5,153	6,792	8,546	9,611	10,993
Tax revenues	4,436	5,833	7,163	8,192	9,387
Income and profit tax	780	987	1,306	1,544	1,760
Payroll taxes	567	741	947	1,156	1,330
Property taxes	152	171	191	141	162
Taxes on goods and services	2,582	3,472	4,152	4,766	5,482
VAT	1,823	2,511	3,056	3,569	4,106
Excises and other internal indirect taxes	759	962	1,096	1,196	1,376
International trade and operations tax	355	461	567	586	654
Nontax revenues	718	960	1,383	1,419	1,605
Of which: Extra-budgetary funds	404	457	705	613	693
Grants	568	690	543	1,273	770
Of which: Public Investment Program (PIP) financing	367	534	448	1,053	639
Total expenditures and net lending	6,457	8,127	8,890	11,852	12,374
Current expenditures	3,698	4,450	5,716	7,569	8,440
Expenditures on goods and services	2,414	2,964	3,742	5,169	5,685
Wages and salaries	1,141	1,465	2,022	2,627	3,056
Others	1,274	1,499	1,720	2,542	2,629
Of which: extra-budgetary funds	362	473	495	613	693
Interest payments	121	156	214	251	277
External	100	127	142	168	163
Domestic	0	29	72	83	115
Transfers and subsidies	1,162	1,330	1,761	2,149	2,477
Transfers to households	1,087	1,238	1,644	1,964	2,245
Subsidies and other current transfers	75	92	117	184	232
Capital expenditures	2,693	3,756	3,240	4,277	3,928
Externally financed PIP	1,178	1,438	903	1,981	1,439
Domestically financed	1,515	2,317	2,337	2,296	2,489
Net lending	67	-79	-66	6	6
Statistical discrepancy ("+" = additional spending)	185	-23	-24	…	…
Overall balance (incl. PIP)	-920	-621	223	-968	-611
Overall balance (excl. PIP and PIP-related grants)	-110	284	678	-40	188
Total financing (incl. PIP)	920	621	-223	968	611
Net external	1,020	769	108	450	302
Disbursements	1,118	905	455	928	799
Program loans	307	0	0	0	0
Project loans	811	905	455	928	799
Amortization	-97	-135	-347	-478	-498
Net domestic	-100	-149	-331	518	309
NBT	-253	388	192	410	143
Commercial banks	-35	24	-395	83	141
Operations with assets 1/	187	-560	-128	25	25
Accumulation of arrears	0	0	0	0	0
Memorandum items:					
Recapitalization bonds–NBT 2/	…	120	160	140	140
Recapitalization bonds–commercial banks 2/	353	… .	…	…	…

Sources: Tajikistan authorities, and Fund staff estimates.

1/ Includes transfer of MDRI deposits to the NBT in 2011 towards NBT recapitalization.
2/ Issuance to compensate the NBT and banks for losses related to cotton lending as part of cotton debt resolution.

Table 3. Tajikistan: General Government Operations, 2010–14

(In percent of GDP, unless otherwise indicated)

	2010 Act.	2011 Act.	2012 Act.	2013 Proj.	2014 Proj.
Overall revenues and grants	23.2	24.9	25.1	26.1	24.9
Total revenues	20.9	22.6	23.6	23.1	23.3
Tax revenues	18.0	19.4	19.8	19.6	19.9
Income and profit tax	3.2	3.3	3.6	3.7	3.7
Payroll taxes	2.3	2.5	2.6	2.8	2.8
Property taxes	0.6	0.6	0.5	0.3	0.3
Taxes on goods and services	10.5	11.5	11.5	11.4	11.6
VAT	7.4	8.4	8.5	8.6	8.7
Excises and other internal indirect taxes	3.1	3.2	3.0	2.9	2.9
International trade and operations tax	1.4	1.5	1.6	1.4	1.4
Nontax revenues	2.9	3.2	3.8	3.4	3.4
Grants	2.3	2.3	1.5	3.1	1.6
Of which: Public Investment Program (PIP) financing	1.5	1.8	1.2	2.5	1.4
Total expenditure and net lending	26.1	27.0	24.6	28.4	26.2
Current expenditures	15.0	14.8	15.8	18.2	17.9
Expenditures on goods and services	9.8	9.9	10.3	12.4	12.1
Wages and salaries	4.6	4.9	5.6	6.3	6.5
Others	5.2	5.0	4.8	6.1	5.6
Interest payments	0.5	0.5	0.6	0.6	0.6
External	0.4	0.4	0.4	0.4	0.3
Domestic	0.0	0.1	0.2	0.2	0.2
Transfers and subsidies	4.7	4.4	4.9	5.2	5.3
Transfers to households	4.4	4.1	4.5	4.7	4.8
Subsidies and other current transfers	0.3	0.3	0.3	0.4	0.5
Capital expenditures	10.9	12.5	9.0	10.3	8.3
Externally financed PIP	4.8	4.8	2.5	4.8	3.1
Domestically financed	6.1	7.7	6.5	5.5	5.3
Net lending	0.3	-0.3	-0.2	0.0	0.0
Statistical discrepancy ("+" = additional spending)	0.7	-0.1	-0.07	…	…
Overall balance (incl. PIP)	-3.7	-2.1	0.6	-2.3	-1.3
Overall balance (excl. PIP and PIP-related grants)	-0.4	0.9	1.9	-0.1	0.4
Total financing (incl. PIP)	3.7	2.1	-0.6	2.3	1.3
Net external	4.1	2.6	0.3	1.1	0.6
Disbursements	4.5	3.0	1.3	2.2	1.7
Program loans	1.2	0.0	0.0	0.0	0.0
Project loans	3.3	3.0	1.3	2.2	1.7
Amortization	-0.4	-0.4	-1.0	-1.1	-1.1
Net domestic	-0.4	-0.5	-0.9	1.2	0.7
NBT	-1.0	1.3	0.5	1.0	0.3
Commercial banks	-0.1	0.1	-1.1	0.2	0.3
Operations with assets 1/	0.8	-1.9	-0.4	0.1	0.1
Accumulation of arrears	0.0	0.0	0.0	0.0	0.0
Memorandum items:					
Public debt (in percent of GDP)	36.3	35.4	32.3	30.7	31.4
Social and poverty-related expenditure (in percent of GDP) 2/	9.0	9.7	10.9	11.1	…

Sources: Tajikistan authorities, and Fund staff estimates.

1/ Includes transfer of MDRI deposits to the NBT in 2010 towards NBT recapitalization.

2/ Includes spending on health, education, and social protection.

Table 4. Tajikistan: Accounts of the National Bank of Tajikistan, 2010–15
(End-of-period stock, unless otherwise indicated)

	2010	2011	2012	2013	2014	2015
	Dec. Act.	Dec. Act.	Dec. Proj.	Dec. Proj.	Dec. Proj.	Dec. Proj.
	(In millions of somoni)					
Net foreign assets	1,251	1,788	2,354	3,222	4,117	5,249
Gross assets	2,340	3,075	3,830	5,177	6,116	7,238
Gross liabilities	446	578	771	810	825	791
Net international reserves 1/	1,134	1,815	2,433	3,569	4,427	5,516
Gross international reserves 1/	1,577	2,387	3,090	4,379	5,252	6,307
Gross reserve liabilities	443	572	657	810	825	791
Net domestic assets	1,739	2,034	2,176	2,057	2,030	1,863
Net credit to general government	-1,462	-856	-343	307	899	1,111
General government	-1,113	-725	66	616	899	1,111
Roghun JSC	-349	-131	-409	-309	0	0
Credit to the private sector 2/	410	286	-175	30	92	256
Claims on banks	262	139	-293	-88	-25	138
Cotton sector	0	0	0	0	0	0
NBT bills	-3	-25	-421	-288	-249	-114
Liquidity loans	186	86	68	140	164	193
Credit to nonbank institutions	148	147	118	118	118	118
Other items net	2,790	2,605	2,695	1,720	1,038	496
Retained profits (-) and provisions (+)	2,850	2,304	…	…	…	…
Reserve money	2,990	3,823	4,530	5,279	6,147	7,113
Currency in circulation	2,421	2,988	3,667	4,273	4,976	5,758
Bank reserves	565	834	862	1,004	1,169	1,353
Required reserves	234	337	297	391	468	560
Somoni	128	181	151	106	134	167
Foreign exchange	106	156	145	285	334	392
Other bank deposits	331	497	565	613	702	794
Other deposits	4	1	2	2	2	2
	(12-month growth in percent of reserve money)					
Reserve money	15.8	27.9	18.5	16.5	16.4	15.7
Net foreign assets	28.9	18.0	14.8	19.2	16.9	18.4
Gross international reserves	15.2	27.1	18.4	28.4	16.5	17.2
Net international reserves	4.9	22.8	16.1	25.1	16.3	17.7
Net domestic assets	-13.1	9.9	3.7	-2.6	-0.5	-2.7
Net credit to general government	-23.1	20.2	13.4	14.3	11.2	3.5
Credit to the private sector	-1.4	-4.2	-12.1	4.5	1.2	2.7
NBT bills	-0.1	-0.7	-10.4	2.9	0.7	2.2
Other items net	11.4	-6.2	2.3	-21.5	-12.9	-8.8
Memorandum items:						
Net international reserves (in millions of U.S.dollars)	258	381	511	713	847	1,019
Net international reserves (percent of broad money)	22.3	24.5	28.5	35.5	37.5	39.7
Official exchange rate (somoni/U.S. dollars)	4.40	4.76	…	…	…	…

Sources: National Bank of Tajikistan, and Fund staff estimates.
1/ Excludes nonmonetary gold and foreign assets denominated in non-convertible currencies.
2/ Decrease in 2010 reflects the write-off of credits to KI.

Table 5. Tajikistan: Monetary Survey, 2010–15

	2010	2011	2012	2013	2014	2015
	Dec.	Dec.	Dec.	Dec.	Dec.	Dec.
	Act.	Act.	Proj.	Proj.	Proj.	Proj.
	(In millions of somoni, end-of-period stock)					
Net foreign assets	1,239	1,463	2,139	3007	3902	5035
National Bank of Tajikistan 1/	1,251	1,788	2,354	3222	4117	5249
Commercial banks	-11	-325	-215	-215	-215	-215
Net domestic assets	3,865	6,019	6,493	7,166	8,017	8,954
Net credit to general government (incl. Roghun OJSC)	-1,282	-642	-523	210	944	1,447
National Bank of Tajikistan	-1,462	-856	-343	307	899	1,111
Commercial banks	179	214	-180	-97	45	336
Credit to the private sector	3,291	4,080	4,443	5,206	6,087	7,070
Other items net	1,856	2,581	2,573	1,749	987	437
Broad money (excl. bills payable) 2/	5,078	7,406	8,524	10,064	11,811	13,880
Somoni broad money	3,179	4,481	5,081	6,000	7,041	8,274
Currency outside banks	2,011	2,723	3,418	3,874	4,365	4,924
Deposits	1,169	1,758	1,663	2,125	2,676	3,350
Foreign currency deposits	1,899	2,925	3,443	4,065	4,770	5,606
Bills payable 3/	26	76	109	109	109	109
	(12-month growth in percent)					
Broad money (excl. bills payable)	25.7	45.8	15.1	18.1	17.4	17.5
Net foreign assets	128.0	18.0	46.2	40.6	29.8	29.0
Net domestic assets (incl. bills payable)	9.4	55.7	7.9	10.4	11.9	11.7
Net credit to general government	60.9	-49.9	-18.5	-140	349.3	53.3
Credit to the private sector	-25.7	23.9	8.9	17.2	16.9	16.2
	(12-month growth in percent of broad money)					
Broad money (excl. bills payable)	25.7	45.8	15.1	18.1	17.4	17.5
Net foreign assets	17.2	4.4	9.1	10.2	8.9	9.6
National Bank of Tajikistan	18.5	10.6	7.6	10.2	8.9	9.6
Commercial banks	-1.2	-6.2	1.5	0.0	0.0	0.0
Net domestic assets (incl. bills payable)	8.2	42.4	6.4	7.9	8.5	7.9
Net credit to general government	-12.0	12.6	1.6	8.6	7.3	4.3
Credit to the private sector	-28.1	15.5	4.9	9.0	8.8	8.3
Other items net	48.4	14.3	-0.1	-9.7	-7.6	-4.7
Bills payable	-0.3	1.0	0.4	0.0	0.0	0.0
Memorandum items:						
Deposit dollarization (in percent)	61.9	62.5	…		…	…
Velocity 4/	4.9	4.1	4.2	4.1	4.0	3.8
Money multiplier	1.7	1.9	1.9	1.9	1.9	2.0

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

1/ Excludes nonmonetary gold.
2/ 2011 and 2012: preliminary and subject to further verification. Monetary and Financial Statistics TA is in progress.
3/ Liabilities to cotton financiers related to domestic cotton financing.
4/ Structural break in velocity in 2011 due to Kredit Invest write-off.

Table 6. Tajikistan: Balance of Payments, 2010–18

(In millions of U.S. dollars, unless otherwise indicated)

	2010	2011	2011	2012	2013	2014	2015	2016	2017	2018
	Act.	3S/11/64	Est.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.
Current account	-69	-253	-307	-99	-145	-207	-236	-257	-266	-273
Balance on goods and services	-2,103	-2,601	-3,217	-3,510	-4,006	-4,378	-4,676	-5,094	-5,535	-6,021
Balance on goods	-2,089	-2,601	-3,111	-3,216	-3,828	-4,188	-4,472	-4,867	-5,284	-5,747
Exports	460	827	593	782	804	858	918	977	1,054	1,137
Imports	-2,549	-3,428	-3,704	-3,998	-4,632	-5,045	-5,390	-5,844	-6,338	-6,884
Balance on services	-14	0	-106	-294	-178	-190	-204	-227	-251	-274
Balance on income	-79	-63	-40	-52	-50	-51	-52	-54	-57	-59
Balance on transfers	2,113	2,410	2,950	3,463	3,910	4,223	4,492	4,890	5,326	5,807
Migrants' remittances, net	2,040	2,293	2,627	3,353	3,804	4,147	4,425	4,829	5,270	5,754
Capital and financial account	178	273	382	186	381	142	240	261	228	444
Capital transfers	84	108	116	94	216	125	110	149	167	245
Public sector (net)	210	272	161	21	89	57	37	87	162	285
Disbursements	255	265	195	95	188	156	138	199	278	408
Projects financed by China	108	119	139	25	79	35	50	50	50	150
Amortization	-45	-32	-34	-75	-99	-99	-100	-113	-116	-123
FDI	16	110	65	146	149	184	241	296	360	392
Portfolio Investment	34		10	29	30	32	35	38	42	46
Commercial bank NFA (- increase)	11	0	66	-23	-2	-4	-2	-3	-3	-3
Other capital flows and errors and omissions	-178	-218	-36	-81	-100	-253	-181	-306	-500	-522
Overall balance	109	19	75	87	236	-64	3	3	-38	171
Financing items	-109	-53	-75	-87	-236	64	-3	-3	38	-171
Use of international reserves (- increase)	-169	-110	-96	-127	-236	-140	-170	-170	-125	-140
IMF net purchases	60	0	21	40	0	-4	-12	-22	-27	-31
Purchases/disbursements	60	0	21	40	0	0	0	0	0	0
Repurchases/repayments	0	0	0	0	0	4	12	22	27	31
Residual financing gap 1/	0	0	0	0	0	208	178	188	190	0
Memorandum items:										
Nominal GDP	5,642	6,830	6,523	7,592	8,537	9,221	10,028	10,956	11,994	13,079
Current account balance (in percent of GDP) 1/	-1.2	-3.7	-4.7	-1.3	-1.7	-2.2	-2.4	-2.4	-2.2	-2.1
Gross reserves	476	557	572	699	935	1075	1245	1415	1540	1680
(in months of next year's imports of goods and services) 2/	1.3	1.6	1.4	1.6	1.9	2.1	2.2	2.3	2.3	2.3
Total Public and Publicly Guaranteed (PPG) external sector debt 3/	1,911	2,260	2,094	2,150	2,248	2,501	2,698	2,954	3,281	3,538
(in percent of GDP)	34.1	33.1	33.1	28.3	27.0	27.7	27.4	27.4	27.8	27.4
Debt service on PPG external debt	73	64	63	111	136	141	149	170	181	195
(in percent of exports of goods and services)	8.4	5.2	5.4	8.0	9.4	9.2	9.1	9.7	9.5	9.4

Sources: Tajik authorities; and Fund staff estimates.

1/ The NBT changed the methodology for compiling various BoP accounts, causing a break in the series in 2011. The residual financing gaps during 2014-17 reflect assumed financing for HPP Roghun. The World Bank feasibility study, instrumental in identifying the financing, is ongoing.

2/ Excluding imports related to projects financed with loans from China.

3/ External debt is defined as debt to nonresidents.

Table 7. Tajikistan: Financial Soundness Indicators, 2010–12
(In percent, unless otherwise indicated)

	2010	Mar-11	Jun-11	Sep-11	Dec-11	Mar-12	Jun-12	Sep-12	Dec-12
Capital adequacy									
Tier I capital as percent of risk-weighted assets	24.5	20.3	18.9	19.3	21.3	22.1	24.3	25.4	23.3
Reported total capital to risk -weighted assets (K1-1)	26.3	23.2	22.8	23.7	24.4	24.3	27.3	27.2	25.9
Asset quality 1/									
Nonperforming loans to gross loans	17.2	16.6	16.4	17.0	14.1	18.5	16.4	17.3	18.2
Nonperforming loans to gross loans 2/	7.5	7.5	9.1	8.7	7.2	7.7	9.9	10.6	9.5
Nonperforming loans net of provisions to reg. capital	31.2	31.8	32.2	28.3	20.9	31.0	20.3	24.4	25.4
Provisions to nonperforming loans	35.9	34.8	34.7	40.8	45.0	35.4	45.0	40.2	43.5
Banks exceeding maximum single borrower limit 3/	0 of 14	1 of 14	0 of 14	1 of 15	2 of 15	1 of 16	1 of 16	1 of 16	1 of 16
Earnings and profitability									
Reported return on assets (ROA)	0.8	0.9	0.9	0.1	-0.4	1.6	1.5	1.6	0.2
Reported return on equity (ROE)	3.8	4.7	4.8	0.6	-2.3	8.3	7.1	7.4	0.7
Interest income to gross income	51.4	48.4	39.5	36.6	34.2	37.3	32.9	31.2	29.2
Non-interest expenditures to gross income	63.9	61.2	67.2	73.1	75.7	65.5	70.1	71.9	77.2
Salary expenditures to non-interest expenditures	23.2	22.5	16.9	14.9	14.0	15.1	13.7	13.7	13.5
Liquidity									
Liquid assets to total assets	24.2	22.3	22.7	20.7	20.7	27.3	18.9	30.4	29.0
Liquid assets to demand and savings deposits	133.5	116.3	128.5	117.3	105.3	157.8	99.9	166.1	140.0
Liquid assets to total deposits	49.8	45.2	46.1	42.7	40.9	55.6	37.5	62.1	57.8
Sensitivity to market risk									
Net open position in foreign exchange to capital	0.33 short	6.2 lon	4 long	4.7 long	3.2 short	0.5 long	1.9 long	6.8 long	0.7 short

Sources: National Bank of Tajikistan.

Note: Improvements of certain ratios in June 2012 reflect the transfer of a sizable bad loan portfolio of one bank to the MoF.

1/ Nonperforming loans includes loans more than 1 day overdue.

2/ Nonperforming loans includes loans more than 30 day overdue.

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

Table 8. Tajikistan: Millennium Development Goals

	1990	1995	2000	2005	2011	LIC 2011	ECA 2011
Goal 1: Eradicate extreme poverty and hunger							
Employment to population ratio, 15+, total (%)	58	58	59	58	59	71	54
Employment to population ratio, ages 15-24, total (%)	38	38	38	37	38	54	35
GDP per person employed (constant 1990 PPP $)	8,192	3,311	3,277	4,299	5,048	3,241	18,911
Income share held by lowest 20%	..	..	8	8	8	..	..
Malnutrition prevalence, weight for age (% of children under 5)	..	..	..	15	..	23	1
Poverty gap at $1.25 a day (PPP) (%)	..	..	15	5	1	18	0
Poverty headcount ratio at $1.25 a day (PPP) (% of population)	..	..	49	21	7	48	1
Vulnerable employment, total (% of total employment)	..	..	..	..	..	..	18
Goal 2: Achieve universal primary education							
Literacy rate, youth female (% of females ages 15-24)	100	..	100	..	100	70	99
Literacy rate, youth male (% of males ages 15-24)	100	..	100	..	100	77	99
Persistence to last grade of primary, total (% of cohort)	..	71	96	99	99	56	..
Primary completion rate, total (% of relevant age group)	..	100	93	103	104	68	98
Adjusted net enrollment rate, primary (% of primary school age children)	..	..	96	98	98	81	95
Goal 3: Promote gender equality and empower women							
Proportion of seats held by women in national parliaments (%)	..	3	15	18	19	20	16
Ratio of female to male primary enrollment (%)	98	97	93	96	96	95	99
Ratio of female to male secondary enrollment (%)	..	..	86	83	87	86	96
Ratio of female to male tertiary enrollment (%)	..	..	45	47	52	64	121
Share of women employed in the nonagricultural sector (% of total nonagricultural employment)	36.5	40.2	40.0	39.4	..	..	46.9
Goal 4: Reduce child mortality							
Immunization, measles (% of children ages 12-23 months)	68	70	88	85	98	77	94
Mortality rate, infant (per 1,000 live births)	89	87	76	64	53	63	18
Mortality rate, under-5 (per 1,000 live births)	114	111	95	79	63	95	21
Goal 5: Improve maternal health							
Adolescent fertility rate (births per 1,000 women ages 15-19)	..	36	33	30	26	92	26
Births attended by skilled health staff (% of total)	90	81	71	83	88	47	98
Contraceptive prevalence (% of women ages 15-49)	..	..	34	38	..	37	74
Maternal mortality ratio (modeled estimate, per 100,000 live births)	94	160	120	79	65	410	32
Pregnant women receiving prenatal care (%)	..	..	71	77	..	75	..
Unmet need for contraception (% of married women ages 15-49)	..	..	..	24	..	..	..
Goal 6: Combat HIV/AIDS, malaria, and other diseases							
Children with fever receiving antimalarial drugs (% of children under age 5 with fever)	..	..	69	2	..	..	..
Condom use, population ages 15-24, female (% of females ages 15-24)	..	..	..	..	..	..	..
Condom use, population ages 15-24, male (% of males ages 15-24)	..	..	..	..	..	..	..
Incidence of tuberculosis (per 100,000 people)	70	148	220	200	193	252	80
Prevalence of HIV, female (% ages 15-24)	..	..	..	..	0.1	1.5	..
Prevalence of HIV, male (% ages 15-24)	..	..	..	..	0.2	0.7	..
Prevalence of HIV, total (% of population ages 15-49)	0.1	0.1	0.2	0.2	0.3	2.4	0.6
Tuberculosis case detection rate (%, all forms)	67	24	20	42	47	59	77
Goal 7: Ensure environmental sustainability							
CO2 emissions (kg per PPP $ of GDP)	1	1	0	0	0	0	1
CO2 emissions (metric tons per capita)	1	0	0	0	0	0	7
Forest area (% of land area)	2.9	..	2.9	2.9	2.9	25.7	38.7
Improved sanitation facilities (% of population with access)	..	89	90	93	94	37	84
Improved water source (% of population with access)	..	62	61	63	64	65	96
Marine protected areas (% of territorial waters)	..	..	..	..	..	..	10
Net ODA received per capita (current US$)	2	11	20	39	51	52	18
Goal 8: Develop a global partnership for development							
Debt service (PPG and IMF only, % of exports of goods, services and primary income)	..	..	9	5	4	4	4
Internet users (per 100 people)	0.0	..	0.0	0.3	13.0	6.0	42.1
Mobile cellular subscriptions (per 100 people)	0	0	0	4	91	42	132
Telephone lines (per 100 people)	5	5	4	4	5	1	25
Fertility rate, total (births per woman)	5	5	4	4	3	4	2
Other							
GNI per capita, Atlas method (current US$)	350	200	170	340	870	571	7,734
GNI, Atlas method (current US$) (billions)	1.9	1.2	1.1	2.2	6.1	466.0	3,156.6
Gross capital formation (% of GDP)	24.8	28.7	9.4	14.3	22.1	24.8	24.7
Life expectancy at birth, total (years)	63	62	64	66	68	59	71
Literacy rate, adult total (% of people ages 15 and above)	98	..	99	..	100	63	98
Population, total (billions)	0.0	0.0	0.0	0.0	0.0	0.8	0.4
Trade (% of GDP)	63.0	137.5	199.7	78.8	73.6	69.5	69.6

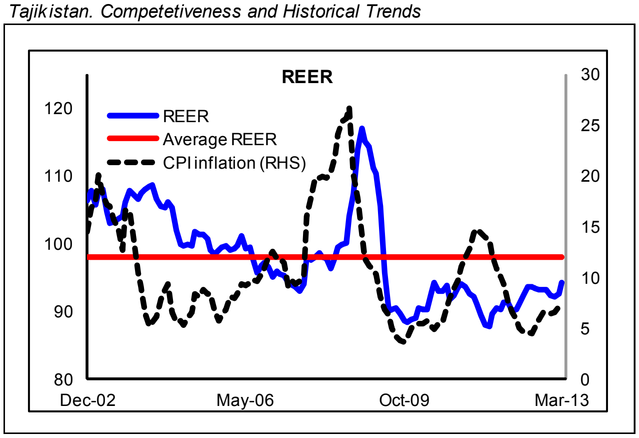
Source: World Development Indicators (World Bank)

Note: Figures in italics refer to periods other than those specified. The last two columns are averages for Low Income Countries (LIC) and Europe & Central Asia (ECA) countries.

Annex I. Tajikistan: External Sustainability, Competitiveness and Structural Reforms

The somoni has appreciated in recent months, and remains around historical averages. In the period before the global financial crisis (GFC), the somoni appreciated by 20 percent in real effective terms, following a spike in domestic inflation (driven in part by the food and fuel crisis). Since the GFC, appreciation of the currencies of Tajikistan's trading partners and a decline in domestic inflation has led to a real depreciation. The real effective exchange rate (REER) appreciated in recent months and remains slightly below the past ten-year average.

Tajikistan. Competetiveness and Historical Trends



Preliminary results applying CGER-type methodologies confirm that the REER is consistent with medium-term fundamentals. It is customary to take a simple average of estimates based on three approaches, which gives an overvaluation of 0.3 percent, within the standard forecast error. Though this average masks a range of estimates from an undervaluation of 5.5 percent to an overvaluation of 3.6 percent using each approach separately, all estimates remain within the standard forecast error indicating neither sizable overvaluation nor undervaluation.

Tajikistan: Methodologies to Assess Real Exchange Rate Misalignment 1/

	Underlying Current Account Balance 2/	Current Account Norm	Estimated over(+)/ under(-) valuation (in percentage)
Macroeconomic Balance Approach 2/	-2.1	-1.8	2.9
External Sustainability Approach 2/	-2.1	-2.6	-5.5
Equilibrium Real Exchange Rate Approach 3/	…	…	3.6

Source: WEO and IMF staff estimates.

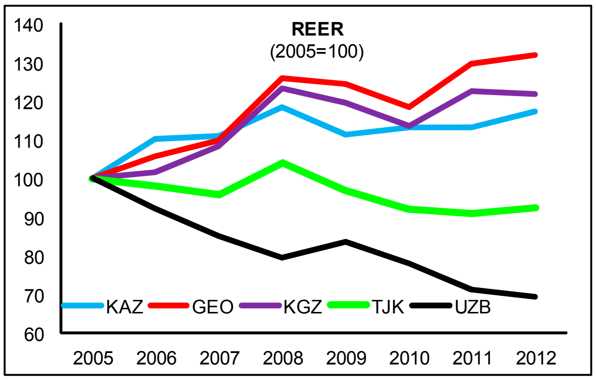
1/ Based on CGER methodologies (SM/06/283).

2/ The macroeconomic balance approach and the external sustainability approach define misalignment as the exchange rate adjustment needed to eliminate the gap between an estimated "current account norm" and the "underlying" current account balance based on 2018 WEO projections.

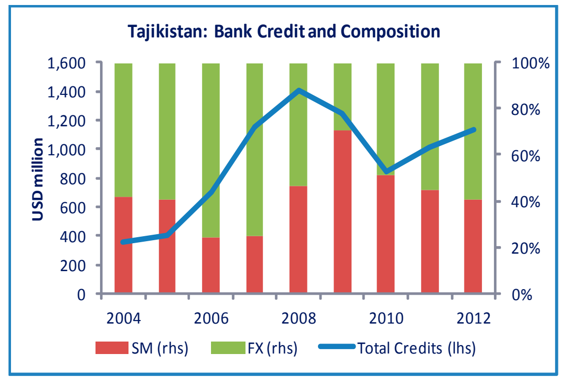
3/ This approach defines misalignment as the change in the real exchange rate required to eliminate the gap between actual REER and the estimated values from the regression of the equilibrium exchange rate based on current fundamentals.

Cross-country data suggest that Tajikistan remains competitive in the region. For the past half decade, the path of Tajikistan's REER has remained below that of its CCA peers, except Uzbekistan. More recently, the REER has trended up towards its peers and away from Uzbekistan.

Tajikistan. Trends in Peer Competetiveness

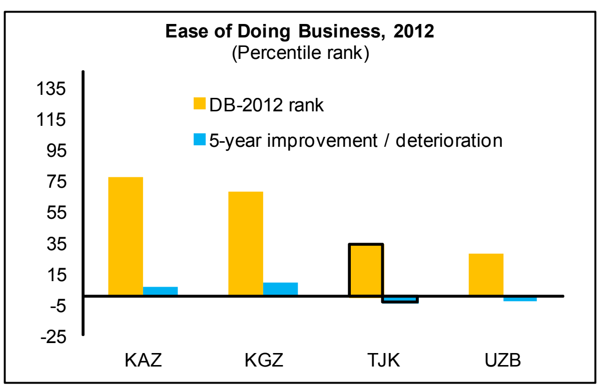


Tajikistan. Credit Dollarization

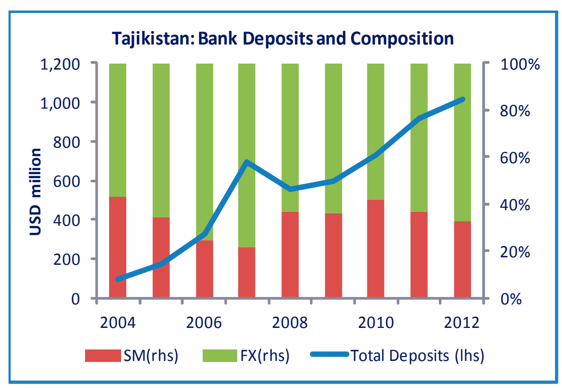


Weak confidence in the economy is hurting long term competitiveness. Tajikistan's ranking in the World Bank's Doing Business index is low and has worsened, declining from 133 in 2007 to 141 in 2012. This, along with high dollarization, suggests limited willingness to do business in somoni, and could be addressed in part by investing in structural reforms to secure business confidence and long term competitiveness. Tajikistan completed its membership negotiations with the WTO in late October 2012, and became the 159th WTO member on March 2, 2013.

Tajikistan: Competetiveness Indicators



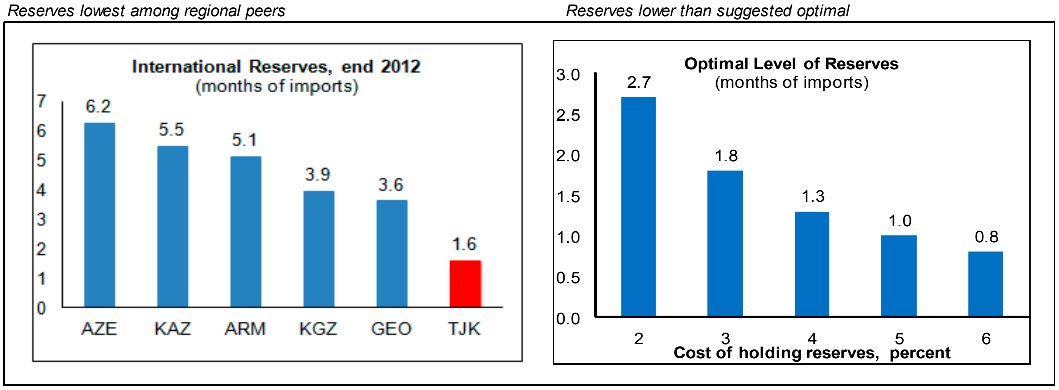
Tajikistan. Deposit Dollarization



Annex II. Tajikistan: Broader External Sector Vulnerability Assessment

Tajikistan's vulnerability remains elevated with limited reserve buffers. Gross reserves—currently US$ 0.7 billion (covering 1.6 months of imports)—are expected to increase to about US$ 1 billion (covering 1.9 months of imports) by end-2013 due to steady increase in inward remittances, a stable food and fuel price outlook, and the conversion of the NBT's non-monetary gold into monetary gold. Remittances, however, play a buffering role and do not secure the reserve position. Tajikistan scores the lowest in a CCA peer comparison of reserves coverage of imports—months of next year's imports of goods and services. The new reserve metric—based on the costs and benefits of holding reserves—shows that the appropriate level of reserves for Tajikistan is 2.7 months of imports with the cost of holding reserves at 2 percent, significantly higher than the current level of reserves (1.6 months of imports).[13] [14]

Reserves lowest among regional peers *Reserves lower than suggested optimal*

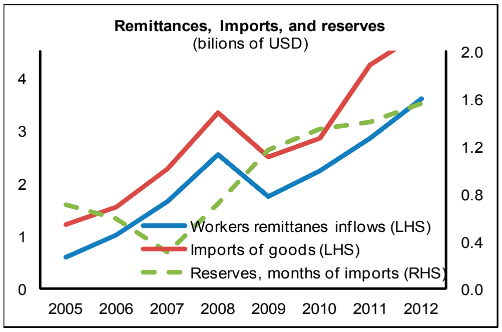


Diversification of the economy and investment in structural reforms will facilitate building buffers. While current market conditions suggest that the somoni is broadly in line with medium-term fundamentals (Annex I), allowing exchange rate flexibility together with adjustment in macroeconomic policies, as warranted, will help to provide necessary near-term buffers. Over the long term, structural reforms—aimed at improving the business environment and transparency—as well as building a broader export base will help to build resilience and enhance competitiveness. In the interim, alternative strategies, such as accumulation of hard currency through converting non-monetary gold to monetary gold can help to build buffers against external shocks.

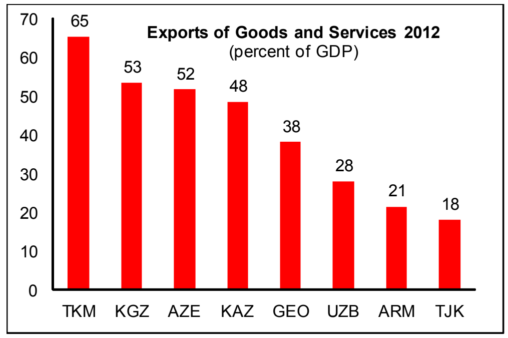
[13] Dabla-Norris, Kim and Shirono (2011) define the optimal level of reserves for LIC countries taking into consideration cost and benefits of holding reserves.

[14] Cost of holding reserves of 2 percent is taken from estimates of the marginal product of capital in LIC countries similar to Tajikistan in terms of economic size, non-oil commodity-based exports, and development as in Caselli and Feyrer (2007).

Remittances provided limited buffering



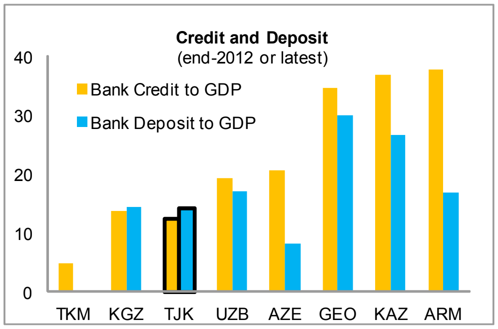
Export base is narrow



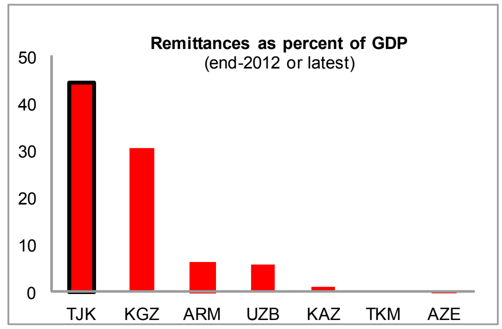
Annex III. Tajikistan: Financial System–Issues and Options

Tajikistan's financial markets are shallow. A central policy issue in Tajikistan is the limited role of financial intermediation and lack of adequate market-based financing for sustaining economic growth.

Depth and access to intermediation are limited,

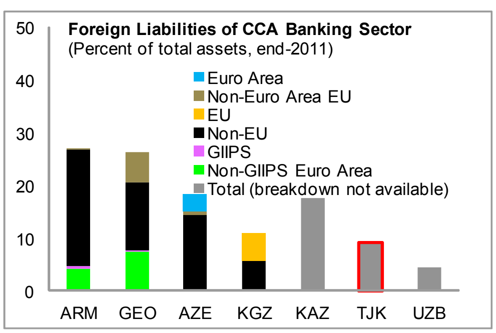


fostering dependence on non-productive remittance financing.

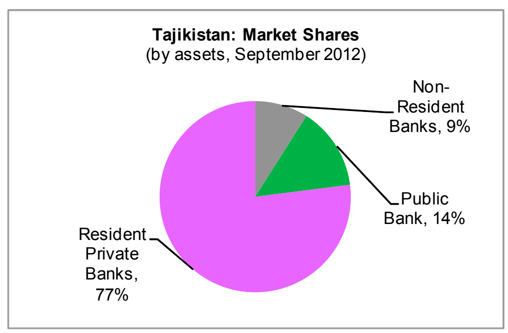


The financial system is largely closed, mostly bank-based, and development of capital markets and access to global financing sources remain limited. Commercial banks cover over 87 percent of total assets, limiting alternate financing sources. The remainder is accounted for largely by microfinance organizations (10 percent), with negligible share of NBFIs, and a virtually non-existent securities market, including for government debt.

Limited debt instruments and foreign financing sources

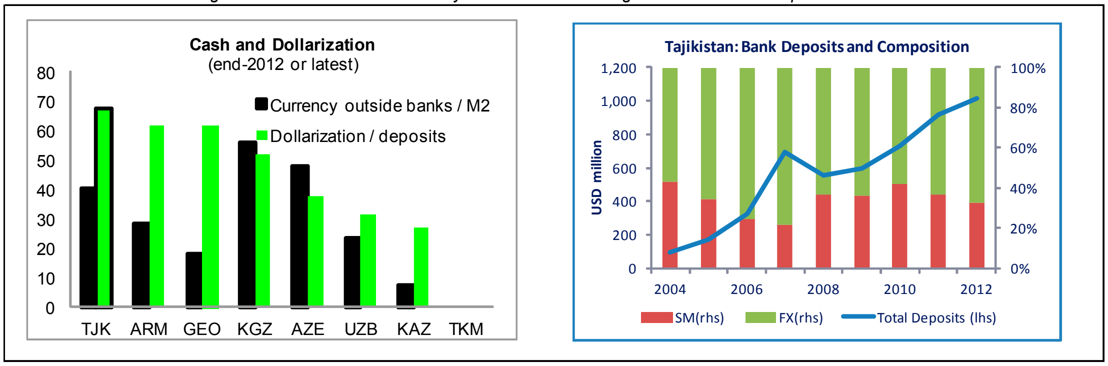


and low penetration of foreign capital

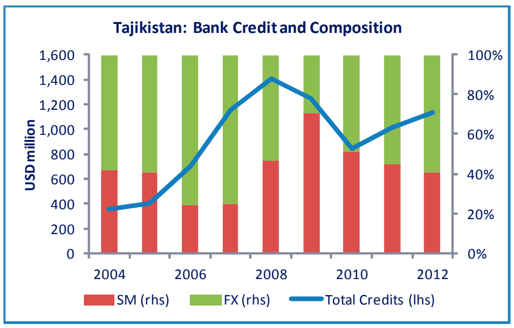


Confidence in the existing financial system is low. As a result, the economy operates largely with cash, suggesting lack of trust in the system and a large informal economy. Formal intermediation heavily relies on foreign currency, indicating limited confidence in the local currency. The interbank market remains underdeveloped and banks rely heavily on NBT's emergency liquidity support at times of strain, though this has recently trended down following the 2012 rescue of AIB.

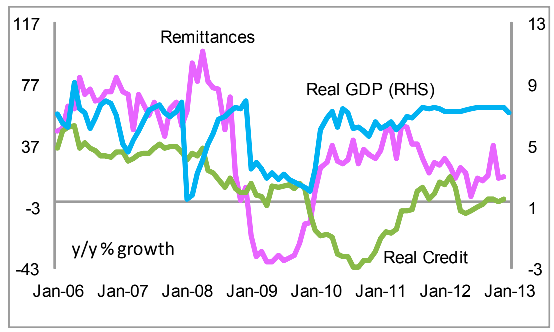
Large cash based informal economy and dollarized funding base for banks and private borrowers



Most deposits are in FX and credit growth is skewed towards FX.

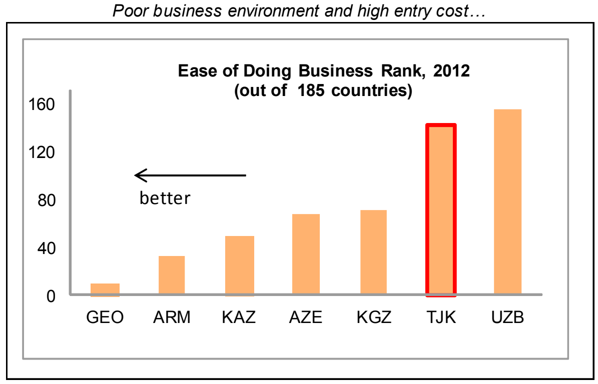


Remittance fund consumption, not channeled well to investments.



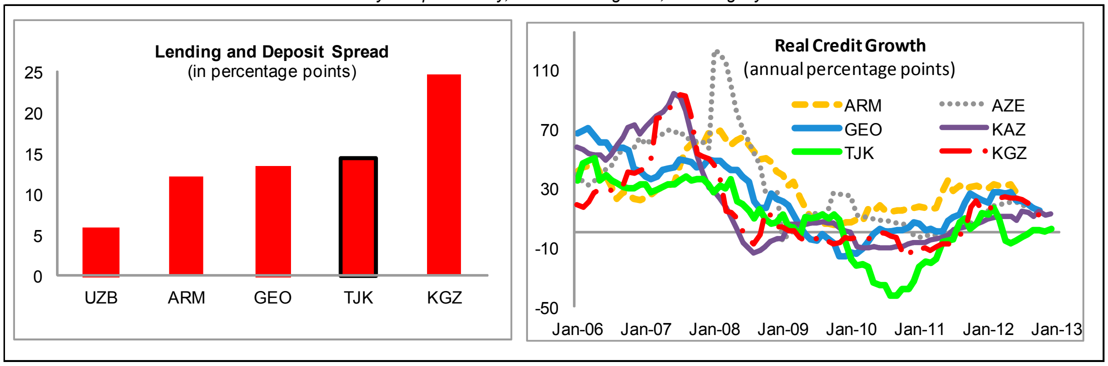
Structural problems such as poor governance and accountability in the financial sector reinforce the cycle of low confidence and limited financial market growth. Directed and preferential lending generates an uneven playing field. This, together with a weak loan repayment culture and weak enforcement of prudential regulations, raises barriers to entry. This limits competition, shrinks the scope for intermediation, and increases financial sector vulnerability. A vivid recent example is the failure and government bailout of AIB, the biggest bank by assets.

Poor business environment and high entry cost…



Banking sector vulnerability is high. Lending-deposit spreads are high, reflecting the poor business environment and elevated credit risk, and possibly political risk. The profitability of the banking system remains low (2012 ROA is just 0.2 percent; mainly driven by losses at AIB) while NPLs are elevated and keep rising, with one-day plus overdue loans amounting to 18.2 percent of total loans outstanding (Figure 3). While system-wide capital adequacy is high (23.3 percent), stress tests indicate that this masks vulnerability in large banks from direct credit risk and large borrower exposure, as well as indirect credit risk related to depreciation. Over 50 percent of system-wide deposits are concentrated in some of these large banks, making them potentially vulnerable to shifts in sentiment.

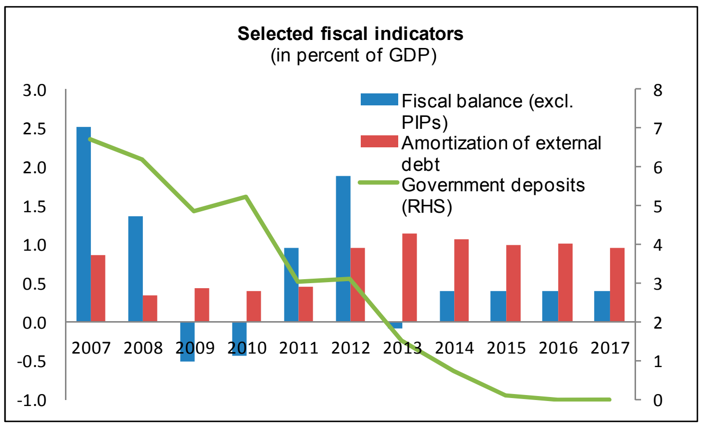
deter entry and profitability, thwart credit growth, and magnify risk.



Options. Halt the practice of directed lending. Focus on resolving AIB to help establish financial accountability, improve governance and create a level playing field for investors. Strengthen bank supervision and stop regulatory forbearance; apply prudential norms equally across banks. Develop the interbank and government debt markets. Together with strengthening supervision, cautious consideration could be given to expanding the financing base beyond banks by leveraging technological leaps in banking to expand financial access of small and medium businesses and across difficult geographic terrain, see chapters I, II, and III, IMF. Enhancing Financial Surveillance in Low Income Countries (LICs)—Case Studies.

Annex IV. Tajikistan: Medium Term Fiscal Framework

The MTFF remains constrained despite positive fiscal outcomes achieved in the past two years. During 2009-2010 the authorities ran fiscal deficits as a countercyclical response to the global crisis. Such policies were partially financed from government deposits accumulated during previous surplus (balance excluding PIP) years. Returning to fiscal surpluses in the past two years has reversed the draw-down of deposits. However, this deposit buffer has been depleted and remains at half of the pre-crisis period, standing at 15 percent of revenues. At the same time, starting in 2012, amortization of foreign debt has sharply increased, creating challenges for debt management.



The projected fiscal stance supports a stable path of debt, but fiscal buffers are drained. To raise sufficient resources to service foreign obligations, the fiscal position is expected to tighten after 2013, while accommodating the needed social and capital expenditure spending. Following this, the budget excluding externally financed PIPs envisages a surplus of at least 0.4 percent of GDP in the medium term. Such an outcome would be achieved by vigilant prioritization of spending and improved tax collection under the new tax code. Still, under the baseline, the accumulated deposit buffer will be fully depleted over the next two years, as debt amortization will outpace the fiscal surplus. Moreover, additional fiscal buffers may be needed to counter expenses from realization of any contingent liabilities.

Under these circumstances, priority should be given to re-build buffers. Currently, prospects remain limited for obtaining debt relief, debt restructuring, financing through additional budget grant support, or concessional borrowing. Sales of the MOF's non-monetary gold to the NBT and implementation of a dividends policy— requiring large SOEs to pay regular dividends to the budget— would help accumulate substantial buffers in the near term. In addition, raising domestic financing through issuance of treasury bills would help to alleviate fiscal pressures. Domestic financial markets are shallow (see Annex III) and efforts should be made to deepen securities markets. Fiscal dynamics would also benefit from improving tax administration and financial discipline of SOEs (as of end-September 2012, total tax arrears amounted to 12 percent of total tax revenues, of which 40 percent was related to large SOEs).

INTERNATIONAL MONETARY FUND

REPUBLIC OF TAJIKISTAN

July 1, 2013

STAFF REPORT FOR THE 2013 ARTICLE IV CONSULTATION—DEBT SUSTAINABILITY ANALYSIS

Approved By
Juha Kähkönen and Dhaneshwar Ghura (IMF) and Yvonne Tsikata and Jeffrey Lewis (World Bank)

Prepared by the Staffs of the International Monetary Fund and the World Bank

Based on the external low income country (LIC) debt sustainability analysis (DSA), Tajikistan's risk of debt distress is assessed to be moderate.[1] *Including remittances in the DSA threshold analysis—consistent with the interim guidance on the use of remittances in the DSF for LICs—moves Tajikistan from high to moderate risk of debt distress. Tajikistan is, however, assessed to remain vulnerable to shocks on non-debt creating flows. Stress tests within the public DSA demonstrate also the sensitivity of the fiscal position with respect to a slightly lower long run growth rate. The DSA results thus underscore the need for fiscal prudence, including: (i) the continuation of planned fiscal consolidation; (ii) caution in contracting and guaranteeing new debt, particularly non-concessional; and (iii) careful cost-benefit assessment of large-scale investment projects. In addition, better coordination is needed between the fiscal and monetary authorities to identify and limit quasi-fiscal activities that ultimately generate unexpected fiscal costs and public debt and to better implement growth-enhancing structural reforms.*

[1] The DSA has been produced jointly by World Bank and IMF staff, in consultation with Asian Development Bank staff. The fiscal year for Tajikistan is January 1–December 31. As specified in the Joint Bank-Fund Staff Guidance Note on the use of remittances in the Debt Sustainability Framework for Low-Income Countries (March 2013), the current DSA includes remittances in the baseline since remittances in Tajikistan are both greater than 10 percent of GDP and greater than 20 percent of exports of goods and services.

BACKGROUND

1. **Tajikistan's reported public debt stock has declined significantly over the past decade, but the country remains vulnerable to external and growth shocks.** The public debt stock declined from about 90 percent of GDP in 2002 to 32.3 percent of GDP in 2012.[2] Most of the debt is denominated in foreign currency—around 28.3 percent of GDP in 2012. Debt dynamics are projected to stay steady through the medium term and improve slightly over the long term, aided primarily by robust real GDP growth (Table 2a). Growth dividends rely on steady remittance inflows and implementation of structural reforms, and could improve with better implementation of reforms.

2. **Domestic debt constitutes a very small part of overall public debt owing to low primary fiscal deficits (excluding the externally financed public investment program) and a shallow government securities market.** Domestic debt stood at 4 percent of GDP (12 percent of total public debt) at end-2012, consisting mostly of non-tradable government securities held by the National Bank of Tajikistan (NBT). Since 2009, the government has undertaken issuance of Treasury-bills (T-bills), but only in small amounts, with short maturity, and at rates below the current NBT refinancing rate.[3] A recent significant contribution to this stock arose from the government's bailout of Agroinvestbank (AIB) in 2012, amounting to about 2 percent of GDP. Previously the stock consisted mostly of government debt related to the cotton-debt resolution scheme of 2009-10.

3. **Public and publicly guaranteed (PPG) external debt at end 2012—estimated at 28.3 percent of GDP—was better than projections (33.3 percent of GDP) in the last DSA (Table 1a).** This was achieved mainly due to a combination of stronger real GDP growth and better fiscal outcomes. Tajikistan's PPG external debt is largely concessional and denominated in foreign currency, and held in broadly equal parts between multilateral and bilateral creditors, with the share of China quite prominent at about 41.1[4] percent. Private external debt—18.3 percent of GDP in 2012—is projected to decrease to 17.9 percent of GDP in 2013 and is largely long-term and denominated in foreign currency.

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[2] A debt-for-equity swap with Russia in 2004 reduced considerably the debt burden.

[3] In 2012, the total issuance (excluding issuances for the AIB resolution and NBT recapitalization) was 0.21 percent of GDP based on auction amounts.

[4] Information is provided by the country authorities.

Tajikistan: External and Overall Public Debt (in percent of GDP, unless otherwise indicated)		
	2012	2013 (Forecast)
Total External Debt[1]	46.6	44.9
(Billion of US dollars)	*3.5*	*3.8*
Public and Publicly Guaranteed (PPG) Debt	28.3	27.0
(Billion of US dollars)	*2.2*	*2.2*
Private Debt	18.3	17.9
(Billion of US dollars)	*1.4*	*1.5*
Total Domestic Public Debt[2]	4.0	3.8
(Billion of US dollars)	*0.3*	*0.3*

Source: Country authorities, Staff forecasts

[1] Public and publicly guaranteed external debt covers general government external debt and guaranteed external debt of SOEs (state owned enterprises, excluding Talco Management). All the external debt is denominated in foreign currency and medium- and long-term.

[2] All domestic public debt is denominated in local currency and medium- and long-term.

4. The current DSA including remittances concludes that Tajikistan's risk of debt distress is reclassified to moderate from high in the previous DSA (see Figure 1). [5] [6] In Tajikistan, remittance inflows have become the most prominent source of foreign exchange earnings, equivalent to 48 percent of GDP and 261 percent of exports of goods and services in 2012. This supports the incorporation of remittances in the debt sustainability assessment, specifically the use of debt-burden indicators in which remittances are included in the denominator as well as respective remittances-adjusted thresholds. In the current assessment, all debt burden indicators are projected to remain below their respective thresholds under the baseline scenario, confirming Tajikistan's moderate risk of debt distress (see Figure 1).

MACROECONOMIC ASSUMPTIONS

5. The macroeconomic framework over the medium term presents a more favorable picture compared with the one shown in the previous DSA. It is described in detail in Box 1. Notable differences are a more moderate inflation outlook over the medium-term and a fiscal position that reflects the recent improvement in the primary balance.

[5] The Joint Bank-Fund Staff Guidance Note on the use of remittances in the Debt Sustainability Framework for Low-Income Countries (March 2013) defines that remittances must be treated in the base case if remittances are both greater than 10 percent of GDP and greater than 20 percent of exports of goods and services. Both ratios should be measured on a backward-looking, three-year average basis. The remittance-adjusted thresholds for Tajikistan are 80 and 27 for the PV of debt to exports and GDP, previously 100 and 30 (without remittances), respectively. For debt service, the remittance-adjusted threshold is lowered to 12 percent of exports (previously around 15 percent without remittances). On the contrary, thresholds for the PV of debt-to-revenues and debt service–to-revenues remain unchanged at 200 and 18 percent, respectively.

[6] The latest three-year average of the World Bank's CPIA rating (2009–11) for Tajikistan is 3.27, with the CPIA rating of 2011 at 3.35. According to the Joint Bank-Fund Staff Guidance Note on the Application of the Joint Bank-Fund Debt Sustainability Framework (January 2010), Tajikistan's policies and institutions are assessed as those corresponding to a "weak performer."

Box 1. Tajikistan: Macroeconomic Assumptions

Real GDP growth is projected at 6¾ percent in 2013, and at 5¾ percent over the medium and long term, below the ten-year historical average of 7½ percent (2003–12), although slightly better than in the previous DSA (around 5-5½ percent). Adverse projected global conditions are expected to weigh on growth in the near term. The outlook incorporates gradual fiscal consolidation consistent with debt sustainability, a moderate pace of construction of the Roghun HPP (to be reassessed following completion of the Roghun feasibility studies), and little improvement in electricity supply. Growth dividends from the pick-up in fixed capital investment are assumed to be modest over the medium term due to delays in structural reforms. Growth will also be muted by moderating remittance inflows and slowing private consumption, and this trend continues in the long run.

The U.S. dollar GDP deflator is projected to decrease to 5¼ percent in 2013 from 8¼ percent in 2012 and continue decelerating to about 3¾ percent through 2033, reflecting the expectation of benign global conditions for food and fuel prices. Historically, and given Tajikistan's vulnerability to commodity prices, particularly for food and fuel, this series has been exceptionally volatile around an average of 12 percent. The rates were closer to the historical average over the medium term (8 ¼ percent) in the previous DSA.

The external current account deficit stays in the range of 1¾-2½ percent of GDP over the medium term, driven by slower growth in remittances—tied to likely downside spillovers into Russia—and import growth consistent with the assumed pace of Roghun construction.

Migrants' remittances, which were equivalent to 47½ percent of GDP in 2012, are expected to grow at 9¼ percent and 9 percent over the medium and long term, respectively; this is lower than the ten-year historical average growth of 66 percent (2003-12).

Reserve coverage is projected to build up gradually to about 2¼ months of imports by 2018, and increase gradually to about 2¾ months of imports over the long run.

The fiscal balance (excluding externally-financed PIP) is likely to loosen in 2013 relative to the 2012 outcome. This remains consistent with medium-term debt sustainability and earlier discussions on the medium-term fiscal path, which has the balance moving to a small surplus. The projected 2013 fiscal deficit incorporates possible challenges in implementing the new tax code, the potential for higher election-related expenditures, and the full-year effect of 2012 social sector wage increases. It also incorporates some catch up in foreign-financed project spending following low disbursements in 2012. If this project spending does not materialize, the deficit would again likely move into surplus. The path reflects a more gradual pace of consolidation relative to the previous DSA over the medium term, reflecting improvements in the primary balance. Growth of **real primary spending** over the DSA period is expected to stay the same as the past ten year average, and similar to the previous DSA.

Real interest rates. For domestic debt, real interest rates are projected to become positive and rise very gradually from 2014.

Financing. External and domestic PPG debt is projected to account for about 87 percent and 13 percent, respectively, of total public debt over the medium and long term. The share of domestic PPG debt over the projection period is expected to be higher than the ten-year historical average of 5 percent of total public debt (2003-12) in view of the need to raise domestic financing to help service external debt. External PPG is expected to be largely concessional (over the medium term external borrowing on concessional terms to finance the construction of Roghun HPP is incorporated. as unidentified financing) and denominated in foreign currency, in line with its trend over last 10 years.

EXTERNAL DSA

6. Under the baseline scenario, which includes remittances, all external debt burden indicators remain below the debt burden thresholds and are expected to be on a gradual downward trajectory over the medium term and steady over the long term (see Figure 1 and Table 1a). Both external debt stock and external debt service ratios are expected to stay below their thresholds over the entire period. During the projection period, debt service payments continue to be manageable, albeit with a gradual increase during the years when principal payments on loans from China continue to fall due (starting from 2012).[7]

7. Unlike, the previous DSA—which demonstrated a protracted breach in the baseline—there are no breaches with the inclusion of remittances in the threshold analysis of the current DSA. The PV of debt-to-exports + remittances is now projected to be on a steady path below the threshold after the inclusion of remittances**.** In the previous DSA, the PV of debt-to-exports—not including remittances—was projected to breach the indicative policy-dependent thresholds significantly and for a protracted period of time.

8. The traditional historical scenario is not relevant and the related graphs are not presented in Figure 1. The historical scenario, which is associated with a combination of both steady high GDP growth of 7.5 percent and persistent high inflation (measured as US dollar GDP deflator growth rate) of 12.1 percent, is unlikely to occur since Tajikistan is expected to move into a moderate-inflation regime and somewhat lower steady growth. This historical scenario would present a more optimistic trajectory of debt burden indicators relative to what is expected under the baseline.

9. The standard stress tests reveal significant vulnerability (Figure 1 and Table 1b). A one-standard-deviation shortfall in non-debt creating flows (includes official and private transfers (remittances in particular) and FDI) create prolonged breaches in Tajikistan's debt stock ratios (PV of debt-to-GDP + remittances, PV of debt-to-exports + remittances, and PV of debt-to-revenues).[8] [9] These breaches suggest that Tajikistan's external sustainability remains vulnerable to remittance-led growth deviations, and suggests the need for broadening the revenue and export bases through diversification and structural reforms (e.g. implementation of a dividends policy for SOEs). In view of this, the authorities should remain cautious in contracting and guaranteeing new debt, particularly non-concessional, and should conduct and assess carefully cost-benefit studies of large-scale infrastructure projects.

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[7] Information is provided by the country authorities. The identified debt repayment obligations to China (one of the biggest creditors) and other multilateral and bilateral creditors are covered by sufficient foreign exchange inflows in the capital accounts.

[8] Non-debt creating flows comprise of FDI, official transfers, and private transfers including remittances (5, 3 and 92 percent of non-debt creating flows in 2012 respectively).

[9] Staff Guidance Note on the Application of the Joint Bank-Fund Debt Sustainability Framework for Low Income Countries (Jan 25, 2010 available from http://www.imf.org/external/pp/longres.aspx?id=4419) identifies the maximum permissible length of the breach of the thresholds as 10 years starting from the current period, i.e., half of the projection period.

PUBLIC DSA

10. Public debt burden indicators (including domestic public debt) are also expected to be on a gradual downward trajectory over the medium term and steady over the long run under the baseline scenario. The PV of the public debt-to-GDP ratio would decline gradually over the medium term due to continued fiscal consolidation and remain stable over the long term.

11. In contrast with the previous DSA, under the baseline scenario the PV of public debt-to-revenues in the current DSA is projected to be lower by 20-30 percent. This significant reduction in the PV of public debt-to-revenues owes in part to the recent improvement in the fiscal outturn, driven by improved revenues (both tax and non-tax), and lower expenditures (capital mostly).

12. Standard stress tests indicate existence of vulnerabilities in public debt (Figure 2). The debt burden indicators are sensitive to permanently lower GDP growth. Also, the indicators deviate noticeably from the baseline under the scenario of higher other debt creating flows (10 percent of GDP increase in other debt creating flows in 2014 arising possibly from quasi-fiscal activities, Table 2 b).[10] This suggests that the authorities need to remain vigilant to exposure to contingent fiscal liabilities from quasi-fiscal activities related to state-owned enterprises (SOEs) and the financial sector, while maintaining planned fiscal consolidation.

CONCLUSION

13. The current DSA including remittances concludes that Tajikistan's risk of debt distress is reclassified from high to moderate. All external debt burden indicators are projected to remain below their respective thresholds under the baseline scenario. In comparison with the previous DSA, in which the PV of debt-to-exports was projected to breach the threshold for a protracted period, the PV of debt-to-exports + remittances is projected to be on a stable path below its threshold in the current assessment. However, the standard stress tests with a one-off shock to non-debt creating flows (a large part of which is private transfers) reveals significant vulnerability to a sustainable debt path, as in the previous DSA. This suggests the need for continued caution in contracting and guaranteeing new debt, and the need to vet carefully any large-scale investment projects.

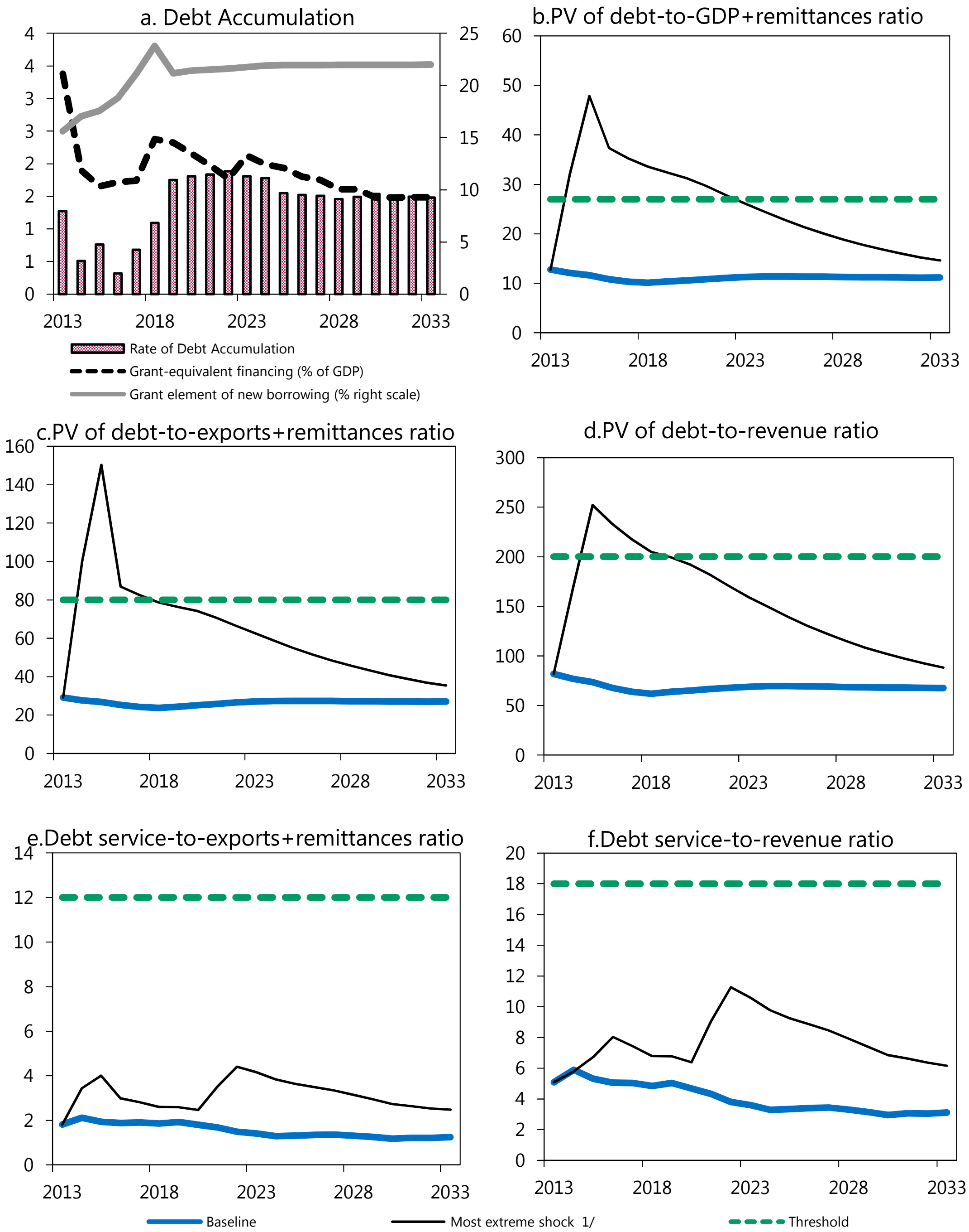
14. Despite some improvement in fiscal sustainability shown in public debt burden indicators, fiscal sustainability would be jeopardized with shocks to contingent debt creating flows and permanently lower GDP growth. Compared with the previous DSA, under the baseline scenario the PV of public debt-to-revenues in the current DSA has improved. However, fiscal sustainability remains vulnerable to permanent shocks to growth and contingent debt-creating flows, suggesting the need for continued fiscal consolidation and measures to minimize fiscal risks.

[10] The fiscal risk posed by this standardized stress test simulates a 10 percent of GDP increase in other debt creating flows. This is conservative, as recent estimates of realized quasi-fiscal costs are in the range of 2-4 percent of GDP in total over a period of four years.

15. The current DSA results thus underscore the need for fiscal consolidation, caution in contracting and guaranteeing new debt, and minimization of contingent fiscal risks. Sound macroeconomic policies and acceleration of growth-enhancing structural reforms would also be essential for maintaining debt sustainability. Going forward, the authorities should halt the practice of directed lending, both to limit contingent fiscal liabilities and to protect the health of banks. Emphasis should also be placed on strengthening debt management capacity by closely monitoring the debts of state-owned enterprises (SOEs) and completing an assessment of, and the plan to address, potential fiscal risks emerging from SOEs and banks (in line with IMF TA recommendations).

16. The authorities concurred with the conclusions of the DSA exercise. They agreed with staff's advice on exercising caution over contracting and guaranteeing new debt on non-concessional terms given existing vulnerabilities and limited buffers. In this vein, the Ministry of Finance acknowledged the need to build greater fiscal buffers and the authorities agreed on the need for greater coordination between the Ministry of Finance and the central bank (NBT) to identify and limit quasi-fiscal activities that ultimately generate unexpected fiscal costs and debt obligations.

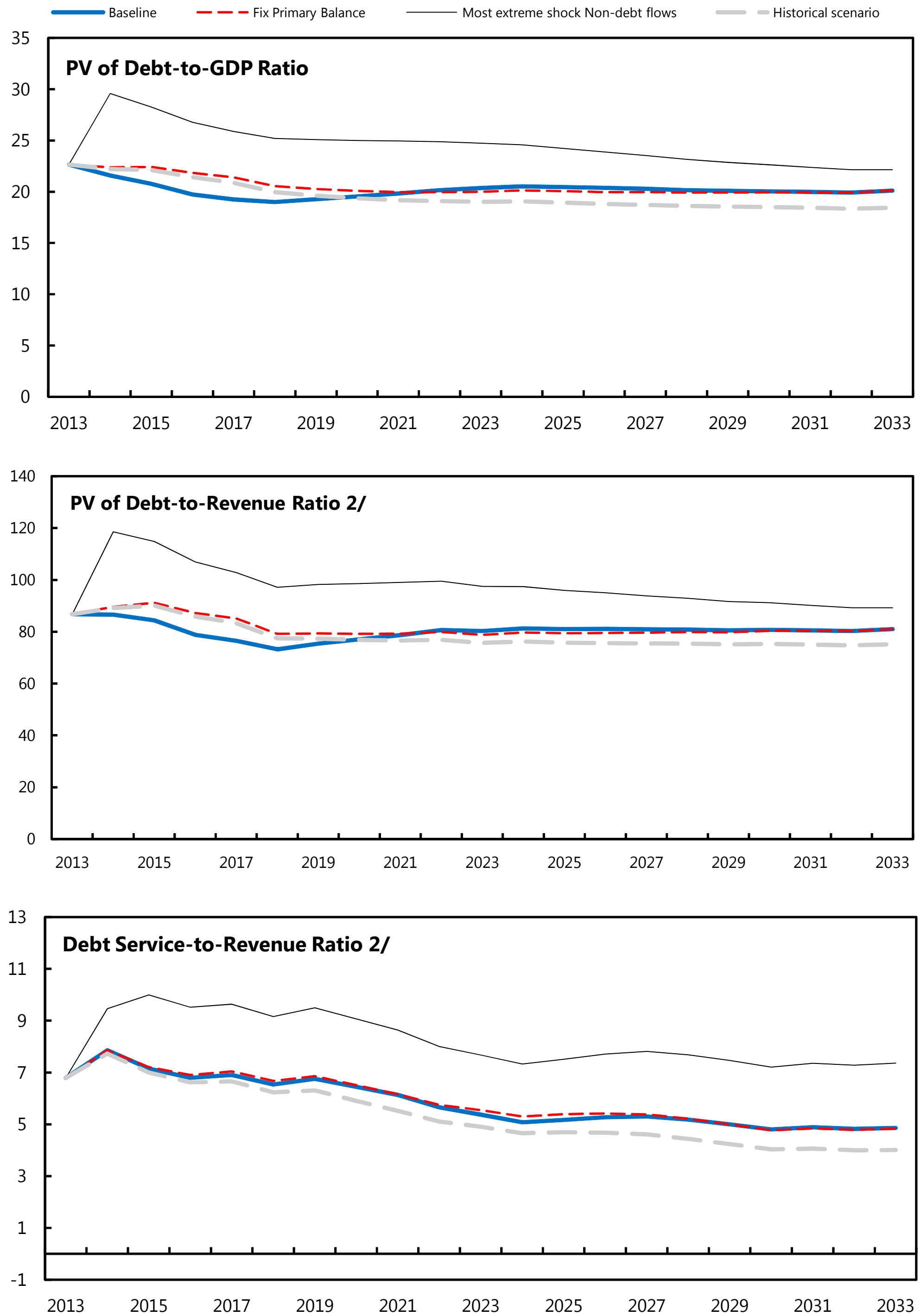
Figure 1. Tajikistan: Indicators of Public and Publicly Guaranteed External Debt Under Alternative Scenarios 2013–2033 1/



Sources: Country authorities; and staff estimates and projections.

1/ The most extreme stress test is the test that yields the highest ratio in 2023. In figure b. it corresponds to a Non-debt flows shock; in c. to a Non-debt flows shock; in d. to a Non-debt flows shock; in e. to a Non-debt flows shock and in figure f. to a Non-debt flows shock

Figure 2. Tajikistan: Indicators of Public Debt Under Alternative Scenarios 2013–2033 1/



Sources: Country authorities; and staff estimates and projections.

1/ The most extreme stress test is the test that yields the highest ratio in 2023.

2/ Revenues are defined inclusive of grants.

Table 1. Tajikistan: External Debt Sustainability Framework, Baseline, Scenario, 2010–2033 1/

(In percent of GDP, unless otherwise indicated)

	Actual			Historical 7/ Average	Standard 7/ Deviation	Projections									
	2010	2011	2012			2013	2014	2015	2016	2017	2018	2013-2018 Average	2023	2033	2019-2033 Average
External debt (nominal) 1/	**51.4**	**49.7**	**46.6**			**44.9**	**45.8**	**45.5**	**45.5**	**45.7**	**45.3**		**43.9**	**40.6**	
of which: public and publicly guaranteed (PPG)	34.1	33.1	28.3			27.0	27.7	27.4	27.4	27.8	27.4		26.3	23.5	
Change in external debt	-2.5	-1.6	-3.1			-1.7	0.9	-0.3	0.0	0.3	-0.4		-0.3	0.0	
Identified net debt-creating flows	-5.4	-3.2	-7.6			-2.8	-2.1	-2.4	-2.7	-3.2	-3.3		-2.7	-2.6	
Non-interest current account deficit	**0.4**	**3.8**	**-0.1**	**1.3**	**5.2**	**0.2**	**0.8**	**1.1**	**1.1**	**1.0**	**0.9**		**1.6**	**1.8**	1.1
Deficit in balance of goods and services	37.3	49.3	46.2			46.9	47.5	46.6	46.5	46.2	46.0		46.0	44.5	
Exports	15.3	17.9	18.2			16.9	16.7	16.4	16.1	15.8	15.8		15.0	15.3	
Imports	52.6	67.2	64.5			63.8	64.2	63.1	62.6	62.0	61.9		61.1	59.8	
Net current transfers (negative = inflow)	-37.4	-45.2	-45.6	-34.2	12.8	-45.8	-45.8	-44.8	-44.6	-44.4	-44.4		-43.7	-43.0	-43.7
of which: official	-2.3	-1.8	-1.3			-1.1	-0.7	-0.6	-0.5	-0.4	-0.3		-0.2	-0.1	
Other current account flows (negative = net inflow)	0.6	-0.3	-0.7			-0.9	-0.8	-0.7	-0.8	-0.7	-0.7		-0.8	0.3	
Net FDI (negative = inflow)	**-0.3**	**-1.0**	**-1.9**	**-3.2**	**3.7**	**-1.8**	**-2.0**	**-2.4**	**-2.7**	**-3.0**	**-3.0**		**-3.0**	**-3.0**	-3.0
Endogenous debt dynamics 2/	**-5.5**	**-6.0**	**-5.6**			**-1.3**	**-1.0**	**-1.1**	**-1.1**	**-1.2**	**-1.2**		**-1.3**	**-1.4**	
Contribution from nominal interest rate	0.8	0.9	1.4			1.5	1.4	1.3	1.3	1.2	1.2		1.0	0.7	
Contribution from real GDP growth	-3.1	-3.3	-3.2			-2.8	-2.4	-2.4	-2.4	-2.4	-2.4		-2.3	-2.1	
Contribution from price and exchange rate changes	-3.3	-3.6	-3.8			...	...	...	...	...	...		...	...	
Residual (3-4) 3/	**2.9**	**1.6**	**4.5**			**1.1**	**3.0**	**2.1**	**2.7**	**3.5**	**2.9**		**2.4**	**2.6**	
of which: exceptional financing	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
PV of external debt 4/	...	...	37.7			36.8	36.0	35.2	34.0	33.2	32.8		34.0	33.2	
In percent of exports	...	...	207.0			217.8	215.5	214.1	211.5	209.8	207.3		226.1	217.2	
PV of PPG external debt	**...**	**...**	**19.5**			**18.9**	**17.9**	**17.1**	**16.0**	**15.2**	**14.9**		**16.4**	**16.1**	
In percent of exports	**...**	**...**	**106.8**			**111.8**	**107.3**	**104.1**	**99.3**	**96.1**	**94.0**		**109.3**	**105.3**	
In percent of government revenues	**...**	**...**	**82.4**			**82.0**	**76.9**	**73.6**	**67.8**	**63.9**	**61.9**		**68.9**	**67.5**	
Debt service-to-exports ratio (in percent) 5/	**5.6**	**2.2**	**7.8**			**13.9**	**14.7**	**13.7**	**13.8**	**13.6**	**13.2**		**10.8**	**8.1**	
PPG debt service-to-exports ratio (in percent)	**2.8**	**2.6**	**2.3**			**6.9**	**8.2**	**7.5**	**7.4**	**7.6**	**7.4**		**5.7**	**4.8**	
PPG debt service-to-revenue ratio (in percent)	**2.0**	**2.0**	**1.8**			**5.1**	**5.9**	**5.3**	**5.1**	**5.0**	**4.8**		**3.6**	**3.1**	
Total gross financing need (Billions of U.S. dollars)	0.1	0.2	0.0			0.1	0.1	0.1	0.1	0.0	0.0		0.0	0.0	
Non-interest current account deficit that stabilizes debt ratio	2.9	5.4	3.0			1.9	0.0	1.4	1.1	0.7	1.3		1.9	1.8	
Key macroeconomic assumptions															
Real GDP growth (in percent)	6.5	7.4	7.5	7.5	1.9	6.7	5.8	5.7	5.7	5.8	5.8	5.9	5.8	5.8	5.8
GDP deflator in US dollar terms (change in percent)	6.4	7.6	8.3	12.1	10.2	5.3	2.1	2.8	3.3	3.5	3.1	3.4	3.7	3.7	3.7
Effective interest rate (percent) 6/	1.8	2.1	3.3	4.7	5.9	3.7	3.4	3.0	3.1	3.0	2.9	3.2	2.5	1.9	2.4
Growth of exports of G&S (US dollar terms, in percent)	14.6	34.5	18.9	8.8	23.6	4.2	6.7	7.1	6.8	7.6	9.3	7.0	9.5	10.4	9.4
Growth of imports of G&S (US dollar terms, in percent)	9.4	47.6	11.7	21.1	27.2	11.3	8.6	6.9	8.4	8.4	8.9	8.8	10.0	8.5	9.4
Grant element of new public sector borrowing (in percent)	...	...	...	...	...	15.6	17.0	17.6	18.8	21.1	23.8	19.0	21.8	22.0	21.8
Government revenues (excluding grants, in percent of GDP)	20.9	22.6	23.6			23.1	23.3	23.3	23.6	23.8	24.1		23.8	23.8	23.8
Aid flows (in Billions of US dollars) 7/	0.1	0.1	0.1			0.3	0.2	0.1	0.2	0.2	0.2		0.3	0.5	
of which: Grants	0.1	0.1	0.1			0.3	0.2	0.1	0.2	0.2	0.2		0.3	0.5	
of which: Concessional loans	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Grant-equivalent financing (in percent of GDP) 8/	...	...	...			3.4	1.9	1.7	1.7	1.7	2.4		2.1	1.5	1.8
Grant-equivalent financing (in percent of external financing) 9/	...	...	...			65.8	59.3	54.0	62.7	57.1	59.5		50.5	46.4	48.4
Memorandum items:															
Nominal GDP (Billions of US dollars)	5.6	6.5	7.6			8.5	9.2	10.0	11.0	12.0	13.1		20.7	52.2	
Nominal dollar GDP growth	13.4	15.6	16.4			12.4	8.0	8.7	9.3	9.5	9.0	9.5	9.7	9.7	9.7
PV of PPG external debt (in Billions of US dollars)			1.5			1.6	1.6	1.7	1.7	1.8	1.9		3.4	8.3	
(PVt-PVt-1)/GDPt-1 (in percent)						1.3	0.5	0.8	0.3	0.7	1.1	0.8	1.8	1.5	1.6
Gross workers' remittances (Billions of US dollars)	2.2	2.8	3.6			4.1	4.4	4.7	5.2	5.6	6.1		9.5	23.0	
PV of PPG external debt (in percent of GDP + remittances)	...	...	13.2			12.8	12.1	11.6	10.8	10.3	10.1		11.3	11.2	
PV of PPG external debt (in percent of exports + remittances)	...	...	29.6			29.2	27.7	26.9	25.2	24.2	23.7		27.1	27.1	
Debt service of PPG external debt (in percent of exports + remittances)	...	...	0.6			1.8	2.1	1.9	1.9	1.9	1.9		1.4	1.2	

Sources: Country authorities; and staff estimates and projections.

1/ Includes both public and private sector external debt.

2/ Derived as [r - g - ρ(1+g)]/(1+g+ρ+gρ) times previous period debt ratio, with r = nominal interest rate; g = real GDP growth rate, and ρ = growth rate of GDP deflator in U.S. dollar terms.

3/ Includes exceptional financing (i.e., changes in arrears and debt relief); changes in gross foreign assets; and valuation adjustments. For projections also includes contribution from price and exchange rate cha

4/ Assumes that PV of private sector debt is equivalent to its face value.

5/ Excludes trade credits as in the previous DSA (2011).

6/ Current-year interest payments divided by previous period debt stock.

7/ Historical averages and standard deviations are generally derived over the past 10 years, subject to data availability.

8/ Defined as grants, concessional loans, and debt relief.

9/ Grant-equivalent financing includes grants provided directly to the government and through new borrowing (difference between the face value and the PV of new debt).

Table 1b. Tajikistan: Sensitivity Analysis for Key Indicators of Public and Publicly Guaranteed External Debt, 2013–2033

(In percent)

	Projections							
	2013	2014	2015	2016	2017	2018	**2023**	2033
PV of debt-to-GDP+remittances ratio								
Baseline	13	12	12	11	10	10	**11**	11
A. Alternative Scenarios								
A1. New public sector loans on less favorable terms in 2013-2033 2	13	12	12	11	11	11	**14**	16
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2014-2015	13	12	11	11	10	10	**11**	11
B2. Export value growth at historical average minus one standard deviation in 2014-2015 3/	13	14	16	15	15	14	**14**	12
B3. US dollar GDP deflator at historical average minus one standard deviation in 2014-2015	13	12	11	11	10	10	**11**	11
B4. Net non-debt creating flows at historical average minus one standard deviation in 2014-2015 4/	13	32	48	37	35	34	**26**	15
B5. Combination of B1-B4 using one-half standard deviation shocks	13	24	32	28	26	25	**20**	13
B6. One-time 30 percent nominal depreciation relative to the baseline in 2014 5/	13	15	14	13	13	12	**14**	14
PV of debt-to-exports+remittances ratio								
Baseline	29	28	27	25	24	24	**27**	27
A. Alternative Scenarios								
A1. New public sector loans on less favorable terms in 2013-2033 2	29	28	28	26	26	27	**35**	40
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2014-2015	29	27	26	25	24	23	**27**	27
B2. Export value growth at historical average minus one standard deviation in 2014-2015 3/	29	33	42	40	38	37	**36**	31
B3. US dollar GDP deflator at historical average minus one standard deviation in 2014-2015	29	27	26	25	24	23	**27**	27
B4. Net non-debt creating flows at historical average minus one standard deviation in 2014-2015 4/	29	100	150	87	82	79	**63**	35
B5. Combination of B1-B4 using one-half standard deviation shocks	29	73	106	76	72	69	**58**	37
B6. One-time 30 percent nominal depreciation relative to the baseline in 2014 5/	29	27	26	25	24	23	**27**	27
PV of debt-to-revenue ratio								
Baseline	82	77	74	68	64	62	**69**	68
A. Alternative Scenarios								
A1. New public sector loans on less favorable terms in 2013-2033 2	82	77	76	71	69	69	**89**	98
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2014-2015	82	75	72	67	63	61	**68**	67
B2. Export value growth at historical average minus one standard deviation in 2014-2015 3/	82	87	104	96	90	87	**84**	71
B3. US dollar GDP deflator at historical average minus one standard deviation in 2014-2015	82	75	73	67	63	62	**69**	67
B4. Net non-debt creating flows at historical average minus one standard deviation in 2014-2015 4/	82	169	252	233	218	205	**160**	88
B5. Combination of B1-B4 using one-half standard deviation shocks	82	132	176	163	152	144	**118**	73
B6. One-time 30 percent nominal depreciation relative to the baseline in 2014 5/	82	106	102	94	89	86	**96**	94

Table 1b. Tajikistan: Sensitivity Analysis for Key Indicators of Public and Publicly Guaranteed External Debt, 2013–2033 (continued)

(In percent)

				Debt service-to-exports+remittances ratio				
Baseline	2	2	2	2	2	2	**1**	1
A. Alternative Scenarios								
A1. New public sector loans on less favorable terms in 2013-2033 2	2	2	2	2	2	2	**2**	2
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2014-2015	2	2	2	2	2	2	**1**	1
B2. Export value growth at historical average minus one standard deviation in 2014-2015 3/	2	2	2	2	2	2	**2**	2
B3. US dollar GDP deflator at historical average minus one standard deviation in 2014-2015	2	2	2	2	2	2	**1**	1
B4. Net non-debt creating flows at historical average minus one standard deviation in 2014-2015 4/	2	3	4	3	3	3	**4**	2
B5. Combination of B1-B4 using one-half standard deviation shocks	2	3	3	3	3	3	**4**	2
B6. One-time 30 percent nominal depreciation relative to the baseline in 2014 5/	2	2	2	2	2	2	**1**	1
				Debt service-to-revenue ratio				
Baseline	5	6	5	5	5	5	**4**	3
A. Alternative Scenarios								
A1. New public sector loans on less favorable terms in 2013-2033 2	5	6	5	5	5	5	**5**	5
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2014-2015	5	6	5	5	5	4	**4**	3
B2. Export value growth at historical average minus one standard deviation in 2014-2015 3/	5	6	5	6	5	5	**5**	4
B3. US dollar GDP deflator at historical average minus one standard deviation in 2014-2015	5	6	5	5	5	4	**4**	3
B4. Net non-debt creating flows at historical average minus one standard deviation in 2014-2015 4/	5	6	7	8	7	7	**11**	6
B5. Combination of B1-B4 using one-half standard deviation shocks	5	5	6	6	6	5	**8**	5
B6. One-time 30 percent nominal depreciation relative to the baseline in 2014 5/	5	8	7	7	7	6	**5**	5
Memorandum item:								
Grant element assumed on residual financing (i.e., financing required above baseline) 6/	19	19	19	19	19	19	**19**	19

Sources: Country authorities; and staff estimates and projections.

1/ Variables include real GDP growth, growth of GDP deflator (in U.S. dollar terms), non-interest current account in percent of GDP, and non-debt creating flows.

2/ Assumes that the interest rate on new borrowing is by 2 percentage points higher than in the baseline., while grace and maturity periods are the same as in the baseline.

3/ Exports values are assumed to remain permanently at the lower level, but the current account as a share of GDP is assumed to return to its baseline level after the shock (implicitly assuming an offsetting adjustment in import levels).

4/ Includes official and private transfers and FDI.

5/ Depreciation is defined as percentage decline in dollar/local currency rate, such that it never exceeds 100 percent.

6/ Applies to all stress scenarios except for A2 (less favorable financing) in which the terms on all new financing are as specified in footnote 2.

Table 2a. Tajikistan: Public Sector Debt Sustainability Framework, Baseline, Scenario, 2010–2033

(In percent of GDP, unless otherwise indicated)

	Actual			Average 5/	Standard Deviation 5/	Estimate	Projections								
	2010	2011	2012			2013	2014	2015	2016	2017	2018	2013-18 Average	2023	2033	2019-33 Average
Public sector debt 1/	36.3	35.4	32.3			30.7	31.4	31.0	31.2	31.8	31.5		30.3	27.5	
of which: foreign-currency denominated	34.1	33.1	28.3			27.0	27.7	27.4	27.4	27.8	27.4		26.3	23.5	
Change in public sector debt	0.1	-0.9	-3.1			-1.6	0.6	-0.4	0.2	0.7	-0.4		-0.3	0.2	
Identified debt-creating flows	-2.8	-0.3	-6.2			-0.8	-1.2	-1.8	-1.4	-0.9	-0.1		-0.5	-0.5	
Primary deficit	2.8	1.1	-1.6	1.6	2.7	1.3	0.4	0.2	0.6	1.1	1.9	0.9	1.6	1.3	1.5
Revenue and grants	23.2	24.9	25.1			26.1	24.9	24.6	25.0	25.2	25.9		25.4	24.8	
of which: grants	2.3	2.3	1.5			3.1	1.6	1.4	1.5	1.4	1.9		1.5	1.0	
Primary (noninterest) expenditure	26.0	26.0	23.5			27.4	25.3	24.8	25.7	26.3	27.9		26.9	26.1	
Automatic debt dynamics	-4.8	-3.2	-4.9			-2.1	-1.6	-1.9	-2.0	-2.0	-2.0		-2.0	-1.8	
Contribution from interest rate/growth differential	-2.3	-2.7	-2.4			-1.7	-1.4	-1.6	-1.6	-1.6	-1.6		-1.6	-1.4	
of which: contribution from average real interest rate	-0.1	-0.2	0.1			0.3	0.2	0.1	0.1	0.1	0.1		0.1	0.1	
of which: contribution from real GDP growth	-2.2	-2.5	-2.5			-2.0	-1.7	-1.7	-1.7	-1.7	-1.7		-1.7	-1.5	
Contribution from real exchange rate depreciation	-2.5	-0.5	-2.5			-0.3	-0.1	-0.3	-0.4	-0.4	-0.4		...	...	
Other identified debt-creating flows	-0.8	1.9	0.4			-0.1	-0.1	0.0	0.0	0.0	0.0		0.0	0.0	
Privatization receipts (negative)	-0.8	1.9	0.4			-0.1	-0.1	0.0	0.0	0.0	0.0		0.0	0.0	
Recognition of implicit or contingent liabilities	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Debt relief (HIPC and other)	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Other (specify, e.g. bank recapitalization)	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Residual, including asset changes	2.9	-0.6	3.1			-0.8	1.9	1.5	1.5	1.6	-0.2		0.2	0.7	
Other Sustainability Indicators															
PV of public sector debt	...	...	23.5			22.7	21.6	20.8	19.7	19.3	19.0		20.3	20.1	
of which: foreign-currency denominated	...	...	19.5			18.9	17.9	17.1	16.0	15.2	14.9		16.4	16.1	
of which: external	...	...	19.5			18.9	17.9	17.1	16.0	15.2	14.9		16.4	16.1	
PV of contingent liabilities (not included in public sector debt)	...	...	...			...	...	...	...	...	...		...	...	
Gross financing need 2/	3.7	2.1	-0.6			3.1	2.3	1.9	2.3	2.9	3.6		2.9	2.5	
PV of public sector debt-to-revenue and grants ratio (in percent)	...	...	93.4			86.8	86.5	84.4	78.8	76.5	73.2		80.2	81.0	
PV of public sector debt-to-revenue ratio (in percent)	...	...	99.4			98.3	92.6	89.3	83.8	81.0	78.9		85.4	84.4	
of which: external 3/	...	...	82.4			82.0	76.9	73.6	67.8	63.9	61.9		68.9	67.5	
Debt service-to-revenue and grants ratio (in percent) 4/	4.0	3.9	4.0			6.8	7.9	7.1	6.8	6.9	6.5		5.4	4.9	
Debt service-to-revenue ratio (in percent) 4/	4.4	4.3	4.3			7.7	8.4	7.6	7.2	7.3	7.0		5.7	5.1	
Primary deficit that stabilizes the debt-to-GDP ratio	2.7	2.0	1.5			2.9	-0.3	0.5	0.5	0.5	2.3		1.8	1.1	
Key macroeconomic and fiscal assumptions															
Real GDP growth (in percent)	6.5	7.4	7.5	7.5	1.9	6.7	5.8	5.7	5.7	5.8	5.8	5.9	5.8	5.8	5.8
Average nominal interest rate on forex debt (in percent)	2.8	3.0	3.0	2.6	0.6	3.1	2.8	2.3	2.2	2.1	2.1	2.4	2.0	2.0	2.1
Average real interest rate on domestic debt (in percent)	0.1	-7.3	-1.3	-6.4	6.3	-2.1	0.3	0.4	0.5	1.3	1.5	0.3	1.4	1.4	1.4
Real exchange rate depreciation (in percent)	-7.5	-1.6	-8.2	-8.6	11.3	-1.2	...	...	...	...	...	...	...	...	...
Inflation rate (GDP deflator, in percent)	12.5	13.3	11.9	18.2	7.5	8.0	7.0	7.0	7.0	7.0	6.0	7.0	6.0	6.0	6.0
Growth of real primary spending (deflated)	0.0	0.1	0.0	0.1	0.1	0.2	0.0	0.0	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Grant element of new external borrowing (in percent)	...	...	...	...	...	15.6	17.0	17.6	18.8	21.1	23.8	19.0	21.8	22.0	...

Sources: Country authorities; and staff estimates and projections.

1/ Public sector is defined as nonfinancial public sector. Gross debt is used.

2/ Gross financing need is defined as the primary deficit plus debt service plus the stock of short-term debt at the end of the last period.

3/ Revenues excluding grants.

4/ Debt service is defined as the sum of interest and amortization of medium and long-term debt.

5/ Historical averages and standard deviations are generally derived over the past 10 years, subject to data availability.

Table 2b. Tajikistan: Sensitivity Analysis for Key Indicators of Public Debt 2010–2033

	Projections							
	2013	2014	2015	2016	2017	2018	2023	2033
PV of Debt-to-GDP Ratio								
Baseline	23	22	21	20	19	19	20	20
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	23	22	22	21	21	20	19	18
A2. Primary balance is unchanged from 2013	23	22	22	22	21	21	20	20
A3. Permanently lower GDP growth 1/	23	22	21	20	20	20	25	33
B. Bound tests								
B1. GDP growth is at historical average minus one std deviation in 2014-2015	23	22	21	20	19	19	21	20
B2. Primary balance is at historical average minus one std deviation in 2014-2015	23	25	27	26	25	24	24	22
B3. Combination of B1-B2 using one half standard deviation shocks	23	23	25	23	22	21	20	18
B4. One-time 30 percent real depreciation in 2014	23	29	27	25	23	22	23	22
B5. 10 percent of GDP increase in other debt-creating flows in 2014	23	30	28	27	26	25	25	22
PV of Debt-to-Revenue Ratio 2/								
Baseline	87	87	84	79	77	73	80	81
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	87	89	90	86	83	77	76	75
A2. Primary balance is unchanged from 2013	87	90	91	87	85	79	79	81
A3. Permanently lower GDP growth 1/	87	87	86	81	80	79	97	132
B. Bound tests								
B1. GDP growth is at historical average minus one std deviation in 2014-2015	87	87	85	79	77	74	81	82
B2. Primary balance is at historical average minus one std deviation in 2014-2015	87	99	109	102	98	93	95	88
B3. Combination of B1-B2 using one half standard deviation shocks	87	94	100	92	87	82	81	71
B4. One-time 30 percent real depreciation in 2014	87	116	110	99	92	86	90	89
B5. 10 percent of GDP increase in other debt-creating flows in 2014	87	119	115	107	103	97	98	89
Debt Service-to-Revenue Ratio 2/								
Baseline	7	8	7	7	7	7	5	5
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	7	8	7	7	7	6	5	4
A2. Primary balance is unchanged from 2013	7	8	7	7	7	7	6	5
A3. Permanently lower GDP growth 1/	7	8	7	7	7	7	6	6
B. Bound tests								
B1. GDP growth is at historical average minus one std deviation in 2014-2015	7	8	7	7	7	7	5	5
B2. Primary balance is at historical average minus one std deviation in 2014-2015	7	8	7	7	7	7	6	5
B3. Combination of B1-B2 using one half standard deviation shocks	7	8	7	7	7	7	6	5
B4. One-time 30 percent real depreciation in 2014	7	9	10	10	10	9	8	7
B5. 10 percent of GDP increase in other debt-creating flows in 2014	7	8	8	7	7	7	7	5

Sources: Country authorities; and staff estimates and projections.
1/ Assumes that real GDP growth is at baseline minus one standard deviation divided by the square root of the length of the projection period.
2/ Revenues are defined inclusive of grants.

INTERNATIONAL MONETARY FUND

REPUBLIC OF TAJIKISTAN

July 1, 2013

STAFF REPORT FOR THE 2013 ARTICLE IV CONSULTATION—INFORMATIONAL ANNEX

Prepared By

Middle East and Central Asia Department
(In Consultation with Other Departments)

CONTENTS

RELATIONS WITH THE FUND

(As of March 31, 2013)

Membership Status

Joined April 27, 1993; Article VIII

General Resources Account

	SDR Million	Percent Quota
Quota	87.00	100.00
Fund Holdings of Currency	87.00	100.00
Reserve position in Fund	0.00	0.00

SDR Department

	SDR Million	Percent Allocation
Net Cumulative allocation	82.08	100
Holdings	69.75	84.97

Outstanding Purchases and Loans

	SDR Million	Percent of Quota
ECF Arrangements	104.40	120.00

Latest Financial Arrangements

Type	Approval Date	Expiration Date	Amount Approved (SDR Million)	Amount Drawn (SDR Million)
ECF[1]	Apr. 21, 2009	May 09, 2012	104.40	104.40
ECF	Dec. 11, 2002	Feb.10, 2006	65.00	65.00
EFF	Jun. 24, 1998	Dec.24, 2001	100.30	78.28

Projected Payments to the Fund[2]

	Forthcoming				
	2013	2014	2015	2016	2017
Principal		2.61	7.83	14.36	18.27
Charges/Interest	0.01	0.01.	0.26	0.23	0.19
Total	**0.01**	**2.62**	**8.09**	**14.59**	**18.47**

[1] Formerly PRGF.
[2] When a member has overdue financial obligations outstanding for more than three months, the amount of such arrears will be shown in this section.

Implementation of HIPC Initiative:

Not applicable

Implementation of Multilateral Debt Relief Initiative (MDRI):

MDRI-eligible debt (SDR Million)[3]	69.31
Financed by: MDRI Trust	69.31
Remaining HIPC resources	--

Debt Relief by Facility (SDR Million)

		Eligible Debt	
Delivery Date	**GRA**	**PRGT**	**Total**
January, 2006	N/A	69.31	69.31

Safeguards Assessment

The 2009 update assessment of the NBT noted considerable safeguard risks in key functions such as accounting, NIR compilation, the control environment, and the NBT's organizational structure. Independent governance mechanisms were largely absent, in particular for overseeing audit mechanisms, and the internal audit function was weak. Subsequently, an NBT reform action plan was drawn up, and since 2009 several measures have been implemented, including six-monthly reviews of NIR data by an external auditor and the addition of non-executive members to the Board of Directors.

Audited financial statements are published on the NBT website, albeit with some delays. These delays, combined with limited capacity in the accounting area, can raise the risk of inadvertent misreporting. The internal audit of core functions was outsourced, while the NBT is strengthening its internal audit capacity through on-the-job training and technical assistance.

The 2011 safeguards staff visit concluded that increased transparency and oversight of key operations, notably large scale support of local banks, is needed to help safeguard IMF resources.

[3] The MDRI provides 100 percent debt relief to eligible member countries that qualified for the assistance. Grant assistance from the MDRI Trust and HIPC resources provide debt relief to cover the full stock of debt owed to the Fund as of end-2004 that remains outstanding at the time the member qualifies for such debt relief

Exchange Rate Arrangements

Tajikistan's de jure exchange rate is managed floating. Since September 2011, the de facto exchange rate regime is classified as stabilized. The official exchange rate is based on all interbank transactions in foreign exchange. It is calculated and announced daily.

With effect from December 9, 2004, the Republic of Tajikistan accepted the obligations of Article VIII, Sections 2, 3, and 4 of the Articles of Agreement. The Republic of Tajikistan maintains an exchange system that is free of restrictions on the making of payments and transfers for current international transactions, except for exchange restrictions maintained for security reasons that have been notified to the Fund pursuant to Executive Board decision No. 144–(52/51)Fund.

FSAP Participation

Tajikistan participated in the Financial Sector Assessment Program during 2007–08, and the FSSA report has been published at http://www.imf.org/external/country/TJK/index.htm.

Article IV Consultation

The 2011 Article IV consultation with Tajikistan was concluded on May 11, 2011.

Resident Representative

Mr. Aisen, Resident Representative of the Fund, started his assignment in Dushanbe in July 2010.

Technical Assistance

The following list summarizes the technical assistance provided by the Fund to Tajikistan since 2004.

TAJIKISTAN: TECHNICAL ASSISTANCE, 2004–13

Fund. Dept.	Area of Assistance	Mission Dates
LEG	Tax Legislation	January 2004
STA	Data ROSC	April 2004
LEG	Tax Legislation	May 2004
FAD	Revenue Administration Reform	July 2004
STA	General Data Dissemination System (GDDS)	October 2004
FAD	Poverty and Social Impact Analysis	December 2004
FAD	Public Financial Management	June 2005
FAD	Tax Policy Administration	August 2005
LEG	AML/CFT	2006
MFD	Strengthening the Monetary Policy Framework and Liquidity Management	May 2006
FAD	Fiscal ROSC	August 2006
STA	Report on Monetary and Financial Statistics National Accounts and Price Statistics (Regional Advisor)	June 2066
FAD	Public Financial Management (Budget Classification)	May 2007
MFD	NBT Recapitalization Strategy	Oct/Dec 2009
FAD	Tax Policy and Administration	Feb/July. 2010
FAD	Public Financial Management Reforms	June 2010
MFD	NBT Recapitalization Strategy	September 2010
LEG	NBT Law	October 2010
FAD	Public Financial Management (Regional Advisor)	November 2010
MFD	Improving Accounting Controls at NBT	January 2011
MFD	BOP	March 2011
MFD	NBT Internal Audit	April 2011
FAD	Tax Policy Review	May 2011
MFD	Improving Accounting Controls at NBT	February 2012
FAD	Financial Monitoring of SOEs	March 2012
FAD	Tax Policy Review	April 2012
STA	Monetary and Financial Statistics	April 2012
STA	National Accounts Statistics	May 2012
FAD	Tax Administration	June/Aug/Oct 2012
MFD	Improving Accounting Controls at NBT	November 2012
STA	Monetary and Financial Statistics	November 2012
STA	BOP	December 2012
MFD	Improving Accounting Controls at NBT	February 2013
FAD	Tax Administration	March 2013
MFD	Banking Supervision	March 2013

RELATIONS WITH THE WORLD BANK

(As of March 31, 2013)

JMAP Implementation Table

Title	Products	Provisional Timing of Missions	Expected Delivery Date
A. Mutual Information on Relevant Work Programs			
Bank Work Program in next 12 months	• Public Expenditure Review (phase 1) • Public Expenditure Review (phase 2)	Ongoing	June 2013 (phase 1) June 2014 (phase 2)
	Governance	Supporting demand-side governance–Governance Partnership Facility funded by DFID–Bank executed TF 2011–13	October 2013
	PFM modernization project	Supervision missions April 2013 October 2013	Project closing August 2014
	Tax modernization project	Supervision missions May 2013 November 2013	Project closing December 2017
	Private Sector Competitiveness project.	Supervision missions May 2013 November 2013	Project closing December 2016
	Rural Investment Climate Study (with DFID TF)	April 2013	May 2013
	Financial Sector Dialogue • Strengthening Banking Regulations • Payment System Modernization (FIRST TF)	May 2013	June 2014
	Agriculture Land Registration & Cadastre System for Sustainable Agriculture Project	Supervision missions September 2013 March 2014	Project closing March 2015
	Water Dushanbe water supply project	Supervision missions	Project closing December 2015
	Infrastructure Municipal Infrastructure	Supervision missions	Project closing

	Development project	April 2013 September 2013	December 2015
	Energy • Energy Loss Reduction Project • Power supply options study • Addressing Energy Deprivation study	Supervision missions April 2013 September 2013 ongoing ongoing ongoing	Closing date December 2014 September 2013 October 2013
	Social safety nets • SSN strengthening project	Supervision missions September 2013 March 2014	Closing date December 2015
	Health • Protecting access to Maternal and Neonatal Health Services (TA)	Supervision missions March 2013	Closing date May 2013
	Education • Education Modernization Project		Closing date July 2013
	Migration • IDF grant for strengthening results-based M&E for better migration management	May 2013	Closing date May 2014
	Statistics • Support for NDSS implementation • Support for poverty analysis (TF)	Concept stage	Closing date for Poverty Analysis TF March 2015
Fund work program in next 12 months	• Staff Visit on 2014 budget • 2014 Article IV Discussions TA • Tax administration • PFM • Central Bank Accounting • Banking Supervision • Monetary and BOP statistics	September 2013 March/April 2014 Over the year by various departments and regional advisors	June 2013–June 2014 for all.
B. Requests for work program inputs			
Fund request to Bank	Follow-up on Barki Tajik restructuring • Electricity tariff adjustments • Roghun feasibility study		

	• Cotton/agriculture sector reforms • Any STATCAP work on NA and inflation statistics • PFM work/PER • Social spending • Financial sector work		
Bank request to Fund	• BOP Statistics TA • Financial/Banking sector dialogue. • Discussing data issues and data sharing (e.g. BoP, fiscal, debt, financial sector). • Joint macro-monitoring missions.		
C. Agreement on joint products and missions (as needed)			
Joint Products in next 12 months	Low Income Debt Sustainability Analysis	March 2014	June 2014

STATISTICAL ISSUES

(As of March 31, 2013)

<table>
<tr><th colspan="2">Assessment of Data Adequacy for Surveillance</th></tr>
<tr><td colspan="2">General: Data provision has some shortcomings in the areas of national accounts, price statistics, and monetary statistics, but is broadly adequate for surveillance.</td></tr>
<tr><td colspan="2">National accounts and price statistics: There are significant deficiencies in the statistical techniques for national accounts and price statistics, most notably in procedures to estimate the informal economy, and the techniques for imputation, replacement, quality adjustment, and introduction of new products in the price indices. Technical assistance from the World Bank and the Fund has recently focused on the quarterly calculations of GDP by expenditure and sectors, a framework for reconciling the two approaches, and the improvement of accuracy of the annual estimates. As regards price statistics, the most important general issue is the further implementation of the system of prices and volumes, instead of presently used comparable volumes.</td></tr>
<tr><td colspan="2">Government finance statistics: Government finance statistics (GFS) are based on cash transactions as recommended in the 1986 Manual on Government Finance Statistics. In 2010, the authorities introduced an administrative classification of the budget. With the help of a regional advisor, the authorities are currently working on a GFSM 2001- based budget classification, with plans to migrate to the new classification as of beginning 2014.</td></tr>
<tr><td colspan="2">Monetary and financial statistics: The safeguard assessment in 2011 concluded that the NBT improved its process for compiling monetary data, although certain controls are still absent. The process is now more automated and data compilation files are mapped to the accounting data. Formal reconciliations of the monetary data to the accounting records or audited financial statements is still missing. STA provided technical assistance in the area of MFS to the NBT in 2002, 2006, and 2012 with the main objective to improve the quality of statistics. It is expected that the NBT will adopt monetary statistics submission standards and send revised data for monetary aggregates for publication in IFS, as agreed with STA and in line with IMF TA recommendations in the second half of 2013.</td></tr>
<tr><td colspan="2">Balance of payments: Improvements are needed in the following areas: improvement of goods export/import statistics based on customs regimes; development of estimation models for travel and remittances on a gross basis; and reclassification of government guaranteed debt to non-government sectors. The compilation of statistics of private external debt, which was initiated by the NBT earlier, was suspended.</td></tr>
<tr><th colspan="2">Data Standards and Quality</th></tr>
<tr><td>Tajikistan began participating in the General Data Dissemination System (GDDS) on November 17, 2004. Metadata is updated regularly. The authorities have indicated their interest in graduating from the GDDS to the Fund’s Special Data Dissemination Standard (SDDS). They have appointed a national SDDS coordinator and requested technical assistance for this purpose.</td><td>A Data ROSC was published on March 30, 2005.</td></tr>
<tr><th colspan="2">Reporting to STA</th></tr>
<tr><td colspan="2">Country page in the International Financial Statistics (IFS) has been published since February 2003.</td></tr>
</table>

TAJIKISTAN: TABLE OF COMMON INDICATORS REQUIRED FOR SURVEILLANCE

(As of March, 2013)

	Date of latest observation	Date received	Frequency of data[6]	Frequency of reporting[6]	Frequency of publication[6]	Memo Items:	
						Data Quality – *Methodological soundness*[7]	*Data Quality Accuracy and reliability*[8]
Exchange Rates	03/25/2013	03/29/13	D	W	W		
International Reserve Assets and Reserve Liabilities of the Monetary Authorities[1]	03/25/13	03/29/13	D	W	W		
Reserve/Base Money	03/18/13	03/29/13	W	M	W	O, O, LO, O	LO, O, O, O, NO
Broad Money	01/31/13	03/16/13	M	M	M		
Central Bank Balance Sheet	03/18/13	03/29/13	W	M	W		
Consolidated Balance Sheet of the Banking System	01/31/13	03/15/13	M	M	M		
Interest Rates[2]	Feb 2013	03/29/13	M	M	V		
Consumer Price Index	Feb 2013	03/28/13	M	M	M	LO, LO, LNO, O	LO, LO, LO, O, O
Revenue, Expenditure, Balance and Composition of Financing[3] – General Government[4]	Jan 2013	03/20/13	M	M	M	LO, LO, O, O	O, O, O, LO, LO
Revenue, Expenditure, Balance and Composition of Financing[3]– Central Government	Jan 2013	03/20/13	M	M	M		
Stocks of Central Government and Central Government-Guaranteed Debt[5]	Q4/2012	02/19/13	Q	Q	V		
External Current Account Balance	Q4 2012	03/30/13	Q	Q	V	LNO, LNO, O, O	LO, O, O, O, O
Exports and Imports of Goods and Services	Q4 2012	03/30/13	Q	Q	V		
GDP/GNP	Feb 2013	03/28/2013	M/A	M	V	O, LNO, LNO, LNO	LO, LO, LNO, O, O
Gross External Debt	Q4 2012	03/19/13	Q	Q	V		

[1] Includes reserve assets pledged or otherwise encumbered as well as net derivative positions.
[2] Both market-based and officially-determined, including discount rates, money market rates, rates on treasury bills, notes and bonds.
[3] Foreign, domestic bank, and domestic nonbank financing.
[4] The general government consists of the central government (budgetary funds, extrabudgetary funds, and social security funds) and state and local governments.
[5] Including currency and maturity composition.
[6] Daily (D); Weekly (W); Monthly (M); Quarterly (Q); Annually (A); Irregular (I); Not Available (NA).
[7] Reflects the assessment provided in the data ROSC published on April 2005 and based on the findings of the mission that took place during April 2004 for the dataset corresponding to the variable in each row. The assessment indicates whether international standards concerning (respectively) concepts and definitions, scope, classification/sectorization, and basis for recording are fully observed (O), largely observed (LO), largely not observed (LNO), or not observed (NO).
[8] Same as footnote 7, except referring to international standards concerning (respectively) source data, statistical techniques, assessment and validation of source data, assessment and validation of intermediate data and statistical outputs, and revision studies.