

INTERNATIONAL MONETARY FUND

REPUBLIC OF TAJIKISTAN

Staff Assessment of Qualification for the Multilateral Debt Relief Initiative

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

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Tajikistan is not a HIPC country. It is, however, eligible under the MDRI because it had a per capita annual GDP of below \$380 as of 2004.

Macroeconomic Performance

- Status of Fund Arrangement.** The Executive Board approved a three-year PRGF arrangement on December 11, 2002 in the amount of SDR 65 million (75 percent of quota). On July 18, 2005, the Board completed the fifth review under the PRGF arrangement on a lapse of time basis, and extended the arrangement to February 10, 2006. The sixth and final review under the PRGF arrangement is expected to be considered by the Board in late January 2006. All quantitative and structural performance criteria for end-September 2005 (the applicable test date) have been met. Two of the five structural benchmarks relevant for the upcoming review have yet to be completed, but the staff is confident that they will be implemented by the end of the year.
- Recent Macroeconomic Developments.** Economic growth in 2005 continues to be robust and inflation is under control. Real GDP growth is expected to be about 7–8 percent in 2005 while inflation is projected at about 7 percent for the year (compared to 11 percent and 6 percent in 2004, respectively). The currency has remained stable during the second half of 2005 and the real exchange rate has remained essentially unchanged for the year as a whole. As in the past three years, fiscal performance has been stronger than envisaged in the program owing to a strong revenue performance and expenditure restraint. Monetary policy has been supportive of macroeconomic stability, with the central bank strictly adhering to the monetary program objectives. The authorities' economic program for 2006 foresees economic growth remaining at about 8 percent, fueled by the continuation of strong remittances inflows and increased foreign direct investment. Macroeconomic stability will continue to be supported by the maintenance of a prudent fiscal policy stance.
- The information available to staff indicates that Tajikistan is current on its obligations to the World Bank.

4. **Summary Assessment.** Given the completion of the 5th review under the PRGF on July 18, 2005, and the recent track record of satisfactory macroeconomic performance, staff is of the view that the related criterion to qualify for MDRI debt relief is met.

Implementation of the Poverty Reduction Strategy

5. **Recent Developments.** The Tajik authorities have been implementing their Poverty Reduction Strategy (PRS) since late 2002. The PRSP was presented to the Boards of IDA and the IMF in November 2002. The second PRSP Annual Progress Report (APR) and the accompanying Joint Staff Assessment Note (JSAN) were issued for information to the Executive Board on November 10, 2005.

6. The APR notes that the government continues to pursue a prudent macroeconomic management strategy, has improved budget transparency, and has broadened the participation of stakeholders. The government has also launched important reforms in social areas, particularly in the health care and education sectors, thereby strengthening the basis for sustained poverty reduction. The APR also highlights, however, that further progress is required in some key policy areas, including accelerating structural reforms, improving public sector governance, strengthening the process of costing and prioritizing the programs presented in the PRSP, and further improving poverty monitoring and analysis.

7. The JSAN underscores that the implementation of Tajikistan's poverty reduction strategy has been good. Significant poverty reduction has been achieved, reflecting prudent macroeconomic policies and strong economic performance, some progress in implementing structural reforms, and strong inflows of remittances. However, the JSAN also stresses the need to accelerate structural reforms in order to sustain a high economic growth rate and further reduce poverty. While the APR and the accompanying JSAN cover the period only until end-2004, data available in 2005 so far show that social spending has been augmented from its 2004 level (from 7.1 percent to about 9 percent of GDP in 2005), with most of the additional resources accruing to the education sector.

8. During the past few months, the government has taken steps to develop a unified National Development Strategy (NDS), which is expected to provide a strategic framework for the next PRSP. In this connection, with the assistance of the United Nations, Tajikistan became one of the first countries to prepare a needs assessment document outlining the estimated overall costs and resources required to meet the MDGs, which will provide the basis for developing the NDS. The authorities have also recently established the National Coordination Council with responsibility for formulating the strategy. The council, comprising government officials from line ministries and agencies as well as donor countries' representatives, is supported by 12 working groups responsible for the development of sectoral strategies. A Concept Paper, outlining the main policy areas to be covered in the strategy, will be presented to donors in New York on December 12, 2005. The next PRSP is expected to be finalized in the first half of 2006.

9. **Summary Assessment.** Given the recent track record of satisfactory implementation of poverty reduction policies, staff is of the view that the related criterion to qualify for MDRI debt relief is met.

Public Expenditure Management System

10. **Recent Developments.** Tajikistan has advanced its Public Expenditure Management (PEM) reform agenda since 2001. An assessment was prepared using the Country Assessment and Action Plan (AAP) format. This was based on an earlier FAD technical assistance mission and World Bank diagnostic reports used for HIPC. The assessment showed that Tajikistan met 8 out of 16 indicators. This follows on significant progress in improving public financial management. Specifically, the 2001 Law on State Finance has markedly strengthened the regulatory framework of the budget process. Following the establishment of a national treasury in 1998, the 2001 Treasury Law has provided for the first phase of the introduction of banking arrangements based on a treasury single account (TSA) system. The creation of a budget audit institution in 2002 has strengthened public financial accountability.

11. Important progress has also been achieved in consolidating public funds in accordance with the concept of general government. The state budget includes: republican (central government) budget, local budgets, and the budget of the social protection fund. Small extrabudgetary transactions of budgetary organizations remain outside the budget submitted to parliament, but are managed through the treasury and included in the fiscal reports. As a result of improved management, the stock of expenditure arrears has been dramatically reduced and there is no accumulation of new arrears. Progress has been made as well in improving the scope and quality of budget documentation, and broadening the public availability of fiscal information. More recently, the authorities established a cash management unit at the ministry of finance. Therefore, in the staff's view, the core PEM system works reasonably well and compares favorably to that of a number of other HIPC that qualify for debt relief.

12. Despite progress so far, Tajikistan still faces some key challenges in improving its public finance systems. While Tajikistan's budget process has improved, there are systemic deviations between original budget estimates and outturns. This is mainly due to cautious fiscal stance rather than lack of fiscal discipline, as evidenced by persistent, lower-than-projected budget deficits. Furthermore, Tajikistan has introduced medium-term budget projections that are integrated into the budget formulation process. However, their consistency with the development programs needs to be substantially improved. A national development council has been established to strengthen the link between medium-term development policies and budgeting. Finally, while the budget audit institution reviews the financial transactions of government agencies, it does not provide any certification of final accounts. The authorities have requested assistance to strengthen this function.

13. **Summary Assessment.** Staff is of the view that the quality of the PEM system in Tajikistan has improved in recent years and that the country meets the relevant criterion to qualify for debt relief.

Other

14. **Provision of information to the Fund.** Staff is confident that Tajikistan provides appropriate information to the Fund for surveillance and program monitoring purposes.

15. **Payments to the IMF.** Tajikistan is current on its obligations to the IMF.

Overall Assessment

16. Staff is of the view that all three criteria are met, and recommends that the Board determine that Tajikistan qualifies for immediate debt relief under the MDRI.

Tajikistan: Selected Macroeconomic Indicators, 2000–05

	2000	2001	2002	2003	2004	<u>2005</u> Proj.
Real GDP (annual change, in percent)	8.3	10.2	9.1	10.2	10.6	8.0
CPI inflation (end-of-period change, in percent)	60.6	12.5	14.5	13.7	5.6	7.0
Real effective exchange rate (index, year 2000=100)	100.0	90.6	81.5	73.6	68.8	64.0
Broad money (end-of-period change, in percent)	69.3	40.0	39.7	29.2	14.3	32.7
Overall fiscal balance including grants (excluding debt-financed PIP; in percent of GDP)	-0.6	-0.1	-0.1	0.9	0.7	0.1
Current account balance including grants (in percent of GDP)	-6.5	-5.1	-3.6	-1.3	-4.0	-3.6
Foreign exchange reserves (in months of imports)	2.1	1.9	1.8	1.9	1.8	1.9

Sources: Tajik authorities; and Fund staff estimates.

Tajikistan: Public and Publicly Guaranteed (PPG) External Debt and Debt Relief

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

	2004	2005 (Est.)	2006 (Proj.)		2007 (Proj.)
			Before MDRI	After MDRI 1/	After MDRI 1/
PPG External Debt	819.1	881.5	951.8	866.3	939.8
<i>Of which:</i> Owed to the Fund	121.2	129.3	128.3	42.8	42.8
NPV of PPG external debt to exports (percent) 2/	51.2	52.1	52.3	46.2	48.9
PPG Debt service to exports (in percent) 2/	3.4	5.7	5.6	4.8	4.5
PPG External debt to GDP (in percent)	39.5	36.7	36.0	32.8	32.9
NPV of PPG External debt to GDP (in percent)	26.9	24.4	23.5	20.8	21.3

1/ Assuming delivery on January 1, 2006 for the Fund.

2/ Exports of goods and services for the year under consideration.