June 2009
IMF Country Report No. 09/174

Republic of Tajikistan—2009 Article IV Consultation, Final Review Under the Staff-Monitored Program, and Request for a Three-Year Arrangement Under the Poverty Reduction and Growth Facility—Staff Report; Staff Supplement; Staff Statement; Public Information Notice and Press Release on the Executive Board Discussion; and Statement by the Executive Director for the Republic of Tajikistan.

Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. In the context of a combined discussion of the 2009 Article IV consultation with the Republic of Tajikistan, the final review under the Staff-Monitored Program, and the request for a three-year arrangement under the Poverty Reduction and Growth Facility, the following documents have been released and are included in this package:

- The staff report for the combined 2009 Article IV Consultation, Final Review Under the Staff-Monitored Program, and Request for a Three-Year Arrangement Under the Poverty Reduction and Growth Facility, prepared by a staff team of the IMF, following discussions that ended on February 18, 2009**,** 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 March 31, 2009. The views expressed in the staff report are those of the staff team and do not necessarily reflect the views of the Executive Board of the IMF.

- A staff supplement on the joint IMF/World Bank debt sustainability analysis.

- A staff statement of April 21, 2009, updating information on recent developments.

- A Public Information Notice (PIN) and Press Release, summarizing the views of the Executive Board as expressed during its April 21, 2009, discussion of the staff report on issues related to the Article IV consultation and the IMF arrangements, respectively.

- A statement by the Executive Director for the Republic of Tajikistan.

The documents listed below have been or will be separately released.

Letter of Intent sent to the IMF by the authorities of the Republic of Tajikistan*
Memorandum of the Economic and Financial Policies by the authorities of the Republic of Tajikistan*
Technical Memorandum of Understanding*
*Also included in the Staff Report

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

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INTERNATIONAL MONETARY FUND

REPUBLIC OF TAJIKISTAN

Staff Report for the 2009 Article IV Consultation, Final Review Under the Staff-Monitored Program, and Request for a Three-Year Arrangement Under the Poverty Reduction and Growth Facility

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

Approved by David Owen and Dominique Desruelle

March 31, 2009

Mission: A mission visited Dushanbe February 5–18, 2009 to hold discussions for the 2009 Article IV consultations, the second assessment under the staff-monitored program (SMP), and a 2009–12 program that could be supported under the Poverty Reduction and Growth Facility (PRGF) with access of 90 percent of quota (SDR 78.3 million, $120 million).

Team: Messrs. Alturki, Abdychev, Schimmelpfennig (head), Sumlinski (all MCD), and Stepanyan (SPR). Mr. Moers, the resident representative, assisted the mission. Mr. Jung (OED) participated in the policy discussions.

Key Tajik officials: President Rakhmon, Prime Minister Akilov, State Economic Advisor Davlatov, Minister of Finance Nadjmuddinov, and National Bank Chairman Rakhimzoda.

Fund relations: The Executive Board concluded the 2006 Article IV consultation on March 28, 2007. In response to the misreporting that was uncovered in late 2007, the Executive Board asked that Tajikistan repay early all noncomplying disbursements. The six monthly repayments of SDR 4.9 million were received through February 2009. Program implementation under the June–December 2008 SMP was good.

Exchange system: Tajikistan has accepted the obligations under Article VIII, Sections 2, 3, and 4 and maintains an exchange system free of restrictions on payments and transfers for current international transactions. The authorities' exchange rate policy resembles a peg, and is classified as "stabilized." Going forward, the authorities are committed to a flexible exchange rate regime.

PRGF: In the Memorandum of Economic and Financial Polices (MEFP) attached to President Rakhmon's Letter of Intent (LOI), the authorities have indicated their intention to implement an economic program covering the period April 1, 2009 to March 31, 2012.

Data: Despite some weaknesses, data provision is broadly adequate for surveillance. Tajikistan participates in the GDDS.

Outreach: The mission met with local representatives of the donor community, including the Asian Development Bank, the World Bank, and the European Union, and briefed members of the diplomatic community and NGOs. The mission also gave two press briefings.

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EXECUTIVE SUMMARY

Economic developments in 2008 were favorable, and the authorities completed the SMP. Activity expanded strongly, and inflation receded. The authorities overperformed on the indicative targets on the overall fiscal balance and net international reserves. They also made progress on their structural reform agenda, broadly as envisaged.

Tajikistan faces an external shock that is being compounded by domestic problems. Remittances and exports are projected to decline sharply, requiring a significant external adjustment in 2009. Moreover, Tajikistan's growth potential is constrained by government interference in markets, and poor energy and transport infrastructure. Despite recent gains, poverty remains widespread.

The authorities plan to:

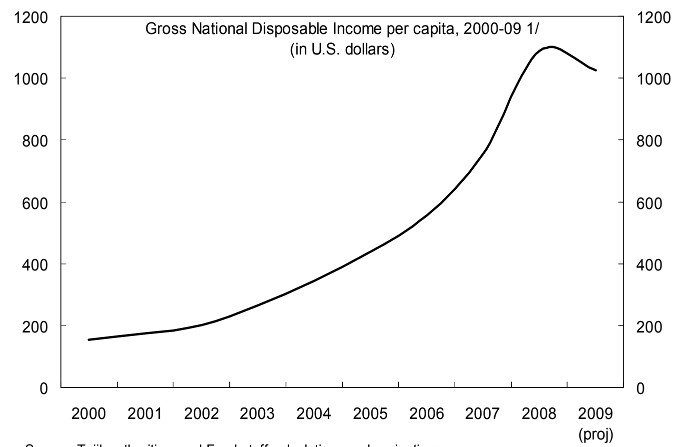
- Facilitate external adjustment through exchange rate flexibility, while providing for sufficient fiscal resources to meet growing social spending needs.
- Follow up on the recommendations from the special audit of the National Bank of Tajikistan.
- Continue with structural reforms and the public investment program—financed by grants or concessional external borrowing—to strengthen Tajikistan's growth potential.

Staff agrees with the authorities' policy strategy and notes:

- Macroeconomic policies may need to be tightened further if external developments turn out worse than currently projected. Alternatively, additional donor support could ease the domestic adjustment burden.
- Quick progress is needed on strengthening governance at the National Bank of Tajikistan to restore its credibility and improve the effectiveness of monetary policy.
- Tangible progress is also needed in other structural reform areas, notably agriculture and state-owned enterprises to minimize fiscal risks and strengthen the economy's resilience.
- Fiscal sustainability can be maintained only if public investment projects yield the expected growth dividend. Tajikistan remains at high risk of debt distress.

I. Introduction and Background

1. **Adverse external developments are expected to lead to a deterioration in economic conditions.** Despite progress toward poverty reduction, 53 percent of the population was below the poverty line of $41/month and 17 percent were below the extreme poverty line of $26/month in 2007. The expected economic slowdown in 2009 and the possible return of migrant workers (around 1 million out of a population of 7 million, or almost half the labor force, worked outside Tajikistan in 2008) will add to the existing problem of widespread underemployment. Under current projections, U.S. dollar per-capita gross national disposable income would decline by around 6 percent in 2009. Food security could again become a problem; many households already had to rely on coping mechanisms during the harsh 2007/08 winter, selling productive assets, such as farm animals, or taking on debt. As such, the government is facing spending pressures in 2009 to safeguard living conditions and support growth.



Source: Tajik authorities; and Fund staff calculations and projections.
1/ GNDI is defined as GDP + net factor income + net transfers.

2. **Staff reached agreement ad referendum on a three-year program that could be supported under the PRGF.** Tajikistan's external position is projected to worsen in 2009 because of the deteriorating global and regional economic environment. Noting the helpfulness of past Fund advice (Box 1), the authorities want to benefit from the stability that a Fund financial arrangement would bring, and expect that formal Fund involvement will unlock budget support from the Asian Development Bank (AsDB), the World Bank, and the European Union. Staff believes that the PRGF is the appropriate facility given that many of Tajikistan's underlying problems are structural, though the external shocks in 2009 will require upfront adjustment.

3. **The PRGF request follows completion of the 2008 SMP.** The SMP was put in place after a misreporting episode uncovered in late 2007 had seriously undermined the credibility of the authorities.[1] The episode involved the provision of inaccurate data to the Fund on the level of international reserves and net domestic assets of the National Bank of Tajikistan (NBT), and the issuance of directed credit by the NBT over a six-year period

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[1] See Republic of Tajikistan—Report on Noncomplying Disbursements and Breach of Obligations Under Article VIII, Section 5 (www.imf.org).

through 2007. On March 5, 2008, the Executive Board supported the Managing Director's recommendation that Tajikistan repay early the three noncomplying disbursements (amounting to SDR 29.4 million) that had not already been discharged under MDRI relief.

Box 1. The Authorities' Response to Past Fund Advice

- The authorities have maintained a prudent fiscal stance, but deficits of state-owned enterprises have remained high and nontransparent, despite some recent progress.
- The authorities adopted an external debt strategy in 2008 that sets a debt ceiling of 40 percent of GDP, in line with staff advice.
- Monetary policy effectiveness continues to be constrained by a lack of appropriate instruments and weak institutional capacity.
- While a managed-floating exchange rate was maintained de jure, the NBT has de facto pegged the somoni against the U.S. dollar until very recently.
- Key Financial Sector Assessment Program (FSAP) recommendations are being addressed, with World Bank assistance.
- NBT recapitalization and adoption of an anti-money laundering framework are still pending.
- Progress on agricultural (in particular, cotton) sector reforms has been poor.

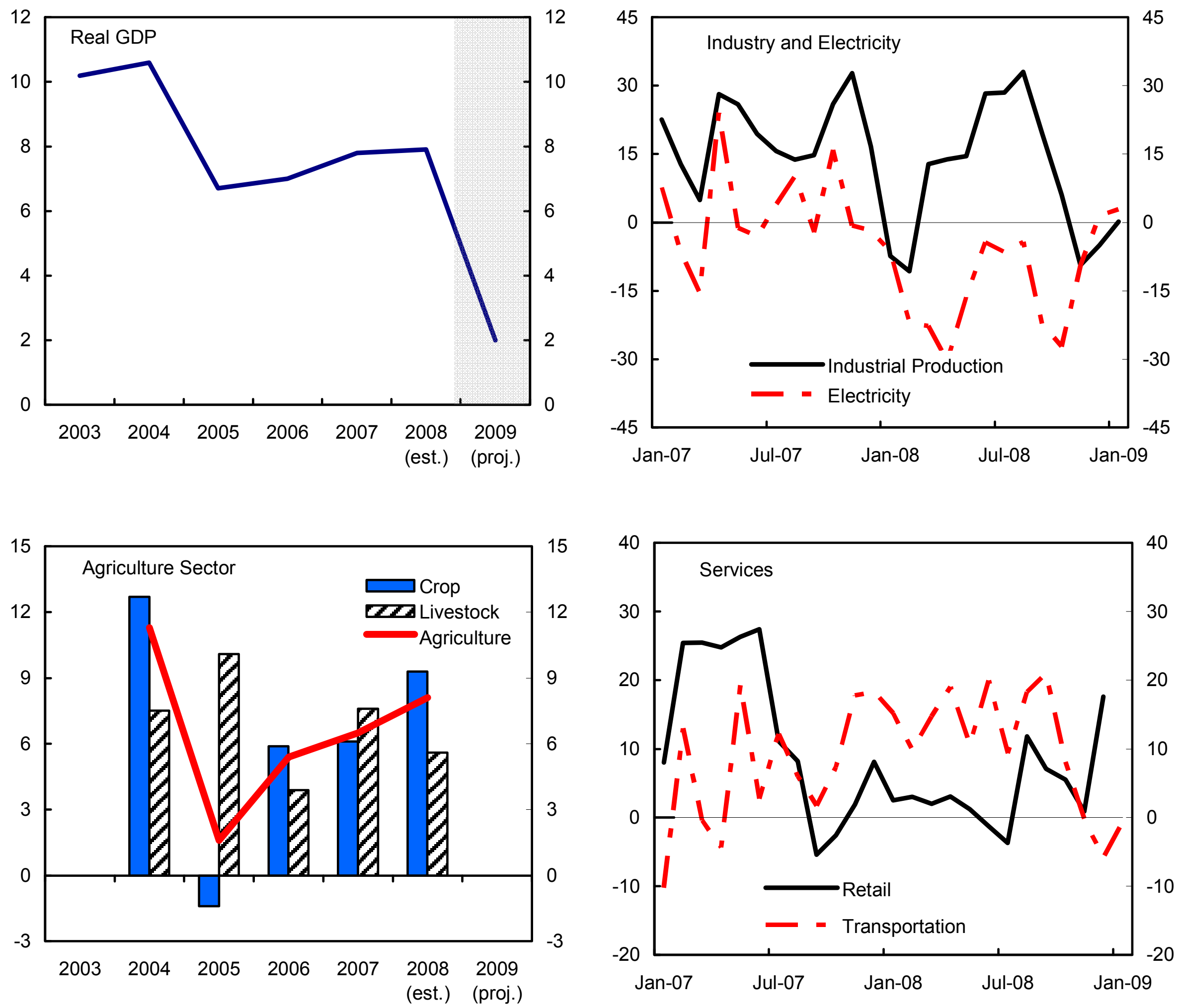
II. Recent Economic Developments and Performance under the 2008 SMP

4. **Economic developments in 2008 were positive, despite a severe winter, a prolonged drought, and electricity shortages.** Real GDP growth reached 8 percent in 2008, mainly driven by remittance-financed demand in the services and construction sectors, and noncotton agricultural production. Inflation receded from its mid-year peak to 11 percent year-on-year in February 2009, helped by the recent retrenchment in international commodity prices. With strong domestic demand, the trade balance worsened in 2008. Imports grew by around 36 percent, partly reflecting high international food and energy prices in the first half of the year, while exports were held back by sluggish industrial activity. Despite this, the overall balance of payments registered a surplus in 2008 as remittances surged by 50 percent.

5. **The authorities achieved an overall fiscal surplus of 1 percent of GDP (excluding the externally financed public investment program, PIP) in 2008, compared to a target of overall balance under the SMP.** Revenues were buoyant, mostly reflecting high nominal GDP and import growth, as well as some administrative gains. At the same time, the authorities maintained strict expenditure control. Disbursements of concessional external financing for the planned investment projects under the PIP were within the program ceiling, and there was no new borrowing. Despite the expanding PIP, the overall deficit remained at about 6 percent of GDP broadly unchanged from 2007, and total public and publicly

guaranteed debt declined to 29 percent of GDP from 34 percent in 2007. The authorities avoided accumulating new gross arrears with the exception of tax arrears by the power utility Barki Tajik, which have been a perennial problem in recent years.[2]

Figure 1. Tajikistan: Economic Activity, 2003-09
(year-on-year growth in precent)



Sources: Tajik authorities; and Fund staff calculations.

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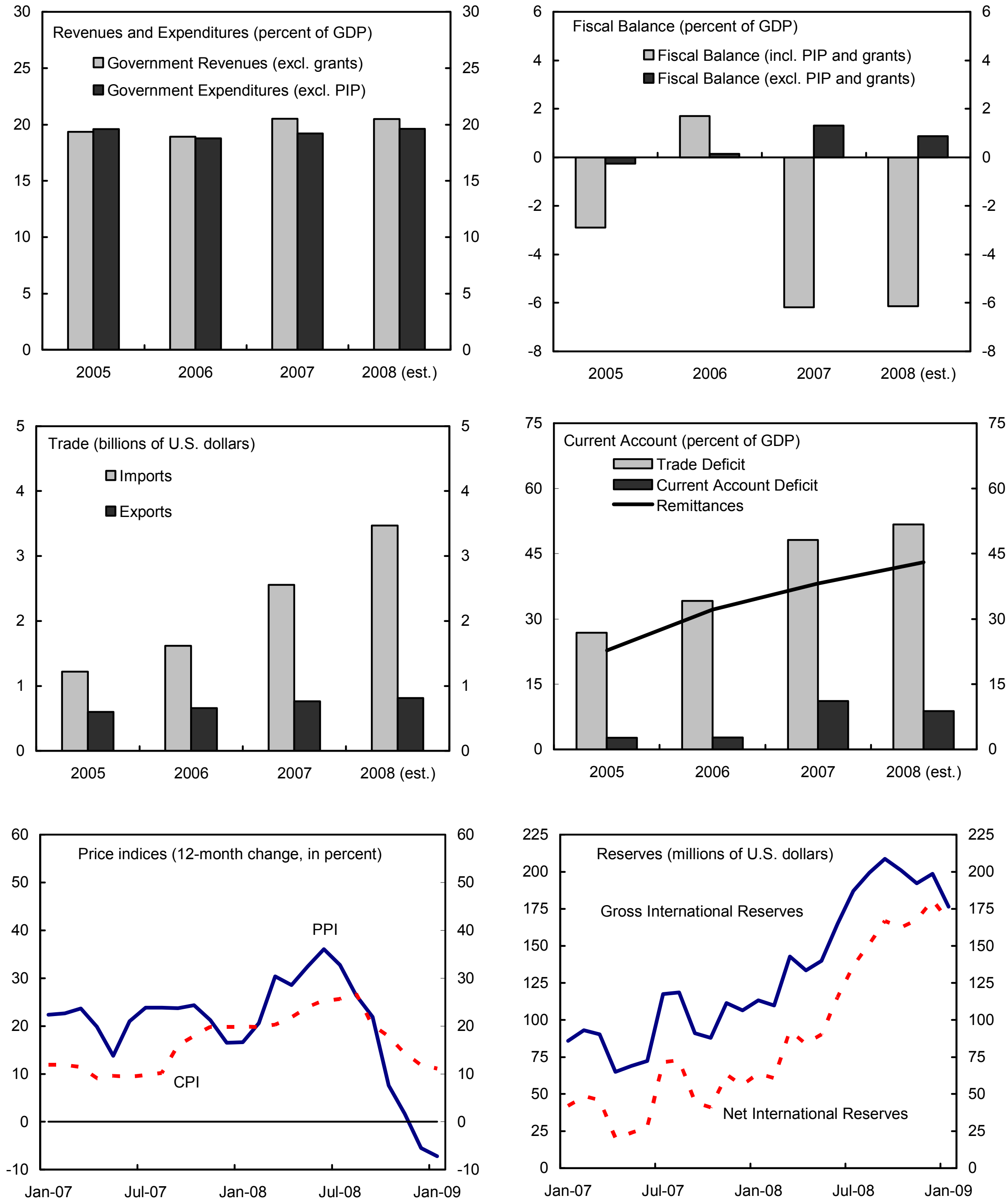
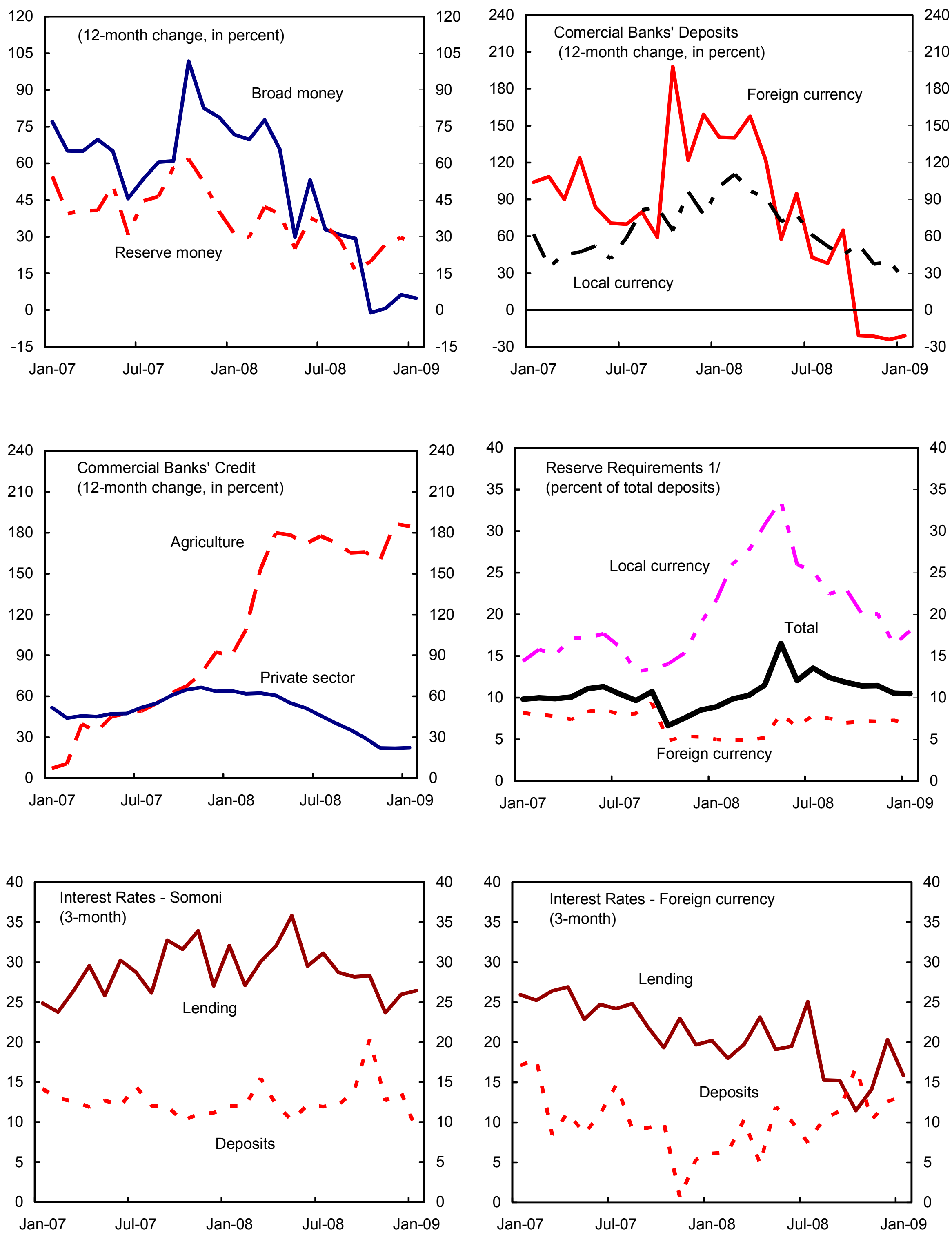
[2] New arrears arose largely from noncollection from consumers, including the ministry of land and water resources, and the nonpayment of penalties to the Revenue Authority. In general, tax arrears are part of a more complex problem of cross arrears. For example, a part of Barki Tajik's outstanding stock of arrears are the counterpart of arrears of Talco to Barki Tajik.

Figure 2. Tajikistan: Fiscal, External, and Price Developments, 2005-09



Sources: Tajik authorities; and Fund staff calculations.

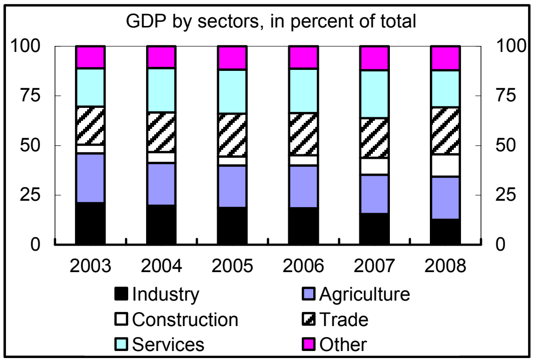
Figure 3. Tajikistan: Monetary and Financial Developments, 2007-09



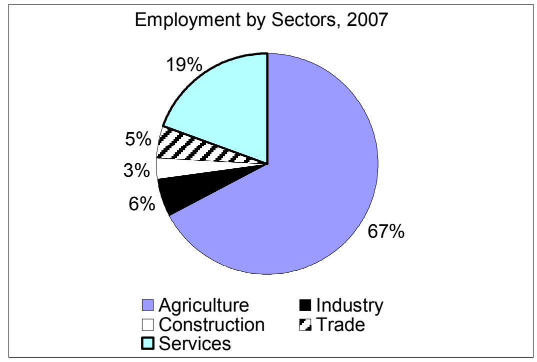
Sources: Tajik authorities; and Fund staff calculations.
1/ As of April 2008, the statutory requirements are 9 percent on somoni deposits and 11 percent on foreign currency deposits.

Figure 4. Tajikistan: The Structure of the Economy

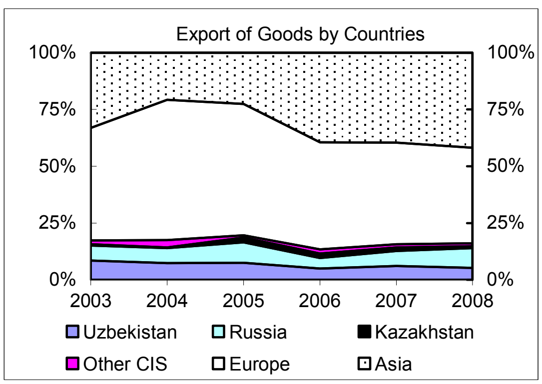
In terms of value-added, trade and construction have expanded their share in GDP, while the shares of industry and agriculture have declined, ….



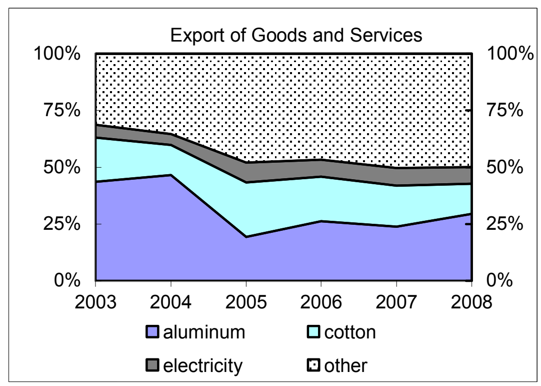
… but agriculture accounts for two-thirds of employment.



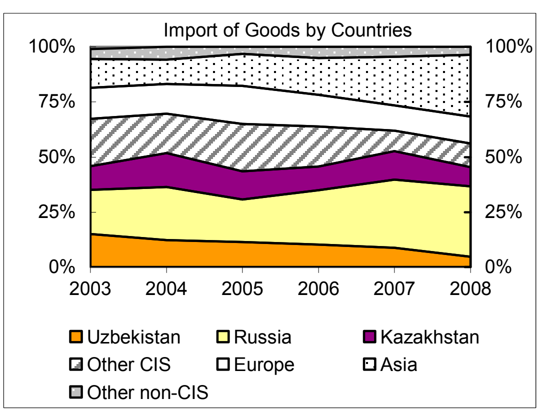
The bulk of Tajikistan's exports goes to non-CIS countries, and ...



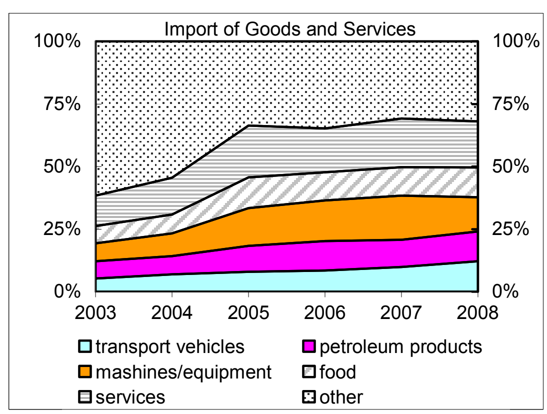
… aluminum (tolling fee since 2005) is Tajikistan's main export, followed by cotton and electricity.



The non-CIS share in imports has increased recently.



The import structure is diversified.



Sources: Tajik authorities; and Fund staff calculations

6. **The NBT built net international reserves above its SMP target, while containing monetary growth.** The strong inflow of remittances allowed the NBT to accumulate $125 million in net international reserves during 2008 to a level of $181 million at end-December.[3] However, gross international reserves of $199 million covered only 1.2 month of imports. Foreign exchange market purchases helped contain appreciation pressures on the somoni, given the authorities' concerns about competitiveness. These interventions also served to provide liquidity to the banking system in the absence of other effective monetary policy instruments. Reserve money growth slowed, mainly because of an accumulation of government deposits at the NBT that offset the provision of short-term liquidity loans to banks toward the end of 2008.

7. **The authorities made progress on their 2008 structural reform agenda:**

- Ernst & Young (London) completed the special audit of the NBT, and the authorities will publish the Executive Summary once the auditors have released the final report (Box 2).

- The ministry of finance has established a contingent liability-reporting regime for state-owned enterprises (SOEs), public institutions, and the NBT with the assistance of the FAD regional adviser.

- The authorities have prepared amendments to the NBT and commercial banking laws with assistance from the World Bank to address key recommendations of the FSAP report with delays for reasons explained in IMF Country Report No. 08/382. The amendments will be submitted to parliament in April.

- The ministry of finance has issued a regulation requiring official identification and disclosure of beneficial owners of companies registered with its Agency for Securities.

- The NBT has discontinued its previous practice of issuing cotton export licenses.

III. Policy Discussions

8. **Policy discussions for the Article IV consultations focused on three main issues and laid the groundwork for the proposed 2009–12 program for which the authorities seek support under the PRGF.**

- Facilitating external adjustment in 2009 while allowing for rising social spending needs;

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[3] Gross and net reserves exclude pledged deposits of the NBT with foreign commercial banks. By the end of 2008, all pledges had been retained.

- Laying the foundation for medium-term growth and ensuring that there is no build-up of external debt; and

- Structural reforms in the areas of central bank governance, state-owned enterprises, and the agriculture sector.

Box 2. Report on Special Audit of the NBT

The special audit report, prepared by E&Y, confirms governance weaknesses at the NBT, Kredit Invest, and cotton investors. The auditors confirmed the misreporting to the Fund. They noted that their work was constrained by limited, incomplete, and unreliable information, and complicated by the destruction and fabrication of documents. The auditors also found some misclassification of loans on the NBT balance sheet, and could not confirm all activity by Kredit Invest. As such, they concluded that "there is no audited, reliable basis for NBT's current balance sheet." In this context, they noted that net international reserves data could not be ascertained for April 30, 2008, since some confirmations by third parties were not received by E&Y. The auditors also commended the current NBT Chairman for improving governance since taking office in early 2008. The previous NBT Chairman took full responsibility for ordering selected NBT staff to arrange pledges, guarantees and loans, and conceal them from the external auditors and the IMF. He explained that this was to ensure funding for Tajikistan's cotton sector, a key source of employment in rural areas. The auditors noted that, regarding the role of the former NBT Chairman, "There is evidence to indicate that there was a conflict of interest."

The special audit report found that the NBT pledges and guarantees that were part of the misreporting episode were not disclosed to PricewaterhouseCoopers, the external auditors for the 2007 accounts and earlier years. Therefore, PricewaterhouseCoopers did not contact all of the relevant institutions that had extended credits to the cotton sector. It is not known why the financial institutions that were contacted did not disclose the existence of the pledges and guarantees.

Box 2 (continued). Report on Special Audit of the NBT

Key recommendations	Status
Cease funding of cotton investors by NBT.	Done.
Establish new accounting baseline for NBT.	In progress.
Strengthen the internal control and governance framework, in particular by separating the executive and control functions of NBT, and strengthening provisions against conflicts of interest.	Legal amendments on conflict of interest in process. Commitment to strengthen internal audit function.
Recovery of loans to cotton investors, by requiring them to disclose their full financial statements (including currently nonconsolidated subsidiaries), to determine the level of funding that they have available to settle their debts.	Government to decide on cotton debt resolution strategy by June 2009.
Establish a Board of Directors with non-executive members. Management Board would report to the Board of Directors.	Included in action plan
Establish Board Committees, such as an Audit Committee	Included in action plan
Maintain register of commercial interests of senior management and Board members.	Included in action plan
Review quality, training, and experience of internal audit staff.	Included in action plan

A. Macroeconomic Policies for 2009

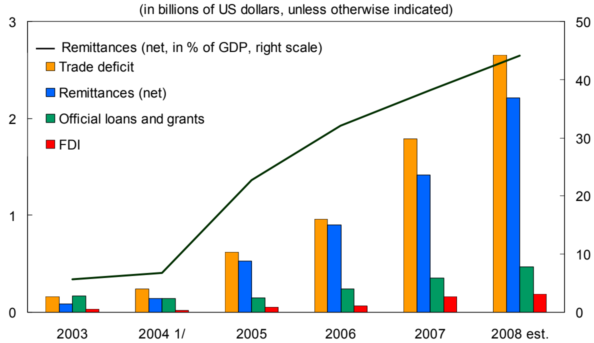
9. **External shocks and domestic rigidities are expected to take a heavy toll on Tajikistan in 2009.** Remittances are projected to decline in 2009 by 30 percent (Box 3), while exports (cotton, aluminum) are likely to contract by 7 percent in value terms, owing to lower international prices. This will require a large balance of payments adjustment, and may trigger further pressures on the exchange rate. This year, the somoni has already depreciated by 8 percent against the U.S. dollar through end-February. Moreover, domestic demand is

likely to weaken. On the supply side, ongoing electricity rationing, a difficult international market for aluminum and cotton, and expected water shortages during the agricultural season are weighing on growth.[4] In all, staff projects real GDP growth in 2009 at only 2 percent at best. The authorities see some upside risks, pointing to positive impulses from the continuing shift toward noncotton agriculture and from government spending. Inflation is likely to stabilize around 13 percent in 2009, as the positive impact of declining international commodity prices is offset by the impact of the likely somoni depreciation.

Box 3. Remittances and Growth Spillovers

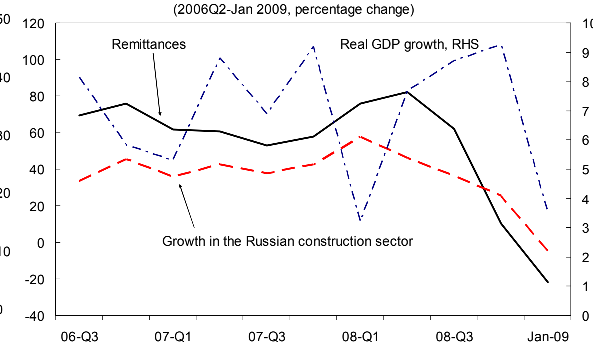
Remittances are expected to be the main channel through which the global economic downturn will affect Tajikistan. Estimated at 47 percent of GDP for 2008, remittances have been the largest source of current inflows during the last several years, supporting domestic demand and allowing the NBT to accumulate reserves. A large share of Tajik migrant workers is employed in the Russian construction sector. With Russia projected to contract in 2009, remittances inflows in Tajikistan are expected to decline, as migrant workers are laid off or see their U.S. dollar wages fall. In January 2009, remittances contracted by 22 percent year-on-year.

Remittances and Trade Deficit, 2003-2008
(in billions of US dollars, unless otherwise indicated)



Sources: Tajik authorities; and Fund staff estimates.
1/ Data net of $250 mln. of debt-equity swap with Russia.

Growth in Russian Construction Sector, Inflow of Remittances and Real GDP
(2006Q2-Jan 2009, percentage change)



Source: national authorities, and Fund staff calculations.

10. **Macroeconomic policies need to be geared primarily at maintaining external stability.** The authorities view the exchange rate as the primary instrument for facilitating external adjustment. Fiscal policy needs to accommodate the expected demands for social spending, and the authorities believe that the overall fiscal deficit target (excluding PIP) of ½ percent of GDP set out in their 2009 budget remains appropriate.

[4] Since late 2008, Talco is reportedly not achieving cost recovery and inventories have increased. Likewise, cotton inventories have built up. Moreover, Uzbekistan, a key supplier of gas, has recently halved its exports to Tajikistan and raised the gas price by 65 percent in 2009.

11. **The authorities have committed to a flexible exchange rate regime.** An assessment of the level of the exchange rate suggests that, in light of the already large current account deficit in 2008, the somoni could be overvalued (Box 4). This is compounded by the external shock expected for 2009. As such, the authorities have discontinued their policy—in place since 1998—of a de facto peg to the U.S. dollar and plan to let the somoni move in line with market pressures to bring about the necessary external adjustment in 2009, and return the current account deficit to a more sustainable level over the medium term. At the same time, they will seek to reduce excess volatility in the foreign exchange market, including by purchasing foreign exchange during temporary episodes of inflows.

12. **Given the need for exchange rate flexibility, the authorities will target reserve money growth as a nominal anchor.** The authorities are concerned about liquidity shortages in the banking sector. They expect that they will have to continue providing short-term liquidity loans (with a maturity of up to three months) at the refinancing rate. Staff suggested to lower the reserve requirement, e.g., by reducing the reserve requirement for foreign exchange deposits to that of somoni deposits, as an alternative way of providing liquidity. However, the authorities were concerned that lowering the reserve requirement on foreign exchange deposits would lead to an increase in deposit dollarization, and felt that liquidity loans—or the issuance of certificates of deposits—would be sufficient to control reserve money growth.

13. **Fiscal policy will have to provide space for additional social spending.** The revenue-to-GDP ratio is expected to decline by close to 1½ percent of GDP in 2009, mainly reflecting sluggish activity. At the same time, the authorities intend to raise social spending on transfers to households, health, and education by almost 1½ percent of GDP consistent with their PRSP and the last JSAN (IMF Country Reports 09/82 and 09/83)—they are working closely with the World Bank in these areas. Moreover, they plan to continue implementing their civil service reform strategy, also developed in consultation with the World Bank, which involves right-sizing the civil service workforce and increasing government wages. Low salaries, below the living wage, were a hindrance to attracting qualified staff and are likely to foster corruption.[5] To achieve their overall fiscal deficit target of ½ percent of GDP (excluding PIP), they will, therefore, delay domestically financed capital spending, while focusing expenditures on key infrastructure bottlenecks and other high priority items. Included in these projections is an allowance for nonrecovery of loans

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[5] According to World Bank studies, the head of a department in a line ministry could earn a multiple of his government salary as a seasonal worker in Russia.

extended in 2008 to the cotton sector through commercial banks.[6] In 2009, the lending scheme amounts to $45 million (almost 1 percent of GDP).

14. **The authorities are concerned about rising financial sector vulnerabilities.** Headline financial soundness indicators have improved during 2008. However, some banks faced severe funding problems towards the end of 2008 due to some large corporates drawing down their deposits, a drying up of trade credits and advances for remittances, and rising nonperforming loans.[7] In response, most banks have started to raise deposit rates and constrained credit growth. In addition, the NBT has provided liquidity loans, mainly in somoni. Against this background, staff updated the FSAP stress tests with end-2008 data (Box 5). The results suggest that banks are vulnerable to a large depreciation of the somoni and the risk of a deposit run. To safeguard the banking system, the authorities are stepping up supervision and regulatory requirements, and are also following up on indications that some banks' may not be fully compliant with regulatory requirements or not provisioning adequately (MEFP ¶16).

15. **The authorities and staff agreed that there are significant downside risks to the projections.** The decline in remittances could be larger than anticipated, shortages in power and water supply could affect industry, services and agriculture by more than expected, and world market conditions for Tajikistan's key exports aluminum and cotton could worsen further.[8] The authorities are monitoring external developments closely, and stand ready to further tighten policies if needed or to avoid an overshooting of the exchange rate that could adversely affect the banking system. However, they also note the trade-off between further expenditure restraints and the need to improve Tajikistan's infrastructure, as well as to continue ongoing reforms even at a fiscal cost.

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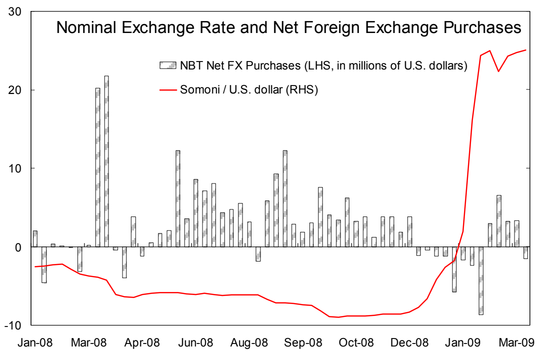
[6] As of mid-February 2009, 32 percent of loans had been repaid to the budget. The final repayment period is April 1, 2009.

[7] Quantitatively, trade credits are less important, covering only around 1 percent of imports in September 2008.

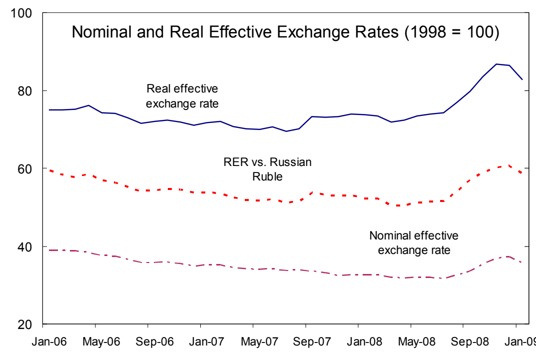
[8] For example, the aluminum smelter Talco accounts for 3 percent of real GDP and 25 percent of exports, and employs around 11,000 people. Several other smelters owned by large international firms were already forced to close during 2008. So far, Talco has continued operations by relying on its cash buffer, building inventories, and reducing capacity utilization.

Box 4. Exchange Rate Assessment

During 2008, the somoni appreciated in nominal and real effective terms, mainly driven by large remittances inflows. The NBT limited the nominal appreciation against the U.S. dollar to about 2 percent in 2008 through foreign exchange market interventions. However, given the nominal depreciation of key trading partners against the U.S. dollar (e.g., the Russian ruble) and inflation differentials with other trading partners, the real effective exchange rate (REER) appreciated by 14 percent. The current account deficit remained high at 9 percent of GDP.



Sources: Tajik authorities; and Fund staff calculations.



Sources: Tajik authorities, and Fund staff calculations.

The three Consultative Group on Exchange Rates (CGER) approaches suggest that the somoni could be overvalued. Using 2008 data, point estimates range from the somoni being broadly in line with fundamentals to being overvalued by 18 percent, reflecting the usual statistical uncertainty around such estimates. Assuming a constant REER, the medium-term balance of payments projections would show significant external financing needs, also pointing to an overvaluation of the somoni.

Tajikistan: Methodologies to Assess Real Exchange Rate Misalignment 1/

	Underlying Current Account Balance	Current Account Norm	Estimated over(+)/ under(-) valuation (in percentage)
Macroeconomic Balance Approach 2/			
Estimate A	-9.7	-3.4	15
Estimate B	-9.7	-3.7	11
External Sustainability Approach 2/			
Estimate A	-9.7	0.0	23
Estimate B 3/	-6.0	0.0	11
Equilibrium Real Exchange Rate Approach 4/			
Estimate A	…	…	18
Estimate B	…	…	1

Source: WEO and IMF staff estimates

1/ Estimates A are based on CGER methodologies (www.imf.org) while estimates B are based on MCD coefficient estimates.

2/ Based on 2008 WEO projections.

3/ The underlying CA and the norm exclude income.

4/ Based on current fundamentals

Box 5. Updated Banking Sector Stress Tests

This box updates the FSAP stress tests of the Tajik banking system using end-2008 data.[1] Banks included in the update account for 95 percent of total assets. The simulated shocks are exceptional, but plausible, and may have particular relevance during the period ahead (Tables 8 and 9).

Banks are long in foreign exchange, but exchange rate movements could trigger credit events. At end-2008, deposit dollarization was 64 percent, loan dollarization 56 percent, and banks' net open foreign exchange position was 6 percent of capital (long). As such, a depreciation of the somoni would not directly have an adverse effect on banks' balance sheets. However, most debtors who have foreign exchange denominated loans are neither hedged nor have foreign exchange earnings, so that banks face a credit risk if the somoni depreciates. Moreover, banks' asset quality may already be impaired by the doubling of lending to the cotton sector to 17 percent of total outstanding loans during 2008. The stress test assumes a 30 percent depreciation against U.S. dollar with and without a concomitant 30 percent deterioration in the foreign exchange loan portfolio. In the first case, the system's capital adequacy ratio (CAR) actually improves, given banks' long foreign exchange position. However, in the second, more plausible case, the system's CAR falls by 3 percentage points, and two banks slip below the required minimum of 12 percent.

Banks' vulnerability to a liquidity shock has increased compared to end-2007. Developments in the fourth quarter of 2008 point to liquidity shortages in the system. The stress test assumes a hypothetical deposit run of 10 percent of deposits per day for five consecutive days. The results suggest that liquidity shortfalls appear manageable, though individual banks may face liquidity shortages. Liquidity shortages would be higher in case of a foreign exchange deposit withdrawal than in case of a somoni deposit withdrawal.

[1] Republic of Tajikistan: Financial System Stability Assessment, including Reports on Observance of Standards and Codes on the following topics, Banking Supervision, and Monetary and Financial Policy Transparency, December 2008 (IMF Country Report No. 08/371).

B. Medium-Term Outlook and Debt Sustainability Analysis

16. **Tajikistan's medium-term economic outlook hinges on external developments and reforms to strengthen the supply side potential.** Real GDP growth should rebound in line with global trends, and can return to a range of 5–7 percent if domestic bottlenecks in energy, infrastructure, and the investment climate are eased. The authorities' plans to increase power generation capacity with new hydropower projects and build new road links within the

country and to regional trading partners should help in this regard.[9] With the expected exchange rate adjustment, the external current account deficit should decline to about 3 percent of GDP by 2014. This, combined with the projected donor support, would allow a build-up of gross international reserves to about three months of imports.

17. **The government's borrowing strategy appears viable, but Tajikistan's risk of debt distress remains high.** The authorities intend to eliminate the modest overall fiscal deficit (excluding PIP) by 2012, and strengthen the debt management function, including through the regular reporting on external debt. External borrowing would be restricted to the PIP at concessional terms. With this, the authorities remain committed to their external debt ceiling of 40 percent of GDP (MEFP ¶23), which they have set in line with the recommendations from the 2007 debt sustainability analysis (DSA). The updated DSA finds that the authorities' strategy keeps public and public external and externally guaranteed debt at sustainable levels (Supplement).[10] However, the DSA also finds that the outlook remains vulnerable to adverse macroeconomic shocks. The DSA also underlines the need to carefully scrutinize individual investment projects to ensure that they will yield the intended growth dividends. Lastly, a one-off increase in the government's debt obligations, e.g., related to the cotton debt resolution and NBT recapitalization, would push the debt-to-GDP ratio just above its respective threshold for the first six years, but would not put the country on an unsustainable debt path in the long run.

C. Structural Reforms

18. **The authorities' structural reform agenda for 2009 and beyond is outlined in the second poverty reduction strategy (PRS2) and the attached LOI and MEFP for 2009-12.** The PRS2 presented a three-year plan for 2007–09 that operationalizes the authorities' 2006–15 National Development Strategy in three main areas: (a) improvement of public administration; (b) promotion of sustained economic growth; and (c) development of human potential.[11] During 2009, the authorities want to strengthen key economic institutions and begin to lay the foundation for sustained economic growth. In particular, they plan to address governance issues at the NBT and major SOEs, and continue with ongoing reforms in revenue administration, expenditure policy, and public financial management. They will also push forward reforms in the agricultural and energy sectors.

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[9] The authorities are also pursuing a regional dialogue to strengthen energy security.

[10] The DSA was carried out in collaboration with the World Bank, and with the AsDB as an observer.

[11] See also the Joint Staff Advisory Note (IMF Country Report No. 09/83).

Monetary and Financial Area

19. **Reforms at the NBT will be guided by the recommendations from the special audit** (MEFP ¶12–14). External audits of net international reserves and the NBT's financial statements for the fiscal year ending April 2009 will be used to establish a new accounting baseline, develop a strategy to clean up the NBT's balance sheet, and assess recapitalization needs. In addition, the authorities intend to enhance governance structures by strengthening the internal audit function, amending the NBT and commercial banks' laws, and closing down the cotton debt department.[12]

20. **The authorities are taking steps to enhance the liquidity provision framework.** So far, the NBT has relied on its own certificates of deposit and short-term loans to manage liquidity. Given the projected increasing need for liquidity injections in 2009, the authorities will introduce a statutory overnight credit facility, a seven-day deposit facility, and restrict other liquidity loans to a maturity of up to three months (MEFP ¶15). In this context, they will define a list of adequate collateral. These new instruments will strengthen the effectiveness of monetary policy and allow the NBT to better achieve its program objectives. Plans are also progressing to introduce tradable government securities that should further enhance the effectiveness of monetary policy (MEFP ¶14).

Fiscal Area

21. **Tax policy and revenue administration reforms are progressing.** The authorities are working on the remaining regulations to fully implement the 2005 Tax Code that was developed with Fund assistance (MEFP ¶18). The authorities also intend to focus on strengthening the value-added tax (VAT), and in particular improve the functioning of the refund system (MEFP ¶19). Work is also continuing to strengthen taxpayer facilitation (MEFP ¶20). Lastly, with the 2010 budget, the authorities hope to tackle the problem of existing cross arrears (MEFP ¶21).

22. **Public financial management reforms will seek to strengthen expenditure control** (MEFP ¶22). A first step in this direction was taken with the establishment of a cash management unit. Next, the authorities will develop and promulgate commitment control instructions. To enhance budget transparency and ensure that spending will better correspond to policy priorities, budget appropriations will be presented based on an administrative classification starting with the 2010 budget law.

[12] The amendments to the NBT and commercial banks' laws have been prepared with World Bank assistance.

State-Owned Enterprises and Agriculture

23. **SOEs constitute a fiscal risk.** Financial operations are not transparent and some SOEs are burdened with quasi-fiscal operations. The newly established SOE supervision unit in the ministry of finance will closely monitor the ten largest SOEs (MEFP ¶24). External audits of the SOEs and the submission of financial performance plans for 2010 are key steps in this direction. For Talco, staff encourages the authorities to contract a reputable international auditing firm for the company's 2007–09 financial statements, and also tender an external audit of Talco Management Company, Talco's off-shore tolling partner.[13] It will also be important to continue with the scheduled electricity tariff adjustments agreed with the World Bank with a view to reaching cost recovery at the power utility Barki Tajik in 2011, while ensuring that the most vulnerable segments of the population have access to a basic minimum of energy services (MEFP ¶25).

24. **Cotton sector reforms are crucial to unlocking the growth potential in the agriculture sector** (Box 6). The authorities noted the positive growth impulse from noncotton agriculture in 2008, but also emphasized that cotton can be a profitable crop in certain areas of Tajikistan. They are determined to finalize their strategy for resolving the existing cotton debt problem that inhibits the sector's dynamics, and have hired an independent consultant—financed by the World Bank—to prepare a comprehensive strategy to take the sector forward (MEFP ¶27). In parallel, they are working to reduce government interference in farmers' crop choice, and establish a private-sector led financing mechanism, including through the use of land rights as collateral.

Technical Assistance

25. **In support of their reform efforts, the authorities have requested technical assistance (TA) from the Fund in a number of areas.** In the monetary area, they seek TA on reforms at the NBT following up on the special audit, recapitalization, and liquidity provision. In the fiscal area, follow-up TA on public financial management is needed. In addition, the authorities would benefit from TA on VAT administration, and making the SOE supervision unit fully operational.[14] Lastly, the authorities would welcome TA on national accounts and price statistics; a regional statistical advisor has pointed to several weaknesses in these areas.

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[13] Under the tolling arrangement, Talco receives a fixed fee for processing the inputs provided by Talco Management Company. The ownership structure of Talco Management Company, which is headquartered in the British Virgin Islands, has not been disclosed publicly, but the government of Tajikistan reportedly has a majority interest in the company.

[14] The European Union has offered financing for the latter.

Box 6. Tajikistan's Cotton Sector

Role in the economy: About 50 percent of the active population is employed in the cotton sector, and 35 percent of irrigated agricultural land is used for cotton. However, cotton accounts for only around 4 percent of GDP and 13 percent of total exports. The sector has seen a steady decline in productivity and profitability, largely due to mismanagement, poor regulation and governance, and excessive state interference.

Cotton debt problem: By end-2008, cotton farmers are reported to have accumulated over $400 million in debt to cotton investors. These investors exploited their position as monopsonists in the domestic cotton market and monopolists in financing and supplying inputs to farmers.[1] Since 2001, investors were able to access financing from different state-owned financial institutions that in turn received guarantees from the NBT. Since 2004, Kredit Invest played the role of lending to investors using NBT guarantees and direct loans from the NBT in domestic and foreign currency. As of end-2008, the outstanding loans and guarantees by the NBT to Kredit Invest amounted to about US$575 million.

Recent reforms:

- In 2007, the government passed Decree 111 to address the distortions in cotton production, including by allowing farmers to choose the crops they grow and using land rights as collateral. The reforms were supported by donors, but implementation of the decree has been slow.
- In 2008, the government introduced a new financing scheme whereby the government lends funds to commercial banks at below-market interest rates for onlending to specific cotton farms.

Macroeconomics of cotton: Because of the pre-2008 cotton financing mechanism, Tajikistan lost significant international reserves and experienced a large expansion of the monetary base. The new financing scheme puts the banking system at risk in case of a worsening of asset quality, which now seems likely given the sharp decline in international cotton prices.

Assistance from other donors: The World Bank is providing advice on agricultural policy. The AsDB focuses on strengthening the market structure and infrastructure for agricultural products.

[1] The situation was also aggravated by a rapid post-war restructuring of farms, which has led to inconsistencies in classifications of outstanding debt, as well as to its limited documentation.

D. Program Design and Risks

26. **Based on the discussions for the 2009 Article IV consultation, the authorities have developed a 2009–12 program for which they seek support under the PRGF.** In 2009, the program's main objective is maintaining external stability in the face of a severe balance-of-payments shock. By the end of the program period, the authorities aim to have restored growth, reduced inflation to single digits, maintained public external debt below 40 percent of GDP (net present value terms), and raised gross international reserves to cover more than three months of imports. During the initial phase of the program, structural reforms will mainly seek to address the concerns raised in the report on the special audit of the NBT. Over the full course of the program, they intend to recapitalize the NBT, improve the financial health of SOEs, strengthen the agricultural sector, and continue ongoing efforts in the fiscal area.

27. **Specifically, the proposed program includes quantitative performance criteria, indicative targets, and structural benchmarks that are initially set for June and December 2009.** The quantitative performance criteria:

- Safeguard external stability (floor on net international reserves, zero ceiling on new external payments arrears, ceiling on disbursement of concessional external debt, zero ceiling on contracting or guaranteeing nonconcessional external debt), and maintain monetary control (ceiling on net domestic assets).

- Ensure fiscal sustainability (ceiling on the overall fiscal deficit excluding PIP, zero ceiling on general government wage and pension arrears).

The indicative targets support these quantitative performance criteria by:

- Setting a floor on revenue collection.

- Setting a floor on social- and poverty-related expenditure designed in close cooperation with the World Bank.

Prior actions and structural benchmarks serve to monitor progress on the authorities' reform agenda and provide assurances to the Fund that the problems underlying the recent misreporting episode are addressed (Table 2 attached to President Rakhmon's LOI). The first review based on end-June 2009 performance would take place in September/October 2009, once the safeguards assessment has been completed, and will focus on reforms at the NBT, including the follow-up on the recommendations from the special audit and steps to strengthen the NBT's liquidity management framework, and resolution of cotton debt issues.

28. **Even with the proposed policies, Tajikistan faces an external financing gap in 2009.** Remittances inflows are expected to decline by around $720 million and exports by

around $60 million, and the authorities are basing their projections on conservative assumptions for private capital account inflows. The authorities expect that slower growth and the drop in international commodity prices will lead to a contraction of imports by 20 percent ($680 million). With this, staff's preliminary assessment is that Tajikistan faces an external financing gap of at least $154 million. This would be partly filled by expected budget support from the AsDB ($40 million), the European Union ($24 million), and the World Bank ($20 million). The remainder could be filled by frontloading the proposed access of 90 percent of quota (SDR 78.3, $120 million) with a disbursement of SDR 45 million ($70 million) in 2009.

29. **Staff believes that the proposed access level is justified and balances different concerns.** Tajikistan is being hit by a severe external shock, and Fund and donor support is needed to assist the authorities manage the resulting substantial external adjustment need. As the DSA shows, the external public debt, including the proposed borrowing from the Fund, is projected to fall gradually toward more sustainable levels, but the risk of debt distress remains high. Thus, while Fund support can play a useful role, Tajikistan should primarily rely on grants and highly concessional borrowing over the medium term. The program design, particularly the reforms at the NBT and in the agricultural sector, are expected to address the institutional shortcomings that were at the root of the previous misreporting episode.

30. **Tajikistan is expected to meet its financial obligations to the Fund in a timely manner, but there would be some risk to Fund resources stemming from the country's fragile external position.** Tajikistan has an established record of timely servicing its obligations to the Fund. With respect to capacity to repay, outstanding purchases would be manageable in absolute terms, and debt service to the Fund would remain below 0.2 percent of exports of goods and nonfactor services by the end of the program period.

31. **A safeguards assessment should be completed at the time of the first review.** The last safeguards assessment of the NBT was completed on July 23, 2003. The update would be based on the progress of the external audit of the NBT's financial statements for the fiscal year ending April 30, 2009, and the documents provided by the NBT for review.

32. **In light of Tajikistan's history of misreporting, the program is subject to the risk that the authorities return to the costly errors of the past.** To guard against this risk, the program includes strong actions, in particular the implementation of all recommendation of the NBT's special audit report. Moreover, regular and timely publication of the audit reports of the NBT's financial statements, and the Fund's upcoming safeguards assessment should also serve as safety measures.

33. **The program is also subject to economic and implementation risks.** First, a further deterioration in the international economic environment, including a more severe regional

economic slowdown, would affect Tajikistan's narrow export base and remittances inflows. In addition, the global financial crisis could continue to affect Tajikistan's banking sector through indirect channels. With respect to program implementation, vested interests have, in the past, adversely affected the quality of reforms and may continue to do so in the future. Finally, institutional capacity remains weak, despite significant improvements in recent years, and can constrain the speed and quality of reforms.

IV. Staff Appraisal

34. **Economic performance in 2008 was good.** Real GDP grew strongly, while inflation receded from its August 2008 peak. With buoyant remittances and activity, the authorities met all quantitative targets under the SMP with only one exception. The government largely saved the revenue overperformance and achieved an overall fiscal surplus (excluding PIP) higher than targeted under the program. The associated build-up of government deposits at the NBT helped the NBT contain monetary growth while accumulating international reserves at a faster pace than envisaged. Taken together, the authorities succeeded in building buffers, albeit only small ones.

35. **In 2009, Tajikistan faces severe external shocks that are aggravated by domestic problems.** The projected decline in remittances and exports requires a significant external adjustment, and will take a toll on economic activity. Also, pervasive power shortages and possible irrigation bottlenecks are holding back growth. These adverse developments are compounded by a poor investment climate, widespread government interference in the economy—in particular in the agricultural sector—as well as poor infrastructure and skill shortages.

36. **Exchange rate flexibility is crucial to achieving the necessary external adjustment.** In the short run, the somoni will have to at least broadly follow trends in key trading partners' currencies against the U.S. dollar to maintain competitiveness. Monetary policy needs to contain reserve money growth as a nominal anchor. In this regard, the authorities' plans to strengthen the liquidity management framework are welcome steps to expand their arsenal of monetary policy instruments, and the gradual issuance of tradable government securities will further facilitate monetary policy operations. Over the medium term, the REER will need to depreciate further to return the current account deficit to a more sustainable level.

37. **Based on current projections, the authorities' proposed fiscal stance is appropriate.** Tajikistan is one of the poorest countries in the world, and the government needs to raise social spending in the face of the expected decline in real per-capita income. In this regard, the government's cooperation with the World Bank to ensure that social assistance is well targeted is welcome. Given the expected revenue shortfalls relative to the budget, this implies that the government will have to delay some capital projects, while moving ahead with the civil service reform. The authorities can draw down some of its

deposits at the NBT, but timely disbursement of donor support is also crucial to meet government's financing needs.

38. **Tajikistan's banking sector is vulnerable.** With the economic slowdown, and in particular the slump in the cotton sector, asset quality is expected to deteriorate in 2009, while the system already suffers from liquidity shortages. Somoni depreciation will further add to the stress in the banking sector. The authorities need to prepare contingency plans on how to deal with distressed institutions and how to ensure adequate liquidity in the system, while stepping up supervision to ensure that banks comply with regulatory requirements and have adequate provisions. To provide a one-off boost to liquidity, the authorities could consider harmonizing the reserve requirements at the lower rate of 9 percent.

39. **Risks to the short-term outlook are largely on the downside, and the authorities need to stand ready to respond as needed.** For example, if remittances were to decline by an additional 5 percentage points in 2009, Tajikistan's external financing needs would rise by $110 million. As such, the authorities need to carefully monitor external developments, including based on their monthly foreign exchange cash flow plan. If external financing needs turn out larger than anticipated, or if foreign exchange inflows are lower than projected, fiscal and monetary policy need to be tightened promptly to alleviate pressures on the exchange rate and safeguard the banking system, unless additional donor support could be mobilized. Indeed, timely disbursement of projected donor support is a precondition for the success of the authorities' strategy, and donors could consider stepping up their planned support in 2009 given the difficult external outlook. Financial sector vulnerabilities constitute another risk, and the authorities need continue their work on contingency planning.

40. **Over the medium term, Tajikistan can return to a high growth path.** Maintaining macroeconomic stability, removing bottlenecks in the energy sector, and eliminating government interference, in particular in the agriculture sector are preconditions for achieving the government's real GDP growth objective of 7 percent. The DSA shows that the government's borrowing plans could be feasible, but only if the planned investment projects yield the expected growth dividend. At the same time, the government needs to enhance the quality and effectiveness of social spending to build on the welcome poverty reduction gains over the last years.

41. **Staff supports the authorities' request for an arrangement under the PRGF.** The arrangement would help the authorities achieve the objectives of their economic program. It would also provide comfort to other donors who are increasing their support to Tajikistan that sound economic policies are in place. There are risks to the program, but in light of the authorities' track record under the SMP and their commitment to take additional measures if needed to achieve the program's objectives, the new program has a good chance of success.

42. **The next Article IV consultation with Tajikistan is expected to be completed within the next 24 months** in accordance with the Executive Board decision on the consultation cycle for members with Fund arrangements.

Table 1. Tajikistan: Selected Economic Indicators, 2005-14

	2005	2006	2007	2008		2009		2010	2011	2012	2013	2014
	Act.	Act.	Act.	IMF/CR/08/382	Est.	IMF/CR/08/382	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.
						(Annual percent change, unless otherwise indicated)						
National accounts												
Real GDP	6.7	7.0	7.8	7.0	7.9	5.0	2.0	3.0	5.0	6.0	7.0	7.0
GDP deflator (cumulative)	9.6	20.3	27.9	25.6	27.7	18.5	19.2	16.0	14.0	13.0	12.0	11.0
CPI inflation (end-of-period)	7.1	12.5	19.8	16.0	11.8	11.0	13.0	10.0	9.0	8.0	7.0	6.0
CPI inflation (period average)	7.3	10.0	13.2	21.0	20.4	12.8	12.4	11.5	9.5	8.5	7.5	6.5
						(In percent of GDP)						
Investment and saving 1/												
Investment	14.8	13.7	22.0	20.6	20.7	20.1	16.6	16.8	15.8	17.2	17.6	17.9
of which :Fixed capital investment	13.8	12.8	21.1	19.8	19.9	19.1	14.6	15.8	14.8	16.2	16.6	16.9
Government	7.8	6.8	14.1	13.8	13.9	13.1	10.6	9.3	7.8	8.2	8.6	8.9
Private	6.0	6.0	7.0	6.0	6.0	6.0	4.0	6.5	7.0	8.0	8.0	8.0
Gross national savings	12.1	10.9	10.9	11.3	11.9	11.3	6.9	8.5	8.7	11.6	13.8	14.5
Public	4.7	8.5	7.9	6.5	7.8	5.9	3.6	4.0	3.8	5.1	5.4	5.5
Private	7.4	2.4	3.0	4.8	4.2	5.4	3.3	4.4	4.9	6.5	8.4	9.0
						(In percent of GDP)						
Public Finances												
Revenue and grants 2/	20.1	23.6	21.6	21.9	21.3	22.9	21.0	19.9	20.0	19.7	19.7	19.9
Of which: tax revenue	16.6	16.5	17.8	18.7	18.7	19.6	16.9	16.8	16.9	17.0	17.0	17.1
Expenditure and net lending 3/	23.0	21.9	27.8	29.2	27.5	30.1	27.9	25.2	24.0	22.9	22.9	23.3
Of which: current	15.1	15.0	13.6	14.5	12.4	16.1	16.3	15.3	16.3	16.5	15.6	15.5
capital	7.8	6.8	14.1	13.8	13.9	13.1	10.6	9.3	7.8	8.2	8.6	8.9
Overall balance (excluding Public Investment Program) 2/	0.5	0.8	1.6	1.0	1.3	-1.2	-0.5	-0.5	-0.5	0.0	0.0	0.0
Overall balance (including Public Investment Program and Statistica	-3.1	1.7	-6.2	-7.3	-6.2	-7.2	-7.0	-5.3	-4.0	-3.2	-3.2	-3.4
Domestic financing	0.3	-3.3	-0.7	-0.3	-0.7	1.5	1.0	1.0	1.0	0.6	0.5	0.9
External financing	2.6	1.6	6.6	7.6	6.4	5.8	6.0	4.3	3.0	2.6	2.6	2.5
						(12-month growth in percent of broad money, unless otherwise indicated)						
Monetary sector												
Net foreign assets of the banking sector	-70.3	25.1	4.8	-20.8	-2.7	-0.3	5.9	4.8	5.6	9.8	17.8	11.5
Net domestic assets of the banking sector, incl. bills payable	100.4	38.3	74.0	53.8	9.0	24.7	2.4	20.1	20.6	24.2	16.4	23.5
Broad money	30.2	63.4	78.8	33.0	6.3	24.4	8.3	24.9	26.2	34.0	34.2	35.0
Reserve money (12-month percent change)	29.2	49.2	40.3	27.3	29.6	22.7	12.1	15.0	20.4	23.5	23.9	26.8
Velocity of broad money (eop)	7.7	6.1	4.7	4.7	6.1	4.7	6.8	6.5	6.2	5.5	4.9	4.3
Interest rate (weighted average NBT bill rate, in percent)	7.0	7.7	7.3	...	12.2	...	...	...	...	...	...	...
						(In percent of GDP, unless otherwise indicated)						
External sector 4/												
Exports of goods and services (U.S. dollar, percent change)	...	9.1	16.9	16.1	6.1	5.3	-7.1	9.2	10.4	10.6	8.4	8.9
Imports of goods and services (U.S. dollar, percent change)	...	32.5	57.9	42.4	35.8	3.3	-19.5	3.1	7.4	7.5	3.3	5.3
Current account balance	-2.7	-2.8	-11.2	-9.3	-8.8	-8.8	-9.7	-8.3	-7.1	-5.7	-3.7	-3.4
Trade balance	-26.9	-35.1	-45.1	-50.5	-48.1	-42.9	-33.7	-34.1	-31.9	-30.1	-26.8	-23.3
FDI	2.4	2.3	4.3	3.8	3.7	1.6	1.9	2.9	2.9	2.8	2.5	2.1
Total public and publicly guaranteed external debt	39.4	32.9	33.6	31.0	28.9	30.4	34.2	36.8	35.0	34.5	32.8	30.0
Gross official reserves (in U.S. dollars) 5/	91	111	107	198	199	188	228	293	348	438	638	848
in months of next year's imports 6/	0.9	0.7	0.5	0.8	1.2	0.7	1.3	1.5	1.7	2.0	2.8	3.4
in percent of broad money	31.2	22.0	11.3	15.9	19.9	11.8	18.2	16.1	14.3	12.7	13.1	12.9
Memorandum items:												
Nominal GDP (in millions of somoni)	7,201	9,272	12,780	17,178	17,609	21,373	21,402	25,572	30,609	36,664	43,938	52,185
Nominal GDP (in millions of U.S. dollars)	2,311	2,811	3,712	5,014	5,135	6,107	5,383	5,519	6,241	7,072	8,057	9,545
Nominal effective exchange rate (Index 2000=100)	58.7	54.8	50.2	...	49.2	...	...	...	...	...	...	...
Real effective exchange rate (Index 2000=100)	88.9	86.5	84.4	...	90.9	...	...	...	...	...	...	...
Average exchange rate (somoni per U.S. dollar)	3.12	3.30	3.44	...	3.43	...	...	...	...	...	...	...

Sources: Data provided by the Tajikistan authorities; and Fund staff estimates.

1/ Private investment and savings are estimates. Investment includes changes in stocks.
2/ 2006 overall balance excludes the MDRI debt relief that is reflected in grants. PIP expenditure includes investment financed by loans from China.
3/ Includes unidentified measures for 2009.
4/ Starting from 2005, the export and import figures reflect the transition to tolling arrangement for aluminum exports. Therefore, the export and import figures are lower than earlier years.
5/ Gross reserves are net of the pledged deposits of the NBT.
6/ Excluding electricity, which is on barter basis, and imports related to projects financed with loans from China.

Table 2. Tajikistan: General Government Operations, 2006-10
(In percent of GDP; unless otherwise indicated)

	2006	2007	2008						2009					2010
			Q1	Q2	Q3	Q4	Year	IMF/CR/	Q1	Q2	Q3	Q4	Year	
	Act.	Act.	Act.	Act.	Act.	Act.	Act.	08/382	Proj.	Proj.	Proj.	Proj.	Proj.	Proj
Overall revenues and grants	23.6	21.6	30.5	23.9	17.0	19.5	21.3	21.9	32.5	25.9	16.1	17.6	21.0	19.9
Total revenues	18.9	20.5	29.6	23.2	16.3	18.5	20.5	20.9	32.5	20.8	14.6	16.7	19.1	18.9
Tax revenues	16.5	17.8	27.7	21.3	14.6	16.5	18.7	18.7	29.0	18.6	13.0	14.7	16.9	16.8
Income and profit tax	2.1	2.4	3.7	3.1	2.0	2.3	2.6	2.5	4.1	2.6	1.9	2.3	2.5	2.4
Payroll taxes	2.0	2.0	2.6	2.2	1.5	1.9	2.0	2.0	3.6	2.3	1.5	1.6	2.0	2.0
Property taxes	0.8	0.7	0.9	0.8	0.5	0.6	0.7	0.8	1.1	0.8	0.6	0.9	0.8	0.9
Taxes on goods and services	9.7	10.9	17.9	13.0	9.5	10.4	11.8	11.6	17.7	11.1	7.9	8.8	10.2	10.1
VAT	7.3	8.3	13.7	9.7	7.1	7.8	8.9	8.9	13.5	8.3	5.9	6.4	7.6	7.5
Excises and other internal indirect taxes	2.5	2.6	4.1	3.2	2.4	2.6	2.9	2.7	4.2	2.8	2.0	2.4	2.6	2.6
International trade and operations tax	1.8	1.8	2.6	2.2	1.1	1.3	1.6	1.8	2.6	1.8	1.1	1.1	1.5	1.5
Non-tax revenues	2.4	2.7	1.9	1.9	1.6	1.9	1.8	2.2	3.5	2.2	1.6	1.9	2.1	2.1
Grants 1/	4.7	1.1	0.8	0.7	0.7	1.1	0.8	1.0	0.0	5.1	1.5	1.0	1.9	1.0
Of which: Public Investment Program (PIP) financing	0.6	0.8	0.8	0.7	0.7	1.1	0.8	1.0	0.0	0.7	0.5	0.1	0.3	0.3
Total expenditures and lending minus repayments 2/	21.9	27.8	39.0	24.0	26.2	25.4	27.5	29.2	44.9	29.7	24.9	22.6	27.9	25.2
Current expenditures	15.0	13.6	14.8	13.3	10.9	12.2	12.4	14.5	27.0	17.8	13.2	13.9	16.3	15.3
Expenditures on goods and services	10.4	9.4	9.8	9.7	7.5	8.0	8.5	10.0	21.1	14.0	9.6	10.1	12.3	11.7
Wages and salaries	4.1	4.1	4.8	4.1	3.3	4.7	4.1	4.3	8.5	5.6	4.0	4.4	5.1	5.4
Others	6.3	5.3	5.0	5.6	4.2	3.3	4.3	5.7	12.5	8.3	5.6	5.7	7.2	6.4
Interest payments	0.5	0.5	0.6	0.2	0.4	0.2	0.3	0.5	1.0	0.4	0.6	0.7	0.6	0.7
External	0.3	0.3	0.0	0.0	0.0	0.0	0.3	0.4	0.0	0.0	0.0	0.0	0.5	0.5
Domestic	0.2	0.2	0.0	0.0	0.0	0.0	0.0	0.1	0.0	0.0	0.0	0.0	0.1	0.2
Transfers and subsidies	4.1	3.8	4.4	3.4	3.1	4.1	3.7	4.0	4.9	3.4	3.1	3.1	3.4	2.9
Transfers to households	3.7	3.5	4.1	3.1	2.9	3.7	3.4	3.2	4.3	2.9	2.8	2.7	3.8	2.6
Subsidies and other current transfers	0.4	0.3	0.3	0.3	0.2	0.3	0.3	0.8	0.6	0.5	0.3	0.4	0.5	0.3
Capital expenditures	6.8	14.1	20.0	10.4	14.8	12.4	13.9	13.8	13.1	11.6	11.0	8.4	10.6	9.3
Externally financed PIP	3.1	8.6	15.7	4.2	10.5	3.6	7.9	9.3	9.4	6.6	7.8	4.8	6.8	5.1
Of which: with loans from China	0.0	5.8	13.2	2.6	8.1	0.4	5.4	5.6	2.7	3.1	4.0	3.2	3.4	2.0
Domestically financed	3.7	5.5	4.3	6.2	4.3	8.9	6.1	4.5	3.7	4.9	3.2	3.6	3.8	4.2
Lending minus repayments 3/	0.1	0.1	4.2	0.3	0.5	0.8	1.1	0.8	4.8	0.3	0.6	0.3	1.0	0.8
Statistical discrepancy	0.2	0.6	-2.0	0.0	0.9	-1.4	-0.5	...	...	...	...	...	...	...
Overall balance (incl. PIP)	1.7	-6.2	-8.5	-0.2	-9.2	-5.9	-6.1	-7.3	-12.3	-3.8	-8.8	-5.0	-7.0	-5.3
Overall balance (excl. PIP and PIP related grants) 4/	0.8	1.6	8.4	3.4	-0.3	-2.0	1.3	1.0	-2.9	2.2	-1.5	-0.3	-0.5	-0.5
Total financing (incl. PIP)	-1.7	5.8	6.5	0.1	10.1	4.5	5.7	7.3	12.3	3.8	8.8	5.0	7.0	5.3
Net external	1.6	6.6	13.1	2.7	9.4	2.3	6.4	7.6	8.4	6.1	5.8	5.0	6.0	4.3
Disbursements	2.9	7.8	14.9	3.5	9.8	1.9	6.9	8.3	9.4	6.6	6.2	5.4	6.5	4.8
Program loans	0.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Project loans	2.5	7.8	14.9	3.5	9.8	1.9	6.9	8.3	9.4	6.6	6.2	5.4	6.5	4.8
Amortization	-1.3	-1.2	-1.8	-0.7	-0.4	0.4	-0.5	-0.7	-0.9	-0.6	-0.4	-0.4	-0.5	-0.5
Net domestic	-3.3	-0.7	-6.6	-2.6	0.6	2.2	-0.7	-0.3	3.9	-2.3	3.0	0.0	1.0	1.0
NBT	-4.1	-1.1	-5.3	-2.4	-0.1	1.3	-1.0	0.0	3.7	-2.4	2.9	-0.1	0.9	0.0
Commercial banks	0.0	-0.4	-1.5	-0.3	-0.4	0.3	-0.3	-0.3	0.1	0.1	0.0	0.0	0.0	0.9
Gross proceeds from privatization	0.6	0.1	0.2	0.1	1.1	0.6	0.6	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Memorandum items:														
Nominal GDP (in millions of somoni)	9,272	12,780	2,726	3,836	5,813	5,235	17,609	17,178	2,946	4,654	7,046	6,757	21,402	25,572

Sources: Tajik authorities; and Fund staff estimates.

1/ 2006 grants figure includes the MDRI debt relief of 3.5 percent of GDP.
2/ Includes unidentified measures for 2009.
3/ Includes 140 million somoni lending to the cotton sector in 2008, and 170 million somoni in 2009 for agricultural sector.
4/ 2006 overall balance excludes the MDRI debt relief that is reflected in grants.

Table 3. Tajikistan: General Government Operations, 2006-10
(In millions of somoni; unless otherwise indicated)

	2006	2007	2008						2009					2010
			Q1	Q2	Q3	Q4	Year	IMF/CR/	Q1	Q2	Q3	Q4	Year	
	Act.	Act.	Act.	Act.	Act.	Act.	Act.	08/382	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.
Overall revenues and grants	2,190	2,763	830	916	988	1,023	3,758	3,761	959	1,205	1,133	1,191	4,487	5,094
Total revenues	1,754	2,621	808	888	946	967	3,610	3,589	959	970	1,027	1,126	4,082	4,551
Tax revenues	1,533	2,274	755	817	851	866	3,289	3,218	854	865	913	995	3,627	4,287
Income and profit tax	194	305	100	118	116	119	453	422	120	121	133	158	532	612
Payroll taxes	189	253	72	86	89	99	346	340	106	106	106	106	423	506
Property taxes	77	92	26	32	31	33	121	140	31	37	44	63	174	219
Taxes on goods and services	902	1,398	487	498	550	547	2,081	2,000	520	516	555	592	2,184	2,575
VAT	675	1,061	374	373	413	411	1,571	1,535	397	385	413	432	1,626	1,909
Excises and other internal indirect taxes	227	337	113	125	137	136	510	466	124	130	143	161	557	666
International trade and operations tax	171	226	71	84	65	68	288	317	76	86	75	77	314	375
Sales taxes	87	95	17	18	16	16	77	107	18	22	20	40	84	101
Import duties	84	131	50	59	49	53	211	210	57	65	54	54	230	274
Non tax revenues	221	347	52	71	95	102	320	371	104	104	114	131	454	543
Grants 1/	436	142	23	28	42	56	148	172	0	235	105	65	405	264
Of which: Public Investment Program (PIP) financing	59	107	23	28	42	56	148	172	0	32	32	7	72	79
Total expenditures and lending minus repayments 2/	2,032	3,554	1,062	922	1,523	1,332	4,840	5,019	1,322	1,380	1,753	1,525	5,982	6,451
Current expenditures	1,393	1,740	404	510	636	639	2,188	2,498	795	829	933	941	3,498	3,905
Expenditures on goods and services	967	1,197	268	371	435	417	1,490	1,716	621	650	675	683	2,629	2,999
Wages and salaries	384	525	131	158	194	244	726	742	251	262	284	295	1,093	1,371
Others	583	672	137	213	241	173	764	974	370	388	391	388	1,536	1,628
Interest payments	46	59	16	8	21	10	54	91	30	19	40	47	136	169
Transfers and subsidies	380	484	120	131	180	212	643	690	144	160	217	211	733	736
Transfers to households	346	445	111	119	169	194	593	556	127	137	194	181	640	658
Subsidies and other current transfers	34	39	9	12	11	18	51	134	17	23	23	30	93	79
Capital expenditures	634	1,806	546	400	859	651	2,456	2,376	386	538	777	564	2,269	2,381
Externally financed PIP	291	1,100	427	161	609	187	1,385	1,599	277	309	550	324	1,460	1,301
Of which: with loans from China	0	746	361	98	470	23	953	956	80	143	280	219	721	524
Domestically financed	342	707	118	239	250	464	1,071	777	110	228	227	243	808	1,080
Lending minus repayments 3/	6	8	113	12	28	43	196	146	140	13	43	19	216	216
Statistical discrepancy	0	-45	-55	-2	50	-74	-81	…	...	...	...	...	...	...
Overall balance (incl. PIP)	158	-791	-232	-6	-535	-309	-1,082	-1,259	-363	-175	-620	-336	-1,495	-1,357
Overall balance (excl. PIP and PIP-related grants) 4/	70	247	228	129	-18	-104	235	169	-86	102	-102	-19	-106	-135
Total financing (incl. PIP)	-158	746	177	4	585	235	1,001	1,259	363	175	620	336	1,495	1,357
Net external	145	839	357	105	548	119	1,129	1,304	249	282	411	336	1,278	1,102
Disbursements	269	993	406	132	573	98	1,208	1,427	277	309	439	364	1,389	1,222
Program loans	37	0	0	0	0	0	0	0	0	0	0	0	0	0
Project loans	232	993	406	132	573	98	1,208	1,427	277	309	439	364	1,389	1,222
Amortization	-124	-153	-48	-27	-25	21	-79	-123	-28	-28	-28	-28	-111	-120
Net domestic	-303	-93	-180	-101	37	116	-127	-46	114	-107	209	0	217	245
NBT	-379	-136	-145	-93	-7	70	-175	-6	108	-113	203	-6	192	5
Commercial banks	-3	-47	-40	-12	-21	16	-57	-60	3	3	3	3	10	225
Gross proceeds from privatization	57	17	5	3	65	31	105	20	4	4	4	4	15	15

Sources: Tajik authorities; and Fund staff estimates.

1/ 2006 grants figure includes the MDRI debt relief of 3.5 percent of GDP.
2/ Includes unidentified measures for 2009.
3/ Includes 140 million somoni lending to the cotton sector in 2008, and 170 million somoni in 2009 for agricultural sector.
4/ 2006 overall balance excludes the MDRI debt relief that is reflected in grants.

Table 4. Tajikistan: Accounts of the National Bank of Tajikistan, 2006-10

(End-of-period stock; unless otherwise specified)

	2006	2007	2008					2009				2010
	Dec.	Dec.	March	June	Sept.	Dec.		March	June	Sept.	Dec.	Dec.
	Act.	Act.	Act.	Act.	Act.	IMF/CR/08/382	Act.	proj.	proj.	proj.	proj.	proj.
						(In millions of somoni)						
Net foreign assets	673	907	1,024	1,027	770	420	514	402	390	521	555	802
of which: Net international reserves	707	1,030	1,147	1,138	879	530	624	521	517	657	699	954
Gross reserves	860	1,205	1,319	1,308	1,023	594	685	531	687	838	1,026	1,397
Gross short-term liabilities	153	175	173	170	143	64	61	10	170	181	328	443
Net domestic assets	348	525	420	419	864	1,403	1,342	1,507	1,535	1,549	1,526	1,592
Net credit to general government	-636	-774	-919	-1,012	-1,019	-777	-949	-841	-954	-751	-757	-752
Credit to the private sector 1/	932	1,162	1,188	1,248	1,684	1,979	2,114	2,210	2,389	2,240	2,262	2,355
Claims on banks	749	982	1,057	1,046	1,489	1,786	1,921	2,017	2,197	2,047	2,069	2,162
Of which:												
Cotton sector	571	885	893	1,007	1,442	1,753	1,769	1,859	1,881	1,902	1,924	2,018
NBT bills	-4	-10	0	-41	-36	-50	0	0	0	0	0	0
liquidity loans	…	…	…	…	…	…	40	13	171	0	0	0
Credit to non bank institutions	183	180	0	202	194	193	193	193	193	193	193	193
Other items, net	52	137	152	183	200	200	178	139	100	61	22	-11
Of which: Retained profits and provisions (+ losses)	-15	12	12	727	1,006	…	1,894	…	…	…	…	…
Reserve money	1,021	1,432	1,445	1,446	1,634	1,823	1,856	1,909	1,925	2,070	2,081	2,393
Currency in circulation	883	1,123	1,136	1,229	1,443	1,505	1,566	1,595	1,633	1,785	1,787	2,020
Bank reserves	134	249	277	206	191	317	278	301	275	265	270	355
Required reserves	66	139	187	182	173	231	157	193	193	196	196	257
Other bank deposits	68	109	90	24	18	86	121	108	82	69	74	98
						(12-month growth in percent of reserve money)						
Reserve money	49.2	40.3	42.1	37.7	16.1	27.3	29.6	32.1	33.1	26.7	12.1	15.0
Net foreign assets	53.4	22.9	33.0	29.4	-9.3	-34.0	-27.5	-43.1	-44.1	-15.2	2.2	11.9
Of which: gross international reserves	20.8	33.8	43.4	36.6	-8.6	-42.7	-36.3	-54.6	-42.9	-11.3	18.4	17.8
Of which: net international reserves	58.4	31.6	41.6	35.2	-7.5	-34.9	-28.3	-43.3	-42.9	-13.6	4.0	12.3
Net domestic assets	-4.2	17.4	9.2	8.3	25.3	61.2	57.0	75.2	77.1	41.9	9.9	3.1
Of which:												
Net credit to general government	-60.8	-13.5	-13.0	-18.2	-12.6	-0.2	-12.2	5.4	4.0	16.4	10.3	0.2
Credit to the private sector	53.6	22.5	21.1	17.6	34.4	57.1	66.4	70.7	78.9	34.0	8.0	4.5
Of which: NBT bills	3.3	-0.6	0.0	-3.6	-1.9	-2.8	0.7	0.0	2.8	2.2	0.0	0.0
Other items net	3.1	8.4	1.1	8.8	3.5	4.4	2.8	-0.9	-5.8	-8.5	-8.4	-1.6
Memorandum items:												
Net international reserves (in millions of U.S.dollars)	67	56	93	115	167	156	181	140	130	155	155	200
Net international reserves (percent of broad money)	14.9	7.1	11.2	15.3	20.9	14.6	21.5	17.4	17.2	21.4	22.2	24.3
Pledged international assets (in millions of U.S. dollars)	140	241	241	216	91	0	0	0	0	0	0	0
Official exchange rate (somoni/U.S. dollars)	3.43	3.46	3.45	3.43	3.41	…	3.45	...	...	…	…	…

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

1/ in 2008, claims on banks was adjusted upwards to reflect the retention of the pledged deposits.

Table 5. Tajikistan: Monetary Survey, 2006–10

	2006	2007	2008					2009				2010
	Dec.	Dec.	March	June	Sept.	Dec.		March	June	Sept.	Dec.	Dec.
	Act.	Act.	Act.	Act.	Act.	IMF/CR/08/382	Act.	Proj.	Proj.	Proj.	Proj.	Proj.
	(In millions of somoni, end-of-period stock; unless otherwise specified)											
Net foreign assets	-15	59	52	-169	-140	-509	-16	-86	-52	95	155	307
National Bank of Tajikistan	673	907	907	1027	770	420	514	402	390	521	555	802
Commercial banks	-688	-849	-855	-1196	-910	-930	-530	-488	-441	-426	-400	-495
Net domestic assets	1,553	2,697	2,688	2,779	2,867	4,162	2,942	3,097	3,071	2,997	3,011	3,643
Net credit to general government	-674	-859	-1,045	-1,149	-1,176	-922	-1,091	-980	-1,091	-885	-889	-659
Of which:												
National Bank of Tajikistan	-636	-774	-919	-1,012	-1,019	-777	-949	-841	-954	-751	-757	-752
Commercial banks	-38	-85	-125	-137	-157	-146	-142	-139	-137	-134	-132	93
Credit to the private sector	2,390	3,794	-40	4,341	4,484	5,530	4,601	4,687	4,811	4,572	4,630	5,088
Other items, net	-163	-238	-347	-413	-441	-446	-569	-609	-649	-689	-729	-786
Broad money	1,530	2,736	2,832	2,586	2,715	3,641	2,908	2,993	3,002	3,075	3,149	3,932
Somoni broad money	1,046	1,447	1,412	1,495	1,703	2,284	1,952	2,010	2,015	2,065	2,114	2,640
Currency outside banks	825	1,037	972	1,064	1,263	1,693	1,406	1,360	1,364	1,397	1,494	1,760
Deposits	220	410	440	432	440	591	546	650	652	668	620	880
Foreign currency deposits	485	1,289	1,421	1,091	1,012	1,357	955	984	986	1,010	1,035	1,292
Bills payable 1/	8	19	25	23	12	12	17	17	17	17	17	17
	(12 month growth in percent of broad money)											
Broad money	63.4	78.8	77.7	53.2	29.2	33.0	6.3	5.7	16.1	13.2	8.3	24.9
Net foreign assets	25.1	4.8	14.8	2.9	1.6	-20.8	-2.7	-9.0	4.6	8.6	5.9	4.8
National Bank of Tajikistan	39.0	15.3	21.0	18.3	-6.2	-17.8	-14.4	-22.0	-24.6	-9.2	1.4	7.8
Commercial banks	-13.9	-10.5	-6.2	-15.4	7.8	-3.0	11.6	13.0	29.2	17.8	4.5	-3.0
Net domestic assets	38.2	74.7	63.8	50.9	27.5	53.5	8.9	14.4	11.3	4.8	2.4	20.1
Net credit to general government	-44.7	-12.1	-12.3	-15.6	-11.8	-2.3	-8.5	2.3	2.2	10.7	6.9	7.3
Credit to the private sector	84.0	91.7	92.0	84.6	54.3	63.4	29.5	21.4	18.2	3.3	1.0	14.6
Other items, net	-1.1	-4.9	-15.9	-18.1	-15.0	-7.6	-12.1	-9.2	-9.1	-9.2	-5.5	-1.8
Bills payable	-0.1	0.7	1.0	0.6	-0.2	-0.3	-0.1	-0.3	-0.2	0.2	0.0	0.0
Memorandum items:												
Credit to the private sector (12-month percent change)	49.1	58.7	56.2	49.1	34.2	45.7	21.3	14.9	10.8	2.0	0.6	9.9
Velocity	6.1	4.7	…	…	…	4.7	6.1	…	…	…	6.8	6.5
Money multiplier 2/	1.5	1.9	2.0	1.8	1.7	2.0	1.6	1.6	1.6	1.5	1.5	1.6

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

1/ Liabilities to cotton financiers related to domestic cotton financing.
2/ Broad money divided by reserve money.

Table 6. Tajikistan: Balance of Payments, 2006-10
(In millions of U.S. dollars)

	2006	2007	2008		2009					2010
	Act.	Act.	IMF/CR/08/382	Est.	Q1	Q2	Q3	Q4	Year	Proj.
					Proj.	Proj.	Proj.	Proj.	Proj.	
Current account	-79	-414	-466	-453	-180	-120	-92	-130	-522	-460
Balance on goods and services 1/	-961	-1,788	-2,747	-2,655	-435	-501	-559	-540	-2,035	-2,053
Balance on goods	-986	-1,673	-2,534	-2,472	-413	-475	-475	-453	-1,816	-1,881
Exports	350	385	424	359	74	104	94	83	354	385
Imports	-1,336	-2,058	-2,959	-2,831	-486	-579	-569	-536	-2,170	-2,266
Balance on services	25	-115	-213	-183	-22	-26	-84	-87	-219	-173
Balance on income	-101	-111	-116	-111	-29	-29	-29	-29	-116	-120
Balance on transfers	984	1,484	2,397	2,313	284	410	496	440	1,630	1,714
Of which: migrants' remittances, net	903	1,416	2,315	2,210	260	389	473	426	1,547	1,624
Capital and financial account	183	409	588	576	140	58	117	98	412	495
Capital transfers	127	31	50	51	0	8	8	2	18	57
Public sector (net)	32	273	374	313	60	68	101	81	311	227
Disbursements	82	308	417	352	70	78	110	91	349	264
Of which: projects financed by China	...	217	279	277	20	36	70	55	181	113
Amortization	-50	-35	-42	-39	-10	-10	-10	-10	-39	-37
FDI	66	160	190	190	25	25	25	25	100	160
Commercial bank NFA (- increase)	27	44	28	-91	11	12	4	6	32	20
NBT pledged deposits	-6	-102	241	241	…	…	…	…	…	…
Other short-term capital and errors and omissions 2/ 3/	-62	2	-296	-128	44	-55	-21	-17	-49	31
Overall balance	104	-5	122	123	-41	-62	25	-32	-110	35
Financing items	-104	5	-122	-123	41	-30	-25	-30	-44	-65
Use of international reserves (- increase)	-20	5	-91	-92	56	-30	-25	-30	-29	-65
IMF (net)	-85	0	-31	-31	-15	0	0	0	-15	0
Purchases/disbursements	14	0	0	0	0	0	0	0	0	0
Repurchases/repayments	99	0	31	31	15	0	0	0	15	0
Financing gap	0	0	0	0	0	92	0	62	154	30
Identified financing	...	...	...	...	0	92	0	62	154	30
World Bank	...	...	...	...	0	20	0	0	20	10
IMF	...	...	...	...	0	40	0	30	70	20
AsDB	...	...	...	...	0	20	0	20	40	...
EC	...	...	...	...	0	12	0	12	24	...
Memorandum items:										
Nominal GDP	2,811	3,712	5,014	5,135	...	…	...	...	5,383	5,519
Current account balance (in percent of GDP)	-2.8	-11.2	-9.3	-8.8	...	…	...	...	-9.7	-8.3
Gross reserves	111	107	198	199	...	…	...	...	228	293
(in months of next year's imports) 4/	0.7	0.5	0.8	1.2	...	…	...	...	1.3	1.5
Total Public and Publicly Guaranteed (PPG) external sector debt	924	1,247	1,556	1,486	...	…	...	...	1,843	2,031
(in percent of GDP)	32.9	33.6	31.0	28.9	...	…	...	...	34.2	36.8
Debt service on PPG external debt	62	50	112	102	...	…	...	...	105	82
(in percent of exports of goods)	17.7	12.9	26.4	28.5	...	…	...	...	29.5	21.3

Sources: Tajik authorities; and Fund staff estimates.

1/ Starting from 2005, the export and import figures reflect the transition to the tolling arrangement for aluminium exports.

2/ Includes accumulation of foreign currency balances by residents of Tajikistan.

3/ For 2008, includes the decline in other foreign liabilities which resulted from pledged deposits settlement.

4/ Excluding electricity, which is on barter basis, and imports related to projects financed with loans from China.

Table 7. Tajikistan: General Government Social and Poverty-Related Expenditure, 2007-12

	2007	2008	2009					2010	2011	2012
			Q1	Q2	Q3	Q4	Year			
	Act.	Est.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.
					(In millions of somoni)					
Total social spending	958	1,284	386	415	507	559	1,866	2,373	2,961	3,682
Total current expenditure	909	1,192	342	369	460	511	1,682	2,150	2,684	3,338
Total capital expenditure	49	92	44	46	47	48	184	223	277	344
Social protection										
Curent expenditures	367	451	141	118	160	222	640	817	1,012	1,256
Capital expenditures	9	11	5	5	5	5	20	25	31	39
Education										
Curent expenditures	415	537	153	192	216	197	756	908	1,124	1,388
of which: general education	323	410	116	146	164	149	575	699	865	1,068
Capital expenditures	23	69	34	34	34	34	136	160	198	245
Health										
Curent expenditures	128	204	49	60	84	93	286	426	548	694
of which: primary & community healthcare	33	61	16	20	28	31	94	148	208	302
Capital expenditures	17	12	5	7	8	9	28	37	48	60
					(In percent of GDP)					
Total social spending	7.5	7.3	1.8	1.9	2.4	2.6	8.7	9.3	9.7	10.0
Total current expenditure	7.1	6.8	1.6	1.7	2.1	2.4	7.9	8.4	8.8	9.1
Total capital expenditure	0.4	0.5	0.2	0.2	0.2	0.2	0.9	0.9	0.9	0.9
Social protection										
Curent expenditures	2.9	2.6	0.7	0.6	0.7	1.0	3.0	3.2	3.3	3.4
Capital expenditures	0.1	0.1	0.0	0.0	0.0	0.0	0.1	0.1	0.1	0.1
Education										
Curent expenditures	3.2	3.0	0.7	0.9	1.0	0.9	3.5	3.5	3.7	3.8
of which: general education	2.5	2.3	0.5	0.7	0.8	0.7	2.7	2.7	2.8	2.9
Capital expenditures	0.2	0.4	0.2	0.2	0.2	0.2	0.6	0.6	0.6	0.7
Health										
Curent expenditures	1.0	1.2	0.2	0.3	0.4	0.4	1.3	1.7	1.8	1.9
of which: primary & community healthcare	0.3	0.3	0.1	0.1	0.1	0.1	0.4	0.6	0.7	0.8
Capital expenditures	0.1	0.1	0.0	0.0	0.0	0.0	0.1	0.1	0.2	0.2
Memorandum Item:										
Nominal GDP	12,780	17,609	…	…	…	…	21,402	25,572	30,609	36,664

Sources: Tajik authorities; World Bank; and Fund staff estimates.

Table 8. Tajikistan: Quantitative Indicators under the 2008 Staff Monitored Program

(In millions of somoni, unless otherwise indicated)

	2008								
	End-June			End-Sept.			End-Dec.		
	Prog.	Adj. Prog.	Act.	Prog.	Adj. Prog.	Act.	Prog.	Adj. Prog.	Act.
Indicative Targets:									
1. Ceiling on net domestic assets of the NBT 1/ 2/	454	540	394	528	1,043	809	551	1,348	1,300
2. Ceiling on net credit of the banking system to general government	-953	-953	-1,149	-831	-831	-1,178	-759	-759	-1,125
3. Floor on total net international reserves (in millions of U.S. dollars) 2/	96	96	122	117	117	181	170	170	194
4. Floor on the cumulative overall fiscal balance of the general government (excluding foreign-financed public investment program and PIP related grants) 3/	148	148	310	62	62	331	8	8	235
5. Ceiling on general government wage, and nonworking pensioners' pension arrears 4/	0	0	0	0	0		0	0	0
6. Floor on tax collection 3/	1,502	1,502	1,572	2,277	2,277	2,423	2,979	2,979	3,289
7. New tax arrears of Barki Tajik and Talco	0	0	7	0	0	22	0	0	0
8. Ceiling on contracting or guaranteeing of any nonconcessional external debt 4/ 5/ 6/	0	0	0	0	0	0	0	0	0
9. Ceiling on disbursements of concessional external financing (in millions of U.S. dollars) 3/ 5/ 6/	206	206	156	283	283	323	413	413	352
10. New external payments arrears 4/	0	0	0	0	0	0	0	0	0
Memorandum item:									
Cumulative disbursement of program loans and grants (in millions of U.S. dollars) 3/	0	0	0	0	0	0	25	25	0

Sources: Tajik authorities; and Fund staff estimates.

1/ In June, September and December the program ceiling on NDA of the NBT was adjusted upwards to reflect the retention of the pledged deposits.
2/ At program exchange rates.
3/ Cumulative from January 1of the year.
4/ Continuous quantitative targets.
5/ Short, medium and long-term debt by the government, NBT or any other agency acting on behalf of the government as defined in the Technical Memorandum of Understanding, excluding normal trade-related loans.
6/ Excluding the obligations resulting from the restructuring of the cotton debt.

Table 9. Tajikistan: Prior Actions and Structural Benchmarks under the 2008 Staff-Monitored Program

Areas of Reform	Implementation Date	Status
1. Reach understandings with Fund staff on the Terms of Reference for the special audit of the NBT and other involved parties, as defined in the terms of reference.	Prior action	Completed Apr. 2008
2. Request bids for the selection of an internationally reputable audit firm to conduct the special audit of the NBT and other involved parities defined in the terms of reference.	Prior action	Completed May 2008
3. Provide interim reports, as noted in the terms of reference of the special audit of the NBT, to Fund staff.	Monthly	Complied with
4. NBT will refrain from issuing new credits to the private sector, except to commercial banks (including Amonatbank) for liquidity and lender of last resort purposes. These involve credits that are issued in the absence of a competitive auction or on non-market terms and conditions.	Continuous	Complied with
5. Make legislative changes to: (i) appoint the NBT chairman and his deputies for fixed terms that do not coincide with the electoral cycle, and outline the reasons for their dismissal explicitly in the law; (ii) require official identification and disclosure of beneficial owners of companies registered with the Agency for Securities in the Ministry of Finance and other authorized entities, including financial institutions; (iii) clarify the provisions covering conflicts of interest for the NBT management and staff and require them to disclose their personal holdings in financial institutions and excuse themselves from official decisions affecting those institutions.	End-Dec. 2008	(ii) Implemented; (i) and (iii) submitted to parliament March 2009
6. Issue tender papers for an audit of Talco's and Barki Tajik's 2007 financial operations by an internationally recognized auditing company.	End-Sept. 2008	Completed Sept. 2008
7. Introduce legislative changes for establishing a contingent liability reporting regime to cover state-owned enterprises, public institutions and the NBT.	End-Dec. 2008	Completed Dec. 2008
8. Issue a government decree to establish a supervision unit in the Ministry of Finance (MoF) for regular monitoring of financial operations of the 10 SOE's with the highest annual turnover and require these enterprises to provide the MoF and Ministry of Economic Development and Trade draft annual financial plans for review and approval before the beginning of each financial year and submit their quarterly financial statements and their external audit reports.	End-Sept.-2008	Completed Sept. 2008

Table 10. Tajikistan: Summary Stress Test Results 1/

	December 2006 2/					December 2007 2/					December 2008				
	No. banks w/ CAR below 12% 3/	Worst 4/	Best 4/	System CAR	System change in %	No. banks w/ CAR below 12% 3/	Worst 4/	Best 4/	System CAR	System change in %	No. banks w/ CAR below 12% 3/	Worst 4/	Best 4/	System CAR	System change in %
A. Baseline (before shocks)	0	19.4	54.5	**26.8**	-	0	13.3	35.1	**19.4**	-	0	16.3	36.0	**26.4**	-
B. Sensitivity Stress Tests															
Credit Risk															
2-category migration															
Assuming 50% collateral coverage	0	16.1	52.4	**23.8**	-11.2	1	11.1	32.1	**16.6**	-14.5	0	13.8	33.1	**23.0**	-12.9
Assuming a zero collateral coverage	0	14.6	51.6	**22.2**	-17.2	2	10.1	30.8	**15.3**	-21.3	0	12.1	31.8	**21.1**	-20.0
Single largest borrower re-classified as doubtful															
Assuming 50% collateral coverage	0	13.5	52.4	**21.6**	-19.3	1	10.1	30.8	**15.6**	-19.5	0	13.8	30.7	**22.2**	-16.0
Assuming a zero collateral coverage	0	13.5	52.4	**20.8**	-22.4	3	5.5	29.0	**14.6**	-24.7	1	-4.8	30.2	**21.3**	-19.3
All large exposures re-classified as doubtful															
Assuming 50% collateral coverage	0	1.4	52.4	**18.3**	-31.6	2	5.6	32.1	**13.6**	-29.8	1	5.5	33.1	**18.7**	-29.1
Assuming a zero collateral coverage	0	0.3	52.4	**16.0**	-40.5	3	4.1	25.2	**11.3**	-41.6	2	0.8	30.2	**16.2**	-38.8
Exchange Rate Risk															
Depreciation against USD (plus credit risk)															
Only direct FX impact	0	20.3	55.9	**30.9**	15.2	0	17.2	41.2	**23.0**	18.7	0	14.6	40.1	**29.2**	10.7
Adding indirect credit risk impact	0	13.9	55.2	**25.6**	-4.6	1	10.6	33.9	**17.7**	-8.8	2	5.8	34.9	**23.0**	-13.1
Interest Rate Risk (parallel shift of yield curve)															
Maturity gap	0	13.0	51.4	**21.9**	-18.4	2	8.1	31.7	**14.7**	-24.1	1	12.2	32.8	**22.3**	-15.4

Sources: National Bank of Tajikistan and Fund staff estimates.

1/ The stress tests are conducted using detailed commercial banks data accounting for 95 percent of total banking sector assets.

2/ Source: Republic of Tajikistan: Financial System Stability Assessment December 2008, IMF Country Report No. 08/371

3/ Number of banks with a capital adequacy ratio that falls below the 12 percent prudential requirement.

4/ Worst/Best correspond to the highest/lowest capital adequacy ratio (CAR) of individual banks under each scenario.

Table 11. Tajikistan: Summary Results of the Liquidity Stress Test 1/

	End-December 2006 2/		End-December 2007 2/		End-December 2008	
	Number of illiquid banks	Liquidity shortfall (in % of total pre-shock assets)	Number of illiquid banks	Liquidity shortfall (in % of total pre-shock assets)	Number of illiquid banks	Liquidity shortfall (in % of total pre-shock assets)
Run on domestic deposits						
After day 1	0	-	0	-	0	-
After day 2	0	-	0	-	1	-
After day 3	1	0.1	0	0.0	2	0.3
After day 4	1	0.3	2	0.1	2	0.6
After day 5	1	0.8	2	0.4	3	1.0
Run on FX deposits						
After day 1	0	-	0	-	0	-
After day 2	0	-	0	-	0	-
After day 3	0	-	0	-	0	-
After day 4	0	-	2	0.6	3	2.2
After day 5	1	0.4	2	1.9	3	6.6

1/ Deposit run based on a daily withdrawal of 10 percent of demand deposits and term deposits for five consecutive days.

2/ Source: Republic of Tajikistan: Financial System Stability Assessment December 2008, IMF Country Report No. 08/371

Table 12. Tajikistan: Financial Soundness Indicators, 2004-08

(In percent, unless otherwise indicated)

	2004	2005	2006	2007				2008			
				March	June	Sept	Dec	March	June	Sept	Dec
Capital adequacy											
Tier I capital as percent of risk-weighted assets	38.7	34.2	27.8	25.2	21.6	21.8	19.4	22.2	22.2	22.8	24.2
Reported total capital to risk -weighted assets (K1-1)	44.7	37.9	30.4	27.8	23.5	23.3	21.3	23.8	23.9	24.2	29.2
Asset quality 1/											
Nonperforming loans to gross loans	20.6	14.3	11.3	10.7	9.7	6.6	4.8	5.8	7.9	8.6	9.5
excluding Agroinvestbank	n.a.	n.a	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Nonperforming loans net of provisions to reg. capital	19.3	16.1	18.2	20.2	19.9	13.3	8.2	11.7	18.4	19.0	16.8
Provisions to nonperforming loans	47.2	36.8	27.8	25.9	25.8	24.5	40.5	30.7	21.1	26.9	32.5
Banks exceeding maximum single borrower limit 2/	3 of 12	2 of 12	1 of 9	1 of 10	1 of 10	1 of 10	1 of 10	1 of 12	1 of 12	1 of 12	1 of 12
Earnings and profitability											
Reported return on assets (ROA)	2.9	4.7	3.8	2.5	2.8	2.9	2.7	2.7	2.7	2.7	2.0
Reported return on equity (ROE)	10.2	17.2	16.1	13.4	16.0	17.4	16.8	15.7	15.7	15.0	11.0
Interest income to gross income	42.7	48.2	47.9	58.9	57.9	57.9	57.5	64.2	63.97	61.7	59.6
Non interest expenditures to gross income	61.0	55.2	63.2	61.8	59.5	59.2	59.7	45.9	46.9	49.3	55.3
Salary expenditures to non-interest expenditures	25.8	27.1	21.6	28.6	26.5	26.1	26.5	34.5	35.7	33.9	32.1
Liquidity											
Liquid assets to total assets	36.9	30.0	39.9	35.9	45.7	41.4	39.9	37.3	33.4	30.2	27.2
Liquid assets to demand and savings deposits	113.5	80.2	84.0	80.9	83.7	81.2	112.6	119.1	134.9	120.8	104.1
Liquid assets to total deposits	71.2	54.9	57.9	58.0	66.5	62.3	61.3	63.1	83.5	70.1	60.0
Sensitivity to market risk											
Net open position in foreign exchange to capital	36.3 long	8.8 long	5.9 long	11.6 long	10.1 long	8.2 long	13.4 long	11.5 long	13.9 long	12.5 long	6.3 long

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

1/ Nonperforming loans include three loan classifications: watch, doubtful and loss.

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

Table 13. Tajikistan: External Financing Requirements and Sources, 2006-14
(In millions of U.S. dollars)

			Est.	IMF Staff Projections					
	2006	2007	2008	2009	2010	2011	2012	2013	2014
Total requirements	129	449	492	560	497	488	459	349	413
Current account deficit	79	414	453	522	460	445	402	301	327
Debt amortization	50	35	39	39	37	43	57	47	86
Multilateral 1/	13	5	9	17	17	19	33	34	34
Bilateral	37	30	30	22	20	24	24	13	51
Total sources	233	444	615	451	532	513	509	519	595
Capital inflows	233	444	615	451	532	513	509	519	595
Foreign direct investment	66	160	190	100	160	180	200	200	200
Disbursement from official creditors 2/	208	339	403	367	321	277	255	290	363
Other flows 3/	-41	-55	22	-16	51	56	54	28	31
Change in reserves (- increase)	-20	5	-92	-29	-65	-55	-90	-200	-210
Financing gap	84	0	31	-139	-30	-30	-40	-30	-28
Financing items 4/	-85	0	-31	139	30	30	40	30	28
IMF 5/	-85	0	-31	55	20	20	10	0	-2
AsDB	…	…	…	40	…	…	…	…	…
EC	…	…	…	24	…	…	…	…	…
World Bank	0	0	0	20	10	10	30	30	30
Exceptional financing	0	0	0	0	0	0	0	0	0

Sources: Tajik authorities, and Fund staff calculations.

1/ Excluding the IMF.
2/ Includes project loans and grants.
3/ Includes all other net financial flows, and errors and omissions.
4/ Tajikistan benefited from a debt relief from the IMF under MDRI in 2006.
5/ 2009 figure is net of repurchases.

Table 14. Tajikistan: Capacity to Repay the Fund, 2006-14

	2006	2007	2008	2009	2010	2011	2012	2013	2014
Existing and prospective Fund credit 1/									
In millions of SDRs 2/	29.4	29.4	9.8	45.7	58.7	71.8	78.3	78.3	77.0
In millions of US dollars	42.1	46.3	14.9	70.2	90.5	111.0	121.5	121.9	119.9
In percent of exports	6.4	6.0	1.8	9.3	11.0	12.2	12.0	11.1	10.1
In percent of external debt	3.5	3.0	0.7	2.9	3.4	4.0	3.9	3.6	3.3
In percent of gross reserves	37.9	43.5	7.5	30.8	30.9	31.9	27.7	19.1	14.1
In percent of quota	33.8	33.8	11.3	52.5	67.5	82.5	90.0	90.0	88.5
Repurchases and charges due from existing and prospective drawings									
In millions of SDRs	69.5	0.1	19.5	9.9	0.1	0.1	0.1	0.1	1.7
In millions of US dollars	99.3	0.2	31.0	15.3	0.2	0.2	0.2	0.2	2.6
In percent of exports	16.9	0.0	4.3	2.3	0.0	0.0	0.0	0.0	0.2
In percent of external debt	8.3	0.0	1.4	0.6	0.0	0.0	0.0	0.0	0.1
In percent of gross reserves	43.5	0.1	11.1	4.8	0.0	0.0	0.0	0.0	0.5
In percent of quota	79.8	0.2	22.5	11.4	0.1	0.1	0.1	0.1	1.9
Memorandum items:									
Gross reserves (in millions of US dollars)	111	107	199	228	293	348	438	638	848
Quota (in millions of SDRs)	87	87	87	87	87	87	87	87	87

Sources: Tajik authorities; and Fund staff estimates.

1/ End of period.

2/ This table assumes SDR 78.3 million in Fund disbursements under the proposed three-year PRGF in 2009-12.

Table 15. Tajikistan: Reviews and Disbursements under the Prospective Three-Year PRGF Arrangement, 2009-12

Date	Action	Disbursement
On or after April 13, 2009	Approval of the PRGF arrangement	SDR 26.1 million
On or after September 15, 2009	Completion of the first review	SDR 19.6 million
On or after March 15, 2010	Completion of the second review	SDR 6.52 million
On or after September 15, 2010	Completion of the third review	SDR 6.52 million
On or after March 15, 2011	Completion of the fourth review	SDR 6.52 million
On or after September 15, 2011	Completion of the fifth review	SDR 6.52 million
On or after March 15, 2012	Completion of the sixth review	SDR 6.52 million

Source: Fund staff estimates.

APPENDIX: TAJIKISTAN: LETTER OF INTENT

March 31, 2009

His Excellency
Mr. Dominique Strauss-Kahn
Managing Director
International Monetary Fund
700 19th Street, N.W.
Washington, DC 20431

Dear Mr. Strauss-Kahn:

I would like to express my gratitude to the International Monetary Fund (IMF) for its support of our economic reforms at this critical moment for our economy. I am delighted to inform you that we have successfully concluded a Staff Monitored Program (SMP), covering the period June 1–December 31, 2008. The SMP framework has helped us maintain macroeconomic stability in a difficult external environment. In addition, we have started to address the weaknesses exposed by the recent episode of misreporting, and we repaid all noncomplying disbursements to the Fund.

It is our great concern that the external environment is adversely affecting Tajikistan's economy in 2009. The slowdown in Russia and Kazakhstan, has lead to a dramatic fall in remittances inflow, while cotton and aluminum exports are being negatively affected by a drop in demand and international prices. As a result, Tajikistan is experiencing severe fiscal and external financing constraints, emerging stress in the banking system, and economic activity is sluggish at best.

Against this background, during a February 5–18, 2009 mission we entered into discussions with IMF staff on a new program that could be supported under the Poverty Reduction and Growth Facility (PRGF). I am pleased to inform you that we have reached understandings with staff on a three-year program (April 1, 2009 to March 31, 2012). The program builds on the foundation laid down by the SMP, and establishes a macroeconomic framework that will support our efforts at economic stabilization and implementation of structural reforms. In particular, the PRGF will help us address the problems faced by Tajikistan in the context of the current global economic downturn. With the level of international reserves at a very critical level, we require external assistance to build a more resilient and self-sustaining economic structure, as well as reinforce our balance of payments position. Hence, at the core of this PRGF program are measures aimed at safeguarding external and fiscal stability while supporting growth and poverty reduction. The program thus includes a set of prior actions, quantitative performance criteria, indicative targets, and structural benchmarks (outlined in the attached Memorandum of Economic and Financial Policies (MEFP) and the Technical Memorandum of Understanding (TMU), to enable us to monitor progress in implementing our reform agenda. We hereby kindly request the approval by the Executive Board of a three-year PRGF program with access of 90 percent of Tajikistan's quota covering the period April 1, 2009–March 31, 2012. However, we would have preferred higher access.

The Government believes that the policies set forth in the attached MEFP are adequate to achieve the objectives of its program, but it will take any further measures that may become appropriate for this purpose. We will consult with the Fund on the adoption of these measures and in advance of any revision to the policies contained in the MEFP, in accordance with the Fund's policies on such consultation. We intend to remain in close consultation with Fund staff and provide timely information necessary for monitoring economic developments and implementation of policies under the PRGF. In addition, the Government stands ready to take any further measures that might be required to ensure that the overall objectives of the program are attained.

In line with our commitment to transparency, we hereby request that the staff report, this letter of intent, and the attached MEFP and TMU (including all annexes), as well as all other PRGF-related documents, be published on the IMF website.

Your Excellency, please accept my assurances of my highest consideration,

/s/
Emomali Rakhmon
President of the Republic of Tajikistan

Table 1. Tajikistan: Quantitative Performance Criteria under the 2009 Poverty Reduction and Growth Facility

(In millions of somoni, unless otherwise indicated)

	2008	2009			
	End-Dec.	End-March	End-June	End-Sept.	End-Dec.
	Est.	Proj.	PC	IT	PC
Quantitative Performance Criteria (PC):					
1. Ceiling on cumulative flow of net domestic assets of the NBT 1/ 2/	…	194	244	304	313
2. Floor on cumulative flow of total net international reserves (in millions of U.S. dollars) 1/ 2/	…	-41	-51	-26	-26
3. Zero-ceiling on new lending from the NBT to private sector (continuous quantitative performance criterion) 2/	…	0	0	0	0
4. Floor on cumulative overall fiscal balance of the general government excluding foreign-financed Public Investment Program and related grants 2/	…	-86	16	-86	-106
5. Ceiling on general government wage and pension arrears (continuous quantitative performance criterion)	…	0	0	0	0
6. Ceiling on contracting or guaranteeing of any non-concessional external debt (continuous quantitative performance criterion)	…	0	0	0	0
7. Ceiling on disbursements of concessional external financing (in millions of U.S. dollars) 2/	…	70	147	258	349
8. New external payments arrears (continuous quantitative performance criterion)	…	0	0	0	0
Indicative Targets (IT):					
1. Floor on tax collection 2/	…	854	1,719	2,632	3,627
2. Floor on social and poverty-related expenditure 2/	…	386	801	1,307	1,866
Memorandum items:					
Net domestic assets of the NBT (in billions of somoni) 1/ 2/	1,342	1,536	1,586	1,646	1,655
Net international reserves (in millions of U.S. dollars) 2/	181	140	130	155	155
Required reserve rate in percent as of 12/31/2008					
Deposits in somoni	9	…	…	…	…
Deposits in foreign exchange	11	…	…	…	…
Settlement of external guarantees (in U. S. dollars million)	…	6	5	5	5

1/ At program exchange rates - end-December 2008 rates.
2/ Cumulative from January 1 of the year.

Table 2. Tajikistan: Prior Actions and Structural Benchmarks for 2009

	Date	Rationale	Status
Prior Actions			
Adopt a comprehensive and time-bound action plan to address all issues and recommendations raised in the report on the special audit of the National Bank of Tajikistan.	20 days prior to Executive Board meeting	Enhance central bank governance	
Publish the executive summary of the report on the findings of the special audit of the National Bank of Tajikistan for at least six months.	5 days prior to Executive Board meeting	Transparency	
Complete external audit of the National Bank of Tajikistan's net international reserves position as of December 31, 2008 and share the audit report with Fund staff.	5 days prior to Executive Board meeting	Provide assurances to Fund	
Appoint an external auditor to conduct the audit of the National Bank of Tajikistan's financial statements in accordance with international standards (ISAs) for the fiscal year ending April 30, 2009.	5 days prior to Executive Board meeting	Enhance central bank governance	
Submit to Parliament amendments to National Bank of Tajikistan and Commercial Banking Laws to (i) appoint the NBT chairperson and his/her deputies for fixed terms that do not coincide with the electoral cycle, and outline the reasons for their dismissal explicitly in the law; (ii) require official identification and disclosure of beneficial owners of companies registered with the Agency for Securities in the ministry of finance and other authorized entities, including financial institutions; (iii) clarify the provisions covering conflicts of interest for the National Bank of Tajikistan management and staff, and require them to disclose their personal holdings in financial institutions and excuse themselves from official decisions affecting those institutions.	5 days prior to Executive Board meeting	Enhance central bank governance	

Table 2 (continued). Tajikistan: Prior Actions and Structural Benchmarks for 2009

	Date	Rationale	Status
Structural Benchmarks			
National Bank of Tajikistan will issue a circular that defines the terms of liquidity provision, including a maximum maturity of three months and acceptable collateral.	end-June	Strengthen effectiveness of monetary policy implementation	
Close down the cotton debt department at the National Bank of Tajikistan.	end-June	Eliminate non-core functions	
Establish a working group between the government and the National Bank of Tajikistan to develop a strategy to recapitalize the National Bank of Tajikistan.	end-June	Strengthen central bank's ability to conduct monetary policy and independence	
Adopt a strategy to resolve the cotton debt problem.	end-June	Remove risk to macroeconomic stability, raise growth potential	
Publish semi-annual external debt reports on the website of the ministry of finance.	end-June	Transparency	
Publish the audited financial statements together with the audit report for fiscal year 2009 of the National Bank of Tajikistan on the NBT's external website.	end-December	Transparency	
Conduct quarterly internal audits of the National Bank of Tajikistan's financial statement to be discussed by the National Bank of Tajikistan's Board.	end-December	Enhance central bank governance	
State-owned enterprises reporting to the monitoring unit at the ministry of finance to submit their financial performance plans for 2010 for approval together with a corporate intent statement.	end-December	Address contingent liability	
Talco's financial accounts for 2006 through 2008 will be audited by a reputable international audit firm (one of the big four), and the audit reports will be published on the company's website.	end-December	Transparency	

Attachment I. Tajikistan: Memorandum of Economic and Financial Policies (MEFP) for 2009-12

March 31, 2009

I. Introduction

1. This memorandum outlines the economic and financial policies of the Government of Tajikistan for 2009–12. Our program aims at maintaining macroeconomic stability, enhancing economic growth, and reducing poverty in the face of the ongoing global crisis that will take a heavy toll on Tajikistan. These policies are also intended to form the basis for a new three-year IMF-supported program under the Poverty Reduction and Growth Facility (PRGF) and, we hope, will unlock further donor support.

2. Tajikistan will be severely affected by the global crisis in 2009. The main transmission channels are an expected dramatic decline in remittances and a decline in the demand and price for our traditional exports aluminum and cotton. As a result, Tajikistan is suffering a significant weakening of its external position, and we expect real GDP growth to temporarily slow in 2009 below our target of 7 percent or more which we aim to achieve again by the end of the program period.

3. In this environment, our program focuses on safeguarding the macroeconomic stability achieved under the Staff Monitored Program (SMP) in 2008, accelerating structural reforms, supporting the poor and vulnerable segments of society, and enhancing the role of the private sector in the economy. The policy framework for the proposed arrangement will build on the measures that we implemented during the SMP, and draw, in particular, on the findings and recommendations of the recently completed special audit of the National Bank of Tajikistan (NBT), the 2007–08 Financial Sector Assessment Program (FSAP), and ongoing technical assistance in the fiscal area.

4. We have reached understandings with IMF staff on a set of prior actions, quantitative performance criteria, indicative targets, and structural benchmarks for 2009. Macroeconomic policies described in this memorandum are in line with our Poverty Reduction Strategy (PRS, 2007–09), and our National Development Strategy (NDS, 2006–15), and will provide an anchor for our new PRS (2010–12), for which we have recently started preparations with assistance from donors.

II. Macroeconomic Polices for 2009 and Beyond

5. Macroeconomic policies in 2009 will be primarily geared toward maintaining external stability. In line with currency movements of some of our main trading partners, the somoni has already depreciated by 9 percent against the U.S. dollar year-to-date. We expect this trend

to continue, and believe that it will facilitate external adjustment by strengthening our export competitiveness and shifting demand toward domestic producers. Fiscal policy will be in a position to modestly support activity given expected donor support to the budget. We believe that this policy mix will help us achieve a real GDP growth of 2-3 percent in 2009, which will mainly come from the noncotton agriculture sector and public investment in infrastructure. Still, given the expected decline in remittances, real per-capita income is likely to contract for the first time in many years, and we will step up social spending to alleviate the economic impact of the crisis.

6. Given the external pressures, we will let the exchange rate depreciate in line with market trends. The exchange rate will be the main instrument to bring about external adjustment, and we expect to see most of the required depreciation to take place in the first half of the year. The National Bank of Tajikistan (NBT) will only seek to dampen volatility, and we expect to keep net international reserves at $155 million at end-December 2009, broadly the current level, and despite significant external pressures. To contain inflationary pressures from the depreciation of the somoni, we target reserve money growth of 12 percent in 2009, though we already see shortages in somoni and U.S. dollar liquidity in the system, and expect these to increase during the course of the year.

7. After achieving consecutive years of fiscal surplus (excluding the externally financed public investment program, PIP), we will allow for a modest overall deficit (excl. PIP) in 2009. The 2009 budget targeted an overall deficit (excluding PIP) of ½ percent of GDP, and we believe that this remains the appropriate fiscal stance. However, compared to budget projections, we now expect a shortfall in revenues and grants of 3 percent of GDP, and additional spending on account of the expected depreciation of the somoni. Moreover, we need to allow for additional social spending on direct and indirect transfers of around 1 percent of GDP compared to 2008 to alleviate the immediate impact of the global crisis on the population. We are working closely with the World Bank in this area, and expect to raise social- and poverty-related spending to 9 percent of GDP in 2009. To achieve our deficit target, we have therefore identified expenditure cuts of 1½ percent of GDP in current spending (goods and services, subsidies and other current transfers), and of 2½ percent of GDP in capital spending. If revenues or external donor support exceed our conservative projections, we will consider moving ahead with some of the delayed capital projects. At the same time, we will closely monitor external developments and stand ready to tighten fiscal policies, in close consultation with IMF staff, if exchange rate movements alone are insufficient to maintain external balance. We remain committed to an open trade regime, and will refrain from increasing tariff or nontariff trade barriers.

8. Tajikistan's banking sector is affected by the global crisis through indirect channels. The expected exchange rate depreciation could lead to a deterioration in loan quality since debtors with U.S. dollar denominated loans do not necessarily have foreign exchange income.

Moreover, depositors could seek to convert somoni deposits into U.S. dollars or withdraw from the banking system completely. We are therefore developing contingency plans in close cooperation with IMF staff that would help us manage any stress that could emerge in the banking system.

9. In light of the tense external financing outlook, we have set up a joint crisis working group at the deputy level between the NBT and ministry of finance. The working group has developed a monthly foreign exchange cash plan for official flows that will assist us in meeting our external obligations in a timely manner. The plan will be updated on a bi-weekly basis, and the working group will monitor developments in the external and financial sector closely to anticipate potential vulnerabilities early on and take appropriate policy responses. The working group will liaise closely with the IMF's resident representative.

10. Looking beyond 2009, we hope that a more favorable external environment will pave the way toward a resumption of growth. But even in this case, we expect to see a further depreciation of Tajikistan's real effective exchange rate that will help return the current account deficit toward a more sustainable level. We also intend to significantly strengthen our international reserves position, and target a reserve coverage of three months of imports by 2014. In the fiscal area, we will continue to balance spending needs in the social area and infrastructure projects, while broadly aiming for overall fiscal balance (excluding PIP).

III. Structural Reforms

11. Structural reforms will seek to strengthen key institutions in the economic sphere, and lay the foundation for sustained economic growth over the medium-term. In particular, the program will address governance issues at the NBT and major state-owned enterprises (SOEs). We will also push ahead with ongoing reforms in revenue administration and public financial management. With assistance from the World Bank, we will continue with the reforms in the health and education sectors, in order to meet the Millennium Development Goals. Our reform agenda also includes steps to stimulate private investment, diversify our export and production base, and raise productivity, including by addressing issues in the agricultural and energy sectors.

A. Monetary and Financial Sector Reforms

12. The special audit of the NBT has revealed governance deficiencies at the NBT, and serious issues at Kredit Invest, and cotton investors. As indicated earlier, we will publish the executive summary of the special audit report on the NBT's website, for at least six months, within one week after receiving the signed report from the Ernst & Young (prior action). As a next step, we will then adopt a comprehensive and time-bound action plan to address all issues and recommendations raised in the report, to be agreed with IMF staff (prior action). This action plan will include (i) an external audit of the NBT's net international reserves

position as of December 31, 2008 (prior action); (ii) appointing an audit firm to conduct the external audit of the NBT's financial statements for the fiscal year ending April 30, 2009 in accordance with international standards on auditing (prior action); (iii) publishing the audited financial statements together with the audit report for fiscal year 2009 prepared by the external auditors (benchmark); (iv) strengthening the internal audit function at the NBT and conducting quarterly internal audits that will be discussed by the NBT's board (benchmark); (v) closing down the cotton debt department at the NBT (benchmark); and (vi) cleaning up the NBT's balance sheet. We will share the report of the special audit of the NBT with the appropriate law enforcement agencies who will assess whether there have been any legal wrongdoings and act accordingly.

13. We will also complete the outstanding SMP measure of submitting to Parliament a set of amendments to the NBT and Commercial Banking Laws, as agreed at the time of the first assessment of the SMP (prior action). These amendments go beyond the commitments made under the SMP. Specifically, the amendments, which we have prepared with assistance from the World Bank, include:

- Changes to the terms of appointment and removal of board members: The NBT Chairperson and his/her deputies will be appointed for fixed terms, which will not coincide with the electoral cycle. Moreover, the reasons for their dismissal will be clearly defined in the law.

- Provisions for conflict of interest: We will introduce clear provisions for what constitutes conflict of interest behavior and introduce sanctions to be applied in the case of violations.

- Disclosure of beneficial ownership: We will introduce requirements for the identification and disclosure of beneficial ownership in financial institutions, after the ministry of finance already introduced similar requirements for all companies registered with its Agency for Securities.

14. Once the above measures are in place, we will take steps to restore the financial health of the NBT. At present, the NBT's weak balance sheet limits its effectiveness in implementing monetary policy. Moreover, the absence of marketable government securities leaves the NBT mainly with its own certificates of deposits as instruments of monetary policy. Therefore, we will establish a working group between the government and the NBT to develop a strategy to recapitalize the NBT (benchmark), and steer the program for the issuance of government securities (with Swiss and IMF support). The strategy will include a memorandum of understanding that will guide NBT–ministry of finance relations, such as appropriate remuneration of deposits and holdings of government securities. The strategy will be agreed with IMF staff, and we request its technical assistance for this purpose.

15. We recognize the high importance of completing a safeguards assessment of the NBT by the first review of the PRGF. To that end, we will authorize our prospective external auditors to hold discussions directly with IMF staff and to provide IMF staff with all information requested in the context of the safeguards assessment. We further commit to instructing the NBT to receive a safeguards mission from the IMF and to provide that mission with all necessary cooperation and information required to complete the assessment by the first review.

16. In its monetary policy operations, the NBT will continue to refrain from issuing new credits to the private sector, except for liquidity purposes or in cases of bank distress or failure (lender of last resort). Specifically, we will restrict all lending to commercial banks, credit unions, credit associations, and microfinance organizations to short-term liquidity loans with a maturity of up to three months, and we will not extend any loans to domestic nonbank financial institutions or any other domestic entity other than the general government. In this context, the NBT will issue a circular that defines the terms of liquidity provision, to be agreed with IMF staff (benchmark). We intend to introduce a statutory overnight credit facility that can provide liquidity to qualifying banks in a prompt and effective manner, subject to appropriate safeguards. We will also introduce a statutory seven-day deposit facility.

17. The NBT will continue to closely monitor potential vulnerabilities in the banking system, not least in light of the possible impact of the global crisis. Supervisors will pay close attention to banks' loan classification, including through on-site visits, and will monitor the financial soundness indicators collected in the Uniform Bank Performance Reports. In order to decrease banks' vulnerability to exchange rate changes, NBT will start applying higher capital charges to foreign-currency denominated loans to unhedged borrowers. Furthermore, prudential rules will be strictly enforced, without any exception, including on exposure limits and reserve requirements. As is the case for all other commercial banks, we will now also require the state savings bank (Amonat) to have an annual independent audit of its financial statement. Moreover, all banks will be required to publish their annual audit reports with the auditors' opinion on their website. We are also working with the World Bank and the IMF to establish an appropriate anti-money laundering and counter-terrorism financing framework (AML/CFT), and intend to submit an AML/CFT law to parliament in 2010.

B. Reforms in the Fiscal Area

18. With assistance from the World Bank, we will continue with our reforms of the civil service, health care, and education sectors. In this connection, we continue to work with the World Bank on the ultimate goal of adopting a competitive and affordable civil service wage system. On health financing reform, we will continue with our strategy of allocating

resources in an asymmetric fashion favoring primary health care. On education, we will continue with the implementation of our per capita funding pilot system.

19. An efficient, equitable, and simple tax system can help stimulate innovation, investment, and growth. In 2005, we have revamped Tajikistan's tax code, and work is ongoing to further strengthen the tax system. We will continue to draft and ratify the remaining regulations for the Tax Code, prepare and disseminate all relevant information to taxpayers, and introduce new operational procedures and forms. To take stock of the fiscal impact of existing tax exemptions, we will include a report that assesses the costs and benefits of existing tax exemptions during 2009 and 2010 in the 2010 budget.

20. There is a need to strengthen the functioning of the value-added tax (VAT) system. In particular, tax compliance procedures are excessively cumbersome, and there are problems with the refund system. As such, we intend to (i) streamline the VAT exemptions for imports, while making all VAT payments on imported fixed assets refundable; (ii) streamline the VAT refund system for exports; and (iii) request technical assistance to assess weaknesses in the existing VAT refund system and take remedial steps. In this regard, we have already developed a software that will allow us to verify refund claims.

21. We will also continue with our strategy of strengthening the capacity of the revenue authorities by (i) introducing one-stop-shop facilities in the 68 tax inspectorates, including in Dushanbe; (ii) enhancing the large tax payers inspectorate; (iii) establishing model tax inspectorates in major centers; (iv) accelerating IT systems development and business process reengineering; and (v) enhancing human resource management. We will seek donor assistance for these reforms.

22. Tax arrears remain a problem, and are concentrated in a few large SOEs. In this regard, we have recently raised the penalty for tax arrears to 29 percent per annum (0.08 percent per day—not compounded—from 0.05 percent per day). We will ensure that all government entities will stay current on its payments to Barki Tajik. More generally, since tax arrears are linked to a complicated web of cross-arrears, we will adopt a strategy to settle these starting with the 2010 budget, and, going forward, to ensure that there is no renewed build-up of tax arrears. The work of the SOE supervision unit in the ministry of finance (below) will provide a basis for this strategy. We will also automatically link the penalty rate to a market based lending rate, with a quarterly reset.

23. We are pursuing steps to further enhance public financial management. We have already set up a cash management unit that has strengthened expenditure controls. We will now develop and promulgate instructions on commitment controls, and continue the preparatory work toward introducing a single treasury account. To enhance transparency of the budget and facilitate the political debate over spending priorities, we will include

appropriations according to administrative classification in the annual budget law, starting with the 2010 law.

24. We have taken strides to improve our debt management capacity and strategy. In 2008, we adopted an external debt strategy that sets a ceiling on the external debt-to-GDP-ratio of 40 percent. This is an upper limit, and we aim to keep external debt below the ceiling, as we carefully scrutinize external borrowing plans and the economic impact of new investment projects. In this regard, we will continue to refrain from contracting nonconcessional debt and settle any external payment obligations of the general government or the NBT in a timely fashion. We will continue to strengthen our debt data management framework, including by completing an inventory of government domestic debt and government-guaranteed debt of SOEs, and by publishing this report together with a report on government and government-guaranteed external debt in the 2010 budget documents. We will also publish semi-annual external debt reports on the website of the ministry of finance (benchmark). In addition, the NBT will finalize the monitoring system of private external debt, publish these data on the NBT website on a semi-annual basis, and share them with the ministry of finance on a monthly basis.

C. State-Owned Enterprise, Agriculture, and Data

State-Owned Enterprises

25. The SOE supervision unit of the ten largest SOEs that we established within the ministry of finance last year will start working fully this year, and we are requesting IMF technical assistance to expedite the process.[15] The unit should focus on putting SOEs on a sound financial footing, improving their tax compliance, and eliminating quasi-fiscal deficits. To this end, the unit will require SOEs to submit their financial performance plans for 2010 for approval together with a corporate intent statement (benchmark). An important step in this direction will also be the publication of an annual report on the financial health of SOEs on the ministry of finance website. Supporting this, the ministry of finance will also publish the 2008 annual audit reports of the SOEs that report to the unit on its website.

26. Our efforts will particularly focus on Tajikistan Aluminum Company (Talco) and Barki Tajik, the two largest SOEs. Talco's financial accounts for 2006 through 2008 will be audited by a reputable international audit firm (one of the big four); the audit reports will be published on the company's website (benchmark). We will continue with the schedule of tariff adjustments agreed with the World Bank, in order to achieve cost recovery by end-2010, while the government will improve the social mitigation mechanism to ensure that the

[15] These SOEs are Talco, Tajik Rail, Tajik Air, Barki Tajik, Tajikgas, Oil Gas and Coal, Vostokredmet, Tajikcement, Amonatbank, and Tajiktelecom.

most vulnerable segments of the population have access to a basic minimum of energy services. Barki Tajik's 2007 and 2008 financial audit reports will be published on the company's website.

27. Following last year's order by the minister of finance requiring disclosure of beneficial ownership of all companies registered with the ministry's Agency for Securities, we will finalize the database of beneficial ownership of all companies listed with the Agency, and publish it on the ministry's website.

Agriculture

28. Based on the work of the government consultant, we will adopt an action plan to resolve the cotton debt problem, which holds back growth in the agricultural sector (benchmark). The action plan will include (i) steps to address the problem of farmers' outstanding debt to investors; (ii) maximum recovery of debt from investors to Kredit Invest, including by seizing pledged collateral, with a view to minimizing the financial impact on the NBT which guaranteed most of this debt; (iii) outline of a plan to move to a private-sector led financing mechanism (considering a similar design as the European Bank For Reconstruction and Development's Tajik Agricultural Finance Facility); and (iv) due attention to the social context. We are working closely with the World Bank and the Asian Development Bank in this area. A precondition for having a private-sector led financing mechanism will be the ability to use land-use rights as collateral.

29. In the meantime, we will implement modifications to the temporary financing scheme that we introduced in 2008. Starting in 2009, the budget resources made available to commercial banks for onlending will no longer be restricted to cotton farmers, but will be available to the whole agricultural sector. Banks will have complete freedom in loan allocation, and farmers will have complete freedom in their crop choice.

Data

30. Regarding data issues, we plan to strengthen our national accounts and price statistics, for which our national statistics agency is requesting IMF technical assistance.

IV. Program Monitoring

31. We will monitor progress in implementing the program through quantitative performance criteria and indicative targets, as well as prior actions, and structural benchmarks set for June 2009 and December 2009. These are listed in the tables attached to the letter of intent. The technical memorandum of understanding which is also attached to this letter defines the quantitative targets of the program and their adjustors, and specifies reporting requirements. The planned reforms related to the special audit of the NBT will be

the main focus for discussion for the first review under the proposed arrangement. In this regard, the completion of the first review under the PRGF arrangement—which is envisaged for September 2009—will require observance of the quantitative performance criteria for end-June 2009, and completion of the second review—which is envisaged for March 2010—will require observance of the quantitative performance criteria for end-December 2009. The first review will focus on reforms at the NBT, including the follow-up on the recommendations from the special audit and steps to strengthen the NBT's liquidity management framework, and resolution of cotton debt issues. The second review will maintain focus on reforms at the NBT and, in addition, concentrate on reforms in the area of SOEs. At the time of the first review, we will also set additional quantitative performance criteria and benchmarks for 2010.

Attachment II. Tajikistan: Technical Memorandum of Understanding

March 31, 2009

I. Introduction

1. This memorandum defines the quantitative performance criteria and the indicative targets and relative adjustors, and establishes the content and frequency of the data to be provided to IMF staff for the program monitoring relating to the program supported under the Poverty Reduction Growth Facility (PRGF) under the request in the authorities' Letter of Intent dated March 31, 2009.

II. Quantitative Performance Criteria

A. Definitions and Concepts

2. **Test dates**. Quantitative performance criteria are set semi-annually starting June 30, 2009 through December 31, 2011, and are to be met at the end of each period unless otherwise specified.

3. **National Bank of Tajikistan (NBT)**. The NBT is the central bank of the country responsible for the formulation and implementation of monetary policy. For the purpose of the program, NBT includes all its central and regional offices.

4. **General government**. For the purpose of the program, "general government" includes the republican government, local (including municipal) governments, and all extra-budgetary funds at all levels of general government, including the Agency of Social Protection and Pensions. It excludes all other agencies not specifically listed, including but not limited to Barki Tajik and Talco.

5. **Foreign-financed PIP and related grants**. The foreign financed PIP is a program of investments in infrastructure and social sectors agreed by the general government of Tajikistan and its donors (including but not limited to international financial organizations). The program is fully financed by related grants and loans, and does not involve any additional financing commitment from the general government of Tajikistan. Related grants are grants provided by the donors financing the PIP for financing of projects included in the PIP.

6. **Domestic arrears** are defined as the general government expenditure that have not been paid after coming due as determined in the State Budget of the Republic of Tajikistan and other government documents regulating the execution of the Budget.

7. **External arrears** are defined as overdue payments (principal or interest) on external debt contracted, guaranteed, or converted into interstate debt by the general government of Tajikistan or the NBT.

8. **Concessional and nonconcessional debt**. Concessional debt is defined as debt with a grant element equivalent of 35 percent or more. The grant element is calculated using the commercial interest reference rates (CIRRs) plus a margin, which will be taken as those for December 31, 2008. For debts of an original maturity of 15 years or more, the average CIRR over the last 10 years will be used, while the average of CIRRs of the preceding six-month period will be used to assess the concessionality of debts with original maturities of less than 15 years. To the 10-year and 6-month averages of CIRRs, the following margins will be added: 0.75 percent for repayment periods of less than 15 years; 1 percent for 15–19 years; 1.15 percent for 20–29 years; and 1.25 percent for 30 and more years. In general, the grant element is calculated as value of the loan minus present discounted value of future payments over the loan value (multiplied by 100). Present discounted value is sum of all future discounted payments (both amortization and interest), where the discount rate corresponds to the CIRR mentioned above. Nonconcessional debt is defined as debt without a grant element or with a grant element of less than 35 percent. The debt refers also to commitments contracted or guaranteed and for which value has not been received. The grant element is calculated using the CIRRs plus a margin, which will be taken as those for [December 31, 2008] until revised in the program. The calculation is performed by the authorities and verified by the IMF based on the data provided by the authorities.

9. **Valuation changes**. For program monitoring, U.S. dollar-denominated components of the general government's and the NBT's balance sheets will be valued at the program exchange rate (SM 3.452 = $1.00; official exchange rate as of December 31, 2008). Other foreign currency denominated items will be valued at the respective cross rates between the program exchange rate of the U.S. dollar and current official exchange rates of the U.S. dollar against those currencies as of December 31, 2008. The SDR components will be valued at the program SDR exchange rate SDR 1 = $1.524 (December 31, 2008). Official gold holdings shall be valued at $865 per troy ounce (December 31, 2008).

B. Quantitative Performance Criteria and Indicative Targets

Quantitative Performance Criterion 1: Ceiling on a cumulative flow of net domestic assets of the NBT for the year.

10. **Definition**. For the purpose of the program, net domestic assets (NDA) of the NBT are defined as reserve money minus net foreign assets of the NBT. The cumulative flow of NDA for the year is defined as a difference between end-of-period balances for a period under evaluation and the preceding end-of-the year balance, unless otherwise specified. Reserve money (RM) is composed of currency in circulation (CC), required reserves (RR),

other bank reserves (OBR), and deposits of nongovernmental nonbanks with the NBT (DNGNB). The value of the net foreign assets of the NBT is calculated as the difference between NBT's claims on nonresidents and its liabilities to nonresidents. The NBT's NDA comprise the following assets and liabilities: net credit to the general government, net claims on banks, credit to the economy, and other items net (OIN). OIN includes the foreign exchange revaluation and capital accounts of the NBT.

11. **Adjustor for changes in reserve requirement ratio**. The ceiling on a cumulative flow of NDA of the NBT for the year will be adjusted upwards (downward) when the required reserve rates (rr) on deposits in local and/or foreign currency (DB) are increased (decreased), resulting in a corresponding increase (decrease) of reserve money (RM).

NDA before RR change: NDA=RM-NFA

RM=CC+RR+OBR+DNGNB where:

RR=rr*DB

DB – deposit base

rr – required reserve rate

Define: drr – change of required reserve rate.

DB – deposit base used for calculation of required reserves

drr*DB – amount of upward (if drr>0) or downward (if drr<0) adjustment in RM

NDA after RR change NDA=RM (+/-)drrDB-NFA.

12. **Adjustor for settlement of external guarantees different from projections**. The ceiling on change in net domestic assets of the NBT will be adjusted by the difference of the actual settlement of external guarantees from the projected settlement of external guarantees under the program. The external guarantees extended by the NBT are the guarantees provided in favor of foreign financial and nonfinancial institutions to secure credit lines for Kredit Invest, cotton investors, and their suppliers. When the NBT settles a guarantee on behalf of these parties, the NBT books a domestic claim on these parties.

Quantitative Performance Criterion 2: Floor on a cumulative flow for the year of total net international reserves (in millions of U.S. dollars).

13. **Definition**. Total net international reserves of the NBT are defined as the difference between total gross international reserves of the NBT and total reserve liabilities of the NBT. Total gross international reserves of the NBT are defined to include NBT's holdings of

monetary gold, SDRs, convertible currencies in cash or in nonresident financial institutions that are readily available and any reserve position at the IMF. Also included are holdings of foreign currency-denominated securities issued by governments or central banks of OECD member states. Excluded are changes in the level of gross foreign reserves that arise from revaluation of gold, capital subscriptions in foreign financial institutions, nonliquid assets of the NBT, convertible currency denominated claims on domestic banks and other residents, assets in nonconvertible currencies, foreign assets pledged as collateral or otherwise encumbered and the net forward position, if any (defined as the difference between the face value of foreign currency denominated NBT off balance sheet claims on nonresidents and foreign currency obligations to both residents and nonresidents). Reserve liabilities of the NBT are defined as liabilities outstanding to the IMF and liabilities of the NBT to nonresidents with an original maturity of up to and including one year. A cumulative flow for the year of total net international reserves (in millions of U.S. dollars) is defined as a difference between the end-of-period balances for the period under evaluation and the preceding end-of-the year balance, unless otherwise specified.

14. **Adjustor for settlement of external guarantees different from projections**. The floor under net international reserves will be adjusted by the negative difference of the actual settlement of external guarantees from the projected settlement of external guarantees under the program. The external guarantees extended by the NBT are the guarantees provided in favor of foreign financial and nonfinancial institutions to secure credit lines for Kredit Invest, cotton investors, and their suppliers.

Quantitative Performance Criterion 3: Zero ceiling on new lending and guarantees from the NBT to private sector (continuous quantitative performance criterion).

15. **Definition**. New lending from the NBT to the private sector is defined as loans extended by the NBT to domestic commercial banks, credit unions, credit associations, and microfinance organizations with a maturity of more than three months, and loans extended by the NBT to other domestic nonbank financial institutions or any other domestic entity other than the general government. Short-term liquidity loans to domestic commercial banks, credit unions, credit associations, and microfinance organizations with a maturity of up to three months are not included under this definition. Guarantees are defined as any guarantee extended by the NBT of principal or debt service payment for debt issued or contracted by private sector entities.

16. **Adjustor for settlement of external guarantees different from projections**. The ceiling on new lending from the NBT to the private sector will be adjusted by the difference of the actual settlement of outstanding existing external guarantees from the projected settlement of external guarantees under the program. The external guarantees extended by the NBT were the guarantees provided in favor of foreign financial and nonfinancial institutions to secure credit lines for Kredit Invest, cotton investors, and their suppliers. When the NBT

settles a guarantee on behalf of these parties, the NBT books a domestic claim on these parties.

Quantitative Performance Criterion 4: Floor on the cumulative overall fiscal balance of the general government excluding foreign-financed PIP and related grants.

17. **Definition**. The overall fiscal balance of the general government is defined from below the line on a cash basis as the negative sum of:

- *change in net claims on the general government of the NBT:* net claims on the general government of the NBT is defined as the sum of the change in stocks of the NBT's net claims on the general government, which include all deposits of the general government with the NBT, counterpart deposits (which reflect balance of payment and/or general budget support from international financial institutions and other donors), NBT loans and advances to the general government, NBT holdings of government securities, bank restructuring costs, and the privatization account (where proceeds from the privatization of state property are held);

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

- *the change in net claims on the general government of domestic nonbank institutions and households*: net claims on the general government of domestic nonbank institutions and households are defined as treasury bills, bonds or other government securities held by nonbank institutions and households (including nonresidents and nonresident financial institutions), plus any other liabilities of the general government to domestic nonbank institutions or households.

- *the change in net foreign liabilities of the general government:* net foreign liabilities of the general government are defined as government debt to foreign sovereigns, and foreign financial and nonfinancial institutions. For this purpose, net foreign liabilities exclude liabilities that arose in the context of the externally financed PIP.

- *gross proceeds from the privatization of state property:* gross proceeds from the privatization of state property are defined as all receipts originating from the sale of the general government property.

- *the change in gross arrears of the general government*: gross arrears refer to domestic or external arrears.

All changes will be calculated as the difference between end-of-period stocks, net of any valuation changes resulting from currency movements.

Quantitative Performance Criterion 5: Ceiling on general government wage and pension arrears (continuous quantitative performance criterion).

18. **Definition**. Arrears on general government and pensioners' pensions are defined as any shortfall in monthly disbursements of wages and pensions. These payments are defined as overdue if they have come due at the end of the month and remain unpaid thereafter. To allow monitoring of the above defined arrears the government will provide data on actual wage payments as part of the monthly budget execution statements submitted to the IMF staff. The Agency on Social Protection and Pensions will provide quarterly reports and statements of their operations.

Quantitative Performance Criterion 6: Ceiling on contracting or guaranteeing of any nonconcessional external debt (continuous quantitative performance criterion).

19. **Definition**. The external debt is defined as in point No. 9 of the Guidelines on Performance Criteria with Respect to Foreign Debt (Decision No. 12274-(00/85), adopted August 24, 2000; see below) and also includes commitments contracted or guaranteed and for which value has not been received. The debt limits apply to short-, medium-, and long-term debt contracted by the government of Tajikistan, the National Bank of Tajikistan, and any other agency acting on behalf of the government, including but not limited to state-owned banks.

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

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

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

22. **Exclusions from the external debt limits**. Loans contracted for debt rescheduling or refinancing if the terms of the new loan are more favorable will be excluded from the debt limits. IMF credit is excluded from the external debt limits. The rollover of the existing guarantees will be excluded from the debt limits. If pledged reserves of the NBT were to be securitized, these amounts will also be excluded from the debt limits. The performance criterion on new nonconcessional short-term external debt will not apply to loans classified as international reserve liabilities of the NBT (liabilities of the NBT to nonresidents with an original maturity of up to and including one year). Normal import-related financing is excluded from the criterion.

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

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

Quantitative Performance Criterion 7: Ceiling on disbursements of concessional external financing.

25. **Definition**: Disbursements of concessional external financing are defined as disbursements of debt with a grant element equivalent of 35 percent or more.

Quantitative Performance Criterion 8. **New external payments arrears (continuous quantitative performance criterion)**.

26. **Definition**. External payments arrears are defined as overdue payments (principal or interest) on external debt contracted, guaranteed, or converted into interstate debt by the general government of Tajikistan or the NBT.

Indicative Target 1: Floor on tax collections.

27. **Definition**. Tax collections are defined to include all taxes (and custom revenues) collected under the general government budget. Regarding internal taxation, the definition excludes any proceeds from loans, or other banking system credits, the issuance of securities, or from the sale of state assets. Custom revenues are defined to include customs duties and other taxes (including VAT) on international trade and transactions.

Indicative Target 2: Floor on social- and poverty-related expenditure.

28. **Definition**. Social- and poverty-related expenditure is defined as the sum of current and capital expenditures in the education, health, and social protection sectors.

III. Reporting Requirements Under the Program

29. For program monitoring, the following data should be reported to the Middle East and Central Asia Department of the International Monetary Fund via the IMF Resident Representative's office in Dushanbe.

Table 1. Data reporting frequency for program monitoring

Data	Frequency	Lag
1. NBT analytical balance sheet	Weekly	3 working days
2. NBT balance sheet	Monthly	2 weeks
3. Commercial banks' and Kredit Invest balance sheets	Monthly	4 weeks
4. Auction results for NBT certificates and treasury bills	Weekly	1 week
5. Foreign exchange transactions	Weekly	1 week
6. Fiscal revenues, expenditures and financing of budget execution, and extrabudgetary funds	Monthly	4 weeks
7. Reports and statements from the Agency on Social Protection and Pensions	Quarterly	6 weeks
8. Arrears of budget entities and state-owned enterprises	Quarterly	4 weeks
9. Stocks, disbursements, guarantees, new contracts of external debt including terms and disbursement profile	Monthly	4 weeks
10. External arrears arising in respect of obligations incurred directly, guaranteed, or converted into interstate debt by the general government of Tajikistan or the NBT, including penalties or interest charges	Monthly	4 weeks
11. Liquidity loans and loans stemming from fulfillment of the lender-of-last-resort function extended by the NBT to the economic agents in Tajikistan (financial sector, nonfinancial sector, enterprises, individuals, and any other) specifying date of issue, amount of original loan, interest, term, schedule of repayment, currency, and any grace period	Monthly	4 weeks
12. Net and gross international reserves, daily sales and purchases of foreign currency, and daily sales and purchases of foreign currency executed with an intention of influencing the exchange rate of somoni	Daily	1 working day

Appendix III. Tajikistan: Tentative Work Program

April 2009	Board discussion of Tajikistan's request for PRGF
May 2009	Staff visit to discuss end-March developments
September 2009	Review of end-June performance under the program
March 2010	Review of end-December performance under the program

INTERNATIONAL MONETARY FUND

REPUBLIC OF TAJIKISTAN

Debt Sustainability Analysis Under the Debt Sustainability Framework for Low-Income Countries

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

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March 31, 2009

Based on the external low-income country (LIC) debt sustainability analysis (DSA), Tajikistan's risk of debt distress remains high. [1] *Under the baseline scenario, external debt burden indicators in present value terms remain below their respective thresholds, with the exception of the debt-to-exports ratio. The high level of concessionality of the external public and publicly guaranteed debt is a key factor underlying these projections. A decline in GDP and/or export growth rates, a shortfall in other inflows, or a sharp exchange rate depreciation relative to the baseline, all have the potential to undermine debt sustainability. Likewise, additional lending compared to the baseline, even at concessional terms, would undermine debt sustainability. The public DSA yields similar results in light of the current size and the projected evolution of the domestic debt stock. It also shows that a one-off increase in the government's debt obligations, e.g. related to existing contingent liabilities, would push the debt-to-GDP ratio just above its respective threshold for the first six years, but would not put the country on an unsustainable debt path in the long run. In sum, the DSA suggests that there is little scope for additional borrowing compared to the baseline projections and underlines the need to carefully scrutinize individual investment projects to ensure that they will yield the intended growth dividends.*

III. BACKGROUND

1. **Over the last 10 years, multilateral donors were the main creditors of Tajikistan.** During 1996–2008, lending by multilaterals increased by almost six times in absolute value and reached 50 percent of Tajikistan's external loan portfolio as of end-2008. A debt-for-equity swap with Russia significantly reduced Tajikistan's debt burden.

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[1] The DSA has been produced jointly by World Bank and IMF staff, in consultation with Asian Development Bank staff. It updates the last DSA of April 2007 presented in the IMF Staff Report for the 2006 Article IV Consultation. The fiscal year for Tajikistan is January 1–December 31.

2. **Recent developments are marked by increased bilateral borrowing.** Disbursement of loans from China increased the share of bilateral creditors in the last two years. Most of the increase in debt stock during 2008 was due to disbursement of loans from China ($277 million). At the same time, major multilaterals, the World Bank and Asian Development Bank, provided all new financing in the form of grants. As a result, the share of bilateral creditors increased from 35 percent to 47 percent, while multilaterals' share in Tajikistan's debt portfolio decreased from 61 percent to 50 percent at end-2008 (also reflecting early repayment to the IMF).

3. **Domestic debt constitutes only a negligible part of public debt.** This is mostly due to the fact that the general government budget ran continuous surpluses (excluding externally financed public investment program) in recent years. Domestic debt represents 3 percent of total public debt (end-2008) and mostly consists of non-tradable government securities held by the National Bank of Tajikistan (NBT).

4. **The stock of publicly guaranteed debt has further increased.** In addition to the guarantees issued by the NBT for cotton sector financing, the government issued three new guarantees in 2008: two for credits from the European Bank for Reconstruction and Development and one from the government of France. These credits, with total commitments of $29 million, are to be used for rehabilitation of water supply in Khujand province, solid waste management in the city of Dushanbe, and reconstruction of the Dushanbe airport.

5. **New credit agreements of around $80 million were signed in 2008.** These included credit agreements with France, the Islamic Development Bank, KfW, OPEC Fund, and the Saudi Development Fund, all on concessional terms. The government of Tajikistan has also signed a Memorandum of Understanding with Eximbank of China to extend a new credit in the amount of $100 million to finance road and energy projects. The terms of this loan are still being negotiated, but the authorities have committed to borrowing only on concessional terms.

6. **The status of debt obligations to Pakistan is now clarified.** This debt of $13 million was restructured in 2003. In May 2004, the Tajik authorities announced a verbal agreement with the Pakistani authorities, according to which the debt would be converted into a grant with a subsequent write-off of accumulated interest liabilities. Accordingly, the Ministry of Finance of Tajikistan removed the credit from debt register and discontinued its service. However, in 2008 the ministry of finance (MOF) reported the receipt of notification from the government of Pakistan, which requested debt service. Upon clarification from the government of Pakistan, the government of Tajikistan has allocated adequate funds in the 2009 budget for debt service according to the initial restructuring agreement.

IV. Underlying DSA Assumptions

7. **The impact of the global economic slowdown clouds the economic outlook for Tajikistan over the coming two years consistent with current WEO projections.** Thereafter, staff projects that Tajikistan would return to a high growth path under the baseline scenario:

- Tajikistan's underlying growth potential is in the range of 5–7 percent per annum, as suggested by past performance. However, on account of adverse external environment (slowdown of remittances, declining world market prices for tradables, etc.) growth is expected to be subdued in 2009–11.
- The 2009–14 projections are based on a substantial depreciation of the real effective exchange rate, which should return the current account balance towards its equilibrium level of about 3 percent from around 9 percent in 2008.
- Compared to past performance, medium- and long-term projections are based on conservative assumptions about non-debt creating flows such as foreign direct investment, remittances and official transfers (Table 1a).
- Underlying assumption for the fiscal projections is that the government budget deficit (excluding Public Investment Program) will stay at about ½ percent of GDP. This seems feasible based on current spending plans and revenue projections.

Box 1. Tajikistan: Macroeconomic Assumptions

Real GDP growth is projected at 2 percent in 2009, with gradual recovery in 2010 and 2011 (3 and 5 percent, respectively) and in the range of 6 to 7 percent during 2012–14 (when large infrastructure projects are completed) with some slowdown throughout 2028 (to 5 percent). These figures are significantly below their 10-year historical average of 8 percent (1998–2008). The GDP deflator is expected to decline from a projected 19 percent (2009) to 6 percent by 2015—reflecting progress toward a low-inflation environment—and remain at the level of 6 percent through 2028.

Export of goods and services is expected to decline due to a deteriorating external environment. A return to the previous growth path is expected in 2010, reflecting expansion in nontraditional agriculture sectors and a rebounding external demand. An average growth rate of about 9 percent is projected for 2010–28 as the economy is expected to expand following investment in the energy sector and progress with structural reforms.

Current account is expected to deteriorate in 2009, largely reflecting a decline in remittances and exports. Starting 2010 and onward, the current account should improve, following a depreciation of the REER and a recovery in remittances, although the role of the latter is expected to diminish gradually. The **reserve coverage** of imports is projected to build up gradually to about five months by 2028.

Fiscal policy is assumed to aim for an overall balance (excluding the externally financed public investment program) over the medium term, after a modest deficit in 2009–11 on account of the growth slowdown.

External assistance and scaling up. Official external loan financing on concessional terms is estimated to reach its peak in 2009 (6.6 percent of GDP) and then decline to 3.5 percent by 2015 and gradually decline to 2.6 percent of GDP throughout 2028. After 2012, the DSA assumes that no new grants will be disbursed during the projected period.

Public domestic debt. It is assumed that the share of domestic public debt in total public debt will stay at the current level.

Real interest rates. For domestic debt, it is expected that real interest rate becomes positive starting 2013 and then averages 8 percent per annum for the remainder of the projection period.

8. **The baseline scenario shows that Tajikistan remains at a high risk of debt distress.** According to the latest three-year average of the World Bank's CPIA rating (2006-08), Tajikistan's policies and institutions are assessed as those corresponding to a "poor performer."[2] The table below provides the debt-burden thresholds for countries in this category.

[2] Three-year average of CPIA ratings is used according to recently issued joint Bank-Fund Staff Guidance Note on the Application of the joint Bank-Fund Debt Sustainability Framework (October 2008). These guidelines aim at a less volatile assessment of risk than that based on a single latest CPIA rating.

Debt Burden Thresholds for countries with poor policy performance

	Exports	Revenue	GDP
Present value of debt in percent of	100	200	30
Debt service in percent of	15	25	N/A

V. External DSA

A. Baseline

9. **Under the baseline scenario, only one of Tajikistan's external debt burden indicators, the PV of debt-to-exports ratio, is projected to breach policy-dependent thresholds** (Figure 1 and Table 1a). In particular, by 2009, the debt-to-exports ratio will reach 141 percent, exceeding the threshold of 100 percent by a significant margin. This indicator is expected to deteriorate continuously throughout 2014; after that, it is projected to decrease gradually throughout 2028, however, continuously staying above the threshold.

10. **External debt service ratios are expected to stay below their thresholds over the entire period.** During the projected period, debt service payments continue to be manageable, with the assumption that all of Tajikistan's external public and publicly guaranteed debt is contracted on concessional terms, albeit spiking during the years when principal payments on loans from China fall due.

B. Alternative Scenarios and Stress Tests

11. **The historical scenario is based on averages from 1999 to 2007,[3] and thus reflects a period of macroeconomic consolidation, some progress with structural reforms, and debt reduction.** During 1999–2006, the current account deficit was relatively small—at below 3 percent of GDP, though it significantly increased during 2007–08 due to high import prices and increasing imports associated with implementation of large infrastructure projects. Therefore, under this scenario, all debt burden ratios—excluding the PV of debt-to-exports ratio—remain well below their threshold; these ratios also follow a downward trend throughout the projection period. The scenario illustrates the importance of

[3] For exports and non-interest current account only 2005-2007 historical averages were used due to a break in the export series which reflects a change in the treatment of exports of aluminum in the current account. For the rest of the variables, the usual 10-year historical average was applied.

preserving macroeconomic stability, progress with structural reforms and continued prudent debt management. This will be even more important in the period ahead, when external conditions may be less favorable.

12. **A scenario with increased bilateral borrowing reflects an additional 1 percent of GDP of bilateral borrowing per annum to finance higher capital spending.** This scenario shows a deterioration of all indicators compared to the baseline scenario. In particular, the PV of debt-to-exports and the PV of debt-to-GDP ratios breach relative policy thresholds. Under this scenario, the PV of debt-to-exports is expected to deteriorate continuously and peak at 327 percent in 2028. Similarly, the PV of debt-to-GDP ratio will deteriorate continuously breaching the threshold in 2018 and peaking at 39 percent in 2028. Remaining indicators are also expected to deteriorate (against baseline) but remain under their respective policy thresholds.

13. **A high-investment low-growth scenario underscores the risk to debt sustainability if investment does not yield the expected strong growth (Table 1b).** The scenario demonstrates that, starting in 2013, when growth is reduced by half due to lower than expected productivity of investments, all ratios deteriorate notably, with the ratio of the PV of debt-to-GDP approaching its respective threshold by the end of projection period. The ratio of the PV of debt-to-exports deteriorates even further.

14. **A relaxation of the authorities' current prudent approach to contracting external debt only on concessional terms would lead to a deterioration of Tajikistan's external debt indicators compared to the baseline scenario.** If all new borrowing were to be contracted on less than concessional terms during the projection period, Tajikistan's PV of debt-to-export ratio would rise substantially. Specifically, with the increase in the average interest rate on new disbursements by 2 percentage points, the PV of debt-to-GDP ratio would rise continuously and breach the threshold in 2025, and the PV of debt-to-exports ratio would increase from existing level and stay above the threshold.

15. **Bound tests show that adverse macroeconomic shocks would also have a profound negative impact on Tajikistan's external position.** In the event of a combined shock (to real GDP growth, exports growth, FDI inflows), all ratios, except debt service-to-revenues, exceed the policy-dependent thresholds by a significant margin and almost all of them remain above the thresholds throughout the projection period.

VI. PUBLIC DSA

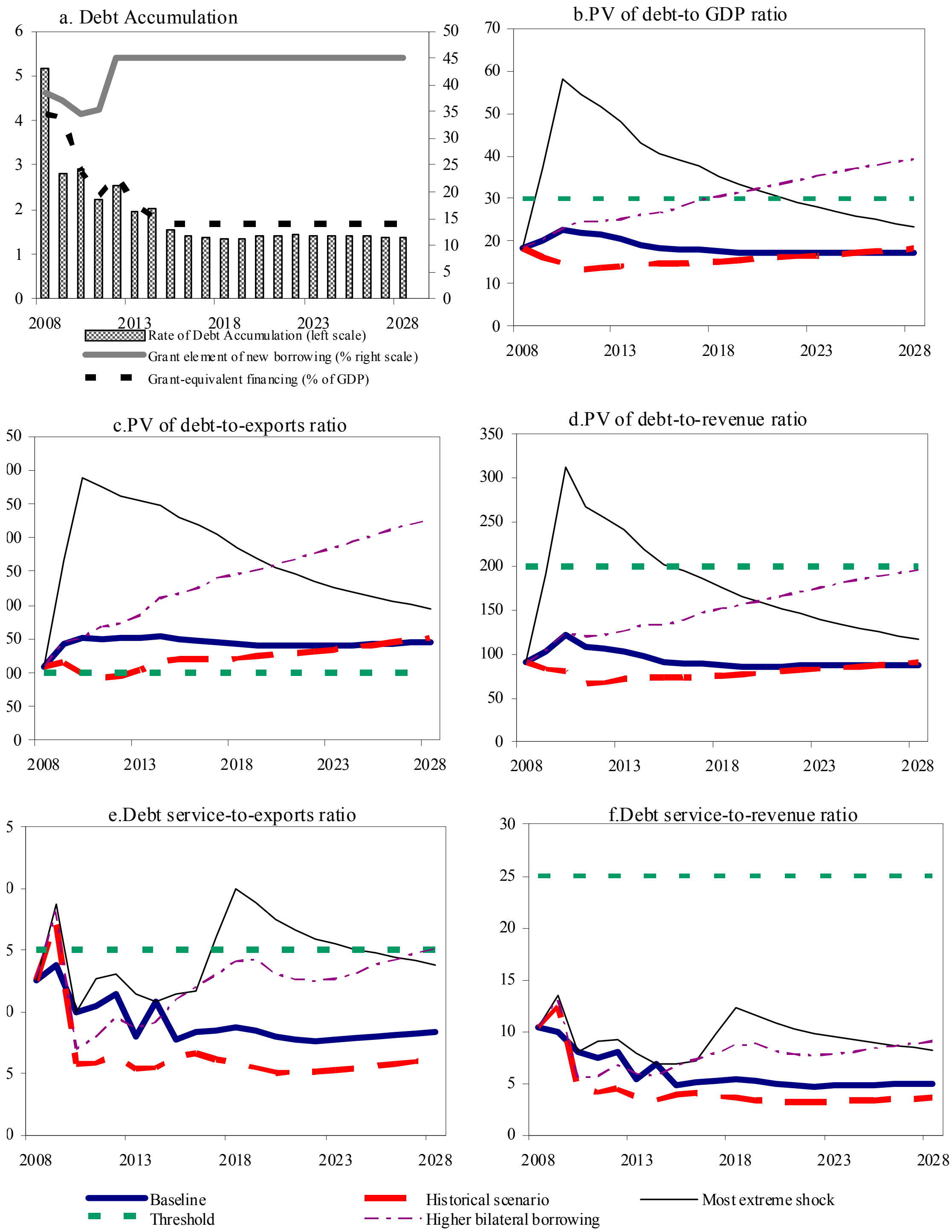
16. **The results of the public sector DSA are very similar to those of the external DSA, given that public sector domestic debt is small.** An important stress test in the public sector DSA models the impact of the government facing a contingent liability equal to 10 percent of GDP. This amount broadly corresponds to the expected possible

recapitalization needs of the central bank and the fiscal costs of resolving the cotton debt problem (estimated at around $500 million). In this scenario, the PV of debt-to-GDP ratio will breach the threshold and stay above it during the six years following the assumption of such liabilities.

VII. Debt Distress Classification and Conclusions

17. **Tajikistan's risk of debt distress remains high, although its resilience to adverse shocks has improved compared to the findings of the 2007 DSA.** The results of the alternative scenarios and stress tests indicate that the debt sustainability situation could further deteriorate with adverse macroeconomic shocks, borrowing on nonconcessional terms or incurring additional debt—even on concessional terms—and could become unsustainable if growth associated with high investment does not materialize. The DSA results thus underscore the need for the authorities to exercise extreme caution in incurring new debt and to carefully vet large-scale investment projects, to make sure that external resources are used productively. Sound macroeconomic policies and acceleration of structural reforms would also be essential for maintaining debt sustainability by strengthening Tajikistan's growth potential and safeguarding external stability.

Figure 1. Tajikistan: Indicators of Public and Publicly Guaranteed External Debt under Alternatives Scenarios, 2008-2028 1/

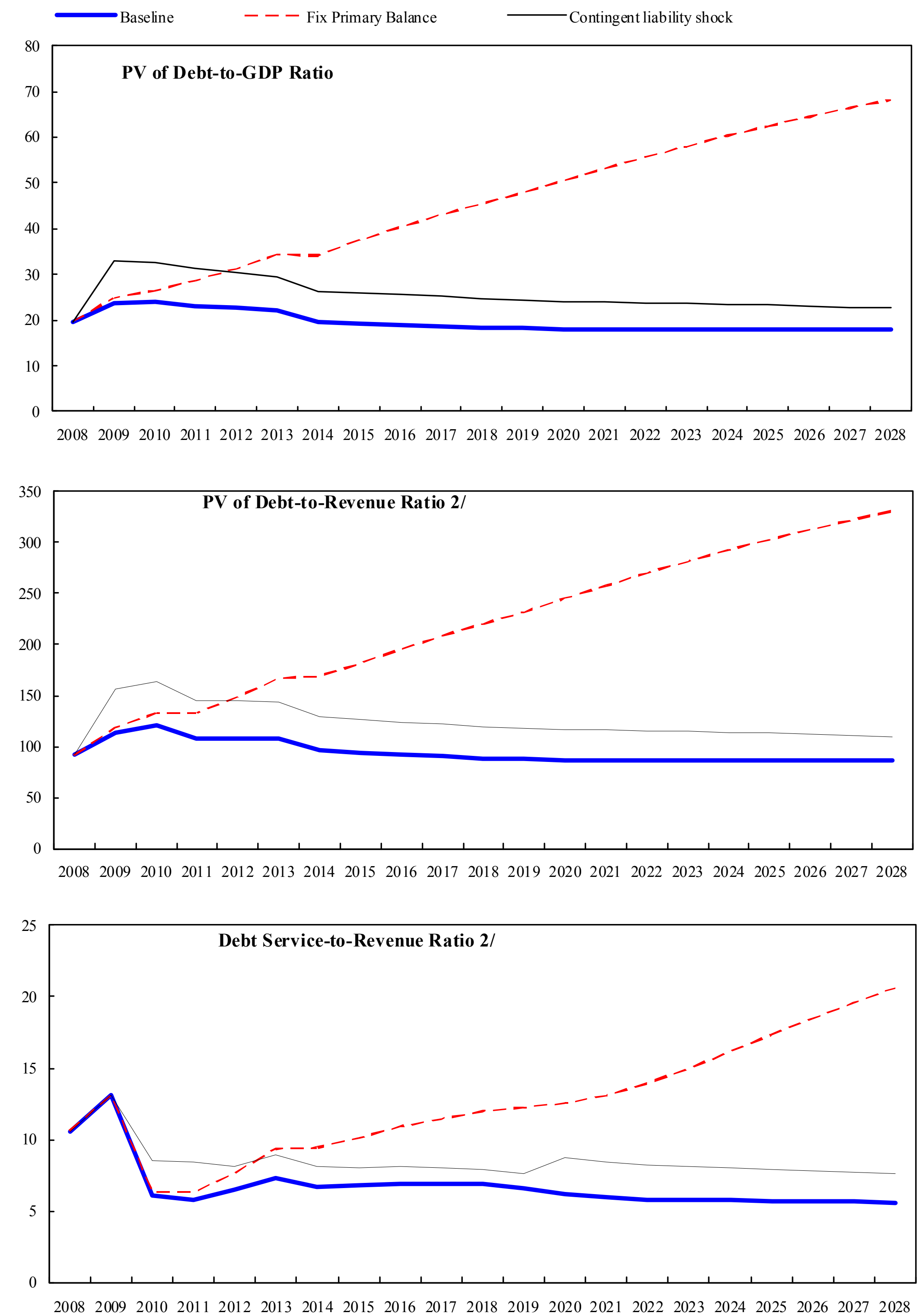


Source: Staff projections and simulations.

1/ The most extreme stress test is the test that yields the highest ratio in 2018. 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 picture f. to a Non-debt flows shock

2/ Higher bilateral borrowing assumes additional one percent of GDP in new loans annualy starting 2011.

Figure 2. Tajikistan: Indicators of Public Debt Under Alternative Scenarios, 2008-2028 1/



Sources: Country authorities; and Fund staff estimates and projections.

1/ Contingent liability shock assumes an increase in debt by 10 percent of GDP.

2/ Revenues are defined inclusive of grants.

Table 1a. Tajikistan: External Debt Sustainability Framework, Baseline Scenario, 2005-28 1/
(In percent of GDP, unless otherwise indicated)

	Actual			Projections													
	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2008-14 Average	2015	2016	2017	2018	2028	2015-2028 Average
External debt (nominal) 1/	...	...	40.8	43.0	45.3	47.9	44.4	44.2	42.3	38.4	43.6	36.8	35.6	33.6	32.7	29.6	31.8
o/w public and publicly guaranteed (PPG)	...	...	33.4	28.9	34.2	36.9	35.1	34.6	32.8	30.0	33.2	29.4	28.8	27.4	27.0	27.0	27.2
Change in external debt	...	...	...	2.2	2.3	2.6	-3.5	-0.2	-1.9	-3.9	-0.3	-1.5	-1.2	-2.0	-0.9	-0.2	-0.6
Identified net debt-creating flows	...	...	...	2.9	7.0	4.1	2.1	0.5	-1.4	-1.2	2.0	-1.0	-1.1	-1.2	-1.1	-1.4	-1.2
Non-interest current account deficit	0.8	0.5	9.4	7.8	7.9	7.6	6.5	4.8	2.9	2.7	5.7	2.8	2.7	2.6	2.6	2.0	2.4
Deficit in balance of goods and services	26.8	34.2	48.2	53.3	37.8	37.2	34.9	32.7	29.0	25.4	35.8	23.6	22.8	22.0	21.4	17.1	19.9
Exports	26.0	23.3	20.7	16.9	14.1	15.0	14.6	14.3	13.6	12.5	14.4	12.3	12.3	12.3	12.4	12.0	12.3
Imports	52.8	57.5	68.8	70.2	51.9	52.2	49.6	47.0	42.6	37.9	50.2	35.9	35.1	34.3	33.8	29.1	32.2
Net current transfers (negative = inflow)	-27.5	-35.0	-40.0	-46.7	-30.3	-31.1	-29.8	-28.9	-27.0	-23.5	-31.0	-21.5	-20.6	-20.0	-19.4	-15.8	-18.1
o/w official	-3.5	-2.9	-1.8	-1.6	-1.5	-1.6	-1.2	-0.9	-0.6	-0.3	-1.1	-0.2	-0.1	-0.1	-0.1	0.0	-0.1
Other current account flows (negative = net inflow)	1.5	1.3	1.2	1.2	0.3	1.5	1.4	1.0	0.9	0.7	1.0	0.6	0.6	0.6	0.5	0.7	0.6
Net FDI (negative = inflow)	-2.4	-2.3	-4.3	-3.7	-1.9	-2.9	-2.9	-2.8	-2.5	-2.1	-2.7	-2.5	-2.5	-2.5	-2.5	-2.5	-2.5
Endogenous debt dynamics 2/	...	...	...	-1.2	1.0	-0.6	-1.5	-1.5	-1.9	-1.7	-1.1	-1.3	-1.4	-1.3	-1.2	-0.9	-1.1
Contribution from nominal interest rate	...	...	...	1.1	1.8	0.7	0.6	0.9	0.8	0.8	1.0	0.7	0.7	0.6	0.6	0.5	0.6
Contribution from real GDP growth	...	...	...	-2.3	-0.8	-1.3	-2.1	-2.4	-2.7	-2.5	-2.0	-2.0	-2.0	-2.0	-1.8	-1.4	-1.6
Contribution from price and exchange rate changes	...	...	...	…	…	…	…	…	…	…		…	…	…	…		
Residual (3-4) 3/	...	...	...	-0.7	-3.5	-1.8	-2.2	2.1	2.2	-2.8	-0.9	-0.5	-0.2	-0.8	1.2	2.1	1.2
o/w exceptional financing	...	...	...	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
PV of external debt 4/	...	...	...	32.4	31.3	33.5	31.1	31.2	30.1	27.5	31.0	25.7	24.9	24.1	23.3	20.0	22.1
In percent of exports	...	...	...	192.1	222.7	224.1	213.1	218.6	221.7	220.8	216.1	209.3	202.1	195.0	188.1	166.4	179.8
PV of PPG external debt	...	...	...	18.4	20.2	22.5	21.9	21.6	20.6	19.2	20.6	18.3	18.1	17.8	17.6	17.4	17.6
In percent of exports	...	...	...	109.0	143.8	150.6	149.9	151.2	152.2	153.6	144.3	149.0	146.9	144.5	141.9	144.8	142.7
In percent of government revenues	...	...	...	90.2	103.5	121.0	107.2	106.4	103.7	97.1	104.2	90.9	89.8	88.6	87.2	86.4	87.2
Debt service-to-exports ratio (in percent)	15.8	30.7	13.2	86.3	46.1	34.0	36.2	21.2	21.5	23.6	38.4	25.9	24.9	23.7	22.5	14.9	19.3
PPG debt service-to-exports ratio (in percent)	12.9	24.8	6.5	12.6	13.8	9.9	10.5	11.5	8.0	10.8	11.0	7.8	8.3	8.5	8.7	8.4	8.1
PPG debt service-to-revenue ratio (in percent)	17.4	30.6	6.5	10.4	10.0	8.0	7.5	8.1	5.4	6.8	8.0	4.8	5.1	5.2	5.4	5.0	5.0
Total gross financing need (billions of U.S. dollars)	0.1	0.1	0.3	1.0	0.7	0.5	0.6	0.4	0.3	0.3	0.5	0.4	0.4	0.4	0.4	0.4	0.4
Non-interest current account deficit that stabilizes debt ratio	...	...	...	5.6	5.5	5.0	10.0	5.0	4.8	6.6	6.1	4.3	4.0	4.6	3.5	2.1	3.0
Key macroeconomic assumptions																	
Real GDP growth (in percent)	6.7	7.0	7.8	7.9	2.0	3.0	5.0	6.0	7.0	7.0	5.4	6.0	6.0	6.0	6.0	5.0	5.4
GDP deflator in US dollar terms (change in percent)	4.5	13.7	22.5	28.2	2.8	-0.5	7.7	6.9	6.5	10.7	8.9	6.6	2.9	2.9	2.9	2.9	3.2
Effective interest rate (percent) 5/	...	...	...	3.8	4.5	1.7	1.5	2.2	2.2	2.2	2.6	2.1	2.0	2.0	2.0	1.6	1.8
Growth of exports of G&S (US dollar terms, in percent) 6/	-50.3	9.1	16.9	13.0	-12.7	9.2	10.4	10.6	8.4	8.9	6.8	11.4	9.3	9.3	9.4	7.6	8.4
Growth of imports of G&S (US dollar terms, in percent)	-15.9	32.5	57.9	41.1	-22.5	3.1	7.4	7.5	3.3	5.3	6.4	7.1	6.6	6.7	7.4	6.3	6.7
Grant element of new public sector borrowing (in percent)	...	...	...	38.6	37.2	34.4	35.3	44.9	44.9	44.9	40.0	44.9	44.9	44.9	44.9	44.9	44.9
Government revenues (excluding grants, in percent of GDP)	19.3	18.9	20.5	20.4	19.5	18.6	20.4	20.3	19.9	19.7	19.8	20.1	20.1	20.1	20.1	20.1	20.1
Aid flows (in billions of US dollars) 7/	0.1	0.2	0.3	0.5	0.4	0.3	0.2	0.4	0.3	0.3	0.3	0.3	0.4	0.4	0.4	1.0	0.6
o/w Grants	0.0	0.1	0.0	0.1	0.1	0.1	0.1	0.1	0.1	0.0	0.1	0.1	0.1	0.1	0.1	0.1	0.1
o/w Concessional loans	0.1	0.1	0.3	0.4	0.3	0.2	0.1	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.4	0.8	0.5
Grant-equivalent financing (in percent of GDP) 8/	...	...	...	4.1	4.1	2.9	2.3	2.8	2.1	1.9	2.9	1.7	1.7	1.7	1.7	1.7	1.7
Grant-equivalent financing (in percent of external financing) 8/	...	...	...	45.1	47.9	49.2	52.3	52.6	54.3	52.1	50.5	53.2	53.2	53.2	53.2	53.2	53.2
Memorandum items:																	
Nominal GDP (billions of US dollars)	2.3	2.8	3.7	5.1	5.4	5.5	6.2	7.1	8.1	9.5	6.7	10.8	11.8	12.8	14.0	30.7	19.4
Nominal dollar GDP growth	11.5	21.7	32.0	38.3	4.8	2.5	13.1	13.3	13.9	18.5	14.9	13.0	9.1	9.1	9.1	8.1	8.7
PV of PPG external debt (in billions of US dollars)			0.8	0.9	1.1	1.2	1.4	1.5	1.7	1.8	1.4	2.0	2.1	2.3	2.5	5.3	3.4
(PVt-PVt-1)/GDPt-1 (in percent)				**5.2**	2.8	2.9	2.2	2.5	2.0	2.0	2.8	1.5	1.4	1.4	1.3	1.4	1.4

Source: Staff simulations.

1/ Includes both public and private sector external debt.
2/ Derived as [r - g - r(1+g)]/(1+g+r+gr) times previous period debt ratio, with r = nominal interest rate; g = real GDP growth rate, and r = 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 changes.
4/ Assumes that PV of private sector debt is equivalent to its face value.
5/ Current-year interest payments divided by previous period debt stock.
6/ Rate of change for exports in 2005 reflects the structural break in exports series due to a change in the treatment of aluminium exports in the BOP.
7/ Defined as grants, concessional loans, and debt relief.
8/ 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, 2008-28
(In percent)

	Projections											
	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	**2018**	2028
PV of debt-to GDP ratio												
Baseline	18	20	23	22	22	21	19	18	18	18	**18**	17
A. Alternative Scenarios												
A1. Key variables at their historical averages in 2008-28 1/	18	16	15	13	14	14	14	15	15	15	**15**	18
A2. New public sector loans on less favorable terms in 2008-28 2/	18	22	25	25	25	25	24	23	24	24	**24**	27
A3. Alternative Scenario: Higher bilateral borrowing	18	20	23	25	25	25	26	27	28	30	**31**	39
A4. High investment-Low growth scenario	18	20	22	22	22	22	21	21	21	21	**22**	27
B. Bound Tests												
B1. Real GDP growth at historical average minus one standard deviation in 2009-10	18	20	21	21	20	19	18	17	17	17	**17**	16
B2. Export value growth at historical average minus one standard deviation in 2009-10 3/	18	18	19	18	18	18	17	16	16	16	**16**	17
B3. US dollar GDP deflator at historical average minus one standard deviation in 2009-10	18	23	28	27	27	26	24	23	23	22	**22**	22
B4. Net non-debt creating flows at historical average minus one standard deviation in 2009-10 4/	18	37	58	55	52	48	43	41	39	38	**35**	23
B5. Combination of B1-B4 using one-half standard deviation shocks	18	34	49	46	44	41	37	35	34	32	**31**	22
B6. One-time 30 percent nominal depreciation relative to the baseline in 2009 5/	18	29	32	31	30	29	27	26	26	25	**25**	25
PV of debt-to-exports ratio												
Baseline	109	144	151	150	151	152	154	149	147	145	**142**	145
A. Alternative Scenarios												
A1. Key variables at their historical averages in 2008-28 1/	109	115	99	92	96	104	116	119	120	120	**122**	152
A2. New public sector loans on less favorable terms in 2008-28 2	109	154	165	169	178	184	191	189	191	192	**193**	228
A3. Alternative Scenario: Higher bilateral borrowing	109	145	153	168	173	186	210	217	226	240	**247**	327
A4. High investment-Low growth scenario	109	141	149	150	151	154	155	152	151	148	**145**	149
B. Bound Tests												
B1. Real GDP growth at historical average minus one standard deviation in 2009-10	109	144	151	150	151	152	154	149	147	145	**142**	145
B2. Export value growth at historical average minus one standard deviation in 2009-10 3/	109	106	104	104	107	108	110	107	106	105	**105**	115
B3. US dollar GDP deflator at historical average minus one standard deviation in 2009-10	109	144	151	150	151	152	154	149	147	145	**142**	145
B4. Net non-debt creating flows at historical average minus one standard deviation in 2009-10 4/	109	266	388	374	362	354	347	330	319	304	**285**	195
B5. Combination of B1-B4 using one-half standard deviation shocks	109	189	263	254	247	242	238	227	220	210	**198**	144
B6. One-time 30 percent nominal depreciation relative to the baseline in 2009 5/	109	144	151	150	151	152	154	149	147	145	**142**	145
PV of debt-to-revenue ratio												
Baseline	90	104	121	107	106	104	97	91	90	89	**87**	86
A. Alternative Scenarios												
A1. Key variables at their historical averages in 2008-28 1/	90	83	80	66	67	71	73	73	73	74	**75**	90
A2. New public sector loans on less favorable terms in 2008-28 2	90	111	133	121	125	125	120	115	117	118	**119**	136
A3. Alternative Scenario: Higher bilateral borrowing	90	105	123	120	122	126	133	132	138	147	**152**	195
A4. High investment-Low growth scenario	90	102	120	107	106	108	100	95	94	92	**91**	89
B. Bound Tests												
B1. Real GDP growth at historical average minus one standard deviation in 2009-10	90	100	114	101	100	98	91	86	85	83	**82**	81
B2. Export value growth at historical average minus one standard deviation in 2009-10 3/	90	94	101	90	91	89	84	79	79	78	**78**	83
B3. US dollar GDP deflator at historical average minus one standard deviation in 2009-10	90	117	151	134	133	129	121	113	112	110	**109**	108
B4. Net non-debt creating flows at historical average minus one standard deviation in 2009-10 4/	90	191	312	267	255	241	219	201	195	186	**175**	116
B5. Combination of B1-B4 using one-half standard deviation shocks	90	172	264	227	217	206	188	173	168	161	**153**	107
B6. One-time 30 percent nominal depreciation relative to the baseline in 2009 5/	90	146	171	151	150	146	137	128	127	125	**123**	122

Table 1b.Tajikistan: Sensitivity Analysis for Key Indicators of Public and Publicly Guaranteed External Debt, 2008-28 (continued)
(In percent)

	Projections											
	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2028
Debt service-to-exports ratio												
Baseline	13	14	10	10	11	8	11	8	8	9	**9**	8
A. Alternative Scenarios												
A1. Key variables at their historical averages in 2008-28 1/	13	17	6	6	6	5	5	6	7	6	**6**	6
A2. New public sector loans on less favorable terms in 2008-28 2/	13	19	8	8	10	9	9	9	10	10	**11**	14
A3. Alternative Scenario: Higher bilateral borrowing	13	18	7	8	10	9	9	11	12	13	**14**	15
A4. High investment-Low growth scenario	13	14	10	10	11	10	14	10	10	12	**12**	10
B. Bound Tests												
B1. Real GDP growth at historical average minus one standard deviation in 2009-10	13	19	7	8	9	7	7	8	8	9	**9**	8
B2. Export value growth at historical average minus one standard deviation in 2009-10 3/	13	15	6	6	7	6	5	6	7	6	**6**	6
B3. US dollar GDP deflator at historical average minus one standard deviation in 2009-10	13	19	7	8	9	7	7	8	8	9	**9**	8
B4. Net non-debt creating flows at historical average minus one standard deviation in 2009-10 4/	13	19	10	13	13	12	11	11	12	16	**20**	14
B5. Combination of B1-B4 using one-half standard deviation shocks	13	15	7	9	9	8	8	8	9	11	**14**	10
B6. One-time 30 percent nominal depreciation relative to the baseline in 2009 5/	13	19	7	8	9	7	7	8	8	9	**9**	8
Debt service-to-revenue ratio												
Baseline	10	10	8	7	8	5	7	5	5	5	**5**	5
A. Alternative Scenarios												
A1. Key variables at their historical averages in 2008-28 1/	10	12	5	4	4	4	3	4	4	4	**4**	4
A2. New public sector loans on less favorable terms in 2008-28 2	10	14	6	6	7	6	6	6	6	6	**7**	8
A3. Alternative Scenario: Higher bilateral borrowing	10	13	6	6	7	6	6	7	7	8	**9**	9
A4. High investment-Low growth scenario	10	10	8	7	8	7	9	7	7	8	**8**	7
B. Bound Tests												
B1. Real GDP growth at historical average minus one standard deviation in 2009-10	10	13	6	5	6	5	4	4	5	5	**5**	5
B2. Export value growth at historical average minus one standard deviation in 2009-10 3/	10	14	6	5	6	5	4	5	5	5	**5**	5
B3. US dollar GDP deflator at historical average minus one standard deviation in 2009-10	10	15	7	7	7	6	5	6	6	7	**7**	6
B4. Net non-debt creating flows at historical average minus one standard deviation in 2009-10 4/	10	14	8	9	9	8	7	7	7	10	**12**	8
B5. Combination of B1-B4 using one-half standard deviation shocks	10	14	7	8	8	7	6	6	7	9	**11**	7
B6. One-time 30 percent nominal depreciation relative to the baseline in 2009 5/	10	19	8	8	8	7	6	7	7	7	**8**	7
Memorandum item:												
Grant element assumed on residual financing (i.e., financing required above baseline) 6/	43	43	43	43	43	43	43	43	43	43	**43**	43

Source: Staff projections and simulations.

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
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, 2008-28
(In percent of GDP, unless otherwise indicated)

	2008	2009	2010	2011	2012	2013	2014	2008-14 Average	2018	2028	2015-28 Average
	Projections										
Public sector debt 1/	30.3	39.7	38.7	36.8	36.1	34.5	30.1	35.2	27.8	27.5	27.9
o/w foreign-currency denominated	28.9	34.2	36.9	35.1	34.6	32.8	30.0	33.2	27.0	27.0	27.2
Change in public sector debt	-4.7	9.4	-0.9	-2.0	-0.7	-1.6	-4.4	-0.7	-0.5	0.0	-0.2
Identified debt-creating flows	-2.7	8.8	0.7	-1.3	-1.1	-2.0	-3.8	-0.2	0.6	1.1	0.8
Primary deficit	6.6	5.7	5.2	3.2	2.9	2.0	2.3	4.0	2.5	2.7	2.6
Revenue and grants	21.4	21.0	19.9	21.6	21.0	20.6	20.2	20.8	20.6	20.6	20.6
of which: grants	1.0	1.4	1.3	1.2	0.7	0.6	0.5	1.0	0.5	0.5	0.5
Primary (noninterest) expenditure	28.0	26.6	25.1	24.8	23.9	22.6	22.5	24.8	23.2	23.3	23.2
Automatic debt dynamics	-9.3	3.3	-4.4	-4.4	-3.9	-4.0	-6.0	-4.1	-2.0	-1.7	-1.8
Contribution from interest rate/growth differential	-3.0	-0.1	-2.2	-2.5	-2.4	-2.5	-2.5	-2.2	-1.7	-1.4	-1.6
Contribution from real exchange rate depreciation	-6.3	3.4	-2.2	-1.9	-1.5	-1.5	-3.6	-1.9	-0.2	-0.2	-0.2
Other identified debt-creating flows	-0.1	-0.1	-0.1	0.0	0.0	0.0	0.0	-0.1	0.0	0.0	0.0
Residual, including asset changes	-2.0	0.6	-1.6	-0.7	0.4	0.4	-0.6	-0.5	-1.1	-1.0	-1.0
Other Sustainability Indicators											
PV of public sector debt	19.6	23.8	24.0	23.2	22.7	22.0	19.5	22.1	18.2	17.8	18.1
o/w foreign-currency denominated	18.5	22.9	23.2	22.5	22.2	21.1	18.8	21.3	17.8	17.7	17.8
o/w external	18.5	22.9	23.2	22.5	22.2	21.1	18.8	21.3	17.8	17.7	17.8
Gross financing need 2/	8.9	8.4	6.4	4.4	4.2	3.5	3.8	5.7	4.1	3.9	4.0
PV of public sector debt-to-revenue and grants ratio (in percent)	92.0	113.5	120.2	107.3	108.1	107.2	96.7	106.4	88.2	86.3	87.9
PV of public sector debt-to-revenue ratio (in percent)	96.4	122.0	128.7	113.4	112.0	110.6	99.0	111.7	90.3	88.3	90.0
o/w external 3/	90.8	117.2	124.5	110.2	109.3	106.1	95.1	107.6	88.5	87.7	88.5
Debt service-to-revenue and grants ratio (in percent) 4/	10.6	13.1	6.1	5.8	6.5	7.3	6.7	8.0	6.9	5.6	6.2
Debt service-to-revenue ratio (in percent) 4/	11.1	14.1	6.6	6.1	6.7	7.6	6.8	8.4	6.9	5.9	6.5
Primary deficit that stabilizes the debt-to-GDP ratio	11.4	-3.8	6.1	5.1	3.6	3.6	6.6	4.7	3.1	2.7	2.8
Key macroeconomic and fiscal assumptions											
Nominal GDP (local currency)	17.6	21.4	25.6	30.6	36.7	43.9	52.2	32.6	83.2	244.9	133.4
Real GDP growth (in percent)	7.9	2.0	3.0	5.0	6.0	7.0	7.0	5.4	6.0	5.0	5.4
Average real interest rate (in percent)	-1.2	1.6	-2.7	-1.9	-1.0	-0.3	-0.6	-0.9	-0.5	-0.5	-0.5
Average real interest rate on foreign-currency debt (in percent)	-0.4	2.3	-1.4	-1.5	-0.6	-0.7	-0.7	-0.4	-0.7	-0.7	-0.7
Average real interest rate on domestic debt (in percent)	-19.2	-13.6	-10.9	-8.9	-7.6	7.7	0.7	-7.4	5.4	9.1	8.1
Inflation rate (GDP deflator, in percent)	27.7	19.2	16.0	14.0	13.0	12.0	11.0	16.1	6.0	6.0	6.0
US Inflation rate (GDP deflator, in percent)	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0
Growth of real primary spending (deflated by GDP deflator, in percent)	0.1	0.0	0.0	0.0	0.0	0.0	0.1	0.0	0.1	0.1	0.1
Grant element of new external borrowing (in percent)	38.6	37.2	34.4	35.3	44.9	44.9	44.9	40.0	44.9	44.9	44.9

Sources: Country authorities; and Fund staff estimates and projections.
1/ General government gross debt.
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.

Table 2b.Tajikistan: Sensitivity Analysis for Key Indicators of Public Debt 2008-28

	Projections							
	2008	2009	2010	2011	2012	2013	2018	2028
PV of Debt-to-GDP Ratio								
Baseline	20	24	24	23	23	22	18	18
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	20	19	16	15	14	14	10	7
A2. Primary balance is unchanged from 2008	20	25	26	29	31	34	45	68
A3. Permanently lower GDP growth 1/	20	24	25	24	24	24	25	36
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviations in 2009-10	20	23	21	20	18	17	11	3
B2. Primary balance is at historical average minus one standard deviations in 2009-10	20	24	25	24	24	23	20	20
B3. Combination of B1-B2 using one half standard deviation shocks	20	21	20	18	17	15	8	-2
B4. One-time 30 percent real depreciation in 2009	20	35	34	32	31	30	24	24
B5. 10 percent of GDP increase in other debt-creating flows in 2009	20	33	33	31	30	29	25	23
PV of Debt-to-Revenue Ratio 2/								
Baseline	92	114	120	107	108	107	88	86
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	92	93	82	68	65	66	50	36
A2. Primary balance is unchanged from 2008	92	118	133	133	149	167	220	331
A3. Permanently lower GDP growth 1/	92	115	124	113	116	119	120	176
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviations in 2009-10	92	108	108	92	88	84	52	17
B2. Primary balance is at historical average minus one standard deviations in 2009-10	92	115	126	112	113	113	98	95
B3. Combination of B1-B2 using one half standard deviation shocks	92	102	102	84	79	74	37	-10
B4. One-time 30 percent real depreciation in 2009	92	169	172	150	147	144	118	114
B5. 10 percent of GDP increase in other debt-creating flows in 2009	92	156	164	145	145	143	120	110
Debt Service-to-Revenue Ratio 2/								
Baseline	11	13	6	6	6	7	7	6
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	11	12	5	4	4	5	3	1
A2. Primary balance is unchanged from 2008	11	13	6	6	8	9	12	21
A3. Permanently lower GDP growth 1/	11	13	6	6	7	8	8	10
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviations in 2009-10	11	13	6	5	5	6	5	1
B2. Primary balance is at historical average minus one standard deviations in 2009-10	11	13	6	6	7	7	7	6
B3. Combination of B1-B2 using one half standard deviation shocks	11	13	5	5	5	6	4	-1
B4. One-time 30 percent real depreciation in 2009	11	18	10	10	11	11	11	11
B5. 10 percent of GDP increase in other debt-creating flows in 2009	11	13	8	8	8	9	8	8

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

INTERNATIONAL MONETARY FUND

REPUBLIC OF TAJIKISTAN

Staff Report for the 2009 Article IV Consultation, Final Review under the Staff-Monitored Program, and Request for a Three-Year Arrangement under the Poverty Reduction and Growth Facility—Informational Annex

March 31, 2009

ANNEX I. TAJIKISTAN: RELATIONS WITH THE FUND
(As of February 28, 2008)

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

II. General Resources Account:

	SDR million	% Quota
Quota	87.00	100.00
Fund holdings of currency	87.00	100.00
Reserve position in Fund	0.00	0.00

III. SDR Department

	SDR million	% Allocation
Holdings	0.39	N/A

IV. Outstanding Purchases and Loans None

V. Latest Financial Arrangements

Type	Approval Date	Expiration Date	Amount Approved (SDR million)	Amount Drawn (SDR million)
PRGF	Dec 11, 2002	Feb 10, 2006	65.00	65.00
ESAF/PRGF	Jun 24, 1998	Dec 24, 2001	100.30	78.28
Stand-by	May 08, 1996	Dec 07, 1996	15.00	15.00

VI. Projected Payments to Fund None

VII. Implementation of HIPC Initiative Not Applicable.

VIII. Implementation of Multilateral Debt Relief Initiative (MDRI):

I. MDRI-eligible debt (SDR Million)[1]	69.31
Financed by: MDRI Trust	69.31
Remaining HIPC resources	--

[1] 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.

II. Debt Relief by Facility (SDR Million)

	Eligible Debt		
Delivery Date	GRA	PRGF	Total
January 2006	N/A	69.31	69.31

IX. Safeguards Assessment

The last safeguards assessment of the NBT was completed on July 23, 2003; it proposed specific measures to address a number of confirmed weaknesses in the NBT's safeguards framework, as reported in IMF Country Report No. 03/222. In 2007, the NBT authorities informed the Fund that misreporting had occurred, subsequent to which an international audit firm was engaged to complete a special audit of the relevant data and the NBT's financing activities related to the cotton sector. An update safeguards assessment of the NBT in the context of a new PRGF-supported arrangement would be conducted only when: (i) the special audit has been finalized and its conclusions published on the NBT website, and (ii) the annual external audit of the financial year ending April 30, 2009 has been substantially completed by an international audit firm with central banking auditing experience. The appointment of such an audit firm is a prior action for the Board's consideration of a new PRGF arrangement.

X. Exchange Rate Arrangements

The NBT has maintained a conventional peg exchange rate arrangement, but has committed to a flexible exchange rate regime (managed float) going forward. Since August 2005, the NBT has increased the frequency of calculating and announcing the official exchange rate from a weekly to a daily basis. The official exchange rate is based on all interbank transactions in foreign exchange.

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. As a result, 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).

XI. 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.

XII. Article IV Consultation

The 2007 Article IV consultation was completed on March 28, 2007.

XIII. Resident Representative

Mr. Moers, Resident Representative of the Fund, started his assignment in Dushanbe in June 2006.

XIV. Technical Assistance

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

Fiscal Affairs:

July 2004	Revenue Administration Reform
December 2004	Poverty and Social Impact Analysis
June 2005	Public Financial Management
August 2005	Tax Policy and Administration
August 2006	Fiscal ROSC
May 2007	Public Financial Management (Budget Classification)
Ongoing	Public Financial Management (Regional Advisor)

Monetary and Financial Systems:

May 2006	Strengthening the Monetary Policy Framework and Liquidity Management

Statistics:

April 2004	Data ROSC
October 2004	General Data Dissemination System (GDDS)
June 2006	Report on Monetary and Financial Statistics

Finance:

Legal:

January 2004	Tax Legislation
May 2004	Tax Legislation
2006	AML/CFT

ANNEX II. TAJIKISTAN: STATISTICAL ISSUES
As of March 10, 2009

Assessment of Data Adequacy for Surveillance

1. **General:** Data provision has some shortcomings (mainly in the areas of national accounts, price statistics, and monetary statistics), but is broadly adequate for surveillance

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 have yielded some improvements, but there are remaining problems with the CPI compilation methodology and the GDP volume estimates, relating in parts to the period-to-period averages of price indices.

3. **Government finance statistics:** Government finance statistics (GFS) are based on cash transactions as recommended in the 1986 Manual on Government Finance Statistics. There are no plans to migrate the basis of compilation to the 2001 Government Finance Statistics Manual. There are occasional budget classification issues within the economic classification of expenditures and the classification of above- and below-the-line transactions, which are being resolved with the help of a regional advisor.

4. **Monetary and financial statistics:** In late 2007, a serious misreporting episode concerning the monetary accounts was uncovered. The special audit of the National Bank of Tajikistan that was completed in March 2009 found that there was no "reliable accounting baseline." The authorities have committed to establishing such an accounting baseline, including through an audit of net international reserves as of end-2008 and the regular audit of the NBT's financial statements for fiscal year 2009 (ends April).

5. **Balance of payments:** There is a need for consistency in applying the residency concept in the balance of payments and the national accounts, and the scope of the foreign trade data needs to be improved to cover the shuttle trade.

Data Standards and Quality

6. Tajikistan began participating in the General Data Dissemination System (GDDS) on November 17, 2004. Metadata 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.

7. Data ROSC was published on March 30, 2005.

Reporting to STA

8. Country page in the International Financial Statistics (IFS) has been published since February 2003.

Tajikistan: Table of Common Indicators Required for Surveillance
(As of December 1, 2008)

	Date of latest observation	Date received	Frequency of Data[6]	Frequency of Reporting[6]	Frequency of publication	Memo Items:	
						Data Quality – Methodological soundness[7]	Data Quality – Accuracy and reliability[8]
Exchange Rates	03/06/09	03/11/09	D	W	W		
International Reserve Assets and Reserve Liabilities of the Monetary Authorities[1]	03/06/09	03/10/09	D	W	W		
Reserve/Base Money	02/21/09	03/04/09	W	M	W	O, O, LO O	LO, O, O, O, NO
Broad Money	02/21/09	03/04/09	M	M	M		
Central Bank Balance Sheet	02/21/09	03/04/09	W	M	W		
Consolidated Balance Sheet of the Banking System	01/31/09	03/04/09	M	M	M		
Interest Rates[2]	01/31/09	03/05/09	M	M	V		
Consumer Price Index	Feb./09	03/10/09	M	M	M	LO, LO, LNO, O	LO, LO, LO, O, O
Revenue, Expenditure, Balance and Composition of Financing[3]—General Government[4]	Jan/09	03/08/08	M	M	M	LO, LO, O, O	O, O, O, LO, LO
Revenue, Expenditure, Balance and Composition of Financing[3]—Central Government	Jan/09	03/08/08	M	M	M		
Stocks of Central Government and Central Government-Guaranteed Debt	Q4/08	01/27/08	Q	Q	V		
External Current Account Balance	Q3/08	03/11/09	Q	Q	V	LNO, LNO, O, O	LO, O, O, O, O
Exports and Imports of Goods	Q4/08	02/06/09	Q	Q	V		
GDP/GNP	Jan./09	02/24/09	M/A	M	V	O, LNO, LNO, LNO	LO, LO, LNO, O, O
Gross External Debt[5]	Q4/08	02/06/09	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, and rates on treasury bills, notes and bonds.
[3] Foreign, domestic bank, and domestic nonbank financing.
[4] The general government comprises central government (budgetary, extra budgetary, and social protection funds) and state and local governments.
[5] Including currency and maturity composition.
[6] Daily (D), Weekly (W), Monthly (M), Quarterly (Q), Annually (A); NA: Not Available.
[7] Reflects the assessment provided in the data ROSC published in April 2005 and based on the findings of the staff mission during April 2004 for the dataset corresponding to the variable in each row. The assessment indicates whether international standards concerning 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 source data, statistical techniques, assessment and validation of source data, assessment and validation of intermediate data and statistical outputs, and revision studies.

ANNEX III. TAJIKISTAN: RELATIONS WITH THE WORLD BANK

(As of March 3, 2009)

Country Director:	Mr. Motoo Konishi	Telephone: (202) 473 4278
Country Economist:	Mr. Sudharshan Canagarajah	Telephone: (202) 473 4458

A. Partnership in Tajikistan's Development Strategy

1. The Bank's Country Partnership Strategy, endorsed by the Bank's Board of Executive Directors on July 26, 2005, and updated on June 22 , 2007, focuses on the following three priorities, which are in line with the country's Second Poverty Reduction Strategy (PRS 2) for 2007–2009:

- To improve business opportunities in rural and urban areas.
- To enhance and preserve the quality of the human capital.
- To improve energy service delivery and increase electricity exports.

2. In addition, in each of the above areas, the Bank Group and government have agreed to work to improve government capacity for service delivery, and to reduce corruption by giving special emphasis to measures that increase transparency of resource use, reduce discretionary controls in business operations, and encourage the participation of users in the provision of services.

3. Macroeconomic management is aimed at establishing a stable economic environment through appropriate fiscal, monetary, exchange rate, and sustainable debt policies. However, macroeconomic management started worsening around October 2007 and the risk of debt distress has emerged. Tajikistan's long term prospects remain positive only if the authorities move quickly to restore sound macroeconomic management and implement institutional reforms to improve the business climate, the financial sector, the agricultural sector, transparency and governance of large state-owned enterprises, and public financial management. Expansion in aluminum processing capacity to service continued high world demand, recovery in cotton production following institutional reforms, buoyant inflows of remittances, and the start of a large-scale Russian–financed hydroelectric power project and other infrastructure investments have the potential to support growth of 7–8 percent over the long term.

4. The IMF has taken the lead in assisting Tajikistan in enhancing macroeconomic stability. The Fund has encouraged the authorities to continue with fiscal consolidation, maintain a restrictive monetary policy, and conduct prudent debt management policy to enhance its sustainability.

5. The World Bank has taken the lead in the policy dialogue on structural issues, including poverty reduction measures, agriculture sector reforms, private sector development, institution building, budget planning, improving public service delivery, and governance. A range of instruments is used to conduct the dialogue. Policy based lending and technical assistance are supporting reforms in a number of sectors. The Programmatic Development

Policy Grant (PDPG) operation of three annual development policy financing programs to support government's medium-term reform program was approved in July 19, 2007. The program s supporting the government in the areas of public administration reform, public expenditure management, social service delivery, and private sector development.

6. This broad-based approach is combined with investment projects and technical assistance in health, education, municipal infrastructure, energy, agriculture and rural development, environment, public financial management and public administration. Over the last three years the Bank in collaboration with others has produced analytical work aimed at informing program design. A country procurement assessment report, a country financial accountability assessment, a public and civil service wage note and an update, and a remittances note have informed the public sector reform program. A trade diagnostic, an investment climate assessment, an aviation sector note, an energy utility reform review, the Central Asia Regional Electricity Export Potential Study, and an Agricultural Development Strategy have highlighted key reforms required to attract private sector investment. A poverty assessment update has deepened understanding of poverty and its dynamics, and is important for the design of policy reforms that effectively reduce poverty. Poverty and social impact assessments of cotton and energy reforms have helped promote dialogue with the government on issues of social protection. A programmatic public expenditure review is supporting Tajikistan's first public expenditure and financial accountability review, and analyzing the country's prospects for achieving the MDGs and long-term growth, and providing support for the introduction of the MTEF. Two public expenditure tracking surveys, one for health and one for education, are expected to promote transparency and efficiency of expenditure in these sectors. A country environmental analysis has identified policy and capacity reforms to improve environmental management.

Tajikistan: Collaboration of the World Bank and the IMF

Area	Specialized Advice from Fund	Specialized Advice from Bank	Key Instruments
Economic Framework/ Management	Monetary policy, exchange rate, fiscal, and trade policies, economic statistics	Economic growth, economic statistics	*IMF:* Dialogue on performance criteria and benchmarks on monetary and fiscal targets. *Bank:* PDPG and Strengthening National Statistics System Project under implementation.
Budget	Medium-term budget framework, tax and customs policy and administration, and treasury and debt management	Budget management, debt management and statistics, public expenditure and financial management reform	*IMF:* Dialogue on performance criteria on overall fiscal balance, including the public investment program. Structural benchmark on treasury development. *Bank:* PDPG, Public Sector Reform Project (PSRP) (under implementation); TA for public procurement (under implementation) and external audit (recently completed) with grant funding from the Institutional Development Fund (IDF). Public Finance Management Project (under preparation).
Public Sector Reform		Civil service reform, public sector wage reform, public administration reform, health and education financing	*IMF:* Dialogue. *Bank*: PDPG and PSRP, Education Modernization Project, Community and Basic Health Project and Education for All Fast Track Initiative Catalytic Fund Grant (all under implementation).
Private and Financial Sector Development	Bank supervision; development of the interbank market and increasing competition in the banking sector.	Investment climate, developing and implementing the private sector development strategy, farm privatization, cotton debt resolution, land reform, financial sector reform.	*IMF:* Dialogue. *Bank:* PDPG, Land Cadastre Project and Cotton Sector Modernization Project (all under implementation). TA for Private Sector Development Strategy under implementation with grant funding from the IDF. A grant from FIRST financial sector reform, including reform of NBT, is under implementation.

Tajikistan (continued): Collaboration of the World Bank and the IMF

Area	Specialized Advice from Fund	Specialized Advice from Bank	Key Instruments
Other Sectors		Reforms in agriculture, energy, health, education, water and sanitation, environment, infrastructure.	*Bank:* PDPG, Education Modernization, Community and Basic Health, Municipal Infrastructure Development, Energy Loss Reduction, Dushanbe Water Supply, Land Cadastre, Ferghana Valley Water, Cotton Sector Modernization Projects (all under implementation).

B. World Bank Collaboration in Specific Areas

Areas in which the World Bank leads and there is little direct IMF involvement

7. Areas in which the Bank leads and there is no direct IMF involvement include the social sectors, infrastructure, and environmental management. In the social sphere, the Bank has carried out regular poverty assessments to monitor poverty and develop programs to alleviate poverty. It has prepared a poverty assessment update has been prepared on the basis of the 2003 living standards survey. Under the Strengthening National Statistics System Project, data collection of a new living standards survey was completed in 2007; analysis of the results is underway.

8. **In education,** the Bank is providing policy advice and investment resources. The ongoing Education Modernization Project (FY03) aims to upgrade the basic education system by supporting reforms in education financing and management, curriculum and textbooks development; teacher training and student assessment improvement, and upgrading school facilities. Tajikistan has also received grant funding from the Education for All Fast Track Initiative catalytic fund, administered by the Bank. Key issues in education, apart from infrastructure rehabilitation and capacity building, are pay reform, per capita financing and expenditure tracking. Assistance to this sector will continue through the PDPG, a multi-donor education investment program, and the PSRP. The Bank is also helping with wage reform in education and a gradual move towards program-based budgeting in the sector through the PDPG. Jointly with the UNICEF the Bank assists the government in the overall national education strategy formulation. The IMF has in the past supported the education reform process, in close collaboration with the World Bank, through a PRGF structural benchmark requiring the drawing up of a fully costed education reform plan by the government.

9. **In health**, the Bank is helping the government to improve the effectiveness and efficiency of delivery—both of which are aimed at ensuring the poor access to a basic level of

services. Through the Community and Basic Health Project and the PDPG, the Bank is helping to strengthen the institutional capability (both at the center and district levels) to carry out health care reforms, to improve the system for budgeting and spending for basic health services, and pay reform. It is also supporting programs to prevent the spread of HIV/AIDS, malaria, and other communicable diseases. The Avian Fluenza Control and Human Pandemic Preparedness and Response is minimizing the threat of highly pathogenic avian influenza infection and other zoonoses posed to humans and poultry; and preparing for control and respond to influenza pandemics and other infectious disease emergencies in humans.

10. With regard to **infrastructure** development, the Bank is concentrating on upgrading basic utility services for the population as a whole and especially the poor. The Dushanbe Water Supply Project is helping the Dushanbe municipality and the local water company to address the most critical deficiencies of water supply services. The Pamir Private Power Project is supporting improvements in reliability of electricity supply in the Gorno Badakshan region with participation of the private sector. The Energy Loss Reduction Project is helping to reduce commercial losses and improve the financial viability of the power and gas sectors. The Bank has also been leading policy dialogue (under PDPG) on increasing efficiency/viability to ensure long-term growth prospects of the energy sector. The Municipal Infrastructure Project is providing support to improve urban infrastructure in big towns.

11. In **agriculture**, the Bank is concentrating on land reform, rehabilitation of irrigation and drainage infrastructure, and introduction of market rules in procurement of inputs and marketing of outputs as well as on the resolution of the cotton farm debts. The Land Registration and Cadastre Project is assisting the government with the land reform, issuance of land certificates, and establishment of a modern cadastre system. The Ferghana Valley Project aims to increase water supply and efficiency of irrigation systems in the Ferghana Valley, and develop institutional capacity in land and water resources management. The Cotton Sector Recovery Project is helping to improve the livelihoods of cotton farmers and to create conditions for sustainable growth of cotton production in selected, low-income areas. The project is doing this through assistance for cotton debt resolution, for an improved policy environment, and for increased cotton output and profitability. Cross cutting policy issues for increasing productivity in cotton sectors are being addressed through the PDPG.

12. The Bank has supported programs to improve **environmental management** and to deal with natural disasters. A National Environment Action Plan was developed with the Bank's help. A 2008 Country Environmental Analysis has highlighted the country's most severe environmental issues and proposed measures to strengthen the legal and institutional framework for addressing them. The Emergency Flood Assistance and Lake Sarez Risk Mitigation Projects have helped the government to mitigate the consequences of natural disasters and to build national capacity to address frequent natural hazards such as mudslides, rock-falls, avalanches, and seasonal floods.

13. The Bank also supported the government in coping with emergency situations. The Energy Emergency Project assisted the government in implementing an Energy Emergency Mitigation Action Plan (EEMAP) to address the energy crisis in 2008 due to the harshest winter in 25 years. Through the Global Food Price Crisis Response Trust Fund, the Emergency

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

15. The Bank leads the dialogue on structural reforms through the three-year PDPG program currently under implementation. Institution building and technical assistance in support of PDPG structural reforms come from several sources, including the PSRP, the Education Modernization Project, Fast Track Initiative Grant and the Community and Basic Health Project.

16. The Bank and the Fund both support **private sector development**, including in the areas of financial transparency and improvements in the regulatory framework. The Bank has completed the Investment Climate Assessment and agriculture sector review to determine the most important impediments to private sector development. Tajikistan has participated in three Doing Business surveys and in three Business Environment and Enterprise Performance surveys since the mid-2000s. These provides insight into trends within Tajikistan to improve the business environment and show how Tajikistan is performing relative to other countries of the region. The Bank has supported the preparation of the government's private sector development strategy, which is now under implementation with support of an IDF grant.

17. The Bank and the Fund support **enterprise and farm privatization**, including acceleration of privatization of medium and large enterprises, improvements to the corporate governance framework for public enterprises, land reform, and restructuring of the cotton subsector. The Bank has completed the Investment Climate Assessment and agriculture sector review to identify obstacles to growth of agricultural productivity. With support of donors, the Bank has been providing technical support to the State Committee for Investments and State Property Management to implement a long-term strategic privatization plan and to promote private sector investment.

18. **Regulatory reforms** include (a) changing role of anti-monopoly agency and further strengthening its capacity, (b) improving the inspection regime for businesses; and (c) streamlining licensing. In addition, under the PDPG, the Bank is assisting with separating in aviation the functions of policymaking, technical regulation, and accident investigation, with the aim of increasing the transparency and performance of operations. It is also helping with the restructuring the Tajik Air Company aimed at creating separate entities to operate the airport, airline, and air traffic control system. This restructuring is expected to increase the competitiveness of Tajikistan's aviation sector, with benefits for economic growth and poverty reduction.

19. While the Bank has taken the lead in privatization and in structural reforms in the private sector, the IMF has also a strong interest in these areas, since many of these reforms are critical to achieving macroeconomic stabilization and enhancing growth. Accordingly, the two institutions maintain an active dialogue with each other on these matters to ensure good coordination of interventions.

Areas of shared responsibility

20. The Bank and the Fund are working jointly in the following four main areas (supported by the Bank's PDPG, grants, and several investment operations, and the Fund's SMP):

- **Public sector management.** The Bank has provided technical support to the government to develop a comprehensive public administration reform strategy. It includes policy actions in public administration reforms aimed at redefining the role of the state in line with the market economy needs, reorganizing key ministries, strengthening the internal control and audit function, and supporting the pay reform. The Bank is involved in civil service reform while the Fund is providing technical assistance in support of tax and customs administration and treasury management.

- **Budget planning and execution.** Both institutions work on providing support for a treasury, adoption of new law on public finances introducing modern budgetary procedures and improved fiscal management, and switching from norm-based costing and allocation of expenditures to per capita based financing in education and health sectors. The Bank will continue to provide technical support and mobilize donor funds to implement the medium-term budget framework. The Bank will also continue to support public financial external and internal control reform through the PDPG, IDF grants, and the PSRP. The forthcoming Public Financial Management Project (FY09) will support treasury reform.

- **Financial sector reforms.** This area includes the acceleration of financial sector restructuring and closure of weak banks, a new regulatory framework for the establishment of non-bank intermediaries, and significant changes in the tax code making tax authorities' access to bank accounts conditional on a court authorization. In terms of banking supervision, the IMF is monitoring the closure and merger of banks that do not satisfy prudential requirements. A Financial Sector Assessment Program (the country's first), carried out jointly by the Bank and the Fund, was discussed with the authorities in late 2007. The Bank is implementing a grant from the FIRST trust fund to support implementation of the assessment's recommendations, especially needed reforms at the NBT.

- **Utilities reform.** The Fund included in its former PRGF benchmarks related to energy tariff rates, energy arrears, and collection rates with the aim to reduce quasi-fiscal activities and increase transparency. The Bank under the PDPG is supporting tariff reform aimed at reducing the quasi-fiscal deficit. It also supported the conducting of an audit of Barki Tajik's accounts, which was completed in August 2008. The Bank is providing financial assistance to help the government to repair the electricity and gas transmission system, to import the energy needed to meet periodic winter shortfalls, and to help implement the Energy Emergency Action Mitigation Plan. The Bank-supported Energy Loss Reduction Project is supporting implementation of reforms. The Bank is working closely together with the Asian Development Bank and the EBRD on utilities reform and restructuring of strategic enterprises such as the railways and airlines.

- **Debt sustainability analysis:** The Bank and the IMF have started carrying out joint debt sustainability analyses (DSA). The first one was done in early 2006 and an update was completed in February 2007. The next joint DSA update will be finalized before February 2009.

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

21. The Fund leads the dialogue on fiscal matters, setting the overall envelope for public expenditures. The Bank's work in key sectors, such as health, education and infrastructure, necessitates close cooperation.

22. In the budgetary area, the Fund is taking the lead on tax reforms and budget preparation and execution. The IMF also leads the dialogue on polices to rationalize and contain expenditures in the public sector. These include policies regarding wage setting in both the public service, and defining the ceiling for public investment expenditures. In these areas, the Bank takes into account the policy recommendations of the IMF and ensures that its own policy advice is consistent.

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

23. The Fund takes the lead in the formulation and execution of fiscal and monetary policies, tax policy, external trade policies, and issues involving economic and financial statistics. The Bank-financed Strengthening National Statistics System Project is improving Tajikistan's capacity to collect, analyze, and disseminate key information required for evidence-based decision-making.

C. IDA Funding

24. IDA funding to Tajikistan was provided in the form of 100 percent grant in FY06 and FY08; while in FY07 allocation was set with a 45 percent grant component. Tajikistan's eligibility for grants is determined based on the annual debt sustainability analyses. The indicative IDA 15 envelope for FY08–10 is about SDR61.0 million. Of this, about SDR 19.5 million is scheduled for the FY09, about SDR 20.5 million is planned for FY10, around SDR 21.0 million is targeted for FY11. FY09 IDA allocation will be 100 percent grant.

ANNEX IV. TAJIKISTAN: RELATIONS WITH THE ASIAN DEVELOPMENT BANK

(As of February 2009)

Country Director: Mr. Makoto Ojiro—Telephone: 992-372-210558/271895/ 271897

1. Tajikistan became a member of the Asian Development Bank (ADB) in 1998. The ADB has participated in the Consultative Group Meeting for Tajikistan since 1998. After conducting an initial mission in June 1998, ADB completed an Economic Report and Interim Operational Strategy that identified three areas: (a) agriculture; (b) infrastructure rehabilitation (especially energy and transport sectors); and (c) social sector, in which ADB assistance would have the greatest development impact. Based on the Interim Strategy, ADB's Board of Directors approved in October 1998 Tajikistan's country classification, which provides the basis for Tajikistan's full access to concessional resources (Asian Development Fund (ADF)). Under the new ADF grants framework, starting from 2008, Tajikistan is eligible for 100% grants of its entire ADF allocation up to 2012, subject to a 20% volume discount. Under the performance-based allocation of ADF for 2009-2010, Tajikistan was allocated $102 million for the two-year period. As of end 2008, Tajikistan has received $372.50 million in loans, $33.65 million in technical assistance, and $97.27 million in grants.

2. In view of Tajikistan's urgent need for assistance in 1998, in coordination with the IMF and the World Bank (WB), the ADB provided a **Postconflict Infrastructure Program Loan** ($20 million), which was designed to create a framework for developing market-based transport and energy sectors. The loan was for two years and was fully disbursed by end-2000. Based on the satisfactory progress of the Postconflict Infrastructure Program loan conditionality, the following loans were approved in these two sectors:

3. **Transport Sector**: the Road Rehabilitation Project loan ($20 million in 2000), which rehabilitated the most deteriorated sections of the Dushanbe—Kulyab road in the southern part of Tajikistan, the most civil-war affected areas; Dushanbe—Kyrgyz Border Road Rehabilitation Project loans (first phase of $15 million in 2003 and second phase of $30 million in 2005); and the Regional Road Corridor Improvement Project ($53.4 million loan/grant in 2007), which improve Tajikistan's transportation link toward north and east through Kyrgyz Republic, further to Kazakhstan and Russia, as well as to the People's Republic of China. These projects also improve rural roads in the project areas. Continued supports in strengthening the government's institutional capacity for efficient management of national road network are provided under technical assistance grants associated with these loans and on stand-alone basis. In October 2007, ADB approved a $2.0 million Japan Fund for Poverty Reduction (JFPR) grant to reconstruct key infrastructure in northeast Tajikistan to restore access to rural communities that were isolated after flooding in 2006 washed away a suspension bridge.

4. **Power Sector**: the Power Rehabilitation Project loan ($34 million in 2000) aims to improve people's quality of life and support poverty reduction by increasing the availability of electricity, and assist in post-conflict recovery of Tajikistan's economy (the project rehabilitates and reinforces power transmission and distribution facilities in the war-damaged areas in Khatlon and Dushanbe regions, and rehabilitates the Nurek Power Plant and Central Hydropower Plant). The Regional Power Transmission Modernization Project loan ($20 million in 2002) was geared towards improving the reliability and the operation of the Central Asian power transmission system, enhancing the intercountry power trading between Tajikistan and Uzbekistan, and laying the foundation for a future wholesale regional power market. However, the later loan had to be cancelled due to the inability of Tajikistan and Uzbekistan agreeing on the Power Trade Agreement. The Tajikistan-Afghanistan Power Transmission Interconnection Project loan for $21.5 million to Tajikistan was approved in 2006. This project is aimed to construct a 220 kilovolt double circuit transmission line that will link the hydropower stations on Tajikistan's Vakhsh River to the border town of Sherkan Bandar, then to Kunduz, Baglad, Pul-e-Khumri and, ultimately, Kabul in Afghanistan. In November 2008, ADB approved a $54.77 million grant for the Nurek 500 kV Switchyard Reconstruction Project to rehabilitate an ageing facility in Tajikistan's electricity supply network which is in danger of collapse. Various technical assistance projects were provided to accelerate market-oriented reforms in the power sector also in line with IMF and WB programs and for supporting the government in formulating a power sector development strategy.

5. In addition to the above, the ADB Board approved to date the following loans to Tajikistan in each sector:

6. **Social Sector**: the Social Sector Rehabilitation Project loan ($20 million in 1999) to address the serious deterioration in living standards and strengthen the delivery of essential social services; the Health Sector Reform Project loan ($7.5 million in 2003) to improve health, especially of the poor, women, and children by providing pro-poor health service package, and by reforming the health service delivery and financing mechanism; and the Education Sector Reform Project loan ($7.5 million in 2003), which focuses on supporting the government's reform priorities in primary (grades 1–4) and general secondary education (grades 5–11) by improving the education system and its management. These two social sector reform loans are supported by respective JFPR grants: (a) the project for Community Participation and Public Information Campaign for Health Improvement ($1 million in 2004); and (b) the School Improvement Project ($2 million in 2004).

7. **Agriculture Sector**: based on the agriculture sector assessment prepared during 1999–2000, the Agriculture Rehabilitation Project loan ($35 million in 2002) is being implemented to improve living conditions of the farming communities in the project area and to institute measures to sustain benefits of improvements for irrigation and drainage systems and water supply, as well as by providing farm production support services. In order to

support the agriculture sector reforms, the TA for Farm Debt Resolution and Policy Reforms, which was associated with the loan, has been completed in consultation with the IMF, involving a wide range of stakeholders. Based on the findings of the TA, ADB supported the government in close cooperation with other donors and NGOs for formulating a National Farm Debt Resolution Strategy. ADB, in collaboration with DFID, supported donor coordination for implementing the Strategy. On 5 March 2007, the Government approved the Roadmap for Implementation of the Farm Debt Resolution Strategy. The road map, which includes a comprehensive program of reforms for the sustainable and profitable farming of cotton and other crops, guides the preparation of a suitable intervention for ADB. Grant assistance for Rural Poverty Reduction Project ($2.9 million in 2001) financed by JFPR supported implementation by pilot testing innovative poverty-oriented on- and off-farm supports. In 2004, Irrigation Rehabilitation Project loan was approved for $22.7 million. In a major push supporting the agriculture sector and rural development, Sustainable Cotton Sub-Sector Project loan/grant and Rural Development Project loan/grant were approved in 2006 and 2007, respectively.

8. **Finance**: Microfinance Systems Development Program loan ($4 million in 2003) to support policy, legal, and regulatory reforms; and Microfinance Systems Development Project loan ($4 million in 2003) to help transform nongovernmental organization microfinance programs into licensed and regulated microfinance institutions.

9. **Trade Facilitation**: the Regional Trade Facilitation and Customs Cooperation Program loan ($10 million in 2002), which supported trade and customs reform development across the East and Central Asia. Regional Customs Modernization and Infrastructure Development ($10.7 million in 2004) to promote international trade and enabling environment for private sector development.

10. **Emergency Assistance**: in response to the government's urgent requests, three emergency loans, including the Emergency Flood Rehabilitation Project loan ($5 million in 1999), the Emergency Restoration of Yavan Water Conveyance System loan ($3.6 million in 2001), and the Emergency Baipaza Landslide Stabilization Project loan ($5.3 million in 2002) were approved. In 2007, ADB provided a $22 million loan for the Khatlon Province Flood Risk Management Project to help address recurring flood risks in four districts in the province through a comprehensive and coordinated approach. A major part of the project is the rehabilitation of 8.3 kilometers of flood protection embankment along Pyanj River, which borders Tajikistan and neighboring Afghanistan.

11. In end-2000, ADB started supporting the government in developing PRSP through participatory approach under a TA grant in close cooperation with the IMF, WB, and UNDP. Following the finalization of the PRSP in June 2002, ADB concluded the Poverty Partnership Agreement (PPA) with the government in December 2002, and proceeded to prepare a new five-year Country Strategy and Program (CSP) for 2004–08 for Tajikistan, which was

endorsed by the ADB Board in October 2003. The CSP was successfully completed in 2008, and its main objectives were (a) to strengthen rural development through institution building that will support policy implementation and the private sector; (b) to rehabilitate power and rural infrastructure; and (c) to strengthen regional cooperation through improved customs services and transport links, both within the country and neighboring ones.

12. ADB prepares and updates its three-year rolling programs for Tajikistan every year in consultation with the government based on the ADF resources availability, carefully examining the country's social and economic development status and in coordination with other donors, including IMF. The latest Country Operations Business Plan for Tajikistan covering 2008–2010 was approved in October 2007. Currently, a joint country support strategy for Tajikistan for 2009-2012 is being developed with the joint support of twelve development partners working in the country, including ADB. The strategy is planned for finalization by mid 2009 and expected to be managed through a result-based framework. ADB pays full attention to the progress of Tajikistan's MDG achievement. ADB is also paying intensive attention to governance reforms through investment projects and technical assistance. In 2006, ADB approved a technical assistance project entitled Strengthening Results Management in Support of Poverty Reduction in Tajikistan cofinanced by the Swedish Government. The $2.0 million grant package co-financed by the Government of the United Kingdom Department for International Development was approved in 2007 to help boost the Tajikistan government's capacity in promoting private sector development.

13. The proposed 2009-2010 investmnet program comprises three projects worth a total of $102 million. The actual assistance level will be determined by (a) availability of overall ADF resources; (b) country performance assessment vis-à-vis ADB's policy on performance based allocation of ADF resources; and (c) processing status of the projects in the pipeline.

Statement by the IMF Staff Representative on the Republic of Tajikistan
April 21, 2009

1. This statement provides information on recent developments in Tajikistan that has become available since the staff report was circulated to the Board on March 31, 2009. This information does not change the thrust of the staff appraisal.

VIII. Recent Developments

2. **Economic developments in the first quarter of 2009 were broadly as expected.** Remittance inflows declined by 30 percent year-on-year, in line with our projection for the year as a whole. Real GDP growth reached 3½ percent, mainly driven by non-cotton agriculture, trade, construction, and services. Inflation slowed further to 10 percent year-on-year at end-March.

3. **Based on preliminary data for end-March, the authorities appear broadly on track toward meeting their end-June quantitative performance criteria:**

- While *net international reserves* declined, they did so by less than expected and stood at $171 million at end-March, using current exchange rates. Staff estimates that, at constant exchange rates, this is higher than the projections under the program.

- *Net domestic assets* were also contained below the projections shown in the staff report, and the National Bank of Tajikistan (NBT) refrained from extending new loans to the private sector.

- In the *fiscal area*, revenue collection appears lower than anticipated, mainly reflecting subdued imports. At the same time, the authorities have contained spending by more than projected. The government is in the process of preparing a revised 2009 budget in line with the overall fiscal deficit target of ½ percent of GDP.

IX. Prior Actions

4. **The authorities completed all five prior actions.**

- On April 9, the NBT published the executive summary of the special audit report on its website at http://nbt.tj/en/files/docs/annual_report/rep_eng.pdf.

- On March 26, the NBT adopted an action plan to address the issues and recommendations from the special audit report. The action plan was developed in close cooperation with staff.

- On April 15, the NBT shared the draft report by Ernst&Young on the audit of the NBT's net international reserves position as of December 31, 2008.

- On April 16, the NBT appointed KPMG as their external auditor to conduct the audit of the NBT's financial statements for the fiscal year ending April 30, 2009.

- On March 26, the government submitted to parliament amendments to the National Bank of Tajikistan law and a new commercial bank law in line with program commitments.

5. **The audit of the NBT's net international reserves position provides the necessary assurances to the Fund**. The auditors noted the excellent cooperation from the NBT, but also emphasized weaknesses in the accounting systems and procedures. They identified certain assets that should not be included in net international reserves as defined in the technical memorandum of understanding, although this would not have a bearing on the performance criterion on net international reserves. These assets amount to around $4 million out of the reported net international reserves stock of $181 million. Going forward, staff advises the authorities to implement the auditors' recommendations on net international reserves accounting and enhance on-going net international reserves monitoring; the authorities have already expressed their intentions to do so. In addition, staff will propose to the authorities to conduct regular external audits of their net international reserves position until the weaknesses in the accounting systems have been addressed.

INTERNATIONAL MONETARY FUND
Public Information Notice
EXTERNAL RELATIONS DEPARTMENT

Public Information Notice (PIN) No. 09/52
FOR IMMEDIATE RELEASE
April 30, 2009

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

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

On April 21, 2009, the Executive Board of the International Monetary Fund (IMF) concluded the 2009 Article IV consultation with Tajikistan.[1]

Background

Economic developments in 2008 were favorable, despite a severe winter, a prolonged drought, and electricity shortages. Real GDP growth reached 8 percent in 2008, mainly driven by remittance-financed demand in the services and construction sectors, and non-cotton agricultural production. Inflation receded from its mid-2008 peak, to 11 percent year-on-year in February 2009. With strong domestic demand, the trade balance worsened in 2008. Imports grew by around 36 percent, reflecting high international food and energy prices in the first half of the year, while exports were held back by sluggish industrial activity. Despite this, the overall balance of payments registered a surplus in 2008 as remittances surged by 50 percent.

The authorities completed their June–December 2008 staff-monitoring program. The government achieved an overall fiscal surplus (excluding externally financed investment) of 1 percent of GDP, higher than targeted under the program, and mainly driven by buoyant revenues. The associated build-up of government deposits at the National Bank of Tajikistan (NBT) helped the NBT contain reserve money growth, while accumulating international reserves at a faster pace than envisaged. Gross international reserves stood at $228 million at end-2008, equivalent to 1.3 month of imports.

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[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.

In 2009, Tajikistan faces a negative external shock that is aggravated by domestic problems. With the global slowdown—in particular in Russia—remittances are projected to decline by 30 percent in 2009. Moreover, exports (mainly cotton and aluminum) are projected to contract by 7 percent in value terms. This will require a large balance of payments adjustment, which will be accompanied by weaker demand. On the supply side, ongoing electricity rationing and expected water shortages during the agricultural season are weighing on growth. As such, real GDP growth is projected to decline to 2 percent at best. Inflation should stabilize around 13 percent in 2009.

Tajikistan's financial system remains vulnerable, despite improvements in some financial soundness indicators during 2008. Some banks face severe funding problems due to large corporates drawing down their deposits, a drying up of trade credits and advances for remittances, and rising nonperforming loans. Moreover, the economic slowdown is expected to deteriorate asset quality in 2009, and somoni depreciation could further add to the stress in the banking sector. In response, most banks have started to raise deposit rates and have constrained credit growth. In addition, the NBT has provided liquidity loans, mainly in somoni.

Executive Board Assessment

Executive Directors agreed with the thrust of the staff appraisal. They welcomed the good economic performance in 2008, but observed that Tajikistan is facing a severe external shock from the global economic crisis, the effects of which are compounded by domestic rigidities. Tajikistan is likely to be affected in particular by the serious regional downturn, which could lead to a decline in remittance inflows, putting pressure on the external position and threatening the livelihoods of many poor households that depend on remittances for basic income. Weakening external demand is depressing the main exports—cotton and aluminum—further worsening the external position. Continued heavy state influence over markets and poor energy infrastructure put prospects for faster growth at risk. Poverty remains widespread, and could increase as the economic outlook deteriorates

Against that background, Directors agreed that macroeconomic policies should be geared toward maintaining external stability. They supported the planned restrained fiscal stance, while commending the authorities for raising critical social expenditures. They called on the authorities to fund only those investment projects that are likely to enhance growth prospects. They welcomed the authorities' commitment to tighten policies in the event of a prolonged or more severe global economic downturn.

Directors commended the authorities for improving tax revenues and maintaining fiscal discipline under the staff-monitored program, which has contributed to a further reduction in debt. They encouraged the authorities to rely exclusively on concessional financing in the period ahead to avoid a renewed buildup of unsustainable debt. They welcomed that the National Bank of Tajikistan (NBT) had begun to rebuild international reserves in 2008.

Directors generally welcomed the authorities' commitment to a flexible exchange rate regime, which will help to contain the external current account deficit and support adjustment to external shocks. They took note of the staff assessment that the real effective exchange rate of the somoni could be overvalued. They endorsed the authorities' intention to reduce excess volatility in the foreign exchange market.

Directors observed that although the banking sector has not yet been affected by the global financial crisis, it remains vulnerable, including through its exposure to the cotton sector and deteriorating asset quality. They encouraged the authorities to move quickly to strengthen the liquidity management framework, and with contingency plans to deal with distressed institutions. Supervision should also be enhanced, and steps taken to ensure that banks adhere to regulatory standards.

Directors endorsed the authorities' structural reform agenda. They stressed the need to push forward with agricultural sector reforms to remove rigidities and secure macroeconomic stability and growth. Efforts will also be needed to enhance transparency and accountability in state-owned enterprises.

Directors welcomed the publication of the executive summary of the special audit of the NBT as evidence of improved transparency and governance. They emphasized the crucial importance of swift and comprehensive implementation of the audit recommendations.

It is expected that the next Article IV consultation with Tajikistan will be held in accordance with the Executive Board decision on the consultation cycle for members with Fund arrangements.

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.

Republic of Tajikistan: Selected Economic Indicators, 2005-09

	2005 Act.	2006 Act.	2007 Act.	2008 Act.	2009 Proj.
Production and prices	(Annual change in percent)				
Real GDP	6.7	7.0	7.8	7.9	2.0
CPI inflation (period average)	7.3	10.0	13.2	20.4	12.4
General Government	(In percent of GDP)				
Total Revenue and grants	20.1	23.6	21.6	21.3	21.0
Of which: grants	0.7	4.7	1.1	0.8	1.9
Expenditure and net lending	23.0	21.9	27.8	27.5	27.9
Of which: social expenditure 1/	…	…	7.5	7.3	8.7
Of which: capital expenditure 2/	7.8	6.8	14.1	13.9	10.6
Overall balance 3/					
Excluding externally financed investment	0.5	0.8	1.6	1.3	-0.5
Including externally financed investment	-3.1	1.7	-6.2	-6.2	-7.0
Monetary Indicators	(Annual change in percent, unless otherwise indicated)				
Broad money	30.2	63.4	78.8	6.3	8.3
Velocity of broad money (end-of-period)	7.7	6.1	4.7	6.1	6.8
External sector	(In million of U.S. dollar, unless otherwise indicated)				
Exports of goods and services 4/	601	656	767	814	756
Imports of goods and services 4/	1,221	1,618	2,555	3,469	2,792
Current account balance	-62	-79	-414	-453	-522
In percent of GDP	-2.7	-2.8	-11.2	-8.8	-9.7
Gross official reserves 5/	91	111	107	199	228
In months of next year's imports 6/	0.9	0.7	0.5	1.2	1.3

Sources: Tajik authorities; and Fund staff projections.

1/ Includes current and capital spending on social protection, education and health.
2/ Includes domestically and externally financed investments.
3/ 2006 overall balance excludes the Multilateral Debt Relief Initiative that is reflected in grants.
4/ Starting in 2005, the export and import figures reflect the transition to tolling arrangement for aluminum.
5/ Gross reserves are net of the pledged deposits of the NBT.
6/ Excludes electricity, which is on barter basis, and imports for projects financed with loans from China.

INTERNATIONAL MONETARY FUND EXTERNAL RELATIONS DEPARTMENT

Press Release No. 09/136
FOR IMMEDIATE RELEASE
April 21, 2009

International Monetary Fund
Washington, D.C. 20431 USA

IMF Executive Board Approves US$116 Million PRGF Arrangement for the Republic of Tajikistan

The Executive Board of the International Monetary Fund (IMF) today approved a three-year, SDR 78.3 million (about US$116 million) arrangement under the Poverty Reduction and Growth Facility (PRGF) for the Republic of Tajikistan to support the authorities' economic program. The decision will enable Tajikistan to draw the equivalent of SDR 26.1 million (about US$38.7 million) from the IMF immediately.

The Executive Board also completed the final review under the Staff-Monitored Program (SMP) and the 2009 Article IV consultation with Tajikistan. Details of the findings of the Article IV will be published in a Public Information Notice in due course.

At the conclusion of the Executive Board's discussion of Tajikistan, Mr. John Lipsky, First Deputy Managing Director and Acting Chair, made the following statement:

“Economic performance was good in 2008, but Tajikistan faces a severe external shock that is being compounded by domestic rigidities. Reflecting the deterioration in global economic conditions, remittance inflows are projected to decline in 2009. Tajikistan’s main exports, cotton and aluminum, are adversely affected by weakening demand. The economy’s resilience is constrained by the strong influence of the state in markets and poor energy infrastructure, futher weakening the external position and slowing growth. Despite recent gains, poverty remains widespread, and could increase again.

“Against this background, Tajikistan will receive financial assistance from the Fund under the Poverty Reduction and Growth Facility to help mitigate the effects of this crisis and to support the authorities’ adjustment program. The authorities expect that the Fund’s involvement will unlock budget support from the Asian Development Bank, the World Bank, and the European Union.

"The authorities' program aims to maintain financial and macroeconomic stability, while alleviating the economic impact of the crisis by adopting a flexible exchange rate regime, raising social and poverty-related expenditures, and laying the foundation for future growth. Resolute implementation of the program should lower the external current account deficit to a more sustainable level and restore growth rates.

"The authorities have made some difficult fiscal policy decisions. They have committed to raising transfers to households in response to the economic crisis, and increasing resource allocations for health and education, even though revenues are expected to decline on account of the crisis. To achieve their overall deficit target, the authorities are delaying some low-priority investment projects and scrutinizing current expenditures carefully.

"The authorities' intention to further strengthen the governance of the central bank and the management of monetary policy is welcome. The recent publication of the executive summary of the report on the special audit of the National Bank of Tajikistan is an important step in this regard. The report includes specific recommendations to address the deep-rooted governance problems that contributed to the misreporting to the IMF that was revealed in 2007, and the Fund will monitor implementation of these recommendations under the PRGF program. The authorities have already taken important first steps to address these problems, such as submitting legal amendments to parliament that strengthen governance at the National Bank of Tajikistan and seek to prevent future conflicts of interest, conducting an external audit of the National Bank of Tajikistan's net international reserves position as of end-2008., and appointing an external auditor for the National Bank of Tajikistan's financial statements for this fiscal year.

"The authorities rightly emphasize ongoing reforms in the agriculture and energy sector. In agriculture, addressing the cotton sector debt overhang and introducing a market-based financing mechanism are necessary to raise the sector's growth potential. In the energy sector, restoring the financial health of the power utility would help safeguard budget resources, and ensuring a reliable power supply would remove an important growth bottleneck. More transparency and accountability are needed at state-owned enterprises to ensure that budget resources are spent productively and that there is no buildup of contingent liabilities," Mr. Lipsky said.

ANNEX

Recent Economic Developments

Economic developments in 2008 were positive, despite a severe winter, a prolonged drought, and electricity shortages. Real GDP growth reached 8 percent in 2008, mainly driven by remittance-financed demand in the services and construction sectors, and non-cotton agricultural production. Inflation receded from its mid-2008 peak to 10 percent year-on-year in March 2009, helped by the recent retrenchment in international commodity prices.

The authorities achieved an overall fiscal surplus of 1 percent of GDP (excluding externally financed investment) in 2008, compared to a target of overall balance under the SMP. Revenues were buoyant, mostly reflecting high nominal GDP and import growth, as well as some administrative gains. At the same time, the authorities maintained strict expenditure control.

Helped by the inflow of remittances, the National Bank of Tajikistan (NBT) strengthened its net international reserves position to $181 million at end-December 2008. However, gross international reserves of $199 million covered only 1.2 month of next year's imports. Since the beginning of the year, remittances inflows have declined absolute terms, and the Tajik somoni has depreciated by over 10 percent against the U.S. dollar.

The authorities have also taken important first steps to address the problems that were at the root of misreporting to the IMF that was revealed in late 2007. Specifically, they ended the NBT's involvement in cotton financing and submitted legal amendments to parliament that would strengthen governance at the NBT and prevent future conflicts of interest. The authorities also retained an external auditor to conduct a special audit of the NBT. As a signal of the authorities' commitment to transparency, the Executive Summary of the special audit report was recently published on the NBT's web site. Moreover, they prepared an action plan to follow up on the auditor's recommendations. The IMF will monitor implementation of this action plan under the PRGF. Lastly, the NBT has appointed an external auditor to conduct an audit of its financial statements for the fiscal year ending April 30, 2009, and they have conducted an external audit of Tajikistan's net international reserves position at end-2008.

Program Summary

The authorities' policies under the PRGF-supported economic program aim to:

- Facilitate external adjustment in 2009 through exchange rate flexibility while allowing for rising social spending needs;

- Lay the foundation for medium-term growth and ensuring that there is no build-up of external debt;

- Achieve structural reforms in the areas of central bank governance, state-owned enterprises, and the agriculture sector.

Tajikistan, which became a member of the IMF on April 27, 1993, has a quota of SDR 87.0 million (about US$129 million).

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	2005 Act.	2006 Act.	2007 Act.	2008 Act.	2009 Proj.
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Of which: social expenditure 1/	…	…	7.5	7.3	8.7
Of which: capital expenditure 2/	7.8	6.8	14.1	13.9	10.6
Overall balance 3/					
Excluding externally financed investment	0.5	0.8	1.6	1.3	-0.5
Including externally financed investment	-3.1	1.7	-6.2	-6.2	-7.0
Monetary Indicators	(Annual change in percent, unless otherwise indicated)				
Broad money	30.2	63.4	78.8	6.3	8.3
Velocity of broad money (end-of-period)	7.7	6.1	4.7	6.1	6.8
External sector	(In million of U.S. dollar, unless otherwise indicated)				
Exports of goods and services 4/	601	656	767	814	756
Imports of goods and services 4/	1,221	1,618	2,555	3,469	2,792
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In percent of GDP	-2.7	-2.8	-11.2	-8.8	-9.7
Gross official reserves 5/	91	111	107	199	228
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Sources: Tajik authorities; and Fund staff projections.

1/ Includes current and capital spending on social protection, education and health.
2/ Includes domestically and externally financed investments.
3/ 2006 overall balance excludes the Multilateral Debt Relief Initiative that is reflected in grants.
4/ Starting in 2005, the export and import figures reflect the transition to tolling arrangement for aluminum.
5/ Gross reserves are net of the pledged deposits of the NBT.
6/ Excludes electricity, which is on barter basis, and imports for projects financed with loans from China.

Statement by Thomas Moser, Executive Director for Republic of Tajikistan
April 13, 2009

1. Our Tajik authorities would like to thank the staff for the constructive discussions and policy advice. They consider the Fund's engagement in Tajikistan important to help them preserve macroeconomic stability and maintain a reform momentum. This is particularly important in the current environment. With the world economy experiencing a highly synchronized global downturn and growth in the region and in Russia slowing sharply, Tajikistan will be particularly affected. Tajikistan is one of the poorest countries in the world, and the recent staff report on *The Implications of the Global Financial Crisis for Low-Income Countries* as well as the World Bank report on *The Global Economic Crisis: Assessing Vulnerability with a Poverty Lens* have identified Tajikistan as one of the low-income countries that are particularly vulnerable to the unfolding crisis.

2. With almost half of Tajikistan's labor force having worked outside the country, particularly in Russia and Kazakhstan, and remittances amounting to almost half of Tajikistan's GDP, the expected sharp decline in remittances and the possible return of migrant workers will pose significant challenges for Tajikistan. This, together with the decline in the demand and price for Tajikistan's key exports (aluminum and cotton), ongoing problems with electricity shortages, and a sharp increase in prices for natural gas imports, puts enormous pressures on the balance of payments, opening a large external financing gap and requiring significant adjustment. The Tajik authorities are thus requesting IMF support under the Poverty Reduction and Growth Facility (PRGF) to cushion the large external shocks. Given the low level of reserves and the size of the shock, the Tajik authorities fear, however, that the proposed level of access may prove insufficient.

Performance under the Staff-Monitored Program

3. The authorities have successfully completed the 2008 Staff-Monitored Program (SMP), despite a difficult economic environment. In fact, they overperformed on most program targets. Specifically, they achieved economic growth of 7.9 percent against a projected 5.0 percent, an inflation rate of 11.8 percent against a projected 15 percent, a fiscal surplus of 1.3 percent of GDP against a programmed zero fiscal deficit, and they accumulated gross international reserves of $199 million against a projected $169 million. The Tajik authorities also completed the special audit of the National Bank of Tajikistan (NBT), which was conducted by Ernst & Young London, and repaid all noncomplying disbursements to the Fund. Tajikistan has currently no outstanding IMF loans. The Executive Summary of the Special Audit has been published in English and Russian, and is available on the website of the NBT.[1] The authorities have adopted a comprehensive action plan to address all issues and recommendations of the Special Audit, and have already started with its implementation.

Recent Economic Developments and Outlook

4. Since early 2009, the impact of the global crisis has become more evident. Incoming data shows that during the first quarter of 2009 remittances have already fallen by 30 percent, exports by almost 50 percent, industrial output by 8.2 percent and revenues by more than 20 percent compared with the first quarter of last year. The trade balance widened significantly to a record 50.1 percent of GDP. Since remittances historically are higher through May-November of each year, a higher decline in remittances is expected to occur during May-November of 2009. In addition, the energy crisis has become more acute, not only because a neighboring country stopped the transit of electricity imports, but also because of insufficient water levels in the reservoirs of operating hydropower plants. As a result, a large part of the country experiences severe power shortages, causing significant damage to the well-being of the population and to businesses. Industrial and agricultural output will be adversely affected, 30 percent of agricultural land being irrigated by water pumps. Agricultural output will also be adversely affected by the forecasted drought and the renewed locust invasion, which has started earlier this year and affected more than 20 percent of irrigable land last year.

5. Given incoming data, it is very likely that the significant downside risks to the projections mentioned in the staff report materialize, and that the financing gap will be larger than anticipated. The staff report points out that there is a high risk that if remittances were to decline by an additional 5 percentage points in 2009, Tajikistan's external financial needs would rise by another US$110 million, which is substantial. Thus, together with the projected US$154 million this would result in a total external financial gap of US$264 million. Further expenditure restraints would result in additional delays in infrastructure spending, and a sharp depreciation of the exchange rate would adversely affect the banking system. These adverse developments will also lead to a reversal of the recent declines in poverty in Tajikistan, raising the share of population below the poverty line above the current 53 percent, with rural areas stronger affected than urban zones.

Request for a New PRGF Arrangement

6. Our Tajik authorities have committed to a strong PRGF arrangement, containing substantive conditionality for 2009. They have identified expenditure cuts of 1.5 percent of GDP in current spending, and of 2.5 percent of GDP in capital spending, and committed themselves to address governance issues at the NBT and major state-owned enterprises (SOEs). With the help of a government consultant and in close cooperation with the World Bank and the Asian Development Bank, they are also determined to resolve the long-standing cotton debt problem.

7. In their Special Audit Report, E&Y have specifically highlighted the good cooperation of the new NBT Chairman, who resolutely started to improve governance at the

NBT since taking office in early 2008. A set of amendments to the NBT and Commercial Banking Laws has been submitted to Parliament, going beyond the commitments that the authorities have made under the SMP. The new Chairman is also expediting improvements in the NBT's monetary policy and banking supervision operations.

8. The Ministry of Finance established an SOE supervision unit, with the aim to put SOEs on a sound financial footing, improve their tax compliance, and eliminate their quasi-fiscal deficits. The Ministry's efforts will particularly focus on the two largest SOEs, the Tajikistan Aluminum Company (Talco) and power utility Barki Tajik. The authorities will continue with the tariff adjustments agreed with the World Bank, with the objective to achieve cost recovery by end-2010. The authorities have also adopted an external debt strategy that sets a ceiling on the external debt-to-GDP ratio of 40 percent, in line with staff advice.

9. Our Tajik authorities acknowledge that the proposed access of 90 percent of quota (ca. US$120 million) with significant frontloading in 2009 is above the norm, for which they are grateful to the staff and to management. **However, given the size of the external shock, the significant downside risks and the specific vulnerability of Tajikistan, as well as the good performance under the SMP and the strength of the program, the Tajik authorities would kindly request Executive Directors to consider the possibility of doubling this access to 180 percent of quota, with substantial frontloading in 2009**. Even without the envisaged doubling of access limits for low-income countries, current access limits for PRGFs allow for 185 percent of quota in exceptional circumstances. Our Tajik authorities consider the current circumstances to be exceptional, and access of 180 percent would better help Tajikistan to avoid an unnecessarily disruptive economic adjustment, and to adequately manage the impact of the global economic and financial crisis on the highly vulnerable economy.