

Republic of Tajikistan: Selected Economic Indicators

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

Sources: Tajik authorities; and IMF staff estimates.

1/ Annual GDP divided by average broad money.

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



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

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

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

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

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

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

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

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

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

ANNEX

Recent Developments

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

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

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

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

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

Program Summary

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

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

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

The program envisions implementation of restrictive **fiscal and monetary policies**. During this year the overall budget deficit is expected to be ¼ percent of GDP (excluding the foreign-financed public investment program). For the period 2002-2005, only a modest increase in current expenditures to 15 percent of GDP is envisioned in accordance with the program target to maintain tight fiscal control.

One of the program priorities will be to improve **debt management and fiscal sustainability**. The program will pursue further fiscal consolidation and limit all foreign borrowing. The authorities will not draw on any outstanding non-concessional credit facilities. The program will aim at limiting the size of the foreign-financed public investment program to no more than 3 percent of GDP and to reduce the quasi-fiscal deficit in the energy sector. The recent debt restructuring with Russia will provide significant short-term debt service relief. The Tajik authorities will advise the Iranian authorities that no further borrowing under an Iranian export financing facility will be made by Tajikistan unless the terms of the facility are renegotiated on concessional terms. Over the period 2002 -2005, the program will aim to reduce the current account deficit to below 4 percent of GDP, and gross international reserves to increase to about 3 ½ months of import.

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

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

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