INTERNATIONAL MONETARY FUND

IMF Country Report No. 21/195

REPUBLIC OF TAJIKISTAN

2013 ARTICLE IV CONSULTATION—PRESS RELEASE AND STAFF REPORT

September 2021

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

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

The IMF's transparency policy allows for the deletion of market-sensitive information and premature disclosure of the authorities' policy intentions in published staff reports and other documents.

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International Monetary Fund
Washington, D.C.

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EXTERNAL RELATIONS DEPARTMENT

Public Information Notice (PIN) No. 13/XX
FOR IMMEDIATE RELEASE
July, 22, 2013

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

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

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

Background

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

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

[1] Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. A staff team visits the country, collects economic and financial information, and discusses with officials the country's economic developments and policies. On return to headquarters, the staff prepares a report, which forms the basis for discussion by the Executive Board. At the conclusion of the discussion, the Managing Director, as Chairman of the Board, summarizes the views of Executive Directors, and this summary is transmitted to the country's authorities. An explanation of any qualifiers used in summing up can be found here: http://www.imf.org/external/np/sec/misc/qualifiers.htm.

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

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

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

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

Executive Board Assessment

Executive Directors agreed with the thrust of the staff appraisal. They welcomed Tajikistan's track record of robust growth and the favorable medium-term outlook. They noted, however, that the economy remains vulnerable to external shocks, fiscal risks, and financial sector fragilities. Against this background, Directors underscored the

importance of rebuilding fiscal and external buffers, strengthening governance, and resolving financial sector weaknesses. The main challenge in the medium term is to create the conditions for private-sector-led, sustainable, and inclusive growth.

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

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

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

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

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

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

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

Tajikistan: Selected Economic Indicators, 2010–13

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

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

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REPUBLIC OF TAJIKISTAN

STAFF REPORT FOR THE 2013 ARTICLE IV CONSULTATION

July 1, 2013

KEY ISSUES

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

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

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

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

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

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

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

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