INTERNATIONAL MONETARY FUND

IMF Country Report No. 21/196

REPUBLIC OF TAJIKISTAN

2015 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 2015 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 June 1, 2015 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 June 1, 2015, following discussions that ended on November 20, 2014 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 May 14, 2015.
- 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 documents listed below will be separately released.

Selected Issues

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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June 9, 2015

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IMF Executive Board Concludes 2015 Article IV Consultation with Tajikistan

On June 1, 2015 the Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation[1] with Tajikistan.

Growth has been strong and poverty has fallen in the past decade, though Tajikistan faces rising vulnerabilities. Growth is now softening and the external position has weakened as remittances have fallen with the slowdown in Russia and earnings from cotton and aluminum exports have dropped due to global market developments. The fiscal position has been near balance in recent years and debt has been kept low, while fiscal space is becoming limited by rising debt service and contingent liabilities. Structural reforms to remove bottlenecks to growth, support investment, and create more jobs are urgently needed given the likely long-lasting shocks the country and the region are facing. Downside risks include lower emerging market growth and instability in parts of the region. Upside risks include diversification through stronger economic ties with China, growing access to large markets in South Asia, and the potential discovery of commercially recoverable natural gas.

GDP growth eased to 6.7 percent in 2014 from 7.4 percent in 2013. Growth in 2014 was supported primarily by a rapid expansion in construction, while services (driven by remittances) and agriculture slowed markedly. In 2015, growth is projected to fall to 3 percent on the back of an expected sharp decline in the U.S. dollar value of remittances inflows. Annual headline inflation has been moderate—in the range of 3.5–7.5 percent—over the past two years, reflecting favorable food and fuel import prices and the relatively stable exchange rate through 2014. The external environment has worsened. Falling remittances and exports—combined with flat imports due to the relatively strong somoni—are estimated to have driven the 2014 current account deficit to around 9 percent of GDP, from an average of 3.3 percent during 2011–13. The exchange rate to the US dollar has been depreciating, notwithstanding efforts to slow that

[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.

depreciation, and inflation is projected to reach double digits in 2015 due to exchange rate pass through.

Base and broad money expanded at a relatively moderate pace—13 percent and 7 percent, respectively—in 2014; private credit growth, however, remained robust at 32 percent. The placement of government deposits and National Bank of Tajikistan (NBT) foreign exchange deposits at commercial banks throughout 2014 supported the liquidity of several large banks and the refinance rate signaled loose monetary conditions for much of the year, with the NBT holding the rate at or below zero in real terms until late December 2014.

Recent fiscal performance has been better than expected, with the estimated 2014 budget surplus increasing to 1 percent of GDP. Tax revenue performance in 2013 and 2014 was stronger than expected, in part because of the simpler tax code introduced in 2013. Current spending has been in line with projections, while capital spending has been below the authorities' plans and staff's earlier projections, mostly due to delays in project implementation, including of the Rogun HPP. These fiscal outcomes were consistent with debt sustainability and the anchor of keeping nominal external public debt below 35 percent of GDP. Given the current challenging economic environment, the 2015 budget is expected to be near balance, with social spending being protected.

Executive Board Assessment[2]

Executive Directors welcomed Tajikistan's significant progress in economic and social developments over the past decade, but observed that falling external demand and remittances have increased near-term vulnerabilities significantly. Accordingly, Directors encouraged the authorities to act swiftly to reconstitute external and fiscal buffers and strengthen medium-term growth prospects.

Directors agreed that greater exchange rate flexibility is needed to protect official reserves and competitiveness. They urged the authorities to remove the administrative cap on the exchange rate and limit interventions in the foreign exchange market to that needed to curb excess volatility. Directors also encouraged the authorities to strengthen reserve management, including by boosting the monetary gold holdings of the central bank.

Directors welcomed the authorities' intention to tighten monetary policy if inflation pressure rises. Against a backdrop of robust credit growth, they stressed that central bank liquidity support

[2] 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 summings up can be found here: http://www.imf.org/external/np/sec/misc/qualifiers.htm.

should benefit only banks with strong balance sheets and good collateral, and that the government should refrain from shifting further deposits to banks.

Directors called for a comprehensive approach to manage macro-financial risks. They encouraged the authorities to improve crisis preparedness and help protect the health of the financial system by resolving properly troubled banks and stopping directed lending. Directors observed that establishing a financial stability committee and improving supervision would ensure that credit is extended to borrowers that help drive growth and job creation.

Directors emphasized the importance of a fiscal policy geared to preserving debt sustainability and managing fiscal risks. They commended the authorities' policy of prioritizing expenditure—while protecting social outlays—in the current difficult macroeconomic environment. Directors agreed that a return to small fiscal surpluses over the medium term would help reconstitute depleted fiscal buffers. Reforms that broaden the tax base and strengthen compliance would be helpful in this regard. More broadly, Directors encouraged the authorities to seek concessional financing as much as possible to help safeguard debt sustainability. Directors also agreed that fiscal risks could be further reduced by improving the efficiency and governance of state-owned enterprises.

Directors encouraged the authorities to embark on bold structural reforms to help shift Tajikistan to a new growth model. They noted that measures to improve infrastructure, better match education to the economy's needs, and streamline regulations would improve investment and reduce Tajikistan's dependence on remittances as an engine of growth.

Tajikistan: Selected Economic Indicators, 2011–20

(Quota: SDR 87 Million)
(Population: 8.3 million; 2014)
(Per capita GDP: US $1121; 2014)
(Poverty rate: 42 percent; 2011)
(Main exports: aluminum, cotton; 2013)

	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
	Act.	Act.	Act.	Est.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.
	(Annual percent change; unless otherwise indicated)									
National accounts										
Real GDP	7.4	7.5	7.4	6.7	3.0	4.1	5.0	5.0	5.0	5.0
GDP deflator (cumulative)	13.3	11.9	4.3	5.5	12.7	8.0	6.9	6.0	6.0	6.0
Headline CPI inflation (end-of-period)	9.3	6.4	3.7	7.4	11.7	6.5	6.4	6.0	6.0	6.0
Headline CPI inflation (period average)	12.5	5.8	5.0	6.1	12.8	6.3	6.5	6.0	6.0	6.0
Core CPI inflation (period average)	6.0	8.4	5.3	4.6	10.5	5.5	5.9	6.0	6.0	6.0
	(In percent of GDP; unless otherwise indicated)									
Investment and saving 1/										
Investment	20.5	17.5	17.7	19.2	17.0	17.8	18.3	20.1	21.0	21.7
Fixed capital investment	15.5	13.0	14.7	16.2	15.3	16.3	16.8	17.6	18.5	19.2
Government	12.5	9.0	9.5	10.0	9.7	10.5	10.0	10.3	10.7	11.4
Private	3.0	4.0	5.2	6.2	5.6	5.8	6.8	7.3	7.8	7.8
Gross national savings	15.6	15.0	14.8	10.1	9.9	11.9	13.5	15.9	17.3	18.2
Public	9.1	9.3	8.7	10.1	7.9	8.2	7.8	7.7	7.9	8.2
Private	6.5	5.7	6.1	0.0	2.0	3.7	5.7	8.2	9.4	10.1
General government finances										
Revenue and grants	24.9	25.1	26.9	28.4	26.2	26.5	26.1	26.3	26.5	26.8
Tax revenue	19.4	19.8	21.0	22.8	20.5	20.6	20.8	20.9	21.0	21.1
Expenditure and net lending 2/	28.2	24.8	27.7	28.3	28.0	28.7	28.4	28.8	29.2	30.0
Current 2/	16.0	16.0	18.1	18.2	18.1	18.1	18.2	18.4	18.4	18.6
Capital	12.5	9.0	9.5	10.0	9.7	10.5	10.0	10.3	10.7	11.4
Overall balance (excl. PIP and stat. discrepancy)	-0.3	1.6	0.2	1.0	-0.3	0.0	0.1	0.1	0.2	0.3
Overall balance (incl. PIP and stat. discrepancy)	-3.3	0.3	-0.8	0.1	-1.8	-2.2	-2.3	-2.5	-2.8	-3.2
Domestic financing 2/	0.8	-0.7	0.0	-3.0	1.1	0.9	1.0	1.0	0.8	0.7
External financing	2.6	0.4	-0.1	-0.2	0.7	1.3	1.2	1.5	1.8	2.4
Total public and publicly-guaranteed debt	35.4	32.4	29.2	28.2	29.1	29.7	30.9	30.9	31.7	31.5
Monetary sector 3/										
Broad money (12-month percent change)	33.1	19.6	19.7	7.0	16.3	15.4	15.4	14.2	14.0	13.8
Reserve money (12-month percent change)	27.9	18.4	18.3	13.2	14.8	13.2	13.2	12.4	12.3	12.1
Credit to private sector (12-month percent change) 4/	40.9	6.6	53.6	31.5	16.1	15.1	14.2	13.8	13.8	12.9
Velocity of broad money (eop)	5.1	5.1	4.8	5.0	5.0	4.9	4.7	4.6	4.5	4.4
Refinancing rate (in percent, eop/ latest value)	9.8	6.5	5.5	8.0	...	...	...	...	...	...
	(In percent of GDP; unless otherwise indicated)									
External sector 5/										
Exports of goods and services (U.S. dollar, percent change)	34.5	41.0	-3.1	-10.6	14.5	9.9	10.0	12.2	10.5	10.4
Imports of goods and services (U.S. dollar, percent change) 6/	47.6	16.9	12.0	0.1	-23.2	1.2	6.1	7.5	7.6	9.0
Current account balance	-4.8	-2.5	-2.9	-9.1	-7.1	-5.8	-4.9	-4.1	-3.7	-3.4
Trade balance (goods)	-47.7	-44.8	-45.5	-43.3	-31.1	-27.9	-26.6	-25.8	-25.1	-24.8
FDI	1.0	3.1	1.2	2.1	2.8	3.2	3.6	3.8	4.2	5.0
Total public and publicly guaranteed external debt	33.1	28.4	25.3	24.5	25.7	26.5	27.0	27.9	28.9	28.9
Exports of goods and services, in millions of U.S. dollars	1,164	1,642	1,591	1,423	1,630	1,791	1,971	2,211	2,443	2,696
Imports of goods and services, in millions of U.S. dollars	4,382	5,124	5,738	5,747	4,414	4,469	4,744	5,097	5,485	5,976
Current account balance, in millions of U.S. dollars	-316	-187	-244	-839	-604	-533	-487	-445	-434	-438

Total public and publicly guaranteed external debt, in millions of U.S. dollars	2,094	2,152	2,148	2,107	2,137	2,390	2,658	2,978	3,362	3,656
Gross official reserves (in millions of U.S. dollars)	501	649	477	511	459	549	659	829	979	1,204
In months of next year's imports 7/	1.2	1.4	1.0	1.4	1.2	1.4	1.6	1.8	2.0	2.2
In percent of broad money	18.3	19.2	11.8	11.4	7.0	6.9	7.0	7.5	7.6	8.0
Memorandum items:										
Nominal GDP (in millions of somoni)	30,069	36,161	40,525	45,605	52,936	59,519	66,835	74,387	82,793	92,148
Nominal GDP (in millions of U.S. dollars)	6,523	7,592	8,506	9,242	8,533	9,173	9,971	10,800	11,745	12,785
Social and poverty-related spending (in percent of GDP)	9.7	10.9	11.1	11.9	12.5	13.1	13.7	14.3	14.8	15.3
Nominal effective exchange rate (Index 2010=100)	92.7	93.0	95.7	99.3	...	...	...	...	...	...
Real effective exchange rate (Index 2010=100)	98.8	99.9	103.4	110.5	...	...	...	...	...	...
Average exchange rate (somoni per U.S. dollar)	4.61	4.76	4.76	4.93	...	...	...	...	...	...

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

1/ Private investment and savings are estimates. Investment includes changes in stocks.

2/ Including statistical discrepancy, except in 2013 and 2014 where statistical discrepancy is treated as below the line domestic financing item.

3/ Figures differ from those reported earlier due to structural revision to monetary and financial sector statistics based on recent IMF TA.

4/ Slowdown in 2012 is due to bad loans write-off at Agroinvestbank.

5/ Receipts from aluminum exports under the tolling arrangements are booked as services exports.

6/ Adjusting for unrecorded oil imports in 2012-13.

7/ Excluding imports related projects financed with loans from China.

INTERNATIONAL MONETARY FUND

REPUBLIC OF TAJIKISTAN

STAFF REPORT FOR THE 2015 ARTICLE IV CONSULTATION

May 14, 2015

KEY ISSUES

Context: Growth has been strong and poverty has fallen in the past decade, though Tajikistan faces rising vulnerabilities. Growth is now softening and the external position has weakened dramatically as remittances have fallen with the sharp slowdown in Russia and earnings from cotton and aluminum exports have dropped due to global market developments. The exchange rate is under pressure and international reserves are thin. The fiscal position has been near balance in recent years and debt has been kept low, while fiscal space is becoming limited by rising debt service and contingent liabilities. The health of the banking system has further weakened. Structural reforms to remove bottlenecks to growth, support investment, and create more jobs are urgently needed given the likely long-lasting shocks the country and the region are facing. Downside risks include lower EM growth, instability in Afghanistan, and geopolitical risk emanating from parts of the Middle East (Annex I). Upside risks include diversification through stronger economic ties with China, access to large markets in South Asia if progress in stabilization in Afghanistan proceeds faster than anticipated—or through an expanded China-Pakistan trade corridor—and the potential discovery of commercially recoverable natural gas. Tajikistan joined the WTO in 2013 and was a founding member of the Asian Infrastructure Investment Bank (AIIB) in April 2015.

Focus of consultation and key recommendations: Given the deterioration in the external environment and weaker long-term growth prospects, the consultation focused on policies and reforms to respond to shocks and create an environment supportive of investment and job-creating growth.

- Greater exchange rate flexibility to support reserves and competitiveness.
- Resolve problem banks; improve bank supervision and governance to strengthen the financial sector; and strengthen crisis preparedness.
- Reform key SOEs, improve their transparency, and integrate them into the budget.
- Return to small fiscal surpluses and improve social safety nets.
- Improve infrastructure; match education better to businesses' needs.

Previous consultation: Executive Directors noted significant weaknesses in the economy, including low fiscal and external buffers, financial sector vulnerabilities, over-reliance on remittances, and the narrow export base. They urged the authorities to take advantage of robust growth and the benign external environment in 2013 to: (i) rebuild fiscal buffers by broadening the tax base, strengthening tax administration, and bolstering non-tax revenue collection, including dividends from SOEs; (ii) address financial sector vulnerabilities—including by properly resolving problem banks—and discontinue directed lending; and (iii) pursue prudent debt management by refraining from non-concessional borrowing. The authorities have made some progress in the area of tax and non-tax administration and revenue collection, and debt management has remained prudent. Financial sector reforms have lagged and vulnerabilities have increased, in part due to political economy constraints. Staff's advice in these areas is unchanged.

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

The staff team comprised Jonathan Dunn (head), Saad Alshahrani, Ritu Basu, Aidyn Bibolov (Resident Representative), Maxym Kryshko, Gohar Minasyan (all MCD), and Tamon Asonuma (SPR). Discussions were held in Dushanbe November 6–20, 2014 and March 30–April 3, 2015. The missions met with Prime Minister Rasulzoda, First Deputy Prime Minister Said, Central Bank Governor Shirinov, Minister of Finance Qurbonov, Ministers of Economic Development and Trade Hikmatullozoda and Rahimzoda, other senior government officials, members of parliament, and representatives of the donor community, the private sector, and civil society. Mr. Rajabov (OED) attended many of the November meetings. Soledad Feal-Zubimendi and Adelina Zolas (both MCD) contributed to producing this report and Tahmina Kamarova, Zuhro Qurbonova and Bakhrom Ziyaev (Resident Representative office) provided outstanding assistance to the missions.

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CONTEXT

1. **Growth has been strong (average of 7.3 percent 2004–13) but Tajikistan remains vulnerable to shocks, particularly given very low international reserves and thin fiscal buffers.** A heavy reliance on imports (65 percent of GDP) is complemented by the narrow export base (19 percent of GDP). Since Tajikistan is likely to export labor for the foreseeable future, remains the most remittance-dependent country in the world (remittances equivalent to about 50 percent of GDP in 2013 and 43 percent of GDP in 2014), and earns more than 90 percent of its remittances in Russia, the vulnerability of its remittance-led growth model is being exposed through spillovers from external developments. With Russia's growth estimated at under 2 percent over the medium term (April 2015 WEO), Tajikistan's medium-term growth is likely to ease to 5 percent. Though the authorities' current medium-term fiscal framework is consistent with debt sustainability, macro-fiscal risks arise from problem banks (a legacy of directed lending and weak governance) and loss-making SOEs. Ambitious structural reforms to improve governance and policy frameworks would support investment, diversification of economic ties, higher growth, and job creation.

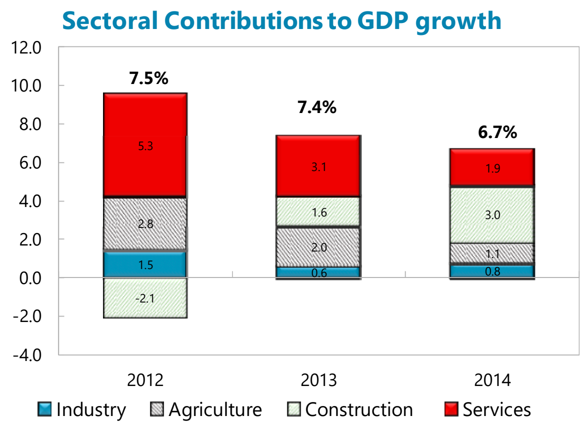
2. **President Rahmon—who has led the government since 1994—was re-elected in November 2013 for a seven-year term.** The new government has yet to define a strong economic reform agenda or adopt policies adequate to avert a possible crisis and address long-term vulnerabilities. The government has indicated it intends to complete the Rogun hydropower project (HPP), estimated to cost $5–6 billion (60–70 percent of projected 2015 GDP) over a construction period of 15 years. While techno-economic assessment studies for Rogun show that the project is the least-cost option for additional electricity generation in Tajikistan, the project poses macroeconomic challenges (debt sustainability, crowding out), has no identified financing, and is opposed by Uzbekistan. Tajikistan joined the WTO in 2013 and became a founding member of the AIIB in April 2015.

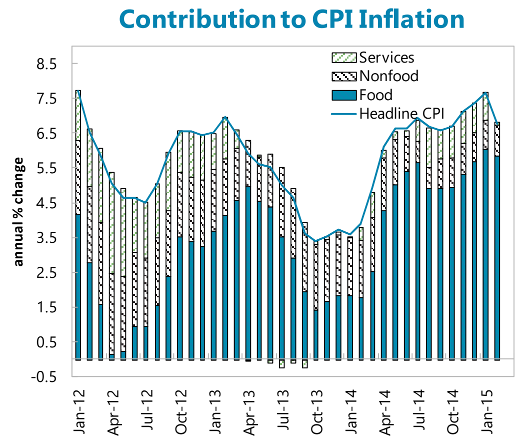
RECENT DEVELOPMENTS

3. **GDP growth eased to 6.7 percent in 2014 from 7.4 percent in 2013 and continues to slow; inflation has to date remained moderate.** Growth in 2014 was supported primarily by a rapid expansion in construction, while services (driven by remittances) and agriculture slowed markedly.[1] [2] Annual headline inflation has been in the range of 3.5–7.5 percent over the past two years, reflecting favorable food and fuel import prices and the relatively stable exchange rate through 2014.

[1] Preliminary sectoral output data indicate that GDP growth slowed markedly in 2015:Q1. Official real GDP growth figures for the same period are not consistent with price or remittance data and staff is exploring this with the authorities.

[2] Remittances drive services (retail trade) growth; they declined by 8.7 percent in 2014. Aluminum and cotton are Tajikistan's main exports.

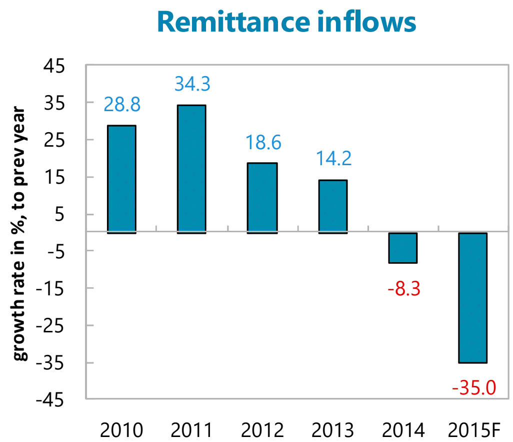


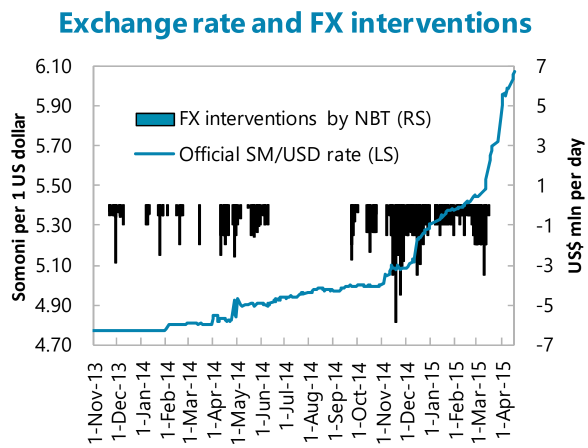


4. **The external environment has significantly worsened and the exchange rate remains under pressure.** Falling remittances and exports—combined with flat imports due to the relatively strong somoni—are estimated to have driven the 2014 current account deficit to 9.1 percent of GDP, from an average of 3.3 percent during 2011–13. The official exchange rate to the U.S. dollar depreciated by 24 percent in the sixteen months through April 2015.[3] Throughout this period, the authorities intervened (selling about 40 percent of the current stock of reserves) to resist depreciation pressure out of concerns about inflation. These interventions kept already low international reserves (now at just one month of import cover) under pressure. In March and April 2015, the authorities introduced administrative controls on foreign exchange trading to limit what they perceived as excessive volatility and speculative activity.[4] Despite these measures—and continued intervention to supply the market—the cash street exchange rate continued to depreciate, including in the emerging informal market. Reports are emerging of difficulties facing firms, individuals and foreign banks in processing overseas payments through banks in Tajikistan. Staff will continue to monitor these developments. The external assessment (Annex II) shows that the real effective exchange rate has moved well above its 10-year average and that the somoni is overvalued.

[3] The cash street rate of the somoni depreciated by about 25 percent over this same period and was about 4 percent more depreciated than the official rate at end-April 2015.

[4] See Policy Discussions for more detail on the administrative controls that were introduced.





5. **Monetary policy has been accommodative.** Base and broad money expanded at a relatively moderate pace—13 percent and 7 percent, respectively—in 2014; private credit growth, however, remained robust at 32 percent. Though National Bank of Tajikistan (NBT) liquidity lending to banks was limited in 2014, placement of government deposits and NBT foreign exchange deposits at commercial banks throughout 2014 supported the liquidity of several large banks—including those in violation of prudential norms—and helped fuel credit growth. The refinance rate also signaled loose monetary conditions for much of the year, with the NBT holding the rate at or below zero in real terms until late December 2014.

6. **Fiscal performance has been better than expected.** The 2013 budget—excluding externally-financed public investment projects (PIP)—ran a surplus of 0.2 percent of GDP, compared to a small budgeted deficit. The 2014 budget surplus increased to 1 percent of GDP. Tax revenue performance in 2013 and 2014 was stronger than expected, in part because of the simpler tax code introduced in 2013.[5] Current spending has been in line with projections, while capital spending has been below the authorities' plans and staff's earlier projections, mostly due to delays in project implementation, including of the Rogun HPP.[6] These fiscal outcomes were consistent with the anchor of keeping nominal external public debt below 35 percent of GDP, with total public and publicly-guaranteed debt estimated at just over 28 percent of GDP at end-2014.

7. **Quasi-fiscal risks and costs associated with SOEs are rising and are limiting fiscal space.** Operational losses of SOEs more than doubled—reaching the equivalent of 9 percent of tax revenue—in 2013. This has contributed to pressure for direct government support to SOEs, with the long-standing practice of the budget servicing the debt of the loss-making state electricity company Barki Tajik now broadened to include direct budget payment of debt service on new external loans

[5] Concerns remain about pressure on businesses from the tax authorities so that they can meet revenue targets.

[6] Spending on the Rogun HPP again ran below the budget in 2014 as the government waited for the feasibility studies that were completed in August 2014.

of $90 million recently contracted by the Tajikistan Aluminum Company (TALCO). In addition, Barki Tajik's arrears to foreign joint venture partners in two existing HPPs now exceed $130 million, placing a potential claim on already very low international reserves. More generally, the SOE dividends policy introduced in 2013 is not being fully enforced; transparency and accountability of SOEs remain weak—though TALCO has recently again placed its audited financial statements on its website; and the list of SOEs monitored by the Ministry of Finance (MOF) is incomplete and leaves out some key public entities, such as Talco Management (the offshore arm of TALCO), the Rogun HPP construction company, and majority state-owned banks.

8. **Banking system vulnerabilities have dramatically increased.** System-wide nonperforming loans (NPLs; 1+ day overdue) rose to 27 percent of total loans at end-2014 from 23 percent at end-2013. Almost all (90 percent) of these NPLs are concentrated in the largest banks and are the result of loans to connected shareholders and to loss-making state-owned enterprises (SOEs). The system-wide risk-weighted capital adequacy ratio at end-2014 was 14.5 percent, deteriorating substantially from 22 percent at end-2013. This is driven by a relatively small yet persistent capital shortfall in one large bank and the return to insolvency of Agroinvestbank (AIB), the large bank the government rescued and recapitalized in 2012 yet did not resolve properly at that time.[7] Somoni and hard currency deposits in the banking system have been declining steadily since October 2014, though they still expanded overall compared to 2013.

OUTLOOK AND RISKS

9. **Tajikistan's growth prospects have weakened and inflation is expected to pick up in the short run.** Growth in 2015 is projected to fall to 3 percent on the back of an estimated 35 percent decline in remittances driven by the economic contraction in Russia. Weak growth in Russia and little expected progress on structural reforms mean that growth over the medium term—at 5 percent—is not projected to return to the recent average of above 7 percent, though it should receive some support from growing economic ties with, and private and public investment from, China. Staff projects average annual inflation to rise into double digits in 2015—largely due to pass through from exchange rate depreciation—before tapering off in light of benign food and fuel prices, moderate further exchange rate depreciation, and maintenance of appropriate monetary and fiscal policies. The current account deficit is projected to moderate through the medium term as imports adjust to exchange rate depreciation and lower remittance and income growth, and as

[7] See SM/13/184. The government rescued and recapitalized AIB in early 2012 at a fiscal cost of 2 percent of GDP. Existing private shareholders whose companies had bankrupted AIB by defaulting on loans were allowed to retain their shares in the bank—without contributing any new capital—and to keep management control of the bank. That management team subsequently extended new loans to the same companies during 2012–13, until the MOF took operational control of the bank in 2014, and defaults on these new loans have led to renewed problems at AIB. Recent joint IMF-World Bank technical assistance identified two resolution strategies—recapitalization with conditions and a bridge bank—for AIB, though the authorities have yet to signal that they will restructure AIB in line with good international practice. In April 2015, the government replaced the top management at AIB with a CEO who is closely associated with the companies that are large debtors to the bank, and asked his management team to ensure that non-performing loans to these companies are repaid.

exports respond through improved competitiveness and export-oriented investment (cement, food products, metals) from China. The outlook incorporates fiscal balances consistent with debt sustainability and moderate growth in foreign-financed public investment projects.[8]

10. **Tajikistan's risk of debt distress is assessed to be low, upgraded from its previous moderate rating.** Assessing debt sustainability with thresholds used for medium policy performers—due to an improvement in the World Bank's Country Policy and Institutional Assessment (CPIA) rating—moves Tajikistan from moderate to low risk of debt distress.[9] Notwithstanding an increase in borrowing capacity implicitly expressed by increases in the applied thresholds, Tajikistan's external position is projected to remain sensitive to external shocks given the deteriorating macroeconomic environment, limited policy action to tackle existing vulnerabilities, and thin external buffers. Stress tests within the public DSA demonstrate also the sensitivity of the fiscal position with respect to a slightly lower long run growth rate.

11. **Tajikistan is likely to remain vulnerable in the face of downside risks, with some upside that could be strengthened if broad structural reforms are implemented.** In the near term, the combination of sustained external pressure, declining remittances, falling growth, erosion of confidence in the somoni, the highly-dollarized and already weak banking system, and inadequate policies create the risk of a currency and banking crisis. Over the longer term, sustained low growth in Russia is likely to permanently reduce demand for Tajikistan's migrant labor and suppress gross national income and growth through lower remittances. The deteriorating health of banks and weak SOEs will undercut growth and raise financial stability and fiscal risks (Annex III). Geopolitical risks arise from possible instability in Afghanistan and security spillovers to Central Asia from the Middle East. Upside exists from more rapid growth of economic ties with China, the discovery of commercially recoverable quantities of natural gas by major international companies,[10] and stability in Afghanistan that would open a secure trading route to the markets of South Asia, including for electricity exports. All of these upside risks would be bolstered—and downside risks partially offset—if Tajikistan implements ambitious structural reforms to improve the business climate in support of investment and job-creating growth.

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[8] Though a tender seeking expression of interest in the project was issued in early 2015, a decision on the construction of the Rogun HPP is likely to take at least another two years. The government's current medium-term fiscal framework, and staff projections, include annual expenditure of about 2 percent of GDP to complete basic infrastructure at the Rogun HPP site; this infrastructure is required to divert the Vaksh river to allow for eventual dam construction. While the government has indicated it would like to build the full-height Rogun dam (remaining estimated cost of $5–6 billion), no sources of financing or other cash flows have been identified to complete the project. The full cost of Rogun is, therefore, not included in the baseline macroeconomic framework, and the framework will need to be revisited to incorporate Rogun once the government has a well-developed financing plan.

[9] This result is also driven by the higher discount rate of 5 percent applied to all external debt in LIC DSAs since October 2013; this change has reduced the present value of all external debt compared to the previous DSA.

[10] The exploration arm of the China National Petroleum Corporation and Total are jointly drilling for gas in southwestern Tajikistan.

POLICY DISCUSSIONS

Key risks identified in the 2013 Article IV consultation are being realized. In particular, external buffers are being eroded through external shocks, and worsening financial discipline and continued weak governance of SOEs and banks—in combination with no proper resolution of AIB—are constraining financial market development, confidence, and investment, and limiting the potential for higher, job-creating growth. Moreover, Tajikistan's external position is projected to remain vulnerable to external shocks given the deteriorating macroeconomic environment, limited demonstrated policy action to tackle existing vulnerabilities, and thin buffers against shocks. Discussions covered policy actions and structural reforms to address these challenges. As the authorities have not requested a new Fund-supported program, staff will continue with intensive surveillance.

A. Exchange Rate and Monetary Policy

12. **Strong measures are needed to support international reserves, which stood at just one month of imports at end-April 2015.** The authorities' conversion (in mid 2014 and early 2015) of non-monetary gold to $154 million in monetary gold increased buffers—but only temporarily as the authorities resisted exchange rate depreciation through foreign exchange interventions that more than offset the gain from gold conversion. As a result, competitiveness has weakened. In addition, reserve management practices are characterized by frequent trading operations. Staff urged the authorities to:

- Allow a steady and substantial depreciation of the exchange rate to protect reserves, cushion the domestic purchasing power of falling remittances, and help protect competitiveness.

- Proceed quickly with the conversion of additional NBT non-monetary gold and have the MOF sell its monetary gold to the NBT, to strengthen both external and fiscal buffers at a critical juncture.

- Pursue more conservative reserve management practices, and seek technical assistance from international partners in this area.

13. **Monetary policy and other measures should be taken to offset price pressures.** Inflation is projected to push into double digits in 2015 due to exchange rate pass-through, with 40 percent of the CPI basket comprised of imported goods priced largely in dollars. The shift of government deposits to commercial banks in late 2013 and in 2014 complicated the management of monetary policy, and this liquidity is likely to have helped drive rapid private credit growth—32 percent in 2014—and sustain pressure on the exchange rate and reserves.[11] Though the NBT increased the refinance rate—used as a reference rate by commercial banks—to 8 percent in late December 2014, it remained negative in real terms through most of 2014 and likely facilitated credit demand. Staff encouraged the NBT and MOF to pursue the following actions:

[11] Some banks that received liquidity through these deposit transfers were, and remain in, violation of prudential norms. The NBT only partially sterilized these deposit transfers through the sale of NBT bills.

- Actively use the refinance rate to signal tighter monetary conditions so long as price pressures persist.
- Sell additional NBT bills to sterilize more of the liquidity injected into banks through government deposit transfers.
- Limit NBT liquidity lending to a short-term, periodic basis, and only to solvent banks meeting all prudential norms and that post proper collateral.
- Avoid further transfers of government deposits into commercial banks.
- Develop the government debt market so that a monetary policy framework can be developed in support of a more flexible exchange rate regime.

14. **Staff discussed with the authorities changes to the exchange system and related legal framework, the persistent and relatively large spread between the official and cash market exchange rates, and the practice of selling foreign exchange to budget institutions at preferential rates.** While no changes were made to the exchange system and the related legal framework in the period from the 2013 Article IV consultation through end-2014, significant administrative controls on foreign exchange trading were introduced starting in March 2015. These included the introduction of specific buy and sell rates at which banks are allowed to transact foreign currency with their customers, sanctions—up to and including the withdrawal of their licenses—against banks that conduct foreign currency operations at rates that differ from the specified rates, and the closure of all non-bank-owned cash foreign exchange kiosks (about half of all cash exchange points in the country). The authorities and staff also discussed the methodology by which the official exchange rate was being calculated and agreed that it biased the official rate to be significantly more appreciated than the interbank and cash market rates. The authorities explained their long-standing practice of selling foreign exchange to the MOF and budget institutions at the official exchange rate. Staff noted that the establishment of an official rate without a mechanism to ensure that it does not deviate from the market rate by more than two percent (including the imposition of buy/sell rates that deviate by more than two percent from the official rate) constitutes a multiple currency practice. The spread between the official rate and the interbank market rate exceeded 2 percent from early 2014 until the imposition of mandatory buy/sell rates, and the spread between the official rate and the mandatory buy/sell rate is currently around 3.5 percent. Staff urged the authorities to move rapidly to restore confidence in the foreign exchange trading system by:

- Unifying the official and bilateral interbank/cash market exchange rates.
- Ensuring that the official exchange rate is calculated using only true interbank transactions.
- Removing the specified allowable rates for foreign currency transactions between banks and their customers.

15. **Authorities' views.** The authorities agree that international reserves are very low, the somoni should adjust more, and the official exchange rate should converge to the cash market rate. They explained that they continue to intervene in the foreign exchange market to ensure a gradual exchange rate adjustment primarily out of concerns about inflation and exchange market stability, and also because of risks to banks' balance sheets due to their highly-dollarized loan portfolios. The NBT agrees that further exchange rate adjustment should be accompanied by tighter monetary conditions to help contain inflation induced by exchange rate pass-through and to help temper still-high private credit growth. The MOF noted that government deposits had been moved to commercial banks primarily in search of higher deposit rates. The NBT noted that the administrative controls placed on the foreign exchange market would gradually be removed once the authorities are convinced that speculative activity is not driving exchange market developments. The authorities agreed that development of a government debt market should be a high priority.

B. Financial Sector

16. **The financial sector in Tajikistan is small, shallow, and segmented.** Tajikistan's financial sector is at the bottom of the distribution of peer CCA countries in terms of banking assets as a share of GDP (35 percent), the depth of financial intermediation–measured by private sector credit to GDP (21 percent), and foreign ownership (Annex IV).[12] The sector is dominated by six large banks (accounting for 73 percent of total financial sector assets), two of which are majority or fully state-owned. Eleven small and medium banks account for 14 percent of assets and the remainder of the financial sector is comprised of micro-finance institutions, consisting of micro-deposit organizations, micro-lending organizations, and micro-lending funds. In general, the financial performance of large banks—several of which exhibit weak governance and are subject to frequent government intervention—is worse than that of smaller banks and micro-finance institutions.

17. **Weak regulatory enforcement and delays in resolving problem banks are creating risks to the financial system.** The NBT's ongoing forbearance for large banks is problematic in at least two aspects—it creates moral hazard with respect to other banks, thereby increasing the likelihood of new problem banks and raising fiscal risks, and it prevents the emergence of a level playing field for smaller dynamic financial institutions that are not saddled by high NPLs. The three-year delay in resolving AIB is magnifying risk for the entire financial system.

18. **Macro-financial risks are linked to the economic environment, exchange rate movement, high dollarization, rapid credit growth, and weak SOEs (see the FSSA).** With slowing growth, falling remittances, and a depreciating exchange rate, the highly dollarized loan books of lending institutions—which were inflated by the 2014 credit boom and are dominated by foreign currency lending to unhedged business and household borrowers (around 60 percent of all loans)—are putting direct pressure on bank and MFI balance sheets through rising NPLs. Contingent fiscal costs are rising due to deteriorating bank balance sheets. Multi-factor stress tests (NPL increase, depreciation, and interest rate increases; FSSA, Table 12B) indicate that the cost of bank

[12] The share of foreign-owned banks is around 11 percent of total banking system assets.

recapitalization could be as high as 3 percent of GDP (this is in addition to the approximately 2 percent of GDP needed to recapitalize AIB). Looking forward, indirect risks to the economy from stressed banks and MFIs include higher interest rates, reduced financial intermediation and credit availability, and weaker economic activity. These risks to the financial system and the broader economy highlight the need to strengthen preparedness to deal with stress in the financial system and to pursue ambitious structural reforms to improve economy-wide efficiency.

19. **Risks to the banking system need to be managed to ensure financial stability and to help lay the foundation for a banking system that can support job-creating growth.** Staff urged the following actions:

- An immediate improvement in preparedness to handle possible financial sector instability, including through the establishment of a financial stability committee and a review of the coverage, funding, and payout of the deposit insurance system in view of high economic and deposit growth in recent years.

- The rapid resolution of AIB in line with good international practice, including with a fit and proper management team, and a halt to the practice of directed lending that has undermined the financial health of AIB and other banks.[13] In the absence of a commitment to an acceptable resolution strategy in the near future, which would require government recapitalization of AIB under strict conditions, AIB should be liquidated.

- No liquidity lending to AIB—other than possibly in the context of a resolution strategy in line with good international practice—given the poor governance and poor health of the bank, and liquidity provision to other banks only if they are solvent and can provide proper collateral.

- A shift by the NBT to a more aggressive stance on banking supervision and regulation, including through a change in the law to require prompt corrective action by the NBT when banks are violating prudential norms.

20. **Authorities' views.** The authorities acknowledged the increase in financial sector risks, including because of the likely persistent nature of regional spillovers and the economic slowdown. The government and NBT noted that consideration would be given to establishing a financial stability committee, and the NBT said it would begin a review of the deposit insurance system. The authorities said that consideration of any resolution plan for AIB would be delayed by some months to give the bank's new management time to try and enforce collection on bad loans and propose a restructuring plan for AIB, though this likely would not include foreign management. The authorities said that directed lending had been halted over the past year and would be avoided going forward. The NBT indicated that it would consider strengthening the prompt corrective action framework and would welcome TA on crisis preparedness.

[13] The EBRD, which is a shareholder in AIB, has offered to finance a contract for foreign managers to help restructure AIB and to provide trade finance credit lines to the bank if the government pursues a proper resolution strategy.

C. Fiscal Policy and SOEs

21. **While the medium-term budget framework remains consistent with debt sustainability by keeping external public debt below 35 percent of GDP, the budget faces short-term pressure.** Over the medium term, the policy of pursuing small fiscal surpluses (excluding foreign-financed public investment projects) is appropriate in view of rising debt service, thin fiscal buffers, and contingent liabilities. In the near term, declining growth and imports are projected to lead to a revenue shortfall compared to the 2015 budget. In response, the government is appropriately prioritizing current and capital spending, while protecting social outlays, which may need to rise to meet the needs of migrant workers now unable to find work in other countries in the region, particularly in view of higher price pressures associated with needed exchange rate depreciation.[14] The authorities are also seeking grant and concessional budget support from donors to meet budget needs, though this assistance will require improved macroeconomic policies and ambitious reforms in the financial and energy sectors.

22. **There are substantial risks to the fiscal position going forward.** The lack of strong measures to address risks in the banking sector is likely to lead to recurring fiscal costs associated with bank rescue and restructuring. Weak oversight of SOEs—many of which are loss-making—leads to inefficient public investment (Annex V), the diversion of resources away from efficient economic activity and the budget, and potential claims on the budget and international reserves. This is most evident in the direct subsidies the budget already provides to service the external debt of large SOEs (Annex VI) and the arrears of SOEs to foreign joint-venture partners. Possible borrowing to finance the Rogun HPP may strain the debt position, though this will depend on possible equity participation and the boost to growth from the project. Fiscal risk is also being generated by the tax authorities' response to the current economic slowdown—heavy pressure is being put on private businesses in order to try and meet revenue targets and this risks erosion of the tax base as businesses either fold or return to the shadow economy.

23. **Managing fiscal risks and maintaining debt sustainability will be critical to protecting macroeconomic stability and supporting growth.** Staff offered the following advice:

- In the current weak macroeconomic environment, continue to prioritize expenditure while protecting, or even increasing, social outlays, including by working closely with donors to secure additional financing to support social expenditures for migrant workers who are now back in Tajikistan and to improve mechanisms for delivering social assistance.

- Maintain an overall balanced budget in 2015 to help contain pressure on the foreign exchange market.

[14] Bilateral and multilateral donors are also preparing migrant-specific interventions to help contain social risks.

- Notwithstanding the improvement in Tajikistan's debt rating to low risk of debt distress, continue to seek all loans on concessional terms in view of thin fiscal buffers, rising debt service, and limited availability of foreign exchange.

- Pursue a comprehensive restructuring of Barki Tajik in cooperation with donors to rationalize the electricity sector, improve financial discipline, lessen pressure for directed lending to support major loss-making SOEs, and reduce fiscal risks.

- Enforce fully the dividends policy for SOEs that became effective in 2014, and expand the policy to cover additional large SOEs (such as Talco Management) and all SOEs that are majority owned by the government.

- Increase SOE transparency by requiring all large SOEs to conduct and publish IFRS audits.

- To help improve the efficiency of public investment, require all large SOEs to submit detailed investment plans annually for review to the SOE monitoring division (SOEMD) in the MOF and continue to strengthen the capacity of the SOEMD to monitor and analyze the operations and finances of SOEs.

- Submit the annual statement of fiscal risks arising from SOEs to parliament with the budget and have the SOEMD prepare an annual report on how to mitigate those fiscal risks.

- Move away from the system of revenue targets to a compliance based tax system that treats all taxpayers fairly, and that does not encourage tax evasion or erode the tax base.

24. **Authorities' views.** The authorities reaffirmed their intention to maintain a prudent fiscal stance even in the current uncertain economic environment, and said they would protect social spending. They expressed their concern that the assessment of low risk of debt distress may negatively affect the availability of concessional financing to Tajikistan. They noted that they remain committed to maintaining total PPG external debt below the threshold of 35 percent of GDP and are interested in borrowing only on concessional terms, though this could be reviewed once a decision is made on how to proceed with the Rogun HPP. The MOF indicated that work on developing a strategy for mitigating fiscal risks arising from SOEs has started and that a draft document is expected in 2015. The MOF also noted it is working closely with the World Bank to develop a plan on how to restructure financial liabilities within the SOE sector. The authorities said they will consider how best to improve SOE transparency and accountability, though they did not commit to IFRS audits of all SOEs. On tax administration, the government said it is committed to developing a strategy for tax arrears management in consultation with the World Bank.

D. Other Structural Issues

25. **The investment climate in Tajikistan remains challenging (Annex VII).** Key structural constraints to private sector development, as identified by firms, include weak infrastructure—

including electricity and connectivity through air, rail, and road links; inadequate labor skills; and corruption.[15] Other obstacles to private sector development include poor access to finance for many businesses, a non-transparent inspections regime for businesses, technical regulations for businesses that are outdated and inconsistent with Tajikistan's WTO commitments, and a wide range of quality standards that can be applied in an unfair manner to firms. The authorities are working with donors to develop programs to address these challenges and improve the business environment, though progress is mixed.

26. **Improving infrastructure and better matching education to businesses' needs will help support domestic investment and job creation.** Outmigration in search of jobs will, however, likely continue in view of the large number of new entrants to the labor force each year, and diversification of destinations for migration is needed. While Russia remains the primary destination for labor migrants, alternative destinations, such as the Gulf, offer opportunities to offset the impact of slower long-term growth in Russia. Measures to facilitate labor migration to alternative destinations include targeted language and skills training, and active engagement with other countries to establish labor migration agreements. To date the authorities have focused on how to improve the prospects for migrant workers from Tajikistan to maintain access to the Russian market, including through required Russian language and history lessons and skills training.

27. **Authorities' views.** The authorities said that an improved business climate is critical to investment in the domestic economy and job creation, and noted that both private and public efforts are ongoing to increase access to finance and streamline regulations. The authorities noted that while long-term prospects for migrant workers in Russia are likely to become more limited, they have not yet explored labor migration agreements with other countries, in part because language and other barriers are substantial.

STAFF APPRAISAL

28. **Though Tajikistan achieved high growth in recent years and poverty has fallen, vulnerabilities are rising and a new growth model is needed.** Growth in the past decade has been narrowly based and job creation has been modest. Outmigration to seek jobs abroad, primarily in Russia, has made the country the most remittance dependent in the world. Immediate vulnerabilities emanate from regional spillovers, primarily through the remittance channel, and thin external and fiscal buffers. Growth prospects for the medium term are moderating in the face of weaker growth prospects in Russia and delayed structural reforms. The sharp deterioration in the external environment requires rapid and strong policy actions to avert a crisis, while the emergence of a new growth model driven by higher investment and job creation rests on ambitious structural reforms and the diversification of regional economic ties.

[15] World Bank BEEPS 2009 and Enterprise Surveys 2013.

29. **Greater exchange rate flexibility and other actions are needed to protect reserves and competitiveness.** The administrative cap on the exchange rate should be lifted immediately and—given very low reserves—intervention should be limited to that needed to prevent excessive volatility in the exchange rate as a new equilibrium rate is discovered. Converting additional non-monetary gold to monetary gold and selling MOF monetary gold to the NBT would bolster external and domestic buffers. Looking forward, reserve management practices should be strengthened and the official exchange rate should be determined based only on market-based transactions. Preferential access to foreign exchange for government institutions should also be eliminated. Staff does not recommend approval of the multiple currency practice as it impedes balance of payments adjustment by keeping the cost of foreign exchange below a market-determined price.

30. **The monetary policy stance should be adjusted, as required, to diminish pressure on the exchange rate and temper emerging price pressures.** With inflation pressure likely to rise in view of substantial exchange rate depreciation, the NBT should stand ready to tighten monetary policy through adjustment of the refinance rate and sterilization of government deposits recently placed in commercial banks. Liquidity lending should be strictly limited to healthy banks against good collateral and the government should refrain from shifting further deposits to banks. The development of a government debt market would provide the foundation for an effective monetary policy framework and would help deepen the financial sector.

31. **A comprehensive approach is needed to manage macro-financial risks and lay the foundation for a banking system that can support growth.** Resolving AIB properly, establishing a financial stability committee, increasing deposit insurance coverage, and stopping directed lending will improve crisis preparedness and help protect the health of the financial system. Strengthening the system for prompt corrective action at all banks and improving supervision and regulation will ensure that banks conduct proper due diligence and that credit is extended to borrowers that will drive growth and job creation.

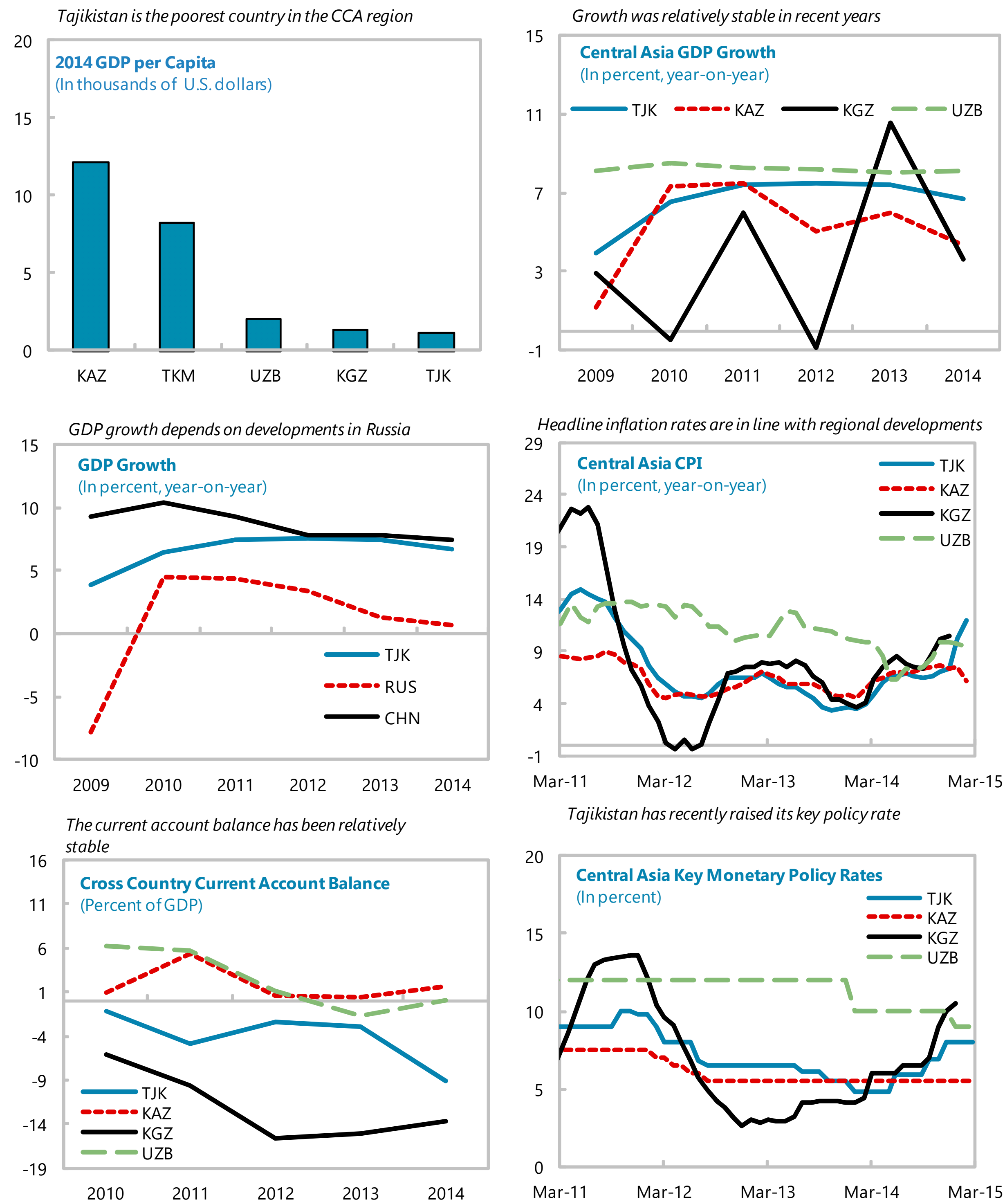
32. **Preserving debt sustainability through appropriate fiscal policy and managing fiscal risks are critical to sustained macroeconomic stability.** The government's policy of prioritizing expenditure—while protecting social outlays—in the current difficult macroeconomic environment is appropriate and will help contain pressure on the foreign exchange market. A return to small fiscal surpluses (excluding externally-financed investment projects) over the medium term will reduce risk in the face of rising debt service and thin fiscal buffers. Seeking concessional financing to the extent possible will help ensure debt sustainability. Fiscal risks can be further reduced through measures to increase SOE efficiency, transparency, and accountability, including through a comprehensive restructuring of Barki Tajik with the assistance of donors, IFRS audits of SOEs, and greater oversight of SOE investment plans. Creating a fairer tax system by moving from revenue targeting to a compliance based tax system will help protect the tax base and support investment and growth.

33. **Measures to improve infrastructure, better match education to the economy's needs, and streamline regulations will improve the business climate and job creation, and help Tajikistan move away from a growth model that relies heavily on remittances.** Continued investment in much-needed infrastructure, including with financing from regional infrastructure

funds, would improve connectivity, help diversify export destinations, and encourage greater investment in Tajikistan. Matching skills development to the economy's needs would improve business and job creation. Rationalizing outdated inspections regimes, technical regulations, and quality standards that apply to firms would reduce costs, increase competitiveness, and make investment more attractive. Given that Tajikistan will continue to benefit from labor migration, increasing worker productivity through skills development and facilitating access to a broader range of destinations, for example through language training and labor agreements with other governments, would support this important source of income and growth, while reducing vulnerability to external shocks through diversification of the sources of remittances.

34. **It is proposed that the next Article IV consultation be held on the standard 12–month cycle.**

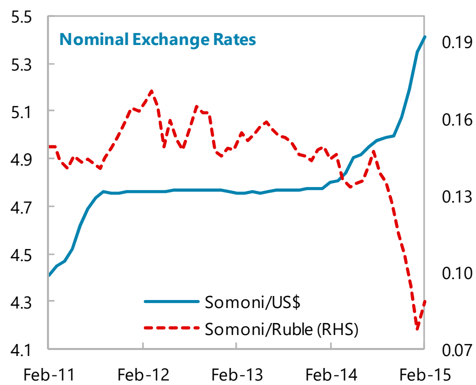
Figure 1. Economic Developments Compared to Other Countries in the Region



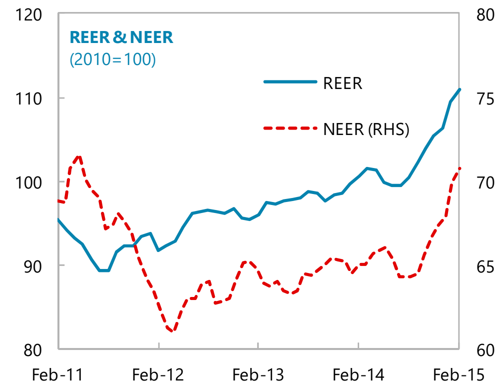
Sources: NBT, WEO, and IMF staff calculations.

Figure 2. Monetary Developments

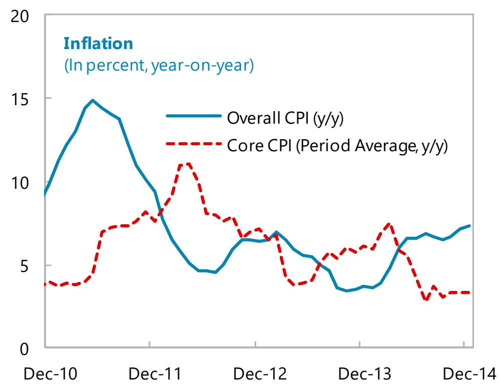
The exchange rate vs. the USD depreciated



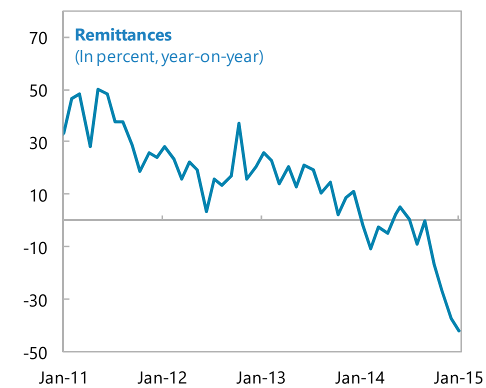
The REER is firmly on an appreciation trend this year



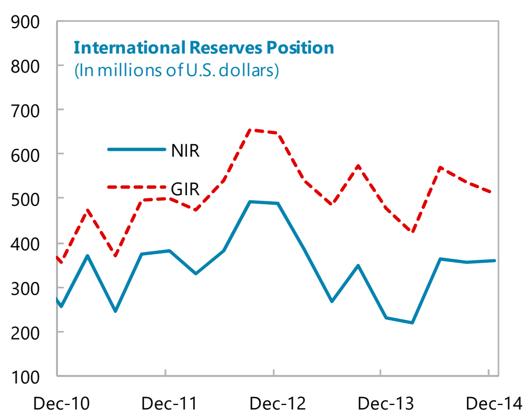
Headline and core inflation rates are picking up



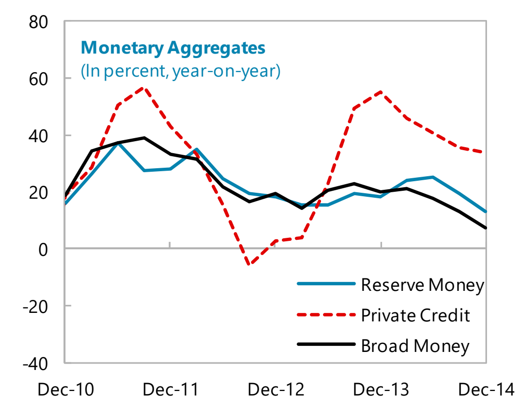
Remittances "stumbled"



Reserves are unchanged for the whole year



Private credit growth has been high

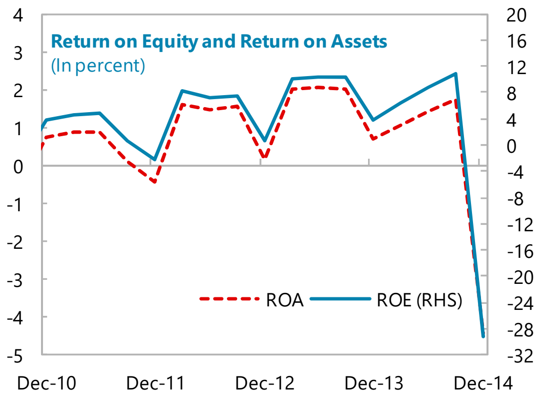


1/ As part of cotton debt resolution, KI loans were written off in 2010. Agroinvestbank was bailed out in 2012. Both affected private credit.

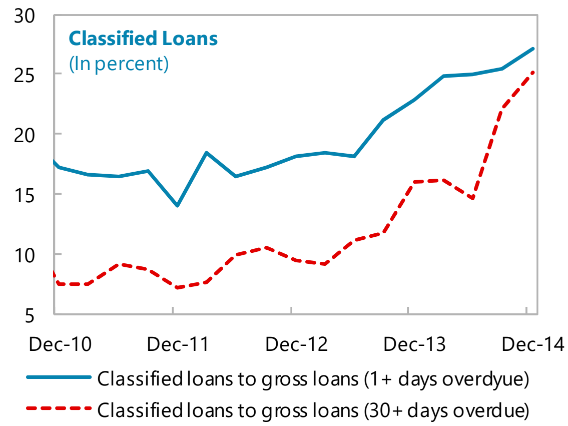
Sources: NBT, WEO, and IMF staff calculations.

Figure 3. Financial and Fiscal Developments

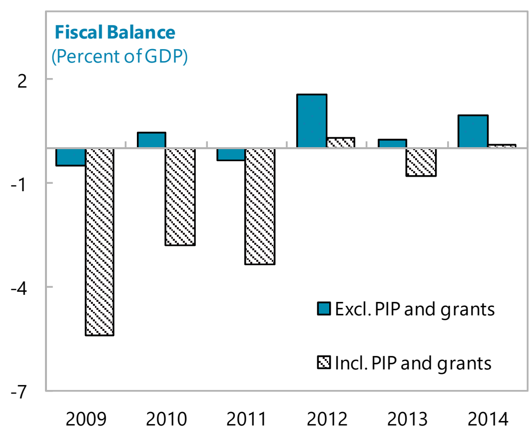
Profitability of the financial sector remains modest



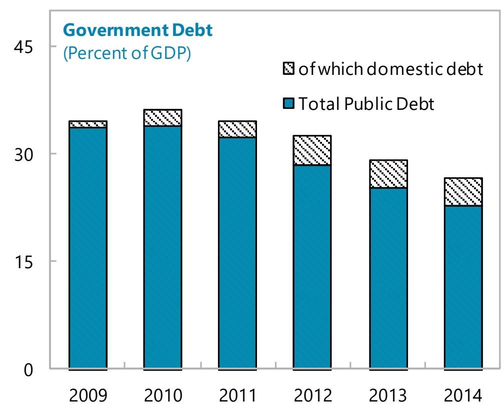
Classified loans are increasing despite strong economic growth



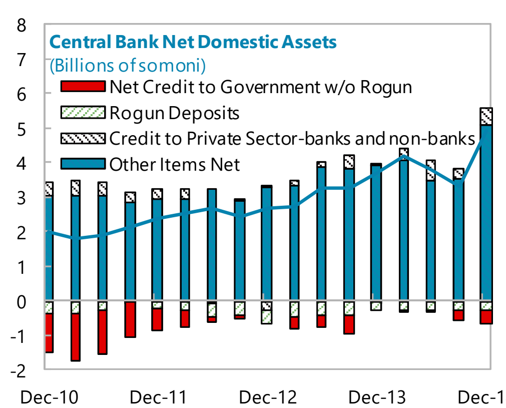
Fiscal position excluding PIP is close to balance



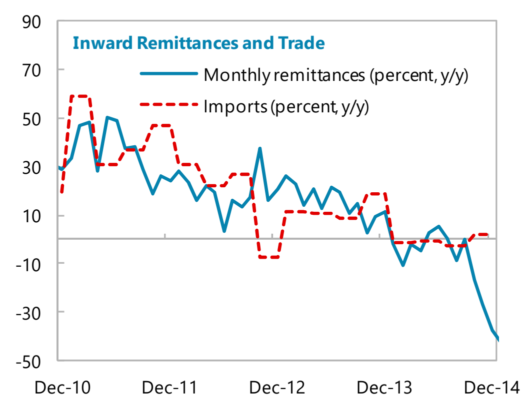
Domestic debt is only a small part of total government debt



The NBT's NDA reflects large OIN (mirroring ever growing losses) and an increase in net credit to government



Inward remittances largely explain imports



Sources: NBT, WEO, and IMF staff calculations.

Table 1. Selected Economic Indicators, 2011–20

(Quota: SDR 87 million)

(Population: 8.194 million; 2013)

(Per capita GDP: US$1037; 2013)

(Poverty rate: 42 percent; 2011)

(Main exports: aluminum, cotton; 2013)

	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
	Act.	Act.	Act.	Est.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.
	(Annual percent change; unless otherwise indicated)									
National accounts										
Real GDP	7.4	7.5	7.4	6.7	3.0	4.1	5.0	5.0	5.0	5.0
GDP deflator (cumulative)	13.3	11.9	4.3	5.5	12.7	8.0	6.9	6.0	6.0	6.0
Headline CPI inflation (end-of-period)	9.3	6.4	3.7	7.4	11.7	6.5	6.4	6.0	6.0	6.0
Headline CPI inflation (period average)	12.5	5.8	5.0	6.1	12.8	6.3	6.5	6.0	6.0	6.0
Core CPI inflation (period average)	6.0	8.4	5.3	4.6	10.5	5.5	5.9	6.0	6.0	6.0
	(In percent of GDP; unless otherwise indicated)									
Investment and saving 1/										
Investment	20.5	17.5	17.7	19.2	17.0	17.8	18.3	20.1	21.0	21.7
Fixed capital investment	15.5	13.0	14.7	16.2	15.3	16.3	16.8	17.6	18.5	19.2
Government	12.5	9.0	9.5	10.0	9.7	10.5	10.0	10.3	10.7	11.4
Private	3.0	4.0	5.2	6.2	5.6	5.8	6.8	7.3	7.8	7.8
Gross national savings	15.6	15.0	14.8	10.1	9.9	11.9	13.5	15.9	17.3	18.2
Public	9.1	9.3	8.7	10.1	7.9	8.2	7.8	7.7	7.9	8.2
Private	6.5	5.7	6.1	0.0	2.0	3.7	5.7	8.2	9.4	10.1
General government finances										
Revenue and grants	24.9	25.1	26.9	28.4	26.2	26.5	26.1	26.3	26.5	26.8
Tax revenue	19.4	19.8	21.0	22.8	20.5	20.6	20.8	20.9	21.0	21.1
Expenditure and net lending 2/	28.2	24.8	27.7	28.3	28.0	28.7	28.4	28.8	29.2	30.0
Current 2/	16.0	16.0	18.1	18.2	18.1	18.1	18.2	18.4	18.4	18.6
Capital	12.5	9.0	9.5	10.0	9.7	10.5	10.0	10.3	10.7	11.4
Overall balance (excl. PIP and stat. discrepancy)	-0.3	1.6	0.2	1.0	-0.3	0.0	0.1	0.1	0.2	0.3
Overall balance (incl. PIP and stat. discrepancy)	-3.3	0.3	-0.8	0.1	-1.8	-2.2	-2.3	-2.5	-2.8	-3.2
Domestic financing 2/	0.8	-0.7	0.0	-3.0	1.1	0.9	1.0	1.0	0.8	0.7
External financing	2.6	0.4	-0.1	-0.2	0.7	1.3	1.2	1.5	1.8	2.4
Total public and publicly-guaranteed debt	35.4	32.4	29.2	28.2	29.1	29.7	30.9	30.9	31.7	31.5
Monetary sector 3/										
Broad money (12-month percent change)	33.1	19.6	19.7	7.0	16.3	15.4	15.4	14.2	14.0	13.8
Reserve money (12-month percent change)	27.9	18.4	18.3	13.2	14.8	13.2	13.2	12.4	12.3	12.1
Credit to private sector (12-month percent change) 4/	40.9	6.6	53.6	31.5	16.1	15.1	14.2	13.8	13.8	12.9
Velocity of broad money (eop)	5.1	5.1	4.8	5.0	5.0	4.9	4.7	4.6	4.5	4.4
Refinancing rate (in percent, eop/ latest value)	9.8	6.5	5.5	8.0	…	…	…	…	…	…
	(In percent of GDP; unless otherwise indicated)									
External sector 5/										
Exports of goods and services (U.S. dollar, percent change)	34.5	41.0	-3.1	-10.6	14.5	9.9	10.0	12.2	10.5	10.4
Imports of goods and services (U.S. dollar, percent change) 6/	47.6	16.9	12.0	0.1	-23.2	1.2	6.1	7.5	7.6	9.0
Current account balance	-4.8	-2.5	-2.9	-9.1	-7.1	-5.8	-4.9	-4.1	-3.7	-3.4
Trade balance (goods)	-47.7	-44.8	-45.5	-43.3	-31.1	-27.9	-26.6	-25.8	-25.1	-24.8
FDI	1.0	3.1	1.2	2.1	2.8	3.2	3.6	3.8	4.2	5.0
Total public and publicly guaranteed external debt	33.1	28.4	25.3	24.5	25.7	26.5	27.0	27.9	28.9	28.9
Exports of goods and services, in millions of U.S. dollars	1,164	1,642	1,591	1,423	1,630	1,791	1,971	2,211	2,443	2,696
Imports of goods and services, in millions of U.S. dollars	4,382	5,124	5,738	5,747	4,414	4,469	4,744	5,097	5,485	5,976
Current account balance, in millions of U.S. dollars	-316	-187	-244	-839	-604	-533	-487	-445	-434	-438
Total public and publicly guaranteed external debt, in millions of U.S. dollars	2,094	2,152	2,148	2,107	2,137	2,390	2,658	2,978	3,362	3,656
Gross official reserves (in millions of U.S. dollars)	501	649	477	511	459	549	659	829	979	1,204
In months of next year's imports 7/	1.2	1.4	1.0	1.4	1.2	1.4	1.6	1.8	2.0	2.2
In percent of broad money	18.3	19.2	11.8	11.4	7.0	6.9	7.0	7.5	7.6	8.0
Memorandum items:										
Nominal GDP (in millions of somoni)	30,069	36,161	40,525	45,605	52,936	59,519	66,835	74,387	82,793	92,148
Nominal GDP (in millions of U.S. dollars)	6,523	7,592	8,506	9,242	8,533	9,173	9,971	10,800	11,745	12,785
Social and poverty-related spending (in percent of GDP)	9.7	10.9	11.1	11.9	12.5	13.1	13.7	14.3	14.8	15.3
Nominal effective exchange rate (Index 2010=100)	92.7	93.0	95.7	99.3	…	…	…	…	…	…
Real effective exchange rate (Index 2010=100)	98.8	99.9	103.4	110.5	…	…	…	…	…	…
Average exchange rate (somoni per U.S. dollar)	4.61	4.76	4.76	4.93	…	…	…	…	…	…

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

1/ Private investment and savings are estimates. Investment includes changes in stocks.

2/ Including statistical discrepancy, except in 2013 and 2014 where statistical discrepancy is treated as below the line domestic financing item.

3/ Figures differ from those reported earlier due to structural revision to monetary and financial sector statistics based on recent IMF TA.

4/ Slowdown in 2012 is due to bad loans write-off at Agroinvestbank.

5/ Receipts from aluminium exports under the tolling arrangements are booked as services exports.

6/ Adjusting for unrecorded oil imports in 2012-13.

7/ Excluding imports related projects financed with loans from China.

Table 2. General Government Operations, 2011–20

(In millions of somoni; unless otherwise indicated)

	2011 Act.	2012 Act.	2013 Act.	2014 Est.	2015 Proj.	2016 Proj.	2017 Proj.	2018 Proj.	2019 Proj.	2020 Proj.
Overall revenues and grants	7,483	9,089	10,917	12,949	13,882	15,755	17,467	19,543	21,921	24,722
Total revenues	6,792	8,546	9,981	12,248	12,897	14,481	16,410	18,260	20,341	22,679
Tax revenues	5,833	7,163	8,525	10,403	10,855	12,232	13,935	15,560	17,396	19,467
Income and profit tax	987	1,306	1,615	1,903	2,208	2,483	2,848	3,197	3,590	4,031
Payroll taxes	741	947	1,081	1,374	1,594	1,811	2,074	2,284	2,593	2,885
Property taxes	171	191	156	182	211	240	275	312	354	402
Taxes on goods and services	3,472	4,152	5,091	6,340	6,235	6,949	7,851	8,794	9,805	10,994
VAT	2,511	3,056	3,684	4,639	4,555	5,042	5,688	6,385	7,118	7,991
Excises and other internal indirect taxes	962	1,096	1,407	1,701	1,679	1,907	2,163	2,408	2,687	3,002
International trade and operations tax	461	567	582	605	607	750	887	974	1,055	1,156
Nontax revenues	960	1,383	1,456	1,845	2,041	2,249	2,475	2,700	2,945	3,212
Of which: Extra-budgetary funds	457	705	676	731	782	861	948	1,034	1,127	1,230
Grants	690	543	936	701	985	1,273	1,057	1,283	1,580	2,043
Of which: Public Investment Program (PIP) financing	534	448	741	670	630	962	902	1,124	1,418	1,877
Total expenditures and net lending	8,127	8,887	11,245	12,889	14,837	17,057	18,915	21,349	24,101	27,613
Current expenditures	4,450	5,716	7,328	8,306	9,601	10,733	12,099	13,614	15,173	17,035
Expenditures on goods and services	2,964	3,742	4,841	5,491	6,213	7,054	7,965	8,995	10,082	11,385
Wages and salaries	1,465	2,022	2,667	3,163	3,383	3,815	4,346	4,976	5,538	6,223
Others	1,499	1,720	2,174	2,329	2,830	3,239	3,618	4,019	4,544	5,162
Of which: extra-budgetary funds	473	495	669	691	782	861	948	1,034	1,127	1,230
Interest payments	156	214	360	209	356	301	342	398	392	421
External	127	142	312	147	163	176	189	204	223	248
Domestic	29	72	48	62	193	125	153	194	169	173
Transfers and subsidies	1,330	1,761	2,128	2,606	3,033	3,378	3,793	4,221	4,698	5,229
Transfers to households	1,238	1,644	2,016	2,487	2,886	3,195	3,588	3,993	4,445	4,947
Subsidies and other current transfers	92	117	111	119	146	182	205	228	254	282
Capital expenditures	3,756	3,237	3,849	4,550	5,135	6,224	6,716	7,635	8,828	10,478
Externally financed PIP	1,438	900	1,165	1,045	1,417	2,244	2,406	2,998	3,781	5,006
Domestically financed	2,317	2,337	2,684	3,505	3,719	3,979	4,309	4,637	5,047	5,472
Net lending	-79	-66	68	33	100	100	100	100	100	100
Statistical discrepancy ("+" = additional spending)	361	81	-372	-1,399	..	..	..	..	..	..
Overall balance (incl. PIP)	-1,005	121	-328	60	-955	-1,302	-1,448	-1,806	-2,180	-2,891
Overall balance (excl. PIP and PIP-related grants)	-101	573	96	435	-168	-20	56	68	183	238
Total financing (incl. PIP)	1,005	-121	-44	-1,460	955	1,302	1,448	1,806	2,180	2,891
Net external	769	137	-30	-96	359	765	781	1,097	1,517	2,211
Disbursements	905	451	424	375	942	1,445	1,504	1,874	2,363	3,129
Program loans	0	0	0	0	155	162	0	0	0	0
Project loans	905	451	424	375	787	1,283	1,504	1,874	2,363	3,129
Amortization	-135	-315	-454	-471	-583	-680	-723	-777	-846	-917
Net domestic 1/	236	-258	-14	-1,363	596	537	667	709	663	680
NBT	447	132	-23	-455	526	447	556	575	503	492
Commercial banks	349	-262	99	-819	159	179	201	223	248	276
Operations with assets 2//	-560	-128	-89	-89	-89	-89	-89	-89	-89	-89
Accumulation of arrears	0	0	0	0	0	0	0	0	0	0
Memorandum items:										
Recapitalization bonds–NBT 3/	120	160	120	120	120	120	120	120	120	0
Recapitalization bonds–commercial banks 3/	…	…	…	…	…	…	…	…	…	…

Sources: Tajikistan authorities, and Fund staff estimates.

1/ Staff is seeking clarification on the large build up of government deposits in the central bank and commercial banks in 2014.
2/ Includes transfer of MDRI deposits to the NBT in 2011 towards NBT recapitalization.
3/ Issuance to compensate the NBT and banks for losses related to cotton lending as part of cotton debt resolution.

Table 3. General Government Operations, 2011–20

(In percent of GDP; unless otherwise indicated)

	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
	Act.	Act.	Act.	Est.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.
Overall revenues and grants	24.9	25.1	26.9	28.4	26.2	26.5	26.1	26.3	26.5	26.8
Total revenues	22.6	23.6	24.6	26.9	24.4	24.3	24.6	24.5	24.6	24.6
Tax revenues	19.4	19.8	21.0	22.8	20.5	20.6	20.8	20.9	21.0	21.1
Income and profit tax	3.3	3.6	4.0	4.2	4.2	4.2	4.3	4.3	4.3	4.4
Payroll taxes	2.5	2.6	2.7	3.0	3.0	3.0	3.1	3.1	3.1	3.1
Property taxes	0.6	0.5	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4
Taxes on goods and services	11.5	11.5	12.6	13.9	11.8	11.7	11.7	11.8	11.8	11.9
VAT	8.4	8.5	9.1	10.2	8.6	8.5	8.5	8.6	8.6	8.7
Excises and other internal indirect taxes	3.2	3.0	3.5	3.7	3.2	3.2	3.2	3.2	3.2	3.3
International trade and operations tax	1.5	1.6	1.4	1.3	1.1	1.3	1.3	1.3	1.3	1.3
Nontax revenues	3.2	3.8	3.6	4.0	3.9	3.8	3.7	3.6	3.6	3.5
Of which: Extra-budgetary funds	1.5	1.9	1.7	1.6	1.5	1.4	1.4	1.4	1.4	1.3
Grants	2.3	1.5	2.3	1.5	1.9	2.1	1.6	1.7	1.9	2.2
Of which: Public Investment Program (PIP) financing	1.8	1.2	1.8	1.5	1.2	1.6	1.4	1.5	1.7	2.0
Total expenditure and net lending	27.0	24.6	27.7	28.3	28.0	28.7	28.3	28.7	29.1	30.0
Current expenditures	14.8	15.8	18.1	18.2	18.1	18.0	18.1	18.3	18.3	18.5
Expenditures on goods and services	9.9	10.3	11.9	12.0	11.7	11.9	11.9	12.1	12.2	12.4
Wages and salaries	4.9	5.6	6.6	6.9	6.4	6.4	6.5	6.7	6.7	6.8
Others	5.0	4.8	5.4	5.1	5.3	5.4	5.4	5.4	5.5	5.6
Interest payments	0.5	0.6	0.9	0.5	0.7	0.5	0.5	0.5	0.5	0.5
External	0.4	0.4	0.8	0.3	0.3	0.3	0.3	0.3	0.3	0.3
Domestic	0.1	0.2	0.1	0.1	0.4	0.2	0.2	0.3	0.2	0.2
Transfers and subsidies	4.4	4.9	5.3	5.7	5.7	5.7	5.7	5.7	5.7	5.7
Transfers to households	4.1	4.5	5.0	5.5	5.5	5.4	5.4	5.4	5.4	5.4
Subsidies and other current transfers	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3
Capital expenditures	12.5	9.0	9.5	10.0	9.7	10.5	10.0	10.3	10.7	11.4
Externally financed PIP	4.8	2.5	2.9	2.3	2.7	3.8	3.6	4.0	4.6	5.4
Domestically financed	7.7	6.5	6.6	7.7	7.0	6.7	6.4	6.2	6.1	5.9
Net lending	-0.3	-0.2	0.2	0.1	0.2	0.2	0.1	0.1	0.1	0.1
Statistical discrepancy ("+" = additional spending)	1.2	0.2	-0.9	-3.1	…	…	…	…	…	…
Overall balance (incl. PIP)	-3.3	0.3	-0.8	0.1	-1.8	-2.2	-2.2	-2.4	-2.6	-3.1
Overall balance (excl. PIP and PIP-related grants)	-0.3	1.6	0.2	1.0	-0.3	0.0	0.1	0.1	0.2	0.3
Total financing (incl. PIP)	3.3	-0.3	-0.1	-3.2	1.8	2.2	2.2	2.4	2.6	3.1
Net external	2.6	0.4	-0.1	-0.2	0.7	1.3	1.2	1.5	1.8	2.4
Disbursements	3.0	1.2	1.0	0.8	1.8	2.4	2.3	2.5	2.9	3.4
Program loans	0.0	0.0	0.0	0.0	0.3	0.3	0.0	0.0	0.0	0.0
Project loans	3.0	1.2	1.0	0.8	1.5	2.2	2.3	2.5	2.9	3.4
Amortization	-0.4	-0.9	-1.1	-1.0	-1.1	-1.1	-1.1	-1.0	-1.0	-1.0
Net domestic 1/	0.8	-0.7	0.0	-3.0	1.1	0.9	1.0	1.0	0.8	0.7
NBT	1.5	0.4	-0.1	-1.0	1.0	0.8	0.8	0.8	0.6	0.5
Commercial banks	1.2	-0.7	0.2	-1.8	0.3	0.3	0.3	0.3	0.3	0.3
Operations with assets 2/	-1.9	-0.4	-0.2	-0.2	-0.2	-0.1	-0.1	-0.1	-0.1	-0.1
Accumulation of arrears	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Memorandum items:										
Public debt (in percent of GDP)	35.4	32.4	29.2	28.2	29.1	29.7	30.9	30.9	31.7	31.5
Nominal GDP (in millions of somoni)	30,069	36,161	40,525	45,605	52,936	59,519	66,835	74,387	82,793	92,148
Social and poverty-related expenditure (in percent of GDP) 3/	9.7	10.9	11.1	…	…	…	…	…	…	…

Sources: Tajikistan authorities, and Fund staff estimates.

1/ Staff is seeking clarification on the large build up of government deposits in the central bank and commercial banks in 2014.

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

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

Table 4. Accounts of the National Bank of Tajikistan, 2011–16

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

	2011	2012	2013	2014	2015	2016
	Dec. Act.	Dec. Act.	Dec. Act.	Dec. Est.	Dec. Proj.	Dec Proj.
	(In millions of somoni)					
Net foreign assets	1,440	1,861	1,685	1,156	1,127	1,893
Gross assets	2,724	3,331	3,540	2,734	2,950	3,645
Gross liabilities	1,285	1,469	1,855	1,578	1,823	1,752
Net international reserves 1/	1,814	2,327	1,106	1,908	2,030	2,827
Gross international reserves 1/	2,386	3,091	2,278	2,711	2,923	3,617
Gross reserve liabilities	572	764	1,172	803	893	790
Net domestic assets	2,389	2,673	3,677	4,912	5,837	5,990
Net credit to general government	-856	-343	-193	-666	139	861
General government 2/	-666	66	43	-412	293	861
Roghun JSC	-190	-409	-237	-254	-154	0
Credit to the private sector	285	-258	-37	475	733	636
Net claims on banks / other fin corporations	132	-586	-496	21	206	161
o/w: Cotton sector	-13	-48	-75	-55	-55	-55
NBT bills	-12	-373	-395	-80	-49	18
Liquidity loans	86	68	43	96	250	188
Credit to nonbank / non-financial institutions 3/	153	328	459	453	527	474
Other items net	2,960	3,274	3,907	5,103	4,965	4,494
Retained profits (-) and provisions (+)	2,304	2,684	3,091	…	…	…
Reserve money	3,829	4,534	5,362	6,068	6,964	7,883
Currency in circulation	2,988	3,667	4,485	4,757	5,459	6,180
Bank reserves	840	865	860	1,244	1,438	1,636
Required reserves	338	297	332	417	348	406
Somoni	181	151	176	231	44	55
Foreign exchange	157	146	156	186	304	351
Other bank deposits	503	568	529	827	1,090	1,231
Other deposits	0	1	16	67	67	67
	(12-month growth in percent of reserve money)					
Reserve money	27.9	18.4	18.3	13.2	14.8	13.2
Net foreign assets	14.4	11.0	-3.9	-9.9	-0.5	11.0
Gross international reserves	27.1	18.4	-17.9	8.1	3.5	10.0
Net international reserves	22.8	13.4	-26.9	15.0	2.0	11.4
Net domestic assets	13.6	7.4	22.1	23.0	15.2	2.2
Net credit to general government	20.2	13.4	3.3	-8.8	13.3	10.4
Credit to the private sector	-4.2	-14.2	4.9	9.5	4.3	-1.4
NBT bills	-0.4	-9.4	-0.5	5.9	0.5	1.0
Other items net	-2.5	8.2	14.0	22.3	-2.3	-6.8
Memorandum items:						
Net international reserves (in millions of U.S.dollars)	381.2	488	232	360	319	429
Net international reserves (percent of broad money)	30.6	32.8	13.0	21.0	19.2	23.2
Official exchange rate (somoni/U.S. dollars)	4.76	4.76	4.77	5.31	…	…

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

1/ Excludes nonmonetary gold and foreign assets denominated in non-convertible currencies.

2/ Staff is seeking clarification on the large build up of government deposits in the central bank and commercial banks in 2014.

3/ Includes net credit to public non-financial corporations and credit to private non-financial institutions.

Table 5. Monetary Survey, 2011–16 1/

	2011	2012	2013	2014	2015	2016
	Dec.	Dec.	Dec.	Dec.	Dec.	Dec.
	Act.	Act.	Act.	Est.	Proj.	Proj.
	(In millions of somoni, end-of-period stock)					
Net foreign assets	831	1,478	448	-996	-1,646	-817
National Bank of Tajikistan 2/	1,440	1,861	1,685	1,156	1,127	1,893
Commercial banks	-609	-383	-1,237	-2,151	-2,773	-2,710
Net domestic assets	5,527	6,209	8,785	11,574	13,949	15,019
Net credit to general government (incl. Roghun OJSC) 3/	-985	-734	-486	-1,778	-814	86
National Bank of Tajikistan	-856	-343	-193	-666	139	861
Commercial banks	-129	-392	-293	-1,112	-953	-775
Net credit to public non-financial corporations	338	753	918	846	914	970
Credit to the private sector	4,420	4,710	7,236	9,515	11,050	12,717
Net credit to other financial corporations	1	-65	-82	-56	-56	-56
Other items net	1,753	1,545	1,198	3,047	2,854	1,301
Broad money	5,933	7,093	8,491	9,088	10,570	12,201
Somoni broad money	3,862	4,743	5,626	5,822	6,771	7,816
Currency outside banks	2,709	3,406	4,144	4,051	4,523	5,012
Deposits	1,153	1,337	1,483	1,771	2,248	2,804
Foreign currency deposits	2,071	2,350	2,865	3,266	3,799	4,385
Non-liquid liabilities 4/	425	594	742	1,490	1,733	2,000
	(12-month growth in percent)					
Broad money	33.1	19.6	19.7	7.0	16.3	15.4
Net foreign assets	-6.9	77.8	-69.7	-322.3	65.3	-50.3
Net domestic assets	45.0	12.3	41.5	31.7	20.5	7.7
Net credit to general government	-49.5	-25.4	-33.9	266.0	-54	-110.6
Credit to the private sector	40.9	6.6	53.6	31.5	16.1	15.1
Non-liquid liabilities	73.3	39.8	25.0	100.8	16.3	15.4
	(12-month growth in percent of broad money)					
Broad money	33.1	19.6	19.7	7.0	16.3	15.4
Net foreign assets	-1.4	10.9	-14.5	-17.0	-7.1	7.8
National Bank of Tajikistan	9.6	7.1	-2.5	-6.2	-0.3	7.2
Commercial banks	-11.0	3.8	-12.0	-10.8	-6.8	0.6
Net domestic assets	38.5	11.5	36.3	32.8	26.1	10.1
Net credit to general government	21.7	4.2	3.5	-15.2	10.6	8.5
Credit to the private sector	28.8	4.9	35.6	26.8	16.9	15.8
Other items net	-9.7	-3.5	-4.9	21.8	-2.1	-14.7
Memorandum items:						
Deposit dollarization (in percent)	64.2	63.7	65.9	64.8	…	…
Velocity 5/	5.1	5.1	4.8	5.0	5.0	4.9
Money multiplier	1.5	1.6	1.6	1.5	1.5	1.5

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

1/ Figures differ from reported earlier due to structural revision to monetary and financial sector statistics based on recent IMF TA.

2/ Excludes nonmonetary gold.

3/ Staff is seeking clarification on the large build up of government deposits in the central bank and commercial banks in 2014.

4/ Includes time deposits in somoni and FX with maturities higher than 2 years.

5/ Structural break in velocity in 2011 due to Kredit Invest write-off.

Table 6. Balance of Payments, 2011–20

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

	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
	Act.	Act.	Act.	Est.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.
Current account	-316	-187	-244	-839	-604	-533	-487	-445	-434	-438
Balance on goods and services	-3,217	-3,482	-4,147	-4,323	-2,784	-2,678	-2,773	-2,886	-3,042	-3,280
Balance on goods	-3,111	-3,403	-3,874	-3,998	-2,656	-2,563	-2,655	-2,787	-2,950	-3,171
Exports	593	824	794	705	842	958	1,078	1,224	1,386	1,563
Imports	-3,704	-4,227	-4,668	-4,703	-3,498	-3,521	-3,733	-4,011	-4,337	-4,734
Balance on services	-106	-79	-273	-326	-128	-115	-118	-99	-92	-109
Balance on income	-49	-68	-52	-92	-107	-114	-115	-114	-113	-114
Balance on transfers	2,950	3,363	3,955	3,577	2,287	2,259	2,401	2,556	2,721	2,956
Migrants' remittances, net	2,627	3,282	3,842	3,518	2,190	2,172	2,323	2,484	2,655	2,894
Capital and financial account	439	295	72	876	563	485	445	456	420	681
Capital transfers	116	94	154	136	101	148	135	163	201	260
Public sector (net)	161	22	-8	-22	56	116	115	157	213	305
Disbursements	195	95	89	76	152	223	224	272	335	434
Projects financed by China	139	25	56	44	35	60	70	80	95	130
Amortization	-34	-73	-97	-98	-96	-107	-110	-115	-122	-129
FDI	65	233	105	198	239	294	359	410	493	639
Portfolio Investment	10	0	0	18	21	32	35	38	41	45
Commercial bank NFA (- increase)	101	-47	179	146	30	-24	-23	-21	-20	31
Other capital flows and errors and omissions	-15	-7	-358	400	115	-81	-175	-291	-509	-599
Overall balance	123	107	-172	38	-41	-48	-42	12	-14	244
Financing items	-123	-107	172	-38	41	48	42	-12	14	-244
Use of international reserves (- increase)	-144	-147	172	-34	52	-90	-110	-170	-150	-225
IMF net purchases	21	40	0	-4	-11	-20	-26	-30	-26	-19
Purchases/disbursements	21	40	0	0	0	0	0	0	0	0
Repurchases/repayments	0	0	0	4	11	20	26	30	26	19
Unidentified financing 1/	0	0	0	0	0	158	178	188	190	0
In percent of GDP	0	0	0	0	0	2	2	2	2	0
Financing of Roghun hydro power plant (HPP)	0	0	0	0	0	158	178	188	190	0
Identified/potential budgetary grants (included above the line)	33	35	42	6	32	23	23	23	23	23
World Bank (budget support grants)	10	15	20	0	…	…	…	…	…	…
AsDB (budget support grants)	20	12	13	0	…	…	…	…	…	…
EC (budget support grants)	3	8	9	6	…	…	…	…	…	…
Anti-crisis Fund (this is a loan, already included in prog loans)	0	0	0	0	…	…	…	…	…	…
Memorandum items:										
Nominal GDP	6,523	7,592	8,506	9,242	8,533	9,173	9,971	10,800	11,745	12,785
Current account balance (in percent of GDP) 1/	-4.8	-2.5	-2.9	-9.1	-7.1	-5.8	-4.9	-4.1	-3.7	-3.4
Gross reserves	501	649	477	511	459	549	659	829	979	1204
(in months of next year's imports of goods and services) 2/	1.2	1.4	1.0	1.4	1.2	1.4	1.6	1.8	2.0	2.2
Total Public and Publicly Guaranteed (PPG) external sector debt 3/	2,094	2,152	2,148	2,107	2,137	2,390	2,658	2,978	3,362	3,656
(in percent of GDP)	33.1	28.4	25.3	24.5	25.7	26.5	27.0	27.9	28.9	28.9
Debt service on PPG external debt	63	106	131	136	139	158	167	178	185	188
(in percent of exports of goods and services)	5.4	6.5	8.2	9.6	8.6	8.8	8.5	8.1	7.6	7.0

Sources: Tajik authorities; and Fund staff estimates.

1/ The NBT changed the methodology for compiling various BOP accounts, causing a break in the series in 2011. The unidentifed financing during 2015-18 reflect assumed financing for HPP Roghun. The World Bank feasibility study, instrumental in identifying the financing, is completed.

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

3/ External debt is defined as debt to nonresidents.

Table 7. Financial Soundness Indicators, 2011–14

(In percent; unless otherwise indicated)

	2011	Dec-12	Dec-13	Mar-14	Jun-14	Sep-14	Dec-14
Capital adequacy							
Tier I capital as percent of risk-weighted assets	21.3	23.3	20.2	19.4	18.3	19.1	12.0
Total capital to risk -weighted assets (K1-1)	24.4	25.9	22.1	20.8	19.5	21.0	14.5
Asset quality 1/							
Nonperforming loans to gross loans	14.1	18.2	22.9	24.9	25.0	25.4	27.2
Nonperforming loans to gross loans 2/	7.2	9.5	16.0	16.2	14.6	22.0	25.1
Nonperforming loans net of provisions to reg. capital	20.9	25.4	47.6	57.3	61.6	59.9	61.2
Provisions to nonperforming loans	45.0	43.5	34.7	30.7	30.1	29.1	56.7
Banks exceeding maximum single borrower limit 3/	2 of 15	1 of 16	2 of 16	3 of 17	2 of 17	2 of 17	3 of 17
Earnings and profitability							
Return on assets (ROA)	-0.4	0.2	0.7	1.1	1.4	1.7	-4.4
Return on equity (ROE)	-2.3	0.7	3.7	6.5	8.8	10.8	-29.2
Interest income to gross income	34.2	29.2	26.9	27.9	25.2	24.6	21.4
Non-interest expenditures to gross income	75.7	77.2	79.0	76.2	78.3	77.8	93.4
Salary expenditures to non-interest expenditures	14.0	13.5	11.5	11.6	10.2	10.4	8.0
Liquidity							
Liquid assets to total assets	20.7	29.0	23.8	28.0	26.1	24.7	21.5
Liquid assets to demand and savings deposits	105.3	140.0	142.1	192.9	166.4	159.4	113.5
Liquid assets to total deposits	40.9	57.8	49.8	66.2	61.0	57.5	43.4
Sensitivity to market risk							
Net open position in foreign exchange to capital	3.2 short	0.7 short	2.4 long	1.1 short	0.2 short	0.6 short	0.8 long

Sources: National Bank of Tajikistan.

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

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

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

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

Table 8. Millennium Development Goals

	1990	1995	2000	2005	2013	LIC 2013	ECA 2013
Goal 1: Eradicate extreme poverty and hunger							
Employment to population ratio, 15+, total (%)	58.0	58.0	59.0	58.0	59.9	71.8	51.2
Employment to population ratio, ages 15-24, total (%)	38.0	38.0	38.0	37.0	37.8	55.6	32.1
GDP per person employed (constant 1990 PPP $)	8,192	3,311	3,277	4,299	6,639	3,426	19,057
Income share held by lowest 20%	..	..	8.0	8.0	8.3	..	..
Malnutrition prevalence, weight for age (% of children under 5)	..	..	..	15.0	15.0	21.4	1.6
Poverty gap at $1.25 a day (PPP) (%)	..	..	15.0	5.0	1.1	18.6	0.2
Poverty headcount ratio at $1.25 a day (PPP) (% of population)	..	..	49.0	21.0	5.9	48.0	0.5
Vulnerable employment, total (% of total employment)	..	..	..	..	47.1	..	27.1
Goal 2: Achieve universal primary education							
Literacy rate, youth female (% of females ages 15-24)	100.0	..	100.0	..	99.9	67.7	99.3
Literacy rate, youth male (% of males ages 15-24)	100.0	..	100.0	..	99.9	75.5	99.6
Persistence to last grade of primary, total (% of cohort)	..	71.0	96.0	99.0	98.0	56.9	98.5
Primary completion rate, total (% of relevant age group)	..	100.0	93.0	103.0	97.6	71.5	98.5
Adjusted net enrollment rate, primary (% of primary school age children)	..	..	96.0	98.0	98.9	83.5	94.6
Goal 3: Promote gender equality and empower women							
Proportion of seats held by women in national parliaments (%)	..	3.0	15.0	18.0	19.0	21.5	17.2
Ratio of female to male primary enrollment (%)	98.0	97.0	93.0	96.0	97.7	95.0	99.0
Ratio of female to male secondary enrollment (%)	..	..	86.0	83.0	89.5	88.7	96.8
Ratio of female to male tertiary enrollment (%)	..	..	45.0	47.0	52.4	65.1	104.9
Share of women employed in the nonagricultural sector (% of total nonagricultural employment)	36.5	40.2	40.0	39.4	28.9	..	42.7
Goal 4: Reduce child mortality							
Immunization, measles (% of children ages 12-23 months)	68.0	70.0	88.0	85.0	92.0	80.0	94.8
Mortality rate, infant (per 1,000 live births)	89.0	87.0	76.0	64.0	40.9	52.9	19.9
Mortality rate, under-5 (per 1,000 live births)	114.0	111.0	95.0	79.0	47.7	76.3	23.0
Goal 5: Improve maternal health							
Adolescent fertility rate (births per 1,000 women ages 15-19)	..	36.0	33.0	30.0	42.8	93.2	30.6
Births attended by skilled health staff (% of total)	90.0	81.0	71.0	83.0	87.4	48.7	97.0
Contraceptive prevalence (% of women ages 15-49)	..	..	34.0	38.0	27.9	37.6	63.6
Maternal mortality ratio (modeled estimate, per 100,000 live births)	68.0	120.0	89.0	59.0	44.0	440.0	28.0
Pregnant women receiving prenatal care (%)	..	..	71.0	77.0	78.8	75.6	95.2
Unmet need for contraception (% of married women ages 15-49)	..	..	..	24.0	..	22.5	..
Goal 6: Combat HIV/AIDS, malaria, and other diseases							
Children with fever receiving antimalarial drugs (% of children under age 5 with fever)	..	..	69.0	2.0	..	27.3	..
Condom use, population ages 15-24, female (% of females ages 15-24)	..	..	..	..	2.0	..	..
Condom use, population ages 15-24, male (% of males ages 15-24)	..	..	..	..	..	..	..
Incidence of tuberculosis (per 100,000 people)	70.0	148.0	220.0	200.0	193.0	248.0	67.0
Prevalence of HIV, female (% ages 15-24)	..	..	..	..	0.1	1.1	..
Prevalence of HIV, male (% ages 15-24)	..	..	..	..	0.1	0.7	..
Prevalence of HIV, total (% of population ages 15-49)	0.1	0.1	0.2	0.2	0.3	2.3	
Tuberculosis case detection rate (%, all forms)	67.0	24.0	20.0	42.0	47.0	59.0	77.0
Goal 7: Ensure environmental sustainability							
CO2 emissions (kg per PPP $ of GDP)	1.0	1.0	0.0	0.0	0.2	0.2	0.4
CO2 emissions (metric tons per capita)	1.0	0.0	0.0	0.0	0.4	0.3	5.3
Forest area (% of land area)	2.9	..	2.9	2.9	2.9	27.5	10.5
Improved sanitation facilities (% of population with access)	..	89.0	90.0	93.0	94.0	37.0	94.1
Improved water source (% of population with access)	..	62.0	61.0	64.6	71.7	68.7	94.8
Marine protected areas (% of territorial waters)	3.9	..	4.2	..	5.1	13.1	10.4
Net ODA received per capita (current US$)	2.0	11.0	20.0	36.9	49.2	47.4	36.9
Goal 8: Develop a global partnership for development							
Debt service (PPG and IMF only, % of exports of goods, services and primary income)	..	..	9.0	5.0	6.2	4.1	5.6
Internet users (per 100 people)	0.0	..	0.0	0.3	16.0	7.1	45.9
Mobile cellular subscriptions (per 100 people)	0.0	0.0	0.0	4.0	91.8	52.9	111.5
Telephone lines (per 100 people)	5.0	5.0	4.0	4.0	5.2	0.9	21.0
Fertility rate, total (births per woman)	5.0	5.0	4.0	4.0	3.8	4.1	2.0
Other							
GNI per capita, Atlas method (current US$)	350	200	170	320	990	664	7,087
GNI, Atlas method (current US$) (billions)	1.9	1.2	1.1	2.2	8.1	563.4	1,929.1
Gross capital formation (% of GDP)	24.8	28.7	9.4	14.3	19.1	27.3	21.6
Life expectancy at birth, total (years)	63.0	62.0	64.0	66.0	67.3	61.6	72.3
Literacy rate, adult total (% of people ages 15 and above)	98.0	..	99.0	..	99.7	60.4	98.0
Population, total (millions)	5.3	5.8	6.2	6.8	8.2	849	272.2
Trade (% of GDP)	63.0	137.5	199.7	78.8	87.5	63.1	73.7

Source: World Development Indicators (World Bank)

Note: 2013, or latest available data after 2005. Figures in italics refer to periods other than those specified. The last two columns are averages for Low Income Countries (LIC) and Europe & Central Asia (ECA) countries.

Annex I. Risk Assessment Matrix

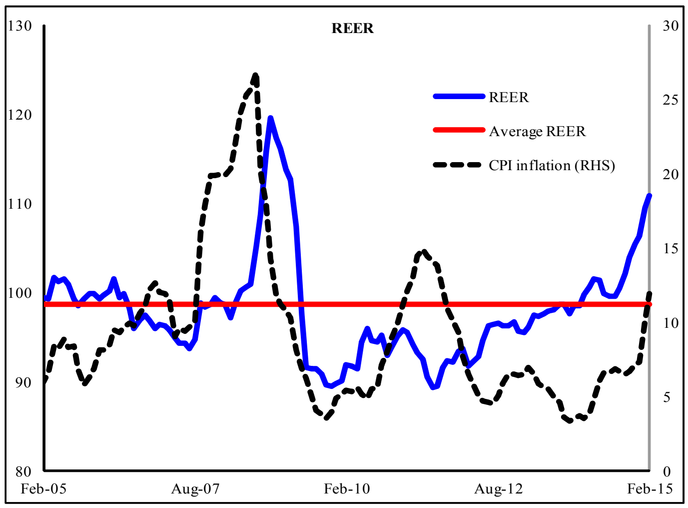
Nature/source of main risks	Likelihood of realization in the next three years	Expected impact on the economy if risk is realized	Recommended policy response
Protracted period of slower growth in emerging markets, especially in Russia where it is exacerbated by low oil prices, with risk of growth slowdown in China during 2015. Russia is the main source of remittance inflows to Tajikistan, which were equivalent to 43 percent of GDP in 2014. China is a major, and growing, source of investment. Russia, Kazakhstan, China and Turkey are the major trading partners.	**Staff assessment: Medium** Latest Fund staff projections suggest that trend growth in emerging economies, particularly Russia, is lower as a result of low oil prices and weaker than expected productive capacity and human capital. The probability that growth in China will fall significantly below the Chinese authorities' target is, however, relatively low.	**Staff assessment: High** Sustained low growth in Russia would impact Tajikistan's growth through reduction in demand for migrant labor and lower remittances. Recent staff analysis suggests a 10 percent decline in the U.S. dollar value of remittance inflows induces a 0.9–1.4 percent contraction in real GDP. Slower growth in China and other emerging markets (e.g., Turkey) could reduce investment, exports, and growth, and sustain pressure on the somoni.	Greater exchange rate flexibility to support reserves and competitiveness. Maintain small fiscal surpluses and improve governance and financial discipline of SOEs to create space to respond to shocks and improve safety nets.
Greater stability in Afghanistan and Pakistan. A safe trading route through Afghanistan and Pakistan would help open up large new markets.	**Staff assessment: Low to Medium** Would allow Tajikistan to export goods and hydropower to large markets in South Asia.	**Staff assessment: Medium to High** Will support economic and export diversification, help make growth more resilient, and create jobs.	Improve business climate to spur domestic and foreign investment; ensure greater transparency and efficiency in all public spending to support infrastructure development (e.g., for power exports). Greater exchange rate flexibility to support competitiveness.

Delays or reversals in structural reforms, particularly in banks and SOEs. Maintaining, or increasing, the role (or interference) of the state in economic activity will limit Tajikistan's prospects of becoming a dynamic, job-creating market economy.	**Staff assessment: High** The financial sector's health is declining due to rising NPLs at large banks, driven by the legacy of directed lending and unreformed SOEs. The authorities have yet to signal that they will restructure Agroinvestbank (AIB) in line with good international practice, or halt forbearance in regulating other large banks. SOE reform (e.g., of Barki Tajik) is stalled.	**Staff assessment: High** Nontransparent public spending leads to the inefficient use of public resources, and may eventually lead to higher public debt and lower long-term growth (e.g., through bailing out banks and SOEs, as has happened in recent years).	Properly restructure AIB. Strengthen banking supervision and regulation of all problem banks. Halt directed lending and provide SOE support only through the budget. Enforce and expand SOE dividend policy. Require all key SOEs to be audited annually and have audits published.

Annex II. External Sustainability and Competitiveness

1. **The nominal somoni exchange rate against the U.S. dollar remained broadly stable from the 2009 global financial crisis until early 2014.** Recent nominal depreciation (a total of about 24 percent in the sixteen months through April 2015) against the U.S. dollar has been less than in most other countries in the CCA and the real effective exchange rate (REER) is now well above the past ten year average.

Tajikistan. Competitiveness and Historical Trends



2. **Results applying CGER-type methodologies are now indicative of overvaluation.** The baseline underpinning these results reflects a near-term negative external remittance shock that affects growth and the current account, and it assumes adjustments in the nominal exchange rate—consistent with the authorities' stated policy intentions—and the current account over the assessment period. All three CGER methodologies show substantial exchange rate overvaluation, with the macroeconomic balance approach showing overvaluation of more than 19 percent—mostly due to a weaker current account balance over the assessment period. Other factors evident in 2014 and early 2015 (sustained high imports in 2014 and the export decline, exchange market pressure, REER appreciation) also suggest that competitiveness is an issue, though it will be difficult to solve competitiveness only through further exchange rate adjustment as structural reforms are key to improving productivity.

Tajikistan: Methodologies to Assess Real Exchange Rate Misalignment 1/

	Underlying Current Account Balance 2/	Current Account Norm	Estimated over(+)/ under(-) valuation (in percentage)
Macroeconomic Balance Approach 2/	-3.4	-1.8	19.3
External Sustainability Approach 2/	-3.4	-2.3	11.7
Equilibrium Real Exchange Rate Approach 3/	…	…	15.9

Source: WEO and IMF staff estimates.

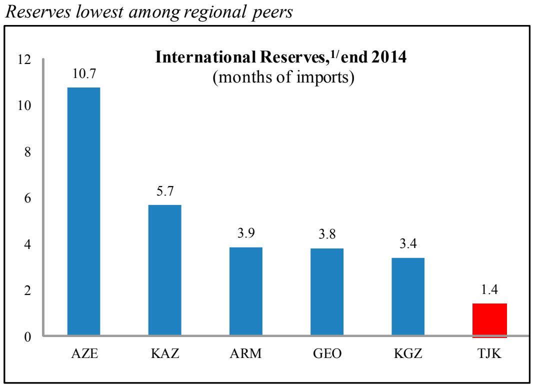
1/ Based on CGER methodologies (SM/06/283).

2/ The macroeconomic balance approach and the external sustainability approach define misalignment as the exchange rate adjustment needed to eliminate the gap between an estimated "current account norm" and the "underlying" current account balance based on 2020 WEO projections.

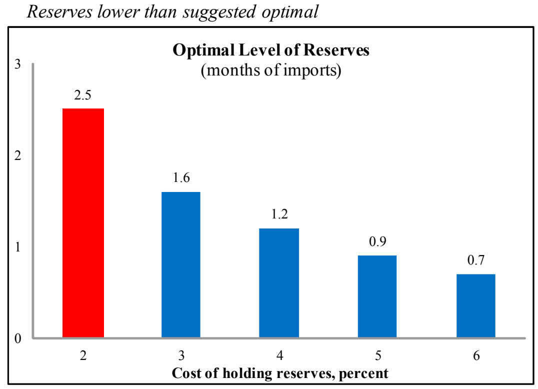
3/ This approach defines misalignment as the change in the real exchange rate required to eliminate the gap between actual REER and the estimated values from the regression of the equilibrium exchange rate based on current fundamentals.

3. **Tajikistan's vulnerability remains elevated with limited reserve buffers.** Gross reserves are expected to decline to about 1.2 months of import cover in 2015 due to the accelerating contraction in remittance inflows. Tajikistan scores the lowest in the CCA peer comparison of reserves coverage of imports—months of next year's imports of goods and services. The new reserve metrics show that the optimal level of reserves for Tajikistan is 2.5 months of imports at a cost of holding reserves of 2 percent, significantly higher than the current level of reserves. Tajikistan remains vulnerable both by this and the more conventional norm of three months of import cover for LIDCs. Sustained intervention and loss of reserves also indicate the need for further nominal exchange rate adjustment.

Reserves lowest among regional peers



Reserves lower than suggested optimal



1/ Reserves do not include national oil funds.

4. **Cross-country data suggest that Tajikistan's competitiveness is diminishing.** For the past half decade, the path of Tajikistan's REER had remained below a number of its CCA peers. More recently, the REER has trended upwards and has appreciated against CCA peers.

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

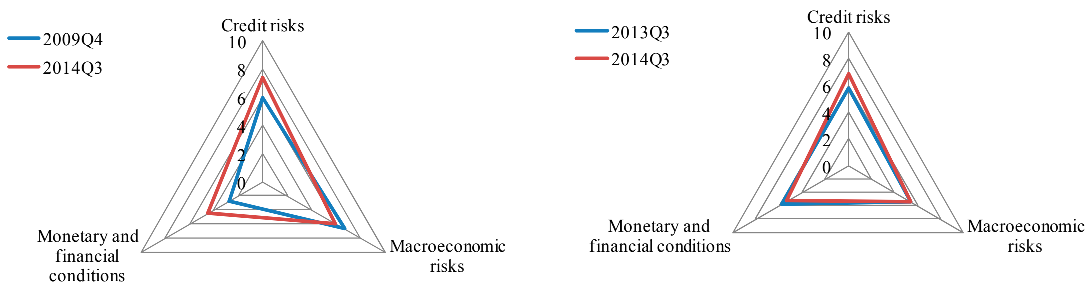
[2] Cost of holding reserves of 2 percent is taken from estimates of marginal product of capital in LIC countries similar to Tajikistan in terms of economic size, non-oil commodity-based exports, and development in Caselli and Feyrer (2007).

Annex III. Risks and Spillovers

Tajikistan is becoming increasingly vulnerable to domestic and external shocks. Pressures arising from the domestic banking system and loss-making enterprises are being exacerbated in the face of rapidly declining remittances flows. The mitigating factors appear limited given delayed policy response and diminishing external and fiscal buffers, particularly when accounting for potential contingent risks.

1. **A recent analysis of aggregate risk conditions around three dimensions suggest that the Tajik economy has deteriorated relative to the 2009 crisis year (Figure 1).**[2] [1] Risks surrounding the financial markets (credit risk), the external macro-economy, as well as monetary and financial conditions have all moved in an adverse direction. These developments are linked to both external factors and domestic factors. The oil price shock, compounding ruble depreciation and weak growth in Russia, has led to rapid slowdown in remittances from Russia, which constitute the equivalent of40-50 percent of Tajikistan's GDP. Domestic factors related to poor governance and transparency leading to unproductive investments and financial and fiscal losses is compromising the situation further.

Figure 1. Tajikistan: Financial Stability Map



Note: Away from center signifies higher risks, easier monetary and financial conditions, or higher risk appetite.

2. **Historically these risks seemed to have trended down for a while since the 2009 crisis.** However, since end 2012 there seems to be a steady uptick, particularly in credit and macroeconomic risks, together with inadequate monetary and financial tightening (Figure 2).

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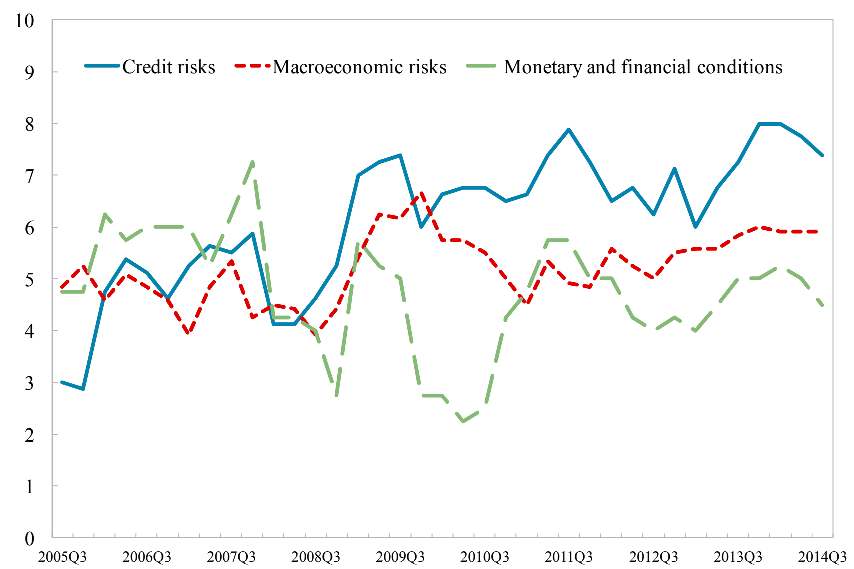
[1] Prepared by Soledad Feal-Zubimendi and Ritu Basu

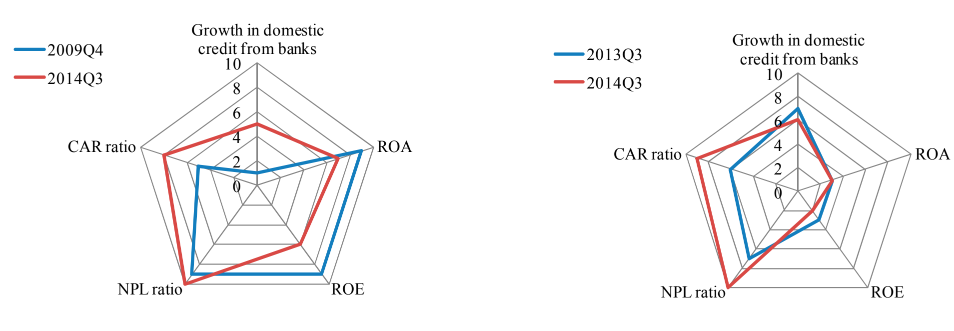
[2] This analysis is based on The MCM Spidergram: A Macro-Financial Environment Tool. Details of the methodology are available in Cervantes, Jeasakul, Maloney, and Ong, "Ms. Muffet, the Spider(gram) and the Web of Macro-Financial Linkages," IMF WP/14/99.

Figure 2. Tajikistan: Evolution of Aggregate Risk



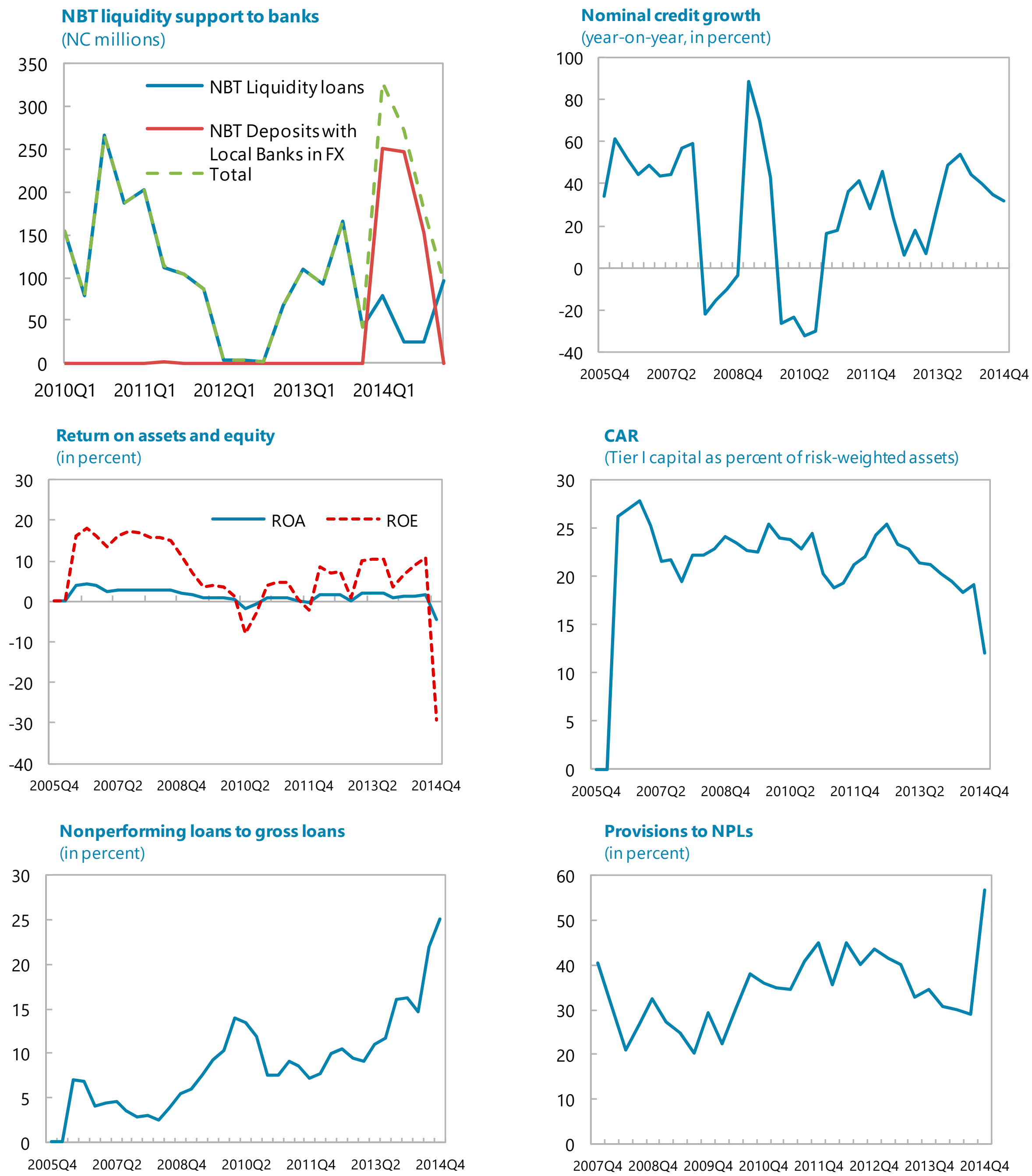
3. **The banking sector appears to be the most fragile of the sectors (Figure 3).** The credit boom is easing relative to 2013, but growth in domestic credit, 34 percent annually until end September 2014, had held up in part due to placement of National Bank of Tajikistan (NBT) deposits in a few ailing, systemic banks (Figure 4). In a weak credit environment, with directed lending to connected parties and loss-making state-owned enterprises, and with remittances falling, non-performing assets have been rising (to 27 percent end-December 2014 from 23 percent end-December 2013). Bank solvency/capital adequacy ratios (CAR), particularly among a few systemic banks, have been suffering, with average capital levels barely above the minimum threshold required by regulations (15 percent CAR). Banks are inadequately provisioned, although provisioning is on the rise in recent months, eating into profitability. The expected continued softening of remittances and depreciation of the somoni, and associated further slowdown in growth in Tajikistan, (including in the construction sector to which some banks have large exposures), is likely to take a further toll on the highly dollarized asset portfolio of banks.

Figure 3. Banking/Credit Risk



Note: Away from center signifies higher risks.

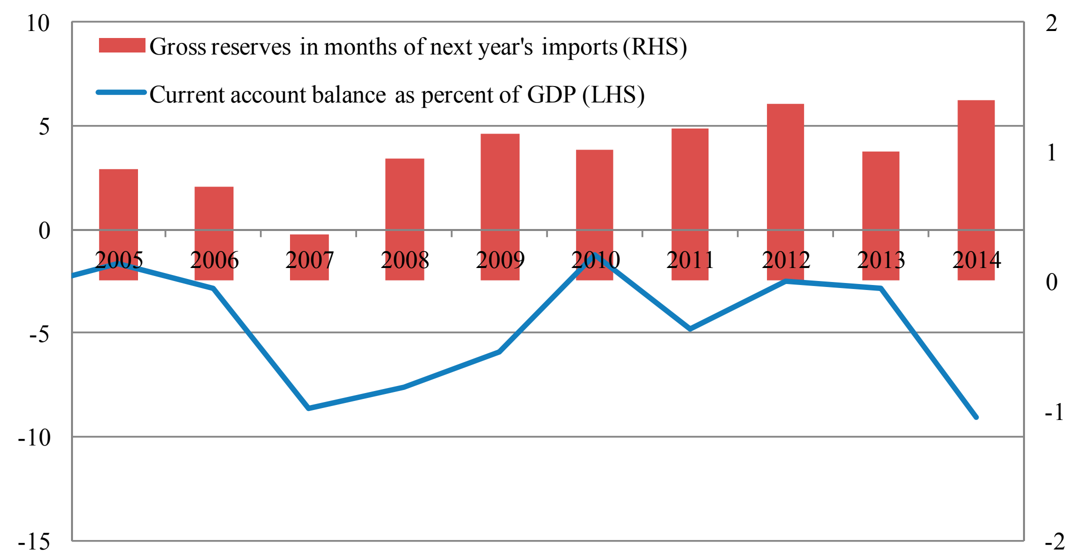
Figure 4. Evolution of FSI and Liquidity Support



Source: Tajikistan authorities, and IMF staff estimates.

4. **The increase in macro-economic risks is driven primarily by developments in the external sector (Figures 5 and 6).** The current account balance is expected to have deteriorated rapidly (final BOP data for 2014 are not yet available), with falling exports due to lower aluminium and cotton prices, sliding remittance income inflows, and a slow adjustment in imports.[3] This is expected to diminish the reserve buffer for imports and add further pressure on the U.S. dollar-somoni exchange rate.[4] Among other factors (Figure 7) investment growth (measured based on gross fixed capital formation) has been on the decline, increasing income risks related to these areas. Risk from excessive domestic credit growth has diminished in terms of volatility around the long term trend. Inflation risk, which has been low given stable food and fuel prices, is expected to pick up with exchange rate depreciation. The improvement in fiscal space masks potential fiscal risks arising from loss-making state-owned enterprises and large and weak systemic banks.

Figure 5. External Sector



[3] Growth through February 2015 declined to 5.2 percent from 6.7 percent in 2014, with a sharp slowdown in construction and a contraction in services (remittance driven). Remittances fell 37 percent in the first quarter and Tajikistan's main exports of cotton and aluminum fell by 8 percent and 38 percent, respectively, in the first two months of the year. While imports are starting to adjust (22 percent decline in the first two months of 2015) to the nominal exchange rate depreciation (20 percent against the dollar since early 2014; 16 percent since October 2014), the NBT continues to intervene and deplete already very low reserves.

[4] Import growth usually responds with a delay to fall in remittances, with elasticity in the range of about 0.2– 0.6 percent. Tajikistan remains largely dependent on imports (mostly food and fuel), close to 60 percent of GDP, with food and fuel imports constituting 18 percent of merchandise imports.

Figure 6. Exchange Rate and Remittance Growth

Storyline goes here

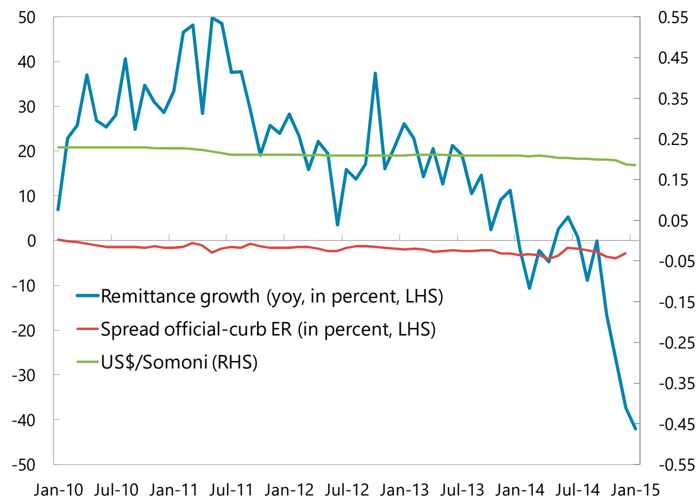
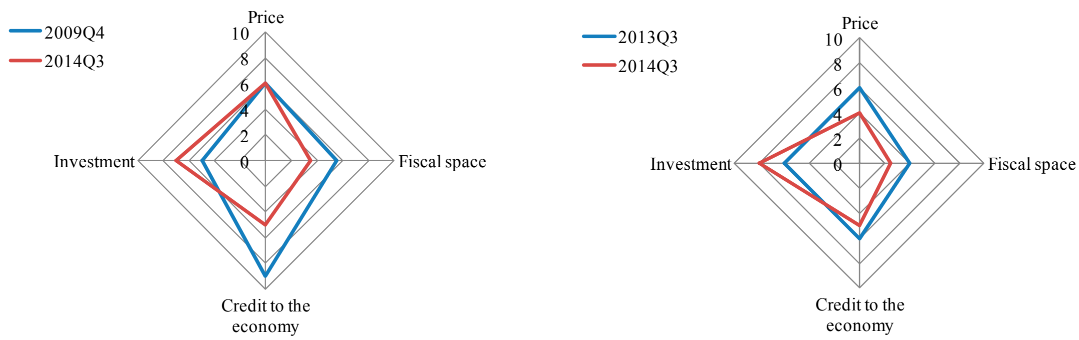


Figure 7. Macroeconomics Risk

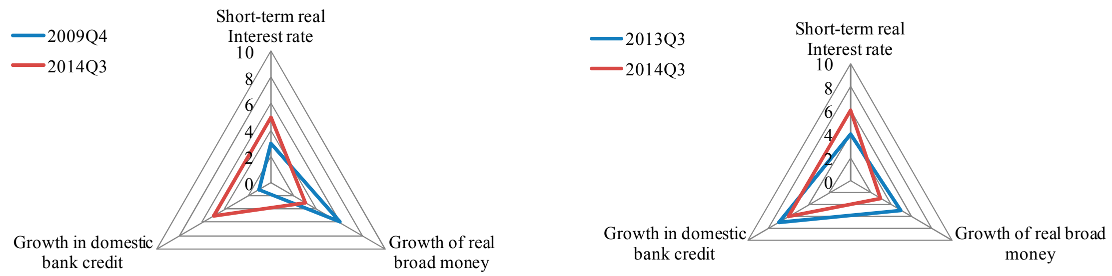


Note: Away from center signifies higher risks.

5. **The monetary policy stance (including pace of exchange rate depreciation) should be adjusted, as required, to diminish pressure on the exchange rate and temper emerging price pressures.** While real broad money growth seemed to have tightened somewhat, the short-term real interest rate (money market rate adjusted for CPI inflation) has not adjusted enough (Figure 8).[5]

[5] Domestic credit includes claims on private sector from banks in national currency; real broad money is calculated as M2 deflated by CPI; and real interest rate is the refinance rate of the NBT deflated by CPI.

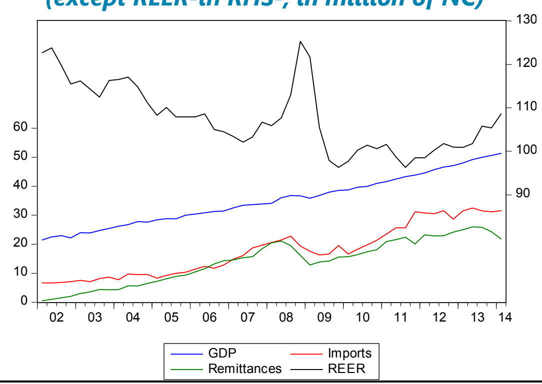
Figure 8. Monetary and Financial Conditions



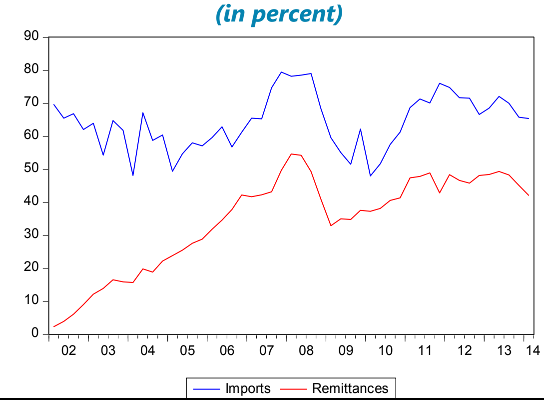
Note: away from center signifies easier monetary and financial conditions.

6. **Growth-Remittance Spillover.** Tajikistan is one of the most remittance dependent countries in the world, and mostly dependent on migrant workers in Russia. Since end-2013, the marked slowdown in Russian growth has adversely affected the economy of Tajikistan. As noted above, remittances—almost entirely originating in Russia and sent by Tajik labor migrants back home—constitute nearly the equivalent of half of Tajik GDP. Two approaches, a heuristic approach that exploits sharp remittance turnaround following 2008 global financial crisis and a VAR model, in which remittances, growth and prices evolve jointly and endogenously over the period 2002–2014, generate a plausible range of elasticity suggesting a 10 percent decline in U.S. dollar value of remittance inflows induces a 0.94–1.43 percent change in real GDP.[6] (See forthcoming Selected Issues Paper).

Imports, remittances, GDP, and REER evolution
(except REER-in RHS-, in million of NC)[1/]



Share of remittances and imports in GDP[2/]
(in percent)



Source: National Bank of Tajikistan, and IMF staff estimates.

[1/]All variables are in real terms and seasonally adjusted.

[2/] Seasonally adjusted shares.

[6] Prepared by Maxym Kryshko.

7. **Import-Remittance Spillover.**[7] Import demand, although closely linked to remittances, is likely to adjust only slowly. A recent analysis suggests that workers earnings, mainly from Russia, have grown significantly since 2005. Remittance dependence has grown from less than the equivalent of 20 percent of GDP to an average equivalent of 48 percent of GDP during the last nine years. Imports, constituting about 62 percent of GDP over the past five years, particularly of food and fuel, as well as domestic services and GDP, are heavily reliant on remittance income.

8. **Results indicate that remittances are an important contemporaneous determinant of imports over the 2002Q1-2014Q1 period, with elasticity in the range of 0.05 (until 2005 Q1)-0.45 thereafter (Table 1).** The strength of this relation has grown since 2005 as the interaction term between the dummy variable of a structural shift in the economy and remittances exhibits a strong positive coefficient. These results are further confirmed in alternate specifications. First, when the model is specified in nominal terms, it suggests that the elasticity of nominal imports vis-à-vis nominal remittance inflows are in the range of 0.2-0.6. When estimated with the share of imports to GDP, the elasticity vis-à-vis share of remittance to GDP varies in the range of -0.5 (weakly significant) to 0.6.[8] Overall, there seems to be a positive and significant relation starting in 2005 between imports and remittances. Import demand is fairly inelastic to both remittance and exchange rate movements. This is evidenced also in the first 9 months of 2014 when remittances fell while imports continued to grow.[9] However, large changes in these variables, such as in times of crisis, will allow significant adjustment.

9. **Tax revenue-Remittance Spillover.**[10] Tax revenues have been increasing over the observed period (2001Q1-2013Q4), not only in nominal levels, but as a percentage of GDP as well. The main variables used to examine the behavior of the tax revenue ratio were the output gap (estimated as the difference between the actual real GDP growth and potential real GDP, growth, latter generated by HP filter method to reflect the state of the economy) and remittances.

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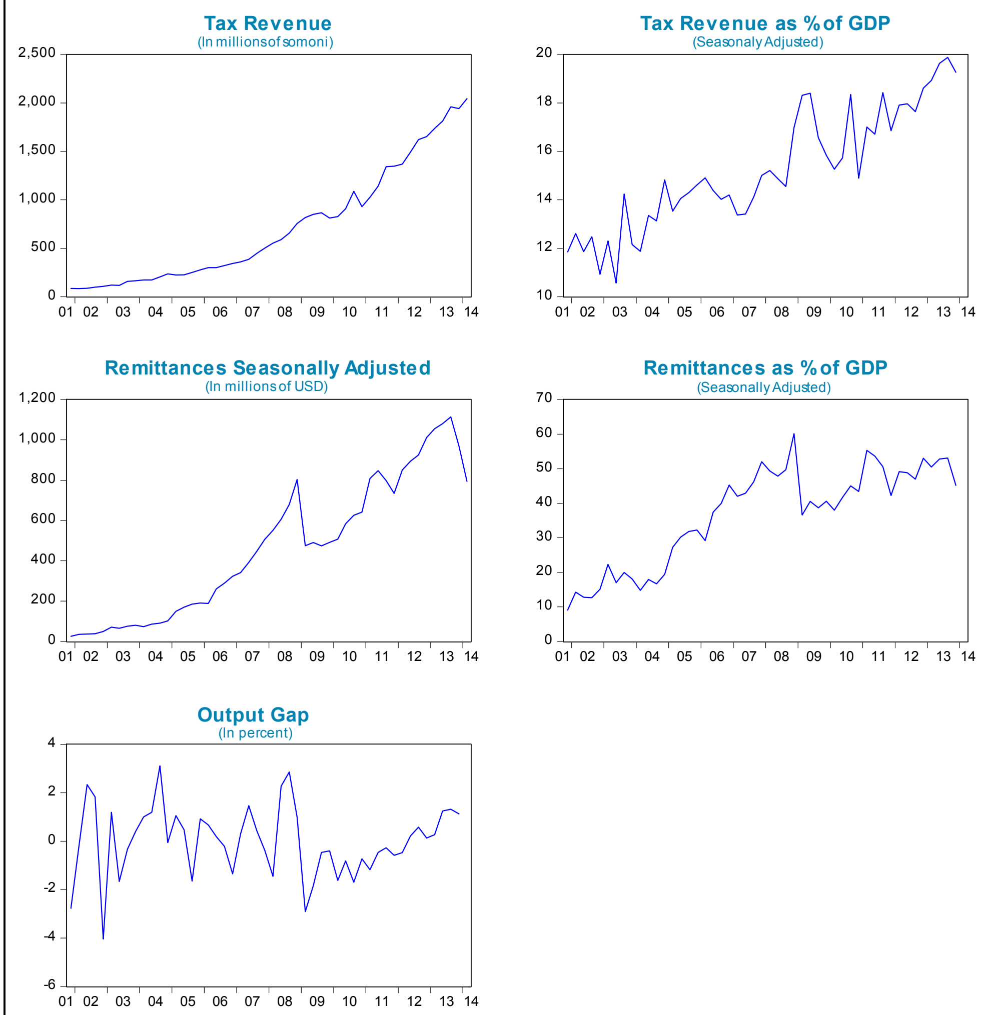
[7] Prepared by Ritu Basu and Soledad Feal-Zubimendi

[8] Co-integration tests of the share of imports, remittances and REER are inconclusive of a relationship.

[9] In 2014Q1 real remittances fell by 13 percent y-o-y while real imports rose by 0.8 percent y-o-y. Nominal remittances fell by nearly 5 percent y-o-y while nominal imports rose by 4.7 percent. Source: NBT and IMF staff estimates.

[10] Prepared by Svetlana Cerovic



Source: National Bank of Tajikistan and IMF Staff estimates.

10. **The estimated results (Table 2) indicate that there is a statistically significant relationship between remittances and tax revenues.** At the same tame, a low coefficient points to a low magnitude of this relationship. The increase of remittances ratio by one percentage point will lead to an increase of tax revenue ratio in the following quarter by 0.07 percentage points. This can partially be explained by reforms over years in the area of tax policy which have helped improve the volume of tax revenues, but to a larger extent by the authorities' policies towards annual tax targets, which ensures a relatively stable revenue outcome.

11. **Overall all the weak relation between remittance and tax revenues is symptomatic of the practice where taxes revenues are collected largely to meet annual targets.** Thus, tax revenues remain largely immune to external shocks while squeezing taxpayers to deliver on the target.

Table 1: Import Spillover Results			
Dependent variable: $Imports_t$	Real variables	Nominal variables	Variables as ratio to GDP
Imports $_{t-1}$	0.35** (2.20)	0.34* (3.86)	
Imports $_{t-2}$	0.24** (2.20)		
Exchange $rate_t$	-0.31 (-1.37)	0.16 (0.87)	0.61** (2.46)
$Remittances_t$	0.05 (1.36)	0.20* (5.55)	-0.05*** (-1.69)
D2005	-0.89* (-4.35)	-2.3* (-4.97)	-2.17* (-10.62)
D2005*$Remittances_t$	0.40* (4.32)	0.39* (4.82)	0.63* (10.75)
Adjusted R-squared	0.9845	0.9860	0.6343
Durwin-Watson statistics	2.1551	2.3177	1.5942
t-Statistic in (), *0.01, **0.05, ***0.1 level of significance. The residuals satisfy serial independence, and homoskedasticity.			

Table 2: Tax Revenue Spillover Results

Dependent Variable: TR_GDP_SA
Method: Least Squares
Date: 08/26/14 Time: 21:15
Sample (adjusted): 2002Q1 2013Q4
Included observations: 48 after adjustments

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	11.43548	0.475647	24.04198	0.0000
REM_GDP_SOM_SA(-1)	0.072803	0.014669	4.962930	0.0000
DUM_2009Q1	2.843362	0.440959	6.448130	0.0000
OUT_GAP	0.210748	0.122566	1.719458	0.0926

R-squared	0.797535	Mean dependent var	15.29346
Adjusted R-squared	0.783730	S.D. dependent var	2.433678
S.E. of regression	1.131777	Akaike info criterion	3.165110
Sum squared resid	56.36043	Schwarz criterion	3.321043
Log likelihood	-71.96264	Hannan-Quinn criter.	3.224037
F-statistic	57.77381	Durbin-Watson stat	1.828857
Prob(F-statistic)	0.00000		

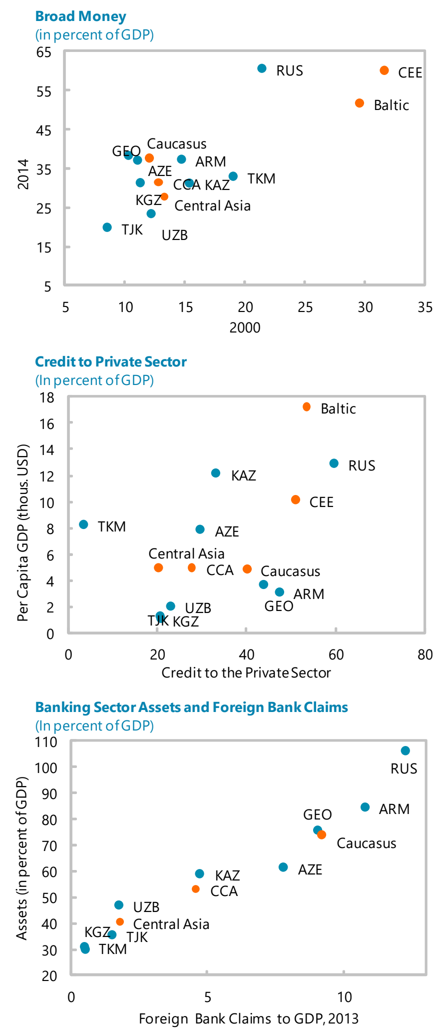
Annex IV. Financial Sector Issues and the Way Forward[1]

Tajikistan's financial sector continues to be afflicted by poor corporate governance and the balance sheets of systemic banks remain vulnerable to external shocks (cotton, aluminum and remittances). These banks are in need of serious reconsideration of their business models. For the system as a whole, weaknesses also remain in proper loan classification and provisioning. Finally, continuous support from government and central bank by way of liquidity loans or other deposit placements is further weakening the governance structure, obstructing leveling the playing field and procrastinating speedy resolution of problem banks. The less prominent but fast growing microfinance sector provides a promising alternative for a healthy financial sector development that could support growth.

1. **The financial system in Tajikistan is shallow.** It remains at the lower end of distribution among the Caucasus and Central Asia countries, when measured by the share of banking sector assets (35 percent of GDP, 2014), or by foreign ownership (10.5 percent of bank assets), as well as by the depth of intermediation.

2. **The sector is concentrated among a few big banks and can effectively be divided into three main groups which exhibit diverse performance.** The six largest banks – Group I – include two state-owned ones and are systemic as they hold about 76 percent of total financial sector assets and 85 percent of private deposits.[2] The small and medium size banks (SME banks) represent the second largest Group II, commanding the asset share of 13 percent and deposit share of 11 percent. In early 2014, one micro-finance institution was transformed into bank Spitamen increasing the number of SME banks to eleven. The remaining sector comprises micro-finance institutions, including forty-two microcredit deposit organizations (MDOs) – allowed to accept individual deposits and

Figure 1. Financial Reforms and Deepening, 2014 1/



Source: National authorities, and IMF staff estimates.
1/ Or latest available. CEE excludes Kosovo.

[1] Prepared by Bakhrom Ziyaev, Ritu Basu, and Maxym Kryshko

[2] The share changes only slightly to 86 percent and 10 percent for Group I and Group II banks respectively, with the inclusion of government deposits. Here and further in this annex, the total financial sector refers to all commercial banks and microcredit deposit organizations. The remaining micro-finance institutions – MLOs and MLFs – are small and are not included.

forming our Group III, forty-two micro-lending organizations (MLOs) and thirty-seven micro-lending funds.

3. **The variance in performance across groups provides useful insights regarding the efficiency of the system and the deficiencies that need to be addressed by the regulators.** As of September 2014, system-wide capital adequacy ratio (CAR) of banks was reported at 20.2 percent, and banking system seemed well capitalized. However, since then systemic banks (i.e., Group I) sharply deteriorated from being barely above the regulatory minimum to well below minimum prudential norms, due to underperformance of one problem bank. By year-end CAR of all banks fell to 14.5 percent (Table 1). The CAR of systemic banks totaled only 1.6 percent in the interim (19.1 percent excluding the problem bank; Table 2).

4. **The credit boom in 2014, with private credit growing by 32 percent, was accompanied by continued rise in non-performing loans impacting systemic banks most adversely.** This in turn resulted in higher provisioning requirements, thus eating into profits. Through October 2014, delinquency ratio for Group I reached 35 percent (up from 25 percent in June) against 11 percent (up from 8 percent in June) for Group II and 4 percent (down from 5 percent in June) for Group III.

5. **Systemic banks are often subject to the practice of directed lending to unprofitable enterprises and to businesses owned by top government officials and connected parties.** On average, banks in this group have large single borrower exposure, and most banks in the group are exposed to weak state-owned enterprises which carry over their losses to banks and essentially undermine their performance. Deficiencies also remain in proper loan classification, valuation of collateral and provisioning practices. In particular, provisioning coverage ratio for Group I, excluding problem bank, remains low at 30 percent (Table 2).

Table 1. Financial Soundness Indicators for Banks: 2012–2014

	Dec-12	Dec-13	Mar-14	Jun-14	Sep-14	Dec-14
Capital adequacy						
Tier I capital as percent of risk-weighted assets	23.3	20.2	19.4	18.3	19.1	12.0
Total capital to risk -weighted assets (K1-1)	25.9	22.1	20.8	19.5	21.0	14.5
Asset quality 1/						
Nonperforming loans to gross loans	18.2	22.9	24.9	25.0	25.4	27.2
Nonperforming loans to gross loans 2/	9.5	16.0	16.2	14.6	22.0	25.1
Nonperforming loans net of provisions to reg. capital	25.4	47.6	57.3	61.6	59.9	61.2
Provisions to nonperforming loans	43.5	34.7	30.7	30.1	29.1	56.7
Banks exceeding maximum single borrower limit 3/	1 of 16	2 of 16	3 of 17	2 of 17	2 of 17	3 of 17
Earnings and profitability						
Return on assets (ROA)	0.2	0.7	1.1	1.4	1.7	-4.4
Return on equity (ROE)	0.7	3.7	6.5	8.8	10.8	-29.2
Interest income to gross income	29.2	26.9	27.9	25.2	24.6	21.4
Non-interest expenditures to gross income	77.2	79.0	76.2	78.3	77.8	93.4
Salary expenditures to non-interest expenditures	13.5	11.5	11.6	10.2	10.4	8.0
Liquidity						
Liquid assets to total assets	29.0	23.8	28.0	26.1	24.7	21.5
Liquid assets to demand and savings deposits	140.0	142.1	192.9	166.4	159.4	113.5
Liquid assets to total deposits	57.8	49.8	66.2	61.0	57.5	43.4
Sensitivity to market risk						
Net open position in foreign exchange to capital	0.7 short	2.4 long	1.1 short	0.2 short	0.6 short	0.8 long

Sources: National Bank of Tajikistan.
Note: Improvements of certain ratios in June 2012 reflect the transfer of a sizable bad loan portfolio of one bank to the MoF.
1/ Nonperforming loans include loans more than 1 day overdue.
2/ Nonperforming loans include loans more than 30 day overdue.
3/ Maximum single borrower limit is defined as 20 percent of capital (K3-1).

6. **The earnings and profitability deteriorated further on the backdrop of external remittance-led shocks.** As Table 2 indicates, Return on Assets and Return on Equity ratios for Group I banks stood at-4 (down from 2 in June) and-34 (down from 14 in June) percent, respectively, reflecting major difficulties in one problem bank. Excluding this bank, the ROA and ROE for systemic banks are 2 and 13 percent, respectively, but remain inferior to performance of MDOs from Group III, whose earnings and profitability have even somewhat improved. The better performance of Group III MDOs is in part related to higher foreign ownership, better business models and corporate governance demonstrated by low power of big borrowers and connected entities.

7. **The system exhibits sufficient level of liquidity and favors systemic banks' access to liquidity.** Aggregate liquidity ratios for each group are substantially above the required minimum threshold of 30 percent. Many systemic banks continue to benefit from favorable access to central bank facilities, placement of deposits from government and central bank, and on-lending of these deposits to favored entities. All of this helps to prop up the directed and unprofitable lending culture and creates unfair competition for new entrants or existing entities. In Group III, the liquidity ratio is extremely high because of thin deposits and business model that envisages foreign financing

of lending operations.[3] Solid corporate governance and transparency principles have facilitated microfinance organizations' access to international markets.

8. **All groups – excluding one problem bank – display the level of open foreign exchange positions within prudential limits.** Nonetheless, the high level of dollarization creates considerable risk to financial institutions that particularly lend in foreign exchange. In an environment of extensive exchange rate depreciation pressure, this may potentially translate into additional credit risk and a rise in non-performing loans for the system and for weak banks.

9. **A peer group based analysis suggests that systemic banks are weakest link while the microfinance organizations are the best overall performers.** The analysis suggests that large proportions[4] of Group I systemic banks are violating prudential ratios on capital adequacy and credit exposure (both to single borrowers and large credit exposures) and also underperforming against peers in their bad loan portfolio holdings. The small and medium banks from Group II look quite similar to MDOs from Group III. However, Group III enjoys lower proportion of credit institutions with relatively bad asset quality and high single borrower exposure.

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[3] Share of foreign equity in the microfinance sector is around 28.7 percent, which probably explains in part their access to funds from abroad.

[4] Categorical efficiency across groups is judged based on two applicable measures (Table 3). National regulatory thresholds are used to determine the appropriateness of capital, credit exposures, liquidity and foreign exchange positions based on existing supervisory data. Degree of performance in other categories (i.e., level of NPLs, provisions and ROA and ROE) is measured by one standard deviation underperformance from the group average. Relevant proportions indicate percentage of credit organizations either violating a particular prudential norm or deviating by more than one standard deviation from simple average performer within the group.

Table 2. Financial Sector CAMELS Indicators for October 2014

	Capital Adequacy Ratio	Loans 1+ days overdue	Loans 30+ days overdue	Provisions to NPLs	Single Borrower to Capital	Large Credit Exposure to Capital	Return on Assets	Retun on Equity	Liquid Assets to Short-Term Liabilities	FX Position to Capital
Group I	2%	35%	33%	41%	179%	11.1	-4%	-34%	88%	-72%
Group I excl. Problem Bank	19%	25%	23%	30%	12%	0.8	2%	13%	95%	-3%
Group II	39%	11%	7%	41%	13%	0.2	3%	9%	114%	3%
Group III	27%	4%	2%	54%	2%	0.1	6%	25%	385%	2%

Note 1: Loans 30d+ overdue, ROA/ROE and liquidity ratio for Group III credit institutions are for end-September 2014.
Note 2: Performance degree: green - high, yellow - medium, red - weak.

Table 3. Performance Ranking: Proportion of Credit Institutions Failing Prudential or One Standard Deviation Norm

	Capital Adequacy Ratio	Loans 1+ days overdue	Loans 30+ days overdue	Provisions to NPLs	Single Borrower to Capital	Large Credit Exposure to Capital	Return on Assets	Retun on Equity	Liquid Assets to Short-Term Liabilities	FX Position to Capital
	min 15% or 12%	> 1 STD	> 1 STD	< 1 STD	max 20%	max 3 times of capital	< 1/2 STD	< 1/2 STD	min 30% or 50%	max 20%
Group I	33%	33%	33%	17%	17%	17%	33%	50%	0%	0%
Group II	0%	18%	18%	18%	9%	0%	36%	27%	0%	0%
Group III	2%	17%	20%	15%	2%	0%	na	na	10%	2%

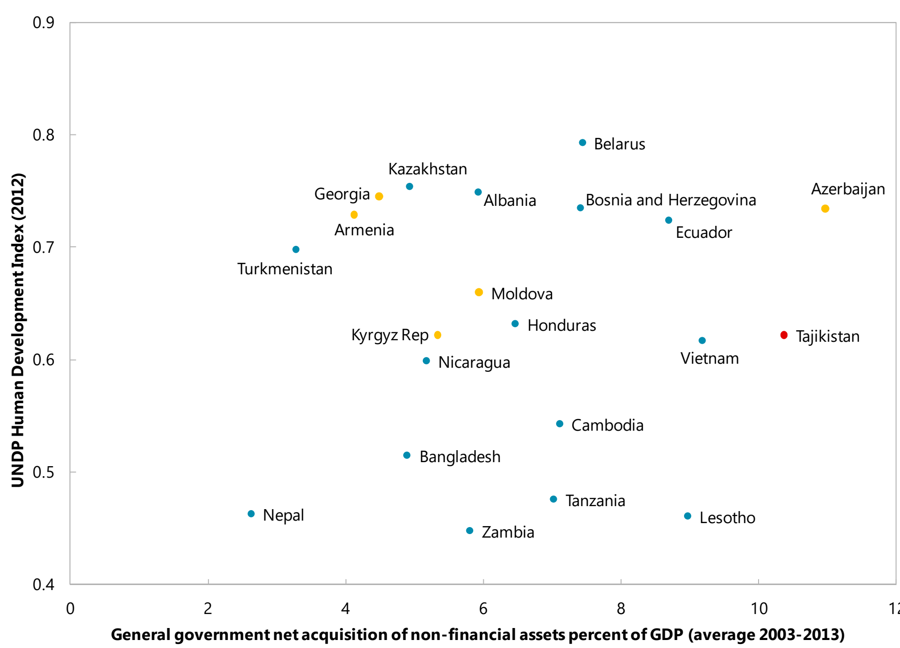
Note 1: Respective thresholds are either prudential norms or adjusted group averages. E.g. "> 1 STD" means threshold equals group average plus 1 group standard deviation.
Note 2: Thresholds for ROA and ROE are group averages minus 1/2 group standard deviation. In Group I, the average and stdev excluded ROA/ROE of the problem bank.

Annex V. Efficiency of Public Investment in Tajikistan[1]

1. **Public capital expenditure as reflected in the budget in Tajikistan has trended upward since the late 1990s.** Supported by foreign borrowing and grants, as well as domestic resources, public capital expenditures increased from 6.6 percent of GDP in 2000 to 9.5 percent in 2013, reaching a peak of 14 percent of GDP in 2007. While a decline in public investment (as percent of GDP) is observed after 2007, it remains high relative to other low-income countries (LIC average of 7.6 percent of GDP). Part of the decline in 2012-14 was related to the hold on construction at the Rogun HPP pending the completion of feasibility studies for the project.

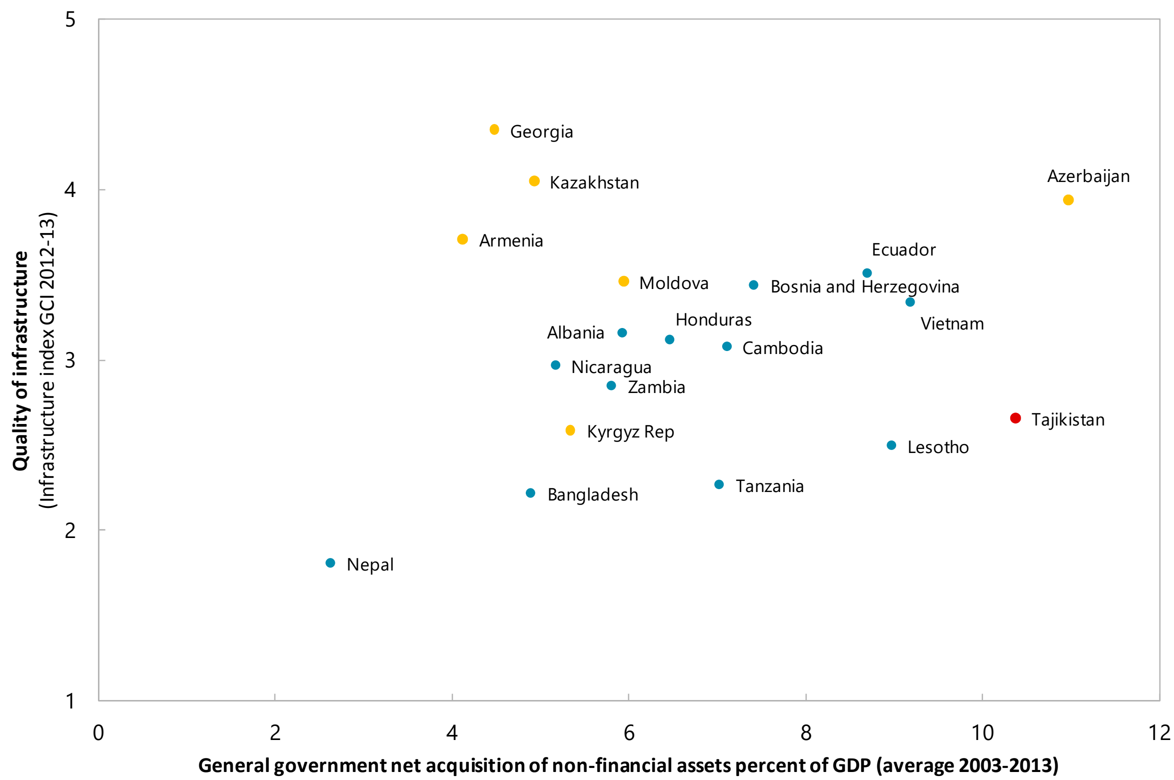
2. **Despite its high public investment, Tajikistan lags behind its peers in the quality of infrastructure and other development indicators.** Compared to other countries in the region, or those with a similar income level, Tajikistan has among the highest public investment as percentage of GDP, while having a very low human development index (HDI) and poor quality of infrastructure (Figures 1 and 2). The HDI captures key components of human development: health, education, and the standard of living. The quality of infrastructure is proxied with an overall infrastructure quality index of the Global Competitiveness Indicator (GCI) developed by the World Economic Forum, which covers the quality of transport infrastructure, electricity supply, and the telecommunication network.

Figure 1. Capital Spending and Human Development



[1] Prepared by Svetlana Cerovic.

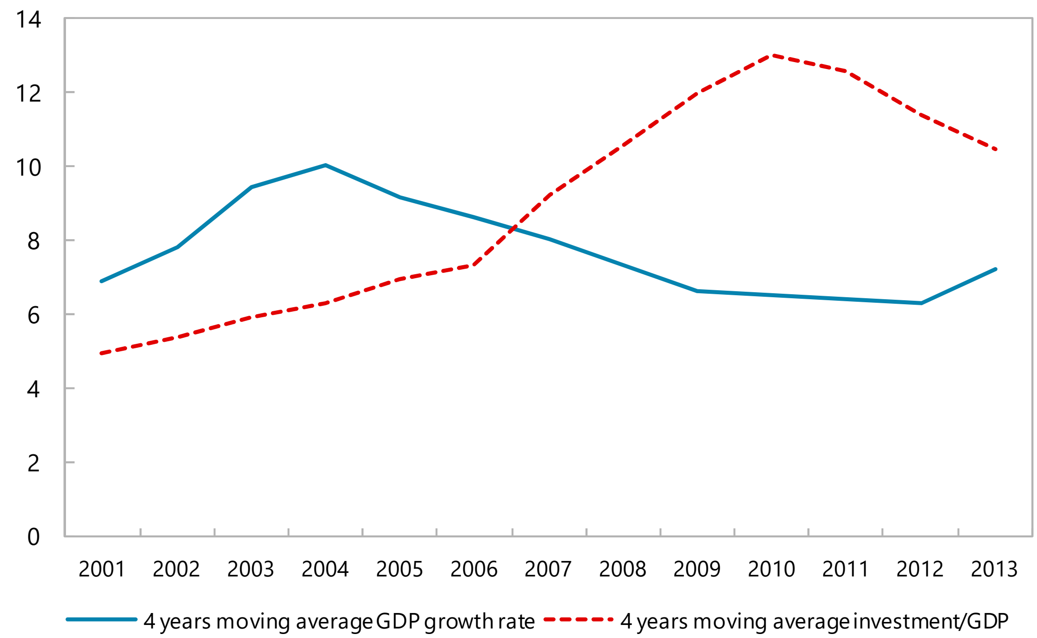
Figure 2. Quality of Infrastructure and Public Investment



3. **Staff estimates point to the existence of large inefficiencies in Tajikistan's public investment.** The strong link between public capital spending and growth exists only if these investments are translated into productive assets, or in other words, if they are efficient. The relation between GDP growth and investment rate has weakened (Figure 3) and growth is becoming less responsive to public investment. The capital stock (as a percentage of GDP) has been declining, and improved marginally only after 2007. Moreover, if adjusted for efficiency, the decline in the capital stock is even more pronounced, and the marginal improvement from 2007 is lost.[2] The estimates indicate that only 60 percent of capital spending over the observed period (16 years) was translated into productive capital.

[2] The public capital stock series is constructed using the perpetual inventory model (Gupta and others WP/11/27) and initial capital stock from Penn World Tables: 〖K〗_t=K_(t-1)-δ_t*K_(t-1)+I_(t-1), where K_t is the stock of public capital at time t, I_(t-1) is public investment spending as time t-1, δ_t is rate of depreciation of capital stock. The efficiency adjusted series is then estimated following Gupta and others using the quality of infrastructure as a proxy for efficiency: 〖K'〗_t= 〖K'〗_(t-1)-δ_t* 〖K'〗_(t-1)+q*I_(t-1) .

Figure 3. GDP and Investments



4. **The efficiency of public investment is in general associated with institutional quality, the business climate, and the quality of the public investment process.** Institutional quality and the business environment in Tajikistan are assessed as relatively weak, as indicated by Tajikistan's 2015 rank of 166 out of 189 countries by Doing Business. The PIMI index was used to assess the quality of the public investment process.[3] The index covers four stages of the investment cycle: appraisal, selection, implementation and evaluation. While the available data for 41 LICs indicate that Tajikistan is performing somewhat better than the average, comparison with the 4th quartile of the group shows significant space for improvement (Figure 4).[4] Looking at the investment cycle (Figure 5), there is particularly room for the improvement in the appraisal and evaluation stages in Tajikistan, as well as in the selection of projects.

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[3] The index was developed by Dabla-Norris et al (2011) for 71 countries, and it was expanded in 2014 with an additional 7 countries, including Tajikistan.

[4] All other LICs in the sample the index was created based on the institutional framework existent in 2010, while Tajikistan's index represents the situation in 2014.

Figure 4. PIMI, LICs

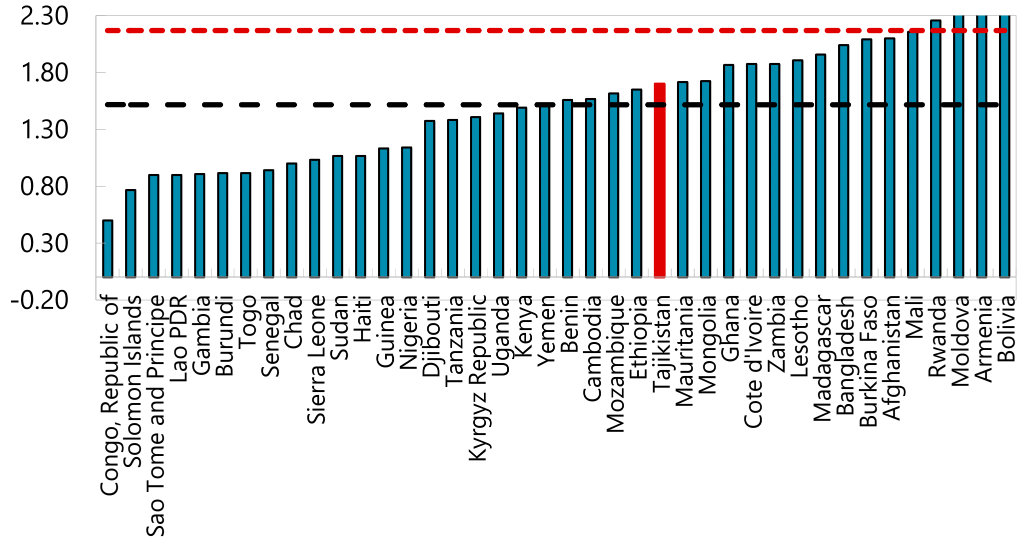
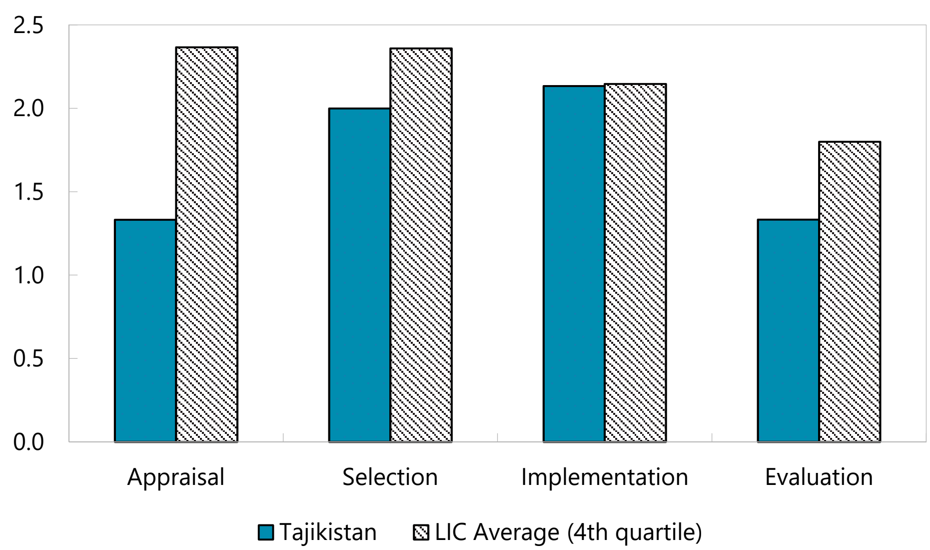
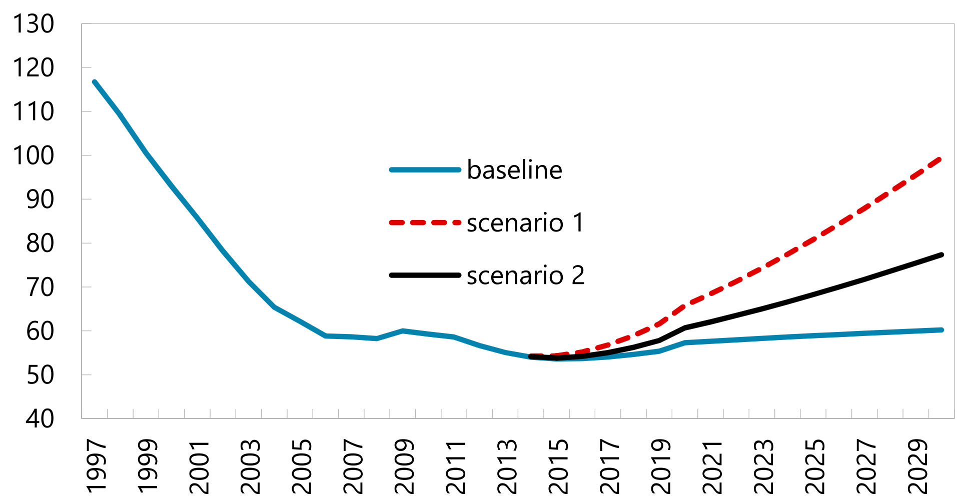


Figure 5. PIMI Sub-Indices



5. **Infrastructure and social needs in Tajikistan are evident.** Several options may be considered to address them: higher public investment spending, addressing existing inefficiencies in public investment, and improving the business environment to allow more private sector inclusion. Fiscal space is limited in Tajikistan, and the current share of public investment will be difficult to sustain without compromising other objectives, such as improved social safety nets and spending on education and health. Therefore, measures should be considered to increase the efficiency of public investment spending, while also strengthening the overall business environment. Estimates indicate that gradually eliminating half of existing inefficiencies in public investment spending by 2030 would provide the same increase of capital stock as increasing public investment by 9 percentage points of GDP (Scenario 2 in Figure 6).[5] Improving the quality of the public investment process and strengthening institutions will be required to achieve good results. In addition, a general improvement of the business climate and stronger institutional framework might allow some projects to be executed in cooperation with the private sector (e.g., through PPPs), while also taking the public sector out of many activities that are not directly connected with the government's stated social goals.

Figure 6. Public Capital Stock Efficiency Adjusted
(Percent of GDP)



[5] The baseline scenario assumes no change in efficiency. Under scenario 1 it is assumed that all country's inefficiencies are gradually eliminated by 2030, and under Scenario 2, half of existing inefficiencies are gradually eliminated by 2030.

Annex VI. Fiscal Costs and Contingent Liabilities from SOE Operations[1]

State owned enterprises (SOEs) play an important role in the Tajik economy. They perform a wide range of commercial and governmental functions, and dominate in sectors such as energy, industry, utility services, and certain types of transportation. There are around 800 SOEs, of which more than 90 percent are 100 percent state owned. Among them, the largest ones are aluminum smelter Talco, and Barki Tajik, the sole producer, transmitter, and supplier of electricity in the country. These two enterprises alone employ around 25,000 workers.

1. **The SOE sector is characterized by numerous inefficiencies, poor corporate governance and a lack of comprehensive supervisory framework.** Financial and economic performance of SOEs has been uneven, although it is difficult to draw a strong conclusion given the limited data availability. The available data indicate that out of 24 large SOEs monitored by the Ministry of Finance (MOF) through 2013, 13 operated with a profit, while the other 11 were loss making and resulted in an overall net-loss of the SOE sector in the amount of 2 percent of GDP.

2. **As a result, costs to the budget from the SOE sector are significant.** Direct costs include the servicing by the Ministry of Finance (MoF) of external debt of Barki Tajik, (the stock of which was USD320 million as of end 2013 or about 15 percent of total public and publicly guaranteed external debt) as well as a commitment by the government to repay the principle component of newly contracted external debt by Talco. Many of the SOEs do not share the burden of taxation and instead run tax arrears. The dividend policy was introduced in November 2013, however compliance has been very poor as payments collected by the budget so far have been very small. Moreover, the dividend policy leaves out many key SOEs.

3. **In addition, SOEs are a major source of contingent risks to public finances.** Some of fiscal risks are identified in the annual reports produced by the MOF, and are summarized below.[2] While the Reports lack a more comprehensive analysis and are generated from poor data quality, they present a welcome first step towards improving transparency of SOEs.

[1] Prepared by Svetlana Cerovic.

[2] One of the 2009–2010 ECF structural benchmarks required the authorities to produce a Statement of Fiscal Risks (SFR) related to the condition of SOEs. The MOF produced such SFRs for 16 large SOEs for 2011 and extended it to 24 SOEs for 2012 and 2013.

Table 1: Identified Fiscal Risks

	2011				2012				2013			
	million somoni	% of GDP	% of budget expenditures	% of budget revenues	million somoni	% of GDP	% of budget expenditures	% of budget revenues	million somoni	% of GDP	% of budget expenditures	% of budget revenues
Accounts payable	**8,421.7**	**28.0**	**103.6**	**124.0**	**8,963.9**	**24.8**	**100.9**	**104.89**	**11,440.4**	**28.2**	**101.7**	**99.68**
On-lending and loan guarantees	647.62	2.2	8.0	9.5	928.60	2.6	10.4	10.87	1399.99	3.5	12.4	12.20
Total arrears		-	-	-						-		
Current arrears	273.9	0.9	3.4	4.0	282.4	0.8	3.2	3.30	1,580.2	3.9	14.1	13.77
of which Tax arrears	214.2	0.7	2.6	3.2	211.6	0.6	2.4	2.48	476.5	1.2	4.2	4.15
Quasi-fiscal activity	**1,121.4**	**3.7**	**13.8**	**16.5**	**1,042.0**	**2.9**	**11.7**	**12.19**	**874.6**	**2.2**	**7.8**	**8.00**
Subsidized prices	1,003.0	3.3	12.3	14.8	951.9	2.6	10.7	11.14	861.5	2.1	7.7	7.90
Non-comercial services	118.4	0.4	1.5	1.7	90.1	0.2	1.0	1.05	13.0	0.0	0.1	0.10
TOTAL	**9,543.1**	**31.7**	**117.4**	**140.5**	**10,005.9**	**27.7**	**112.6**	**117.1**	**11,440.4**	**28.2**	**101.7**	**99.7**

- **Total accounts payable** of 24 large SOEs amounted to 28 percent of GDP in 2013. They represent an implicit liability to the government as SOEs may require a financial support and recapitalization to service their obligations. In total liabilities, the share of Barki Tajik of 60 percent is the largest, followed by Talco with 16 percent. Arrears are a significant component of accounts payable, but data on their total amount are not available. Only arrears on current liabilities are identified by the MOF, and they increased from 0.8 percent of GDP in 2012 to 4 percent of GDP in 2013. The increase is mostly related to financial and operational difficulties of Barki Tajik. A part of accounts payable of Barki Tajik relates to its debt toward HPP Sangtuda-1, which is 75 percent owned by Russian government. Those arrears reached 84 million U.S. dollars by mid-2014.

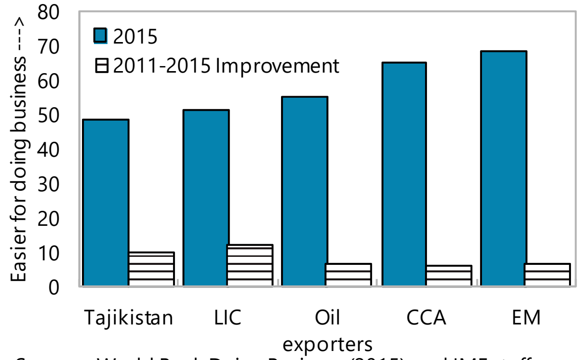
- **On-lending:** The government borrows funds from international financial institutions and then on-lends them to SOEs for the implementation of specific projects. The risk to the government arises if the SOEs are not able to service on-loans, resulting in the government having to service it from other revenue. Identified risks from on-lending amounted 2.6 percent of GDP in 2011 and 3.5 percent in 2013, and 95 percent of these loans are related to Barki Tajik.

- **Quasi-fiscal activities:** The identified quasi-fiscal activities related to supply of goods and services at the subsidized prices, and to non commercial services, accounted to 11 percent of total budget expenditure in 2012. The estimated losses are associated with low energy price Barki Tajik charges to Talco and Ministry of Melioration and Water resources, as well as cement supply costs from Tajik cement to HPP Sangtuda-1. In addition, the SOEs are often involved in non-commercial activities, in particular construction of communal infrastructure and payments of charitable nature. The indentified costs from such activities were estimated to 1.5 percent and 1 percent of total budget expenditures in 2011 and 2012 respectively. However, the anecdotal evidence indicates that such activities are underreported, and exist in much larger scale.

4. **The above mentioned contingent liabilities are posing risks not only to the budget, but to the banking system as well.** Some of these enterprises are borrowing from domestic banks, and they have been the reason for the increase of NPLs in 2013–14. As a result, already weak financial positions of some banks have been further deteriorating.

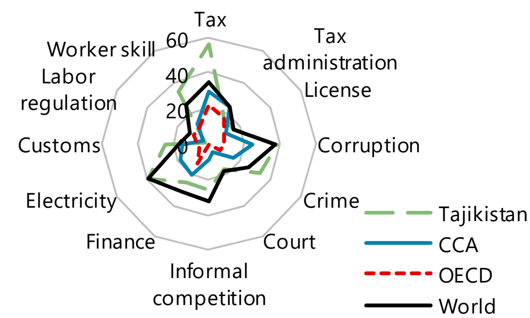
Annex VII. Business Environment and Governance Indicators

Ease of Doing Business
(Distance to frontier)



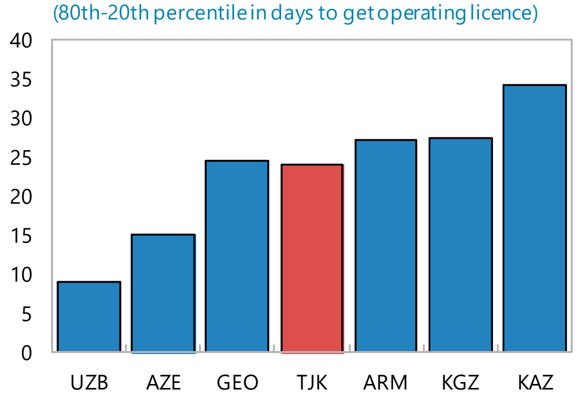
Sources: World Bank Doing Business (2015), and IMF staff calculations.

Firm-level Business Constraints
(percentage of firms identifying constraints)



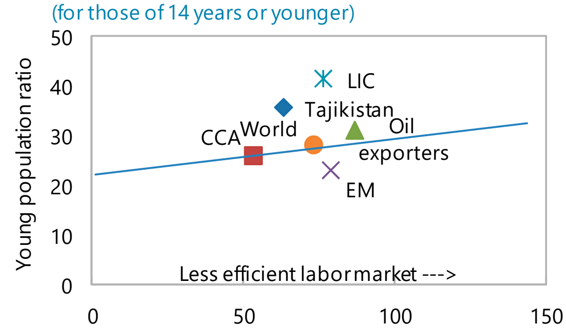
Sources: World Bank BEEP Survey (2008), and IMF staff calculations.

Firm-level Dispersion in Business Environment
(80th-20th percentile in days to get operating licence)



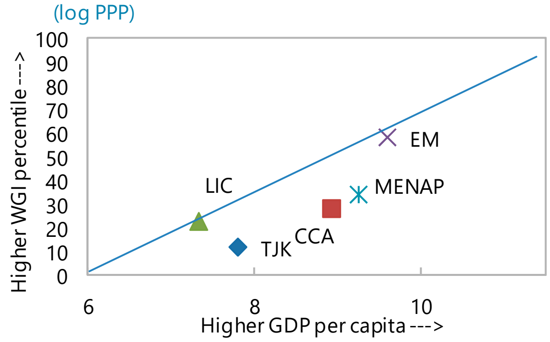
Sources: World Bank BEEPS, and IMF staff calculations.

Labor Market Efficiency and Young Population Ratio
(for those of 14 years or younger)



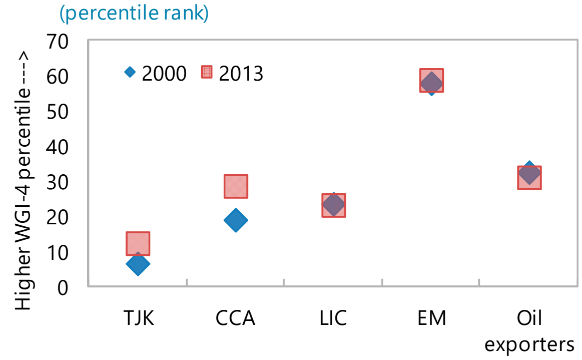
Sources: WEF Global Competitiveness Report (2014-15, pillar 7 without female participation and brain drain), WDI (2013), and IMF staff calculations; trend line is based on across country regression.

WGI-4 and GDP per capita
(log PPP)



Sources: Worldwide Governance Indicators (government effectiveness, regulatory quality, rule of law, and control of corruption); trend line is based on across country regression.

Changes in WGI-4, 2000-2013
(percentile rank)



Sources: Worldwide Governance Indicators (government effectiveness, regulatory quality, rule of law, and control of corruption), and IMF staff calculations.

REPUBLIC OF TAJIKISTAN

May 14, 2015

STAFF REPORT FOR THE 2015 ARTICLE IV CONSULTATION—DEBT SUSTAINABILITY ANALYSIS

Approved By
Juha Kähkönen and Dhaneshwar Ghura (IMF) and Satu Kähkönen (World Bank)

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

Based on the external low income country (LIC) debt sustainability analysis (DSA), Tajikistan's risk of debt distress is assessed to be low, upgraded from its previous moderate rating.[1] *Assessing debt sustainability with thresholds used for medium policy performers—due to an improvement in Tajikistan's Country Policy and Institutional Assessment (CPIA) rating—and using the higher unified discount rate of 5 percent in place for LIC DSAs since October 2013, while also accounting for a lower initial debt position since Tajikistan has borrowed less in recent years than projected in the last DSA, moves Tajikistan from moderate to low risk of debt distress.*[2] *Despite an increase in borrowing capacity implicitly expressed by increases in the thresholds and the lower initial debt position, Tajikistan's external position is projected to remain sensitive to a number of shocks, especially given the deteriorating macroeconomic environment, limited policy action to tackle existing vulnerabilities, and very thin external and fiscal buffers. Stress tests within the public DSA demonstrate the sensitivity of the fiscal position with respect to a slightly lower long run growth rate.*

[1] The DSA has been produced jointly by World Bank and IMF staff, in consultation with Asian Development Bank staff. The fiscal year for Tajikistan is January 1–December 31.

[2] On October 11, 2013, the Executive Boards of the IMF and World Bank raised to 5 percent (from 3 percent) the discount rate used to calculate the present value of the external debt of low-income countries using the LIC Debt Sustainability Framework. This change came into effect after the previous (July 19, 2013) LIC DSA for Tajikistan and has the effect of lowering the present value of external debt in the current DSA compared to the previous DSA, all other things equal.

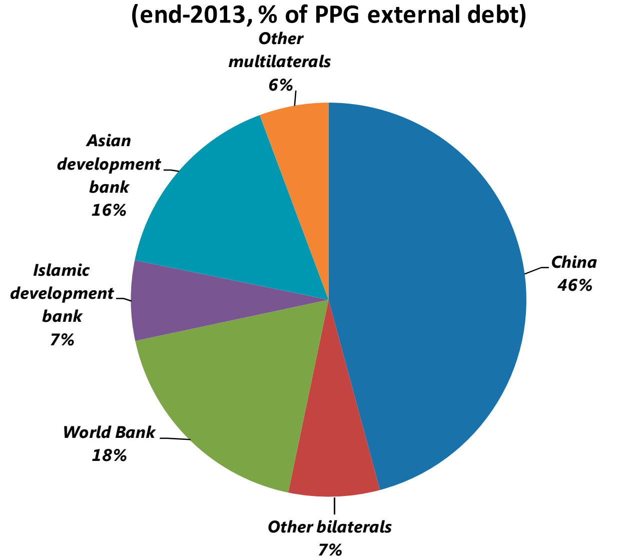
BACKGROUND

1. **Tajikistan has remained vulnerable to external and growth shocks though its public debt stock declined from about 65 percent of GDP in 2003 to 29 percent of GDP in 2013.** Most of the public debt is denominated in foreign currency—25.3 percent of GDP in 2013.

2. **Public and publicly guaranteed (PPG) external debt at end 2013 dropped to 25.3 percent of GDP, a reduction from the previous year's level by 3 percent of GDP (Table 1).** This was mainly due to a combination of continued strong real GDP growth and lower external financing. Tajikistan's PPG external debt is largely concessional and denominated in foreign currency, and held in broadly equal parts between multilateral and bilateral creditors, with the share of China quite prominent at around 46 percent (text chart).[3] Private external debt was 18.3 percent of GDP in 2013 and largely long-term and denominated in foreign currency.

3. **Domestic debt continues to constitute a limited part of overall public debt owing to low domestic financing needs as the primary balance, excluding the externally financed public investment program, has usually been in surplus.** Domestic debt stood at close to 4 percent of GDP (13 percent of total public debt) at end-2013, consisting mostly of non-tradable government securities held by the National Bank of Tajikistan (NBT). The government securities market remains shallow. Since 2009, the government has undertaken issuance of treasury-bills, but only in small amounts, with short maturity, and at rates below the NBT refinancing rate.[4]

Creditor Composition of PPG external debt (end-2013, % of PPG external debt)



[3] Information is provided by the country authorities.

[4] In 2013, the net total issuance (excluding issuances for the Agroinvestbank resolution and NBT recapitalization) was - 0.02 percent of GDP based on auction amounts.

Tajikistan: External and Overall Public Debt, 2013–16				
	2013 Act.	2014 Est.	2015 Proj.	2016 Proj.
	(Percent of GDP, unless indicated otherwise)			
Total External Debt	43.6	42.5	46.7	47.5
(Billion of US dollars)	*3.7*	*3.8*	*3.9*	*4.3*
Public and Publically Guaranteed (PPG) Debt	25.3	24.5	25.7	26.5
(Billion of US dollars)	*2.1*	*2.1*	*2.1*	*2.4*
Private Debt	18.3	18.0	21.0	21.0
(Billion of US dollars)	*1.6*	*1.7*	*1.8*	*1.9*
Total Domestic Public Debt	3.9	3.7	3.4	3.2
(Billion of US dollars)	*0.3*	*0.3*	*0.3*	*0.3*

4. The current DSA—which is based on thresholds for medium policy performers and the higher (5 percent) discount rate applicable to LIC DSAs since October 2013, and also accounts for the lower initial debt position—concludes that Tajikistan's risk of debt distress is reclassified to low from moderate (see Figure 1). [5] [6] Due to an improvement in its three-year average CPIA rating through 2013, Tajikistan's policies and institutions are now classified as those corresponding to a "medium performer". Institutional changes do not, however, appear to be deep and may be difficult to sustain over time given that structural reforms continue to lag. Nonetheless, contingent on the improved three-year average CPIA and the higher discount rate of 5 percent applied to external debt in LIC DSAs since October 2013, in the current assessment all external PPG debt burden indicators are projected to remain below their respective thresholds under the baseline and stress scenarios, indicating Tajikistan's low risk of debt distress.

MACROECONOMIC ASSUMPTIONS

5. The macroeconomic framework over the medium term presents a deteriorated picture compared with the one shown in the previous DSA (Text table and Box 1). The current macro framework assumes a slowdown in growth, a higher initial GDP deflator, and a larger current account deficit over the short-term. A sharp fall in exports of aluminum and cotton in 2014, combined with an accelerating decline in remittance inflows through 2014–15 (remittances have been equivalent to

[5] The Joint Bank-Fund Staff Guidance Note on Application of the Joint Bank-Fund Debt Sustainability Framework for Low-Income Countries (November 2013) defines that remittances must be treated in the base case if remittances are both greater than 10 percent of GDP and greater than 20 percent of exports of goods and services. Both ratios should be measured on a backward-looking, three-year average basis. The remittance-adjusted thresholds for **medium policy performers** like Tajikistan are revised up to 120 (previously 80) and 36 (previously 27) for the PV of debt to exports and GDP, respectively. For debt service, the remittance-adjusted threshold is raised to 16 percent of exports (previously around 12 percent). Thresholds for the PV of debt-to-revenues and debt service–to-revenues are now 250 and 20 percent (previously 200 and 18), respectively.

[6] The latest three-year average of the World Bank's CPIA rating (2011–13) for Tajikistan is 3.34, with the CPIA rating of 2013 at 3.31. According to the Joint Bank-Fund Staff Guidance Note on the Application of the Joint Bank-Fund Debt Sustainability Framework (November 2013), Tajikistan's policies and institutions are now assessed as those corresponding to a "medium performer" due to being above the threshold of 3.25 over two consecutive years.

40-50 percent of GDP in recent years and originate almost entirely from Russia), result in a larger current account deficit (-9.1 and -7.1 percent in 2014 and 2015, respectively) over the short-term even after allowing for the projected import compression from exchange rate adjustment and lower growth.[7] The U.S. dollar deflator is projected to decrease in 2015 in view of substantial exchange rate depreciation.

6. The PPG debt-to-GDP ratio is estimated to be slightly lower than the one in the previous DSA, mostly due to lower public investment project (PIP) disbursements over the short term. Over the medium term, this debt ratio is expected to reach the same level as in the previous DSA based on an expected upward trend of PIP disbursements from bilateral and multilateral creditors and lower growth projections. This is reflected in higher fiscal expenditure as a share of GDP through the medium term, leading to a larger (smaller) fiscal deficit (surplus), including (excluding) PIP spending. Tax revenues (though higher as a share of GDP in this DSA based on revenue collections to date) are not expected to offset this effect due to the large balance of payments and growth shock. The present value (PV) of PPG external debt relative to GDP, exports, and revenues are lower than those in the previous DSA due to the upward change in the discount rate to 5 percent. The increase in the discount rate also increases the grant element of new borrowing, meaning that Tajikistan is borrowing on relatively more favorable terms from external creditors.

Tajikistan: Baseline External DSA Compared to Previous DSA, 2014–16

	Previous DSA[1]			Current DSA		
	2014 Proj.	2015 Proj.	2016 Proj.	2014 Proj.	2015 Proj.	2016 Proj.
Stock of public and publicly-guaranteed (PPG) external debt						
Percent of GDP	27.0	27.7	27.4	24.5	25.7	26.5
Present value (PV) of PPG external debt to GDP (percent)	15.2	14.9	15.2	14.7	15.4	14.7
PV of PPG external debt to revenues (percent)	63.9	61.9	63.8	54.7	63.1	60.6
PV of PPG external debt to exports (percent)	96.1	94.0	98.2	95.4	80.5	75.5
PPG external debt service to revenues (percent)	5.0	4.8	5.0	4.7	6.0	5.7
PPG external debt service to exports (percent)	7.6	7.4	7.7	8.1	7.6	7.1
Discount rate (percent)	3.0	3.0	3.0	5.0	5.0	5.0
	(Percent of GDP, unless indicated otherwise)					
Real GDP (percentage change)	5.8	5.7	5.7	6.7	3.0	4.1
GDP Deflator (cumulative, percentage change)	7.0	7.0	7.0	5.5	12.7	8.0
Fiscal						
Revenue and grants	24.9	24.6	25.0	28.4	26.2	26.5
Tax revenue	19.9	19.9	20.1	22.8	20.5	20.6
Expenditure and net lending	26.2	25.6	26.5	28.3	28.0	28.7
Overall balance (excl. PIP and stat. discrepancy)	0.4	0.4	0.4	1.0	-0.3	-0.1
Overall balance (incl. PIP and stat. discrepancy)	-1.3	-1.0	-1.4	0.1	-1.8	-2.2
Grant element of new external borrowing (percent)[2 3]	17.0	17.0	17.0	33.5	39.5	40.9
Balance of payments						
Exports of goods and services (in million US$)	1,540	1,650	1,761	1,423	1,630	1,791
Imports of goods and services (in million US$)	5,918	6,326	6,855	5,747	4,414	4,469
Remittance inflows (percentage change)	8.9	6.8	9.0	-8.3	-35.0	0.0
Current account balance						
Millions of U.S. dollars	-207	-236	-257	-839	-604	-533
Percent of GDP	-2.2	-2.4	-2.4	-9.1	-7.1	-5.8

Source: authorities, IMF, and World Bank staff.

[1] July 2013. PV of PPG debt was computed based on a discount rate of 3 percent.

[2] Includes publicly-guaranteed external borrowing.

[3] Grant element in previous DSA was computed by using a discount rate of 3 percent.

[7] The change in the current account deficit also reflects an update in the base year: the current account balance in 2013 was revised to -2.9 percent of GDP from -1.4 percent of GDP after adjusting for unrecorded oil imports in 2012 and 2013.

Box 1. Tajikistan: Macroeconomic Assumptions

Real GDP growth is projected at 3 and 4 percent in 2015 and 2016, respectively, and at 5 percent over the medium and long term, below the ten-year historical average of 7¼ percent (2004–13) and similar to medium-term projections in the previous DSA (around 5¾ percent). Adverse projected global conditions, particularly the slowdown in the Russian economy together with the large ruble depreciation, are expected to weigh on growth over the near term through lower remittance inflows and slowing private consumption. The outlook incorporates stable fiscal balances (excluding externally financed projects) over the medium term, a moderate pace of construction of the Rogun hydro power plant (HPP; to be reassessed following the authorities' completion of a financing plan), exchange rate depreciation, and little progress on structural reforms.

The U.S. dollar GDP deflator is projected to increase by 1¾ percent in 2014. It then decreases by 10½ percent in 2015, largely reflecting substantial exchange rate depreciation. The annual change in this deflator is expected to return to about 3½ percent through 2034.

The current account deficit is estimated to have increased to 9 percent of GDP in 2014 due to a reduction in remittances—tied particularly to spillovers from Russia—and a fall in cotton and aluminum exports. It is projected to improve to 3½ percent of GDP over the medium term, driven by a return to growth in remittances, recovery of exports, including due to FDI projects, and moderate import growth consistent with the assumed pace of Rogun construction and economic growth.

Migrants' remittances, which were equivalent to 50 percent of GDP in 2013 (gross), fell by 8.7 percent in U.S. dollar terms in 2014. Remittance flows in US dollars are expected to deteriorate further to -35 percent in 2015, assuming a contraction in Russia and the impact of large ruble depreciation, and recover to 7 percent growth over the medium and to 9 percent growth over the long term (well below recent double-digit averages).

Reserve coverage is initially projected to decline in 2015 to 1.2 months of import cover from 1.4 in 2014, and then build up to about 2.0 months of imports by 2019, and increase gradually to about 3¼ months of imports over the long run.

The fiscal deficit (overall primary deficit) is expected to grow over the near and medium term, driven by externally financed public investment projects (PIP). However, excluding externally financed PIP, the fiscal balance improved in 2014 relative to the 2013 outcome and is expected to be near balance, consistent with medium-term debt sustainability and with the goal of protecting fiscal buffers, except in the adjustment period 2015-16. The fiscal path also assumes moderate domestic capital spending on the Rogun project, at similar levels in percent of GDP as in the past several years. **Total interest expenditures** are expected to stabilize at around 0.5 percent of GDP over the medium term, while amortization is expected to decline gradually from 1.1 percent in 2017 to 0.6 percent over the long term.

Financing. External and domestic PPG debt is projected to account for about 89 (91) percent and 11 (9) percent, respectively, of total public debt over the medium (long term). The share of domestic PPG debt over the projection period is expected to be higher than the ten-year historical average of 6 percent of total public debt (2004-13) in view of the need to raise domestic financing to help service external debt. External PPG is expected to be largely concessional and denominated in foreign currency, in line with its trend over the last 10 years. Following the government's framework, annual expenditure of about 2 percent of GDP during 2016–19 to finance the construction of the Rogun HPP is incorporated, with the assumed externally financed component treated as unidentified financing in the framework.[8]

[8] The government's current medium-term fiscal framework, and staff projections, include annual expenditure of about 2 percent of GDP ($220 million for 2015) to complete basic infrastructure at the Rogun HPP site; this infrastructure is required to divert the Vaksh river to allow for eventual dam construction. While the government has indicated that it would like to build the full-height Rogun dam (remaining estimated cost of $5-6 billion), no sources

(continued)

EXTERNAL DSA

7. Under the baseline scenario in which thresholds for medium policy performers are applied, all external debt burden indicators remain below the respective thresholds (see Figure 1 and Table 1a). External debt stock ratios are expected to be on a gradual upward trajectory over the medium term, and then steady over the long term. Furthermore, external debt service ratios are expected to be on a gradual downward trajectory over the medium term and then steady over the long term. During the projection period, debt service payments continue to be manageable, albeit with a gradual increase during the years when principal payments on loans from China continue to fall due (starting from 2012).[9]

8. Unlike, the previous DSA—which demonstrated protracted breaches in all external debt stock indicators in the standard stress tests—there are no threshold breaches under the stress scenario in the current DSA (Figure 1 and Table 1b). Under the baseline scenario, the PV of debt-to-GDP + remittances, the PV of debt-to-exports + remittances, and the PV of debt-to-revenue are now projected to be on a gradual upward path while remaining below their respective thresholds**.** Moreover, the PV of debt-to-GDP + remittances and the PV of debt-to-exports + remittances are projected, especially under the most extreme shock scenario (an one-time drop in export value growth in 2015-16), to remain high after a sharp increase, indicating some sensitivity of external debt indicators, while staying below the new threshold for medium policy performers. In the previous DSA, the PV of debt-to-GDP + remittances was projected to breach the indicative thresholds for weak policy performers substantially for a protracted period of time and the PV of debt-to-exports + remittances and PV of debt-to-revenue were forecasted to breach significantly for a short period of time. Nonetheless, Tajikistan's external position continues to be sensitive to interest rate shocks, remittance-led growth deviations, and large exchange rate depreciation. This suggests the need to broaden the revenue and export bases through diversification and structural reforms (e.g. implementation of a dividends policy for SOEs, bank restructuring, measures to strengthen the business climate) to ensure greater competitiveness and to limit the potential for contingent risks to materialize. In view of the above, and notwithstanding the technical upgrade in the debt distress rating, the authorities should remain cautious in contracting and guaranteeing new debt, particularly on non-concessional terms, and should conduct and assess carefully cost-benefit studies of large-scale infrastructure projects. The authorities should also develop the domestic debt market as an alternative source of market-based financing and to facilitate the development of a robust monetary policy framework.

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of financing or other cash flows have been identified to complete the project. The full cost of Rogun is, therefore, not included in the baseline macroeconomic framework or the DSA.

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

PUBLIC DSA

9. Public debt burden indicators (including domestic public debt) such as the PV of debt-to-GDP ratio and the debt-to-revenue ratio are also expected to be steady over the medium term and on a gradual upward trajectory over the long run under the baseline scenario (see Figure 2 and Table 2a). Contrary to the previous DSA, the PV of the public debt-to-GDP ratio would remain stable over the medium term and increase gradually over the long term, mostly due to lower growth projections underlying the current DSA. In a similar vein, the PV of debt-to-revenue is projected to be on an upward trend over the long term.

10. Standard stress tests indicate the existence of vulnerabilities in public debt (Figure 2). The debt burden indicators are sensitive to permanently lower GDP growth, indicating the need to increase fiscal buffers. Also, the indicators deviate noticeably from the baseline under the scenario of higher other debt creating flows (10 percent of GDP increase in other debt creating flows in 2015 which more than captures plausible shocks arising from quasi-fiscal activities, Table 2b). This suggests that the authorities need to remain vigilant to exposure to contingent fiscal liabilities from quasi-fiscal activities related to state-owned enterprises (SOEs) and the financial sector.

CONCLUSION

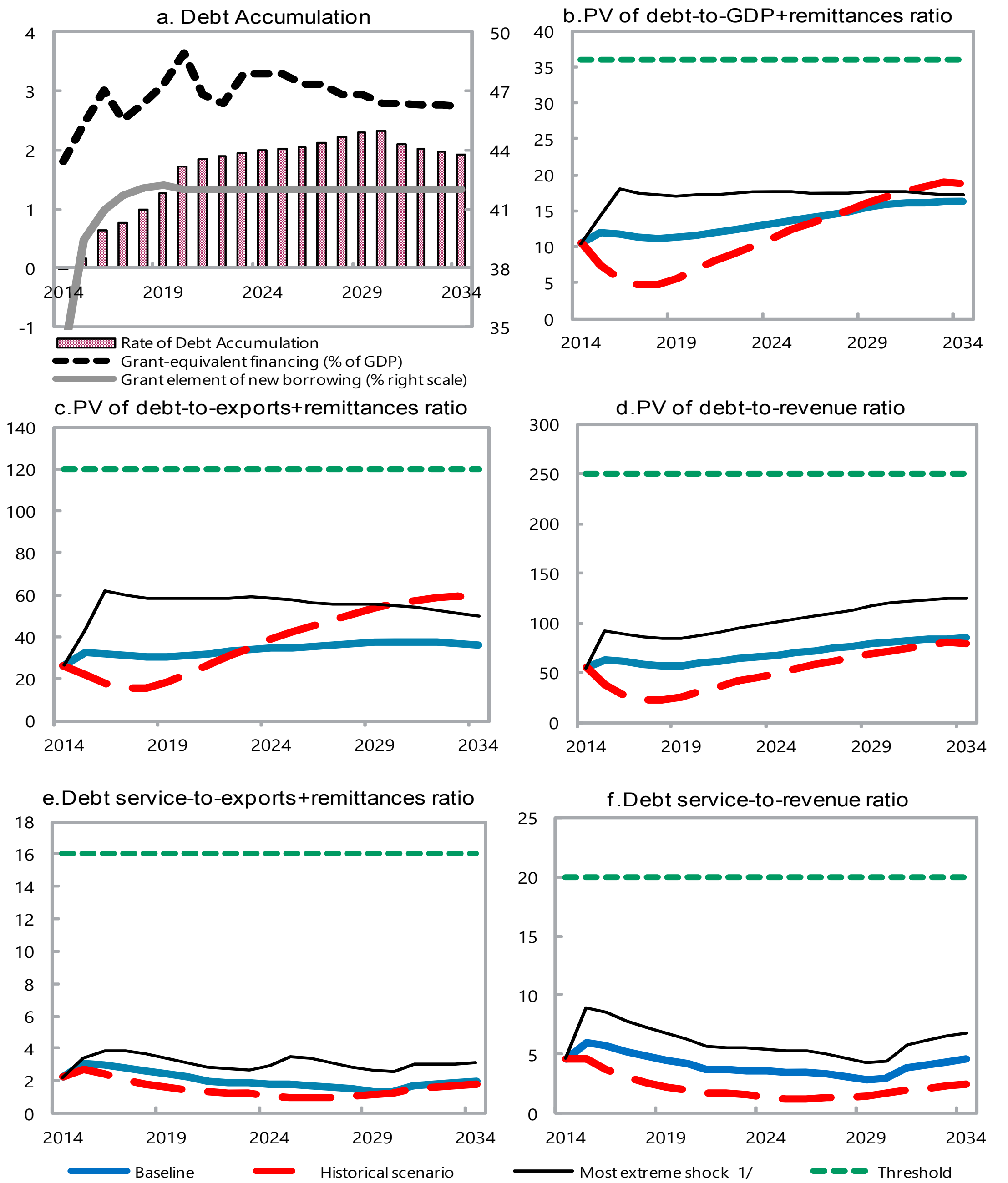
11. The current DSA, assessed based on thresholds for medium policy performers and the higher discount rate of 5 percent now applied to external debt in LIC DSAs, and also accounting for the lower initial debt position, concludes that Tajikistan's risk of debt distress is reclassified from moderate to low. All external debt burden indicators are projected to remain below their respective thresholds under both the baseline scenario and stress scenarios. In comparison with the stress scenario in the previous DSA, in which the PV of debt-to-GDP + remittances was projected to breach the indicative threshold for weak policy performers significantly for a protracted period of time, there are no threshold breaches under the stress scenario in the current DSA. However, Tajikistan's external position is projected to remain sensitive to external shocks—particularly interest rate, export, and one time depreciation shocks.

12. Similar to the previous DSA, standard stress tests indicate that public debt is sensitive to potential shocks relevant for Tajikistan, namely permanently lower GDP growth (driven by lower growth in Russia) and/or increased debt creating flows (e.g. fiscal costs associated with banks and SOEs).

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

14. The authorities did not fully concur with the conclusions of the DSA exercise. They agreed with staff's advice on exercising caution over contracting and guaranteeing new debt on non-concessional terms given existing vulnerabilities and limited buffers. In this vein, the Ministry of Finance acknowledged the need to build greater fiscal buffers and the authorities agreed on the need for greater coordination between the Ministry of Finance and the central bank (NBT) to identify and limit quasi-fiscal activities that ultimately generate unexpected fiscal costs and debt obligations. They have reservations with the DSA shifting them to low risk of debt distress. Upon shifting to medium risk of debt distress in 2013, the authorities now receive around half of their total support from IFIs in the form of grants, with the rest as concessional loans. They are concerned that the further upgrade in their risk rating will reduce their ability to contract external debt on favorable terms from both IFI and bilateral lenders.

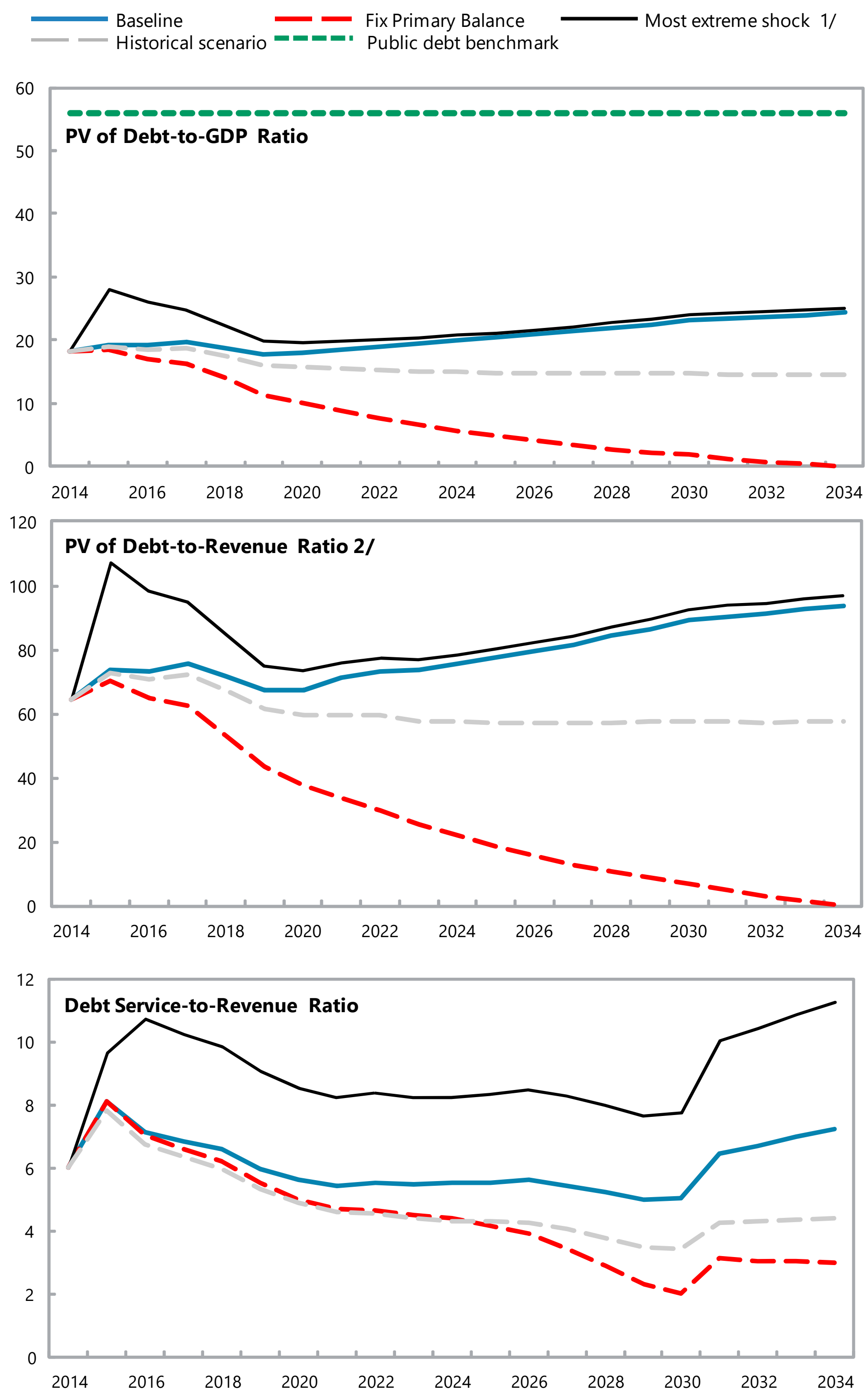
Figure 1. Tajikistan: Indicators of Public and Publicly Guaranteed External Debt Under Alternative Scenarios 2014–2034 1/



Sources: Country authorities; and staff estimates and projections.

1/ The most extreme stress test is the test that yields the highest ratio on or before 2024. In figure b. it corresponds to a Exports shock; in c. to a Exports shock; in d. to a One-time depreciation shock; in e. to a Exports shock and in figure f. to a One-time depreciation shock

Figure 2. Tajikistan: Indicators of Public Debt Under Alternative Scenarios 2014–2034 1/



Sources: Country authorities; and staff estimates and projections.
1/ The most extreme stress test is the test that yields the highest ratio on or before 2024.
2/ Revenues are defined inclusive of grants.

Table 1a. Tajikistan: External Debt Sustainability Framework, Baseline, Scenario, 2011–2034 1/

(In percent of GDP, unless otherwise indicated)

	Actual			Historical 6/	Standard 6/	Projections									
	2011	2012	2013	Average	Deviation	2014	2015	2016	2017	2018	2019	2014-2019 Average	2024	2034	2020-2034 Average
External debt (nominal) 1/	**49.9**	**46.6**	**43.6**			**42.5**	**46.7**	**47.5**	**47.9**	**48.6**	**49.4**		**49.4**	**48.6**	
of which: public and publicly guaranteed (PPG)	33.1	28.4	25.3			24.5	25.7	26.5	27.0	27.9	28.9		29.7	31.3	
Change in external debt	-1.1	-3.3	-3.0			-1.0	4.2	0.8	0.4	0.7	0.9		0.1	-1.5	
Identified net debt-creating flows	-3.0	-7.6	-3.4			4.2	3.0	0.8	-0.9	-1.9	-2.7		-3.9	-5.0	
Non-interest current account deficit	**3.9**	**1.2**	**1.4**	**1.7**	**5.1**	**7.8**	**5.7**	**4.5**	**3.7**	**3.0**	**2.6**		**2.2**	**1.3**	1.8
Deficit in balance of goods and services	49.3	45.9	48.8			46.8	32.6	29.2	27.8	26.7	25.9		25.9	26.7	
Exports	17.9	21.6	18.7			15.4	19.1	19.5	19.8	20.5	20.8		22.9	29.9	
Imports	67.2	67.5	67.5			62.2	51.7	48.7	47.6	47.2	46.7		48.8	56.6	
Net current transfers (negative = inflow)	-45.2	-44.3	-46.5	-37.3	11.2	-38.7	-26.8	-24.6	-24.1	-23.7	-23.2		-23.1	-24.6	-23.5
of which: official	-1.8	-1.2	-1.5			-0.8	-1.3	-1.1	-0.9	-0.8	-0.7		-0.4	-0.2	
Other current account flows (negative = net inflow)	-0.2	-0.4	-0.9			-0.2	-0.1	-0.1	0.0	-0.1	-0.2		-0.6	-0.9	
Net FDI (negative = inflow)	**-1.0**	**-3.1**	**-1.2**	**-3.2**	**3.7**	**-2.1**	**-2.8**	**-3.2**	**-3.6**	**-3.8**	**-4.2**		**-5.0**	**-4.9**	-5.0
Endogenous debt dynamics 2/	**-6.0**	**-5.7**	**-3.5**			**-1.4**	**0.0**	**-0.5**	**-1.0**	**-1.1**	**-1.1**		**-1.0**	**-1.3**	
Contribution from nominal interest rate	0.9	1.3	1.5			1.2	1.4	1.3	1.2	1.1	1.1		1.2	1.0	
Contribution from real GDP growth	-3.3	-3.2	-3.1			-2.7	-1.4	-1.8	-2.2	-2.2	-2.2		-2.3	-2.3	
Contribution from price and exchange rate changes	-3.6	-3.8	-1.9			...	...	...	...	...	...		...	...	
Residual (3-4) 3/	**1.9**	**4.3**	**0.4**			**-5.3**	**1.2**	**-0.1**	**1.3**	**2.6**	**3.6**		**4.0**	**3.5**	
of which: exceptional financing	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
PV of external debt 4/	...	...	33.2			32.7	36.4	35.8	35.1	34.8	34.6		36.3	38.0	
In percent of exports	...	...	177.3			212.4	190.4	183.1	177.5	169.7	166.5		158.5	127.3	
PV of PPG external debt	**...**	**...**	**14.9**			**14.7**	**15.4**	**14.7**	**14.3**	**14.0**	**14.1**		**16.7**	**20.8**	
In percent of exports	**...**	**...**	**79.6**			**95.4**	**80.5**	**75.5**	**72.2**	**68.6**	**67.8**		**72.7**	**69.5**	
In percent of government revenues	**...**	**...**	**60.4**			**54.7**	**63.1**	**60.6**	**58.1**	**57.2**	**57.4**		**67.8**	**84.5**	
Debt service-to-exports ratio (in percent)	**5.1**	**10.5**	**14.2**			**15.1**	**13.6**	**13.0**	**11.9**	**10.9**	**10.3**		**7.9**	**5.8**	
PPG debt service-to-exports ratio (in percent)	**5.5**	**6.3**	**8.0**			**8.1**	**7.6**	**7.1**	**6.4**	**5.8**	**5.3**		**3.8**	**3.7**	
PPG debt service-to-revenue ratio (in percent)	**4.3**	**5.7**	**6.1**			**4.7**	**6.0**	**5.7**	**5.2**	**4.9**	**4.5**		**3.6**	**4.6**	
Total gross financing need (Billions of U.S. dollars)	0.3	0.1	0.3			0.8	0.5	0.4	0.2	0.2	0.1		-0.2	-0.8	
Non-interest current account deficit that stabilizes debt ratio	5.0	4.5	4.4			8.9	1.5	3.7	3.3	2.3	1.7		2.1	2.7	
Key macroeconomic assumptions															
Real GDP growth (in percent)	7.4	7.5	7.4	7.3	1.6	6.7	3.0	4.1	5.0	5.0	5.0	4.8	5.0	5.0	5.0
GDP deflator in US dollar terms (change in percent)	7.6	8.3	4.3	10.9	10.4	1.8	-10.4	3.3	3.5	3.2	3.6	0.8	3.7	3.7	3.7
Effective interest rate (percent) 5/	2.1	3.0	3.5	4.8	5.9	3.1	3.1	3.1	2.7	2.5	2.5	2.8	2.7	2.1	2.4
Growth of exports of G&S (US dollar terms, in percent)	34.5	41.0	-3.1	8.4	25.6	-10.6	14.5	9.9	10.0	12.2	10.5	7.8	11.4	12.1	11.6
Growth of imports of G&S (US dollar terms, in percent)	47.6	16.9	12.0	20.6	27.2	0.1	-23.2	1.2	6.1	7.5	7.6	-0.1	10.4	10.6	10.3
Grant element of new public sector borrowing (in percent)	...	...	...	...	...	33.5	39.5	40.9	41.7	42.1	42.3	40.0	42.0	42.0	42.0
Government revenues (excluding grants, in percent of GDP)	22.6	23.6	24.6			26.9	24.4	24.3	24.6	24.5	24.6		24.6	24.6	24.6
Aid flows (in Billions of US dollars) 7/	0.1	0.1	0.2			0.2	0.2	0.3	0.3	0.4	0.5		0.7	1.5	
of which: Grants	0.1	0.1	0.2			0.1	0.2	0.2	0.2	0.2	0.2		0.3	0.6	
of which: Concessional loans	0.0	0.0	0.0			0.0	0.1	0.1	0.1	0.2	0.2		0.4	1.0	
Grant-equivalent financing (in percent of GDP) 8/	...	...	...			1.8	2.4	3.0	2.5	2.8	3.1		3.3	2.7	3.0
Grant-equivalent financing (in percent of external financing) 8/	...	...	...			76.9	73.1	70.4	65.8	65.6	65.4		62.6	58.5	60.4
Memorandum items:															
Nominal GDP (Billions of US dollars)	6.5	7.6	8.5			9.2	8.5	9.2	10.0	10.8	11.7		18.0	42.2	
Nominal dollar GDP growth	15.6	16.4	12.0			8.7	-7.7	7.5	8.7	8.3	8.7	5.7	8.9	8.9	8.9
PV of PPG external debt (in Billions of US dollars)			1.3			1.3	1.3	1.3	1.4	1.5	1.6		3.0	8.7	
(PVt-PVt-1)/GDPt-1 (in percent)						0.0	0.2	0.6	0.8	1.0	1.3	0.6	2.0	1.9	2.0
Gross workers' remittances (Billions of US dollars)	2.8	3.6	4.1			3.7	2.4	2.4	2.6	2.8	3.0		4.6	11.6	
PV of PPG external debt (in percent of GDP + remittances)	...	...	10.1			10.5	12.0	11.6	11.3	11.2	11.2		13.3	16.3	
PV of PPG external debt (in percent of exports + remittances)	...	...	22.3			26.3	32.3	32.0	31.1	30.4	30.5		34.3	36.3	
Debt service of PPG external debt (in percent of exports + remittances)	...	...	2.2			2.2	3.1	3.0	2.8	2.6	2.4		1.8	2.0	

Sources: Country authorities; and staff estimates and projections.

1/ Includes both public and publically guaranteed and private sector external debt.

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

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

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

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, 2014–2034

(In percent)

	Projections							
	2014	2015	2016	2017	2018	2019	**2024**	2034
PV of debt-to GDP ratio								
Baseline	15	15	15	14	14	14	**17**	21
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2014-2034 1/	15	9	7	6	5	6	**12**	19
A2. New public sector loans on less favorable terms in 2014-2034 2/	15	15	15	15	16	16	**22**	30
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2015-2016	15	15	14	13	13	13	**16**	20
B2. Export value growth at historical average minus one standard deviation in 2015-2016 3/	15	18	23	22	22	21	**22**	22
B3. US dollar GDP deflator at historical average minus one standard deviation in 2015-2016	15	13	13	13	13	13	**15**	19
B4. Net non-debt creating flows at historical average minus one standard deviation in 2015-2016 4/	15	17	18	17	17	17	**19**	21
B5. Combination of B1-B4 using one-half standard deviation shocks	15	9	4	4	4	4	**8**	15
B6. One-time 30 percent nominal depreciation relative to the baseline in 2015 5/	15	22	22	21	21	21	**25**	31
PV of debt-to-exports ratio								
Baseline	95	80	75	72	69	68	**73**	70
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2014-2034 1/	95	48	34	28	27	30	**53**	65
A2. New public sector loans on less favorable terms in 2014-2034 2/	95	80	79	78	77	79	**96**	102
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2015-2016	95	78	74	71	68	67	**72**	69
B2. Export value growth at historical average minus one standard deviation in 2015-2016 3/	95	131	215	205	194	189	**178**	134
B3. US dollar GDP deflator at historical average minus one standard deviation in 2015-2016	95	78	74	71	68	67	**72**	69
B4. Net non-debt creating flows at historical average minus one standard deviation in 2015-2016 4/	95	91	93	89	84	82	**82**	70
B5. Combination of B1-B4 using one-half standard deviation shocks	95	65	33	32	32	35	**58**	87
B6. One-time 30 percent nominal depreciation relative to the baseline in 2015 5/	95	78	74	71	68	67	**72**	69
PV of debt-to-revenue ratio								
Baseline	55	63	61	58	57	57	**68**	84
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2014-2034 1/	55	37	27	23	22	25	**50**	79
A2. New public sector loans on less favorable terms in 2014-2034 2/	55	63	63	63	64	67	**90**	123
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2015-2016	55	60	57	55	54	54	**64**	80
B2. Export value growth at historical average minus one standard deviation in 2015-2016 3/	55	74	94	90	88	87	**91**	89
B3. US dollar GDP deflator at historical average minus one standard deviation in 2015-2016	55	55	54	52	52	52	**61**	76
B4. Net non-debt creating flows at historical average minus one standard deviation in 2015-2016 4/	55	71	74	71	70	70	**77**	86
B5. Combination of B1-B4 using one-half standard deviation shocks	55	35	15	15	15	17	**31**	60
B6. One-time 30 percent nominal depreciation relative to the baseline in 2015 5/	55	92	89	86	85	85	**100**	125

Table 1b. Tajikistan: Sensitivity Analysis for Key Indicators of Public and Publicly Guaranteed External Debt, 2014–2034 (continued)

(In percent)

				Debt service-to-exports ratio				
Baseline	8	8	7	6	6	5	**4**	4
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2014-2034 1/	8	6	5	4	3	3	**1**	2
A2. New public sector loans on less favorable terms in 2014-2034 2/	8	8	7	7	6	6	**5**	6
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2015-2016	8	8	7	6	6	5	**4**	4
B2. Export value growth at historical average minus one standard deviation in 2015-2016 3/	8	11	14	13	12	11	**9**	8
B3. US dollar GDP deflator at historical average minus one standard deviation in 2015-2016	8	8	7	6	6	5	**4**	4
B4. Net non-debt creating flows at historical average minus one standard deviation in 2015-2016 4/	8	8	7	7	6	6	**5**	4
B5. Combination of B1-B4 using one-half standard deviation shocks	8	9	9	8	7	6	**3**	4
B6. One-time 30 percent nominal depreciation relative to the baseline in 2015 5/	8	8	7	6	6	5	**4**	4
				Debt service-to-revenue ratio				
Baseline	5	6	6	5	5	5	**4**	5
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2014-2034 1/	5	5	4	3	3	2	**1**	2
A2. New public sector loans on less favorable terms in 2014-2034 2/	5	6	6	5	5	5	**5**	8
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2015-2016	5	6	5	5	5	4	**3**	4
B2. Export value growth at historical average minus one standard deviation in 2015-2016 3/	5	6	6	6	5	5	**5**	6
B3. US dollar GDP deflator at historical average minus one standard deviation in 2015-2016	5	5	5	5	4	4	**3**	4
B4. Net non-debt creating flows at historical average minus one standard deviation in 2015-2016 4/	5	6	6	5	5	5	**4**	5
B5. Combination of B1-B4 using one-half standard deviation shocks	5	5	4	3	3	3	**2**	3
B6. One-time 30 percent nominal depreciation relative to the baseline in 2015 5/	5	9	9	8	7	7	**5**	7
Memorandum item:								
Grant element assumed on residual financing (i.e., financing required above baseline) 6/	40	40	40	40	40	40	**40**	40

Sources: Country authorities; and staff estimates and projections.

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

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

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

4/ Includes official and private transfers and FDI.

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

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

Table 2a. Tajikistan: Public Sector Debt Sustainability Framework, Baseline, Scenario, 2011–2034

(In percent of GDP, unless otherwise indicated)

	Actual					Estimate					Projections				
	2011	2012	2013	Average 5/	Standard Deviation 5/	2014	2015	2016	2017	2018	2019	2014-19 Average	2024	2034	2020-34 Average
Public sector debt 1/	35.4	32.4	29.2			28.2	29.1	29.7	30.9	30.9	31.7		32.4	34.7	
of which: foreign-currency denominated	33.1	28.4	25.3			24.5	25.7	26.5	27.0	27.9	28.9		29.7	31.3	
	2.3	4.0	3.9										0.0	0.0	
Change in public sector debt	-0.9	-3.1	-3.2			-1.0	0.9	0.6	1.2	0.0	0.8		0.3	0.3	
Identified debt-creating flows	1.0	-5.9	-2.4			-0.6	2.3	0.0	-0.1	0.1	0.3		0.9	0.6	
Primary deficit	2.4	-1.3	-0.4	1.7	2.6	-0.8	0.9	1.6	1.7	1.9	2.2	1.2	2.7	2.6	2.7
Revenue and grants	24.9	25.1	26.9			28.4	26.2	26.5	26.1	26.3	26.5		26.4	25.9	
of which: grants	2.3	1.5	2.3			1.5	1.9	2.1	1.6	1.7	1.9		1.9	1.3	
Primary (noninterest) expenditure	27.2	23.8	26.5			27.6	27.1	28.0	27.8	28.2	28.7		29.2	28.5	
Automatic debt dynamics	-3.2	-5.0	-2.2			0.0	1.3	-1.8	-1.9	-1.9	-2.0		-1.9	-2.0	
Contribution from interest rate/growth differential	-2.7	-2.6	-1.8			-1.7	-0.8	-1.2	-1.5	-1.5	-1.6		-1.4	-1.5	
of which: contribution from average real interest rate	-0.2	-0.1	0.4			0.1	0.1	0.0	0.0	-0.1	-0.1		0.1	0.2	
of which: contribution from real GDP growth	-2.5	-2.5	-2.2			-1.8	-0.8	-1.1	-1.4	-1.5	-1.5		-1.5	-1.6	
Contribution from real exchange rate depreciation	-0.5	-2.4	-0.4			1.7	2.0	-0.6	-0.4	-0.4	-0.4		...	...	
Other identified debt-creating flows	1.9	0.4	0.2			0.2	0.2	0.1	0.1	0.1	0.1		0.0	0.0	
Privatization receipts (negative)	1.9	0.4	0.2			0.2	0.2	0.1	0.1	0.1	0.1		0.0	0.0	
Recognition of implicit or contingent liabilities	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Debt relief (HIPC and other)	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Other (specify, e.g. bank recapitalization)	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Residual, including asset changes	-1.9	2.9	-0.8			-0.4	-1.4	0.6	1.3	-0.1	0.5		-0.6	-0.3	
Other Sustainability Indicators															
PV of public sector debt	...	...	18.8			18.4	18.8	17.9	18.1	17.0	16.8		19.4	24.1	
of which: foreign-currency denominated	...	...	14.9			14.7	15.4	14.7	14.3	14.0	14.1		16.7	20.8	
of which: external	...	...	14.9			14.7	15.4	14.7	14.3	14.0	14.1		16.7	20.8	
PV of contingent liabilities (not included in public sector debt)	...	...	...			...	...	...	...	...	...		...	...	
Gross financing need 2/	3.9	0.6	2.0			0.9	3.0	3.4	3.4	3.7	3.8		4.2	4.7	
PV of public sector debt-to-revenue and grants ratio (in percent)	...	...	69.6			64.6	71.5	67.8	69.2	64.8	63.6		73.3	93.1	
PV of public sector debt-to-revenue ratio (in percent)	...	...	76.2			68.3	77.0	73.8	73.6	69.4	68.6		78.9	98.1	
of which: external 3/	...	...	60.4			54.7	63.1	60.6	58.1	57.2	57.4		67.8	84.5	
Debt service-to-revenue and grants ratio (in percent) 4/	6.0	7.7	8.9			6.0	8.1	7.1	6.8	6.6	6.0		5.5	7.2	
Debt service-to-revenue ratio (in percent) 4/	6.6	8.2	9.7			6.4	8.7	7.8	7.3	7.0	6.4		5.9	7.6	
Primary deficit that stabilizes the debt-to-GDP ratio	3.3	1.7	2.8			0.2	0.0	1.0	0.5	1.9	1.4		2.5	2.3	
Key macroeconomic and fiscal assumptions															
Real GDP growth (in percent)	7.4	7.5	7.4	7.3	1.6	6.7	3.0	4.1	5.0	5.0	5.0	4.8	5.0	5.0	5.0
Average nominal interest rate on forex debt (in percent)	3.0	2.9	4.4	2.7	0.8	2.3	2.3	2.0	1.6	1.4	1.4	1.8	2.1	2.4	2.0
Average real interest rate on domestic debt (in percent)	-7.3	-1.3	-1.0	-5.5	6.4	-1.5	-1.0	-0.9	1.0	1.5	1.5	0.1	1.5	0.9	1.5
Real exchange rate depreciation (in percent, + indicates depreciation)	-1.6	-7.7	-1.5	-6.6	10.0	...	...	...	...	...	...	...	...	...	...
Inflation rate (GDP deflator, in percent)	13.3	11.9	4.3	15.7	7.6	5.5	12.7	8.0	6.9	6.0	6.0	7.5	6.0	6.0	6.0
Growth of real primary spending (deflated by GDP deflator, in percent)	16.8	-6.0	19.5	3.1	8.2	11.1	1.1	7.7	4.1	6.6	6.7	6.2	5.0	4.9	5.0
Grant element of new external borrowing (in percent)	...	...	...	...	...	33.5	39.5	40.9	41.7	42.1	42.3	40.0	42.0	42.0	...

Sources: Country authorities; and staff estimates and projections.

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

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

3/ Revenues excluding grants.

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

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

Table 2b. Tajikistan: Sensitivity Analysis for Key Indicators of Public Debt 2014–2034

	Projections						
	2014	2015	2016	2017	2018	2019	2034
PV of Debt-to-GDP Ratio							
Baseline	18	19	18	18	17	17	24
A. Alternative scenarios							
A1. Real GDP growth and primary balance are at historical averages	18	18	17	17	16	15	14
A2. Primary balance is unchanged from 2014	18	18	16	14	12	10	-1
A3. Permanently lower GDP growth 1/	18	19	18	19	18	18	34
B. Bound tests							
B1. Real GDP growth is at historical average minus one standard deviations in 2015-2016	18	18	16	16	14	14	16
B2. Primary balance is at historical average minus one standard deviations in 2015-2016	18	21	21	21	20	20	25
B3. Combination of B1-B2 using one half standard deviation shocks	18	19	19	18	16	15	14
B4. One-time 30 percent real depreciation in 2015	18	28	25	23	20	19	25
B5. 10 percent of GDP increase in other debt-creating flows in 2015	18	24	23	23	22	22	26
PV of Debt-to-Revenue Ratio 2/							
Baseline	65	72	68	69	65	64	93
A. Alternative scenarios							
A1. Real GDP growth and primary balance are at historical averages	65	71	66	66	60	58	55
A2. Primary balance is unchanged from 2014	65	68	59	55	46	39	-4
A3. Permanently lower GDP growth 1/	65	72	69	71	67	67	131
B. Bound tests							
B1. Real GDP growth is at historical average minus one standard deviations in 2015-2016	65	69	62	61	55	52	62
B2. Primary balance is at historical average minus one standard deviations in 2015-2016	65	79	81	82	77	75	98
B3. Combination of B1-B2 using one half standard deviation shocks	65	74	72	70	63	59	55
B4. One-time 30 percent real depreciation in 2015	65	105	93	88	78	71	96
B5. 10 percent of GDP increase in other debt-creating flows in 2015	65	92	88	89	84	82	101
Debt Service-to-Revenue Ratio 2/							
Baseline	6	8	7	7	7	6	7
A. Alternative scenarios							
A1. Real GDP growth and primary balance are at historical averages	6	8	7	6	6	5	4
A2. Primary balance is unchanged from 2014	6	8	7	7	6	5	3
A3. Permanently lower GDP growth 1/	6	8	7	7	7	6	9
B. Bound tests							
B1. Real GDP growth is at historical average minus one standard deviations in 2015-2016	6	8	7	6	6	6	6
B2. Primary balance is at historical average minus one standard deviations in 2015-2016	6	8	7	7	7	6	8
B3. Combination of B1-B2 using one half standard deviation shocks	6	8	7	7	6	6	6
B4. One-time 30 percent real depreciation in 2015	6	10	11	10	10	9	11
B5. 10 percent of GDP increase in other debt-creating flows in 2015	6	8	8	8	7	6	8

Sources: Country authorities; and staff estimates and projections.

1/ Assumes that real GDP growth is at baseline minus one standard deviation divided by the square root of the length of the projection period.

2/ Revenues are defined inclusive of grants.

REPUBLIC OF TAJIKISTAN

May 14, 2015

STAFF REPORT FOR THE 2015 ARTICLE IV CONSULTATION—INFORMATIONAL ANNEX

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

CONTENTS

RELATIONS WITH THE FUND

(As of March 31, 2015)

Membership Status

Joined April 27, 1993; Article VIII

General Resources Account

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

SDR Department

	SDR Million	Percent Allocation
Net Cumulative allocation	82.08	100
Holdings	69.72	84.94

Outstanding Purchases and Loans

	SDR Million	Percent of Quota
ECF Arrangements	101.79	1170.00

Latest Financial Arrangements

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

Projected Payments to the Fund[2]

	Forthcoming				
	2015	2016	2017	2018	2019
Principal	7.83	14.36	18.27	20.88	18.27
Charges/Interest	0.01	0.01.	0.01	0.01	0.09
Total	**7.84**	**14.36**	**18.28**	**20.89**	**18.36**

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

Implementation of HIPC Initiative:

Not applicable

Implementation of Multilateral Debt Relief Initiative (MDRI):

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

Debt Relief by Facility (SDR Million)

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

Safeguards Assessment

The 2009 update assessment of the NBT noted considerable safeguard risks in key functions such as accounting, NIR compilation, the control environment, and the NBT's organizational structure. Oversight of audit mechanisms was largely absent and the internal audit function was weak. Subsequently, an NBT reform action plan was drawn up, and since 2009 several measures have been implemented, including six-monthly reviews of NIR data by an external auditor during the 2009-12 ECF arrangement and the addition of non-executive members to the Board of Directors.

Audited financial statements are published on the NBT website, albeit with some delays. These delays, combined with limited capacity in the accounting area, can raise the risk of inadvertent misreporting. The NBT is subject to a recapitalization plan for its weak financial position, owing to significant fiscal dominance.

The 2011 safeguards staff visit concluded that increased transparency and oversight of key operations, notably the NBT 's large scale support of local banks, was needed.

Exchange Rate Arrangements

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

Tajikistan's de jure exchange rate is managed floating. Since May 1, 2014, the de facto exchange rate regime is classified as crawl-like. The official exchange rate is based on all interbank transactions in foreign exchange. It is calculated and announced daily.

With effect from December 9, 2004, the Republic of Tajikistan accepted the obligations of Article VIII, Sections 2, 3, and 4 of the Articles of Agreement. The Republic of Tajikistan maintains one multiple currency practice arising from the establishment of both an official exchange rate and maximum buy/sell commercial rates, which in practice differ from each other by more than 2 percent. The Republic of Tajikistan also maintains exchange restrictions imposed for security reasons that have been notified to the Fund pursuant to Executive Board decision No. 144–(52/51)Fund.

FSAP Participation

Tajikistan participated in the Financial Sector Assessment Program during 2007–08, and the FSSA report was been published at http://www.imf.org/external/country/TJK/index.htm. An FSAP Update mission was held in January-February 2015 and the associated FSSA is being discussed by the Executive Board at the time of the 2015 Article IV consultation.

Article IV Consultation

The 2013 Article IV consultation with Tajikistan was concluded on July 19, 2013.

Resident Representative

Mr. Bibolov, Resident Representative of the Fund, started his assignment in Dushanbe in August 2013.

Technical Assistance

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

Tajikistan: Technical Assistance, 2006–15

Fund. Dept.	Area of Assistance	Mission Dates
LEG	AML/CFT	2006
MCM	Strengthening the Monetary Policy Framework and Liquidity Management	May 2006
FAD	Fiscal ROSC	August 2006
STA	Report on Monetary and Financial Statistics National Accounts and Price Statistics (Regional Advisor)	June 2066
FAD	Public Financial Management (Budget Classification)	May 2007
MCM	NBT Recapitalization Strategy	Oct/Dec 2009
FAD	Tax Policy and Administration	Feb/July. 2010
FAD	Public Financial Management Reforms	June 2010
MCM	NBT Recapitalization Strategy	September 2010
LEG	NBT Law	October 2010
FAD	Public Financial Management (Regional Advisor)	November 2010
MCM	Improving Accounting Controls at NBT	January 2011
MCM	BOP	March 2011
MCM	NBT Internal Audit	April 2011
FAD	Tax Policy Review	May 2011
MCM	Improving Accounting Controls at NBT	February 2012
FAD	Financial Monitoring of SOEs	March 2012
FAD	Tax Policy Review	April 2012
STA	Monetary and Financial Statistics	April 2012
STA	National Accounts Statistics	May 2012
FAD	Tax Administration	June/Aug/Oct 2012
MCM	Improving Accounting Controls at NBT	November 2012
STA	Monetary and Financial Statistics	November 2012
STA	BOP	December 2012
MCM	Improving Accounting Controls at NBT	February 2013
FAD	Tax Administration	March 2013
MCM	Banking Supervision	March 2013
FAD	Tax Administration	June/November 2013
FAD	PFM Reform	August/November 2013
MCM	Improving Accounting Controls at NBT	October 2013
STA	Monetary and Financial Statistics	December 2013
STA	BOP	April 2014
FAD	Tax Administration	April/July/Nov 2014
FAD	PFM Reform	April 2014
MCM	Bank Resolution	May 2014
STA	Monetary and Financial Statistics	December 2014
FAD	Tax Administration	March 2015
STA	BOP	April 2015
MCM	Improving Accounting Controls at NBT	April 2015

RELATIONS WITH THE WORLD BANK

(As of March 31, 2015)

JMAP Implementation Table

Title	Products	Provisional Timing of Missions	Expected Delivery Date
A. Mutual Information on Relevant Work Programs			
Bank Work Program in next 12 months	Programmatic Development Policy Financing, DPF-1	Identification mission March 2015	November 2015
	Macro-monitoring	Ongoing	Ongoing
	Public Procurement Capacity Building	Supervision mission January 2015	November 2015
	Governance in Service Delivery (TA)	Ongoing	May 2015
	Supreme Audit Institution 3 (TA)	Ongoing	November 2015
	Tajikistan Public Sector Accounting Reform Project	Supervision Mission May 2015	December 2015
	Review of Government Payroll and HR	Ongoing	December 2015
	PFM2+public sector reform project	Negotiation March, 2015	Board date May 2015
	Tax Modernization Project	Supervision missions April 2015 November 2015	Project closing December 2017
	Private Sector Competitiveness project.	Supervision missions January 2015 April 2015 June 2015	Project restructured and extended till September 2017
	Financial Sector Dialogue (PA) Development of Insurance Market (TA) Agroinvestbank Resolution and Directed Lending (TA) Tajikistan FSAP Update (ESW)	May 2015 Ongoing Ongoing	April 2015 April 2015 June 2015

		Ongoing	September 2015
	Trade Policy Assessment (MDTF)	Ongoing	December 2015
	Agriculture Land Registration and Cadastre System for Sustainable Agriculture Project Real Estate Registration Project Tajikistan Irrigation Strategy (KP)	Supervision missions April 2015 September 2015 April 2015 June 2015 Ongoing	Project restructured and extended till March 2016 Board date December 2015 June 2015
	Agriculture Commercialization Project Environment, Land Management and Rural Livelihoods-GEF Second Public Employment for Sustainable Agriculture and water Resources Management Project (PAMP II) AF for Second Public Employment for Sustainable Agriculture and water Resources Management Project Environmental Land Management and Rural Livelihoods – AF Climate Adaptation & Mitigation Program for Central Asia (CA)	Supervision Mission March 2015 Supervision mission April 2015 Supervision missions January 2015 July 2015 March 2015 April 2015 Preparation mission January 2015 April 2015 May 2015	June 2021 May 2018 February 2018 Board date June 2015 Board Date July 2015 Board date June 2015

	Water Second Dushanbe Water Supply Project AF for DWSP II Social Accountability in water sector Central Asia Hydrometeorology Modernization Project	Supervision missions April 2015 September 2015 April 2015 May 2015 Supervision missions April 2015 September 2015 Supervision missions May 2015 August 2015	Project closing December 2015 Board date June 2015 January 2018 August 2016
	Infrastructure Municipal Infrastructure Development project Communal Service Development Fund Central Asia Roads project Tajikistan Multimodal Transport PSIA/ Poverty Diagnostic of WASH sector	Supervision missions May 2015 Appraisal and negotiations February 2015 Implementation support mission March 2015 June 2015 March 2015 PCN review in May 2015	Project closing December 2015 Project closing December 2019 December Project closing August 2020 June 2015 May 2016
	Energy Energy Loss Reduction Project Tajikistan Energy Sector Dialogue (TA) Winter Energy Project CASA-1000 EITI Implementation	ICR mission dates TBC Ongoing February 2015 Supervision missions June 2015 Ongoing	Project closed December 2014 June 2015 Board date March 2016 June 2020 December 2015 June 2015

	Population's access to electricity		
	Social safety nets SSN Strengthening Project Targeted Social Assistance Rollout Project (AF)	Supervision missions January 2015 February 2015 May 2015 Identification Mission May 2015	Project restructured, Closing date June 2016 Board date December 2015
	Health Health Services Improvement Project Additional Financing to Health Services Improvement Project Tajikistan JSDF Nutrition Grant 2	Supervision missions January 2015 May 2015 February 2015 April 2015 May 2015 February 2015	January 2019 Board date June 2015 May 2018
	Education Global Partnership for Education (GPE 4) High Education Project	Supervision missions January 2015 March 2015 May 2015 January 2015 April 2015 May 2015	Closing date September 2016 Board date July 2015
	Statistics Support for NDSS implementation Support for poverty analysis (TF)	Ongoing Ongoing	
Fund work program in next 12 months	• 2015 Article IV mission and consultation • Surveillance staff visits • 2016 Article IV mission • Central bank accounting TA • Crisis preparedness TA • Reserve management TA	March/April 2015 Summer/autumn 2015 February/March 2016	June 2015 June 2016

	• Tax administration TA • PFM reform TA • BOP statistics TA • Banking supervision TA (possible) • Government debt market TA (possible)	Ongoing; resident regional advisor	
B. Requests for work program inputs			
Fund request to Bank	• Continuation of close financial/banking sector dialogue • Social safety net reform • Restructuring of Barki Tajik • Poverty analysis		
Bank request to Fund	• BOP Statistics TA • Financial/Banking sector dialogue. • Discussing data issues and data sharing (e.g. BOP, fiscal, debt, financial sector). • Joint macro-monitoring missions. • Sharing TA reports on need to know basis		
C. Agreement on joint products and missions (as needed)			
Joint Products in next 12 months	Low Income Debt Sustainability Analysis	May 2015	June 2015
	FSAP mission and Aide Memoire	February 2015	June 2015 (IMF) September 2015 (WB)

STATISTICAL ISSUES

(As of March 31, 2015)

Assessment of Data Adequacy for Surveillance

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

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. In 2013, technical assistance from the World Bank and the Fund focused on the quarterly calculations of GDP by expenditure and sectors, a framework for reconciling the two approaches, and the improvement of accuracy of the annual estimates. As regards price statistics, the most important general issue is the further implementation of the system of prices and volumes, instead of presently used comparable volumes.

Government finance statistics: Government finance statistics (GFS) are based on cash transactions as recommended in the 1986 Manual on Government Finance Statistics. In 2010, the authorities introduced an administrative classification of the budget. With the help of a regional advisor, the authorities are worked on a GFSM 2001- based budget classification in the beginning , with plans to migrate to the new classification as of beginning 2014.

Monetary and financial statistics: The safeguard assessment in 2011 concluded that the NBT improved its process for compiling monetary data, although certain controls are still absent. The process is now more automated and data compilation files are mapped to the accounting data. Formal reconciliations of the monetary data to the accounting records or audited financial statements is still missing.. STA provided technical assistance in the area of monetary and financial statistics (MFS) to the NBT in 2002, 2006, and 2012 with the main objective to improve the quality of statistics. The NBT adopted the recommended standards and submits the MFS data as well as data on Financial Soundness Indicators to STA on regular basis. The MFS data for Tajikistan is published in the *"International Financial Statistics"* while FSI data are posted on the FSI website. Currently the NBT works with STA on publication of data on other financial corporations.

Balance of payments: Improvements are needed in the following areas: improvement of goods export/import statistics based on customs regimes; development of estimation models for travel and remittances on a gross basis; and reclassification of government guaranteed debt to non-government sectors. The compilation of statistics of private external debt, which was initiated by the NBT earlier, was suspended.

Data Standards and Quality

Tajikistan began participating in the General Data Dissemination System (GDDS) on November 17, 2004. Metadata is updated regularly. The authorities have indicated their interest in graduating from the GDDS to the Fund's Special Data Dissemination Standard (SDDS). They have appointed a national SDDS coordinator and requested technical assistance for this purpose.	A Data ROSC was published on March 30, 2005.

Reporting to STA

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

Tajikistan: Table of Common Indicators Required for Surveillance

(As of April 2015)

	Date of latest observation	Date received	Frequency of data[6]	Frequency of reporting[6]	Frequency of publication[6]	Memo Items: Data Quality – *Methodological soundness*[7]	Memo Items: *Data Quality Accuracy and reliability*[8]
Exchange Rates	04/24/2015	04/24/2015	D	W	W		
International Reserve Assets and Reserve Liabilities of the Monetary Authorities[1]	04/10/15	04/21/15	D	W	W		
Reserve/Base Money	03/31/15	04/30/15	W	M	W	O, O, LO, O	LO, O, O, O, NO
Broad Money	02/28/15	04/14/15	M	M	M		
Central Bank Balance Sheet	02/28/15	04/14/15	W	M	W		
Consolidated Balance Sheet of the Banking System	02/28/15	04/14/15	M	M	M		
Interest Rates[2]	March 2015	04/30/2015	M	M	V		
Consumer Price Index	March 2015	04/17/15	M	M	M	LO, LO, LNO, O	LO, LO, LO, O, O
Revenue, Expenditure, Balance and Composition of Financing[3] – General Government[4]	March 2015	04/21/15	M	M	M	LO, LO, O, O	O, O, O, LO, LO
Revenue, Expenditure, Balance and Composition of Financing[3]– Central Government	March 2015	04/21/15	M	M	M		
Stocks of Central Government and Central Government-Guaranteed Debt[5]	Q1/2015	04/30/2015	Q	Q	V		
External Current Account Balance	Q4 2014	04/30/15	Q	Q	V	LNO, LNO, O, O	LO, O, O, O, O
Exports and Imports of Goods and Services	Q4 2014	03/31/15	Q	Q	V		
GDP/GNP	Feb 2015	03/31/2015	M/A	M	V	O, LNO, LNO, LNO	LO, LO, LNO, O, O
Gross External Debt	Q1 2015	04/30/15	Q	Q	V		

[1] Includes reserve assets pledged or otherwise encumbered as well as net derivative positions.

[2] Both market-based and officially-determined, including discount rates, money market rates, rates on treasury bills, notes and bonds.

[3] Foreign, domestic bank, and domestic nonbank financing.

[4] The general government consists of the central government (budgetary funds, extrabudgetary funds, and social security funds) and state and local governments.

[5] Including currency and maturity composition.

[6] Daily (D); Weekly (W); Monthly (M); Quarterly (Q); Annually (A); Irregular (I); Not Available (NA).

[7] Reflects the assessment provided in the data ROSC published on April 2005 and based on the findings of the mission that took place during April 2004 for the dataset corresponding to the variable in each row. The assessment indicates whether international standards concerning (respectively) concepts and definitions, scope, classification/sectorization, and basis for recording are fully observed (O), largely observed (LO), largely not observed (LNO), or not observed (NO).

[8] Same as footnote 7, except referring to international standards concerning (respectively) source data, statistical techniques, assessment and validation of source data, assessment and validation of intermediate data and statistical outputs, and revision studies.