INTERNATIONAL MONETARY FUND

IMF Country Report No. 21/198

REPUBLIC OF TAJIKISTAN

2017 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 2017 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 November 3, 2017 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 November 3, 2017, following discussions that ended on June 1, 2017 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 October 18, 2017
- 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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November 9, 2017

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IMF Executive Board Concludes 2017 Article IV Consultation with the Republic of Tajikistan

On November 03, 2017, the Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation[1] with the Republic of Tajikistan.

In the past few years economic activity in Tajikistan was strong, despite large external shocks that weakened the external position and exposed vulnerabilities. While remittances declined by 45 percent in nominal USD terms in 2015-16, real GDP growth was 6-7 percent supported by an expansionary fiscal policy that boosted investment in construction and industry and informal sector activity. Inflation remained low. The current account deficit widened from 2.8 percent in 2014 to 6 percent of GDP in 2015 before narrowing to 3.8 percent of GDP in 2016. End-2016 reserves provided 2.3 months of import cover. Public debt increased to nearly 42 percent of GDP. The sharp decline in remittances resulted in a large depreciation against the dollar, which in turn led to a significant escalation in banking sector stress owing to short open foreign exchange (FX) positions and FX lending to unhedged borrowers. By end-2016, nonperforming loans (overdue more than 30 days) in the banks rose to 54 percent, profitability fell, capital adequacy deteriorated and the two largest banks became insolvent and illiquid. Private sector credit declined in 2016.

Following robust growth in 2016, the macroeconomic outlook for Tajikistan is expected to be generally weaker this year and beyond. Growth is projected to decrease to 4.5 percent in 2017 and decline further to 4 percent in 2018 due to fiscal consolidation and credit contraction. Banks have made progress in reducing nonperforming loans to 48.8 percent at end-September. The

[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.

authorities target a decline in the overall budget deficit (including the Public Investment Program and excluding bank recapitalization) of two percentage points of GDP, mainly by reining in capital spending. Staff projects a higher budget deficit mostly due to the need for additional bank recapitalization. The external current account deficit is projected to widen to 6.3 percent of GDP, reflecting the liquidity created by the bank recapitalization and imports for a large energy project.

Risks stem from potential delays in structural reforms, particularly in the banking sector or state-owned enterprises, which would hurt confidence and have an adverse impact on growth. Slower growth in emerging markets would reduce remittances, loans, and FDI. Tajikistan's risk of external debt distress has increased from low to high suggesting heightened fiscal vulnerabilities to adverse shocks.

Executive Board Assessment[2]

Executive Directors agreed with the thrust of the staff appraisal. They commended the authorities' response to external shocks since 2014, including allowing exchange rate flexibility and convergence, containing the government wage bill, raising the liquidity support interest rate, implementing measures to preserve financial stability, and accumulating international reserves. Nevertheless, they noted that the Tajik economy continues to face vulnerabilities, which requires maintaining a prudent macroeconomic policy stance, building fiscal and external buffers, and stepping up reforms, especially in the banking sector.

Directors welcomed the steps taken by the authorities to repair the financial sector and strengthen banking supervision, but stressed that more decisive action is needed to address longstanding weaknesses in the sector. They noted that the bailout of the two large banks has appropriately been complemented with rehabilitation plans to improve their financial positions, and that two of the smaller banks that were determined to be unviable were liquidated. Nonetheless, deeper and more urgent reforms are needed, based on an assessment of the banks' viability. Plans to resolve these banks should be time-bound, protect the public finances, and ensure equitable treatment of creditors. Directors stressed that legislation on bank resolution and emergency liquidity assistance needs to be strengthened, and weaknesses in other banks should be addressed promptly to help ensure financial stability and maintain depositor confidence.

Directors called for a careful implementation of fiscal and monetary policy to ensure macroeconomic stability. They emphasized that fiscal consolidation and concessional financing would reduce the risk of debt distress and help rebuild policy space. Expansion of the tax base and cuts in non-priority expenditure while protecting critical social outlays will be important.

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[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.

Disciplined implementation of the 2017 budget would be a welcome start to this consolidation. Directors also noted that a further tightening of monetary policy, including limiting the use of central bank credit to finance public investment projects, would help contain inflationary pressures.

Directors agreed that sustained and strong implementation of structural reforms, accompanied by prudent macroeconomic policies, would result in higher and more job-rich growth in the medium term. Maintaining exchange rate flexibility and strengthening the monetary policy framework will help support competitiveness, while paving the way for a transition to inflation targeting. Directors underscored that ambitious reforms to improve bank governance and performance, upgrade the financial regulatory and supervisory framework, clarify the tax code and tax administration, enhance SOE oversight and accountability, boost the efficiency of public spending, create a better business environment, and bolster anti-corruption efforts would lift growth significantly over the medium term. Directors also encouraged further development of Tajikistan's AML/CFT framework.

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

Table 1. Selected Economic Indicators, 2014–22, Baseline

(Quota: SDR 174 million)

(Population: 8.7 million; 2016)

(Per capita GDP: US$799; 2016)

(Poverty rate: 31 percent; 2015)

(Main exports: aluminum, gold, cotton; 2016)

	2014 Est.	2015 Est.	2016 Est.	2017 Proj.	2018 Proj.	2019 Proj.	2020 Proj.	2021 Proj.	2022 Proj.
	(Annual percent change; unless otherwise indicated)								
National accounts									
Real GDP	6.7	6.0	6.9	4.5	4.0	4.0	4.0	4.0	4.0
GDP deflator (cumulative)	5.5	0.1	5.3	10.0	6.0	6.0	6.0	6.0	6.0
Headline CPI inflation (end-of-period)	7.4	5.1	6.1	10.0	8.0	6.0	6.0	6.0	6.0
Headline CPI inflation (period average)	6.1	5.8	5.9	8.9	8.0	6.0	6.0	6.0	6.0
	(In percent of GDP; unless otherwise indicated)								
Investment and saving 1/									
Investment	19.3	19.2	21.7	17.4	17.4	16.4	16.1	16.7	16.7
Fixed capital investment	16.3	17.5	20.2	16.1	15.9	15.9	15.8	16.2	16.7
Government	10.1	13.8	15.0	11.6	11.2	11.0	10.7	10.9	11.2
Private	6.2	3.7	5.2	4.5	4.7	4.9	5.1	5.3	5.5
Gross national savings	16.5	13.2	17.9	11.1	11.1	10.8	11.0	12.1	12.4
Public	10.1	11.9	4.4	5.1	5.7	9.1	8.9	9.2	9.5
Private	6.4	1.3	13.5	6.0	5.4	1.7	2.1	2.9	2.9
General government finances									
Revenue and grants	28.4	29.9	28.8	27.4	29.1	29.4	29.6	29.6	29.8
Tax revenue	22.8	22.0	20.6	19.3	21.0	21.5	21.8	22.1	22.4
Expenditure and net lending	28.4	31.8	39.4	33.9	34.5	31.3	31.4	31.4	31.4
Current	18.2	18.0	18.3	18.3	19.8	20.3	20.6	20.4	20.3
Capital	10.1	13.8	15.0	11.6	11.2	11.0	10.7	10.9	11.2
Overall balance (excl. PIP and stat. discrepancy) 2/ 3/	0.9	1.2	-7.5	-3.7	-3.1	0.6	0.7	1.2	1.5
Overall balance (incl. PIP and stat. discrepancy) 2/ 3/	0.0	-1.9	-10.6	-6.5	-5.4	-1.9	-1.8	-1.7	-1.7
Domestic financing	-1.7	-2.0	7.3	1.6	0.6	-2.8	-0.7	-0.4	-0.2
External financing	-0.1	1.9	2.8	4.9	4.8	4.7	2.5	2.1	1.9
Total public and publicly-guaranteed debt	27.5	34.3	41.8	52.4	56.2	56.3	54.6	52.9	51.8
Monetary sector 4/									
Broad money (12-month percent change)	7.1	18.7	37.1	9.9	17.3	11.8	16.4	17.2	18.4
Reserve money (12-month percent change)	13.2	16.0	71.1	15.7	7.7	6.7	10.6	15.5	17.6
Credit to private sector (12-month percent change)	31.5	12.7	-4.9	-11.2	3.0	4.7	5.6	8.4	12.4
Velocity of broad money (eop)	5.0	4.5	3.3	3.9	...	...	...	...	...
Refinancing rate (in percent, eop/ latest value)	8.0	8.0	11.0	...	...	...	...	...	...
	(In percent of GDP; unless otherwise indicated)								
External sector									
Exports of goods and services (U.S. dollar, percent change)	-10.7	-1.4	12.0	0.5	0.4	2.8	3.1	14.2	3.1
Imports of goods and services (U.S. dollar, percent change)	-19.1	-19.9	-10.4	12.4	10.5	10.4	7.2	7.0	4.7
Current account balance	-2.8	-6.0	-3.8	-6.3	-6.2	-5.6	-5.1	-4.6	-4.3
Trade balance (goods)	-32.5	-28.7	-27.5	-31.3	-36.5	-38.8	-39.5	-38.9	-38.4
FDI	3.3	5.4	4.9	3.0	3.2	3.2	3.2	3.2	3.2
Total public and publicly guaranteed external debt	24.0	31.0	32.4	39.7	42.1	44.6	45.0	45.1	45.0
Exports of goods and services, in millions of U.S. dollars	836	824	923	928	931	957	987	1,127	1,161
Imports of goods and services, in millions of U.S. dollars	-4,143	-3,319	-2,974	-3,341	-3,691	-4,073	-4,365	-4,668	-4,888
Current account balance, in millions of U.S. dollars	-258	-472	-265	-458	-444	-429	-412	-400	-395
Total public and publicly guaranteed external debt, in millions of U.S. dollars	2,065	2,149	2,243	2,616	2,960	3,345	3,581	3,811	4,038
Gross official reserves (in millions of U.S. dollars)	511	494	653	701	758	911	1,057	1,197	1,401
In months of next year's imports	1.8	2.0	2.3	2.3	2.2	2.5	2.7	2.9	3.2
In percent of broad money	29.8	32.0	34.8	41.0	39.1	43.4	45.0	45.1	46.2
Memorandum items:									
Nominal GDP (in millions of somoni)	45,605	48,402	54,471	62,625	69,037	76,107	83,900	92,492	101,963
Nominal GDP (in millions of U.S. dollars)	9,242	7,857	6,953	7,234	7,133	7,607	8,091	8,606	9,143
Social and poverty-related spending (in percent of GDP)	11.9	12.5	13.1	13.7	14.3	14.8	15.3	15.8	16.3
Nominal effective exchange rate (Index 2010=100)	99.2	93.9	77.7	...	...	...	...	...	...
Real effective exchange rate (Index 2010=100)	109.4	104.2	88.4	...	...	...	...	...	...
Average exchange rate (somoni per U.S. dollar)	4.93	6.16	7.83	...	...	...	...	...	...

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 2013-2015 where statistical discrepancy is treated as below the line domestic financing item.

3/ The 2016 overall balance includes 6.1 percent of GDP for bank recapitalization in addition to regular fiscal operations and projects 4 percent of GDP for bank recapitalization in 2017 and 3.5 percent of GDP for bank recapitalization in 2018. Estimates of bank recapitalization costs are preliminary and subject to change.

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

INTERNATIONAL MONETARY FUND

REPUBLIC OF TAJIKISTAN

STAFF REPORT FOR THE 2017 ARTICLE IV CONSULTATION

October 18, 2017

KEY ISSUES

Context and background. Tajikistan is the poorest of the eight Central Asian and Caucasus countries. Economic growth has been high and funded by inward remittances, but poverty remains significant. Macroeconomic policies were generally prudent before the external shocks (lower oil and commodity prices and weaker growth in trading partners) in 2015-16, but slow progress in structural reforms constrained diversification and employment generation. External shocks (through lower remittances and currency depreciation) and an inadequate policy response weakened the external position, exposed major weaknesses in the banking system, and contributed to a rise in public debt. Program discussions held in 2016 were not concluded. While the authorities launched a bank recapitalization plan in December 2016 to maintain depositor confidence and financial stability, additional banking sector reforms are needed.

Focus and principal issues. The near-term macroeconomic outlook is challenging. Growth will be constrained as the external outlook remains uncertain, external and fiscal buffers need to be rebuilt, and monetary space has been used. Risks are mostly on the downside. To generate inclusive growth, Tajikistan needs to combine prudent macro policies with accelerated reform to increase investment and growth. Macro policies will need to limit debt accumulation and maintain a flexible exchange rate with prudent monetary policy to limit inflation. Strong reforms are essential to improve banking sector governance and performance, strengthen fiscal institutions and oversight of state-owned enterprises, develop the monetary policy framework and communications, and enhance the business environment. The authorities intend to resume program discussions and are working to this end.

Approved By
Juha Kähkönen (MCD) and Daria Zakharova (SPR)

The staff team comprised Paul Ross (head), Dalmacio Benicio, Carolina Castellanos (all MCD), Thierry Bayle (MCM) and Jiangyan Yu (SPR). The mission was provided outstanding assistance by Yuri Sobolev, Resident Representative, Nailya Menlasheva, Tahmina Kamarova (Dushanbe office), as well as Jonah Rosenthal, Juan Rigat, and Madina Toshmuhamedova. Discussions were held in Dushanbe May 17–30, 2017. The mission met First Deputy Prime Minister Said, Chairman of the National Bank of Tajikistan Nurmahmadzoda, Minister of Finance Qurboniyon, Minister of Economic Development and Trade Hikmatullozoda, other senior government officials, and representatives of the donor community. Mr. Inderbinen, Alternate Executive Director and Mr. Rajabov (his advisor) joined the discussions.

CONTENTS

ANNEXES

CONTEXT

1. **Tajikistan is the poorest of the eight Central Asian and Caucuses (CCA) countries.** The 1990's civil war caused a large decline in output and income. Subsequently, output and incomes have grown significantly, but income per capita growth has lagged other CCA oil importers. President Rahmon has led the government since 1994 and the next presidential elections will be in 2020.

2. **Slow progress in structural reforms has held back employment generation.** While macroeconomic policies were generally prudent until the external shocks in 2015-16, structural reforms were not sustained. This resulted in poor governance in banks and the public sector, limiting access to finance and impeding private sector development. Persistent governance challenges have constrained diversification and employment generation. Job opportunities have mostly been in low productivity sectors (two-thirds of employment is in agriculture), limiting the availability of high-paying formal sector jobs in the economy. Poverty has declined substantially in the past decade, but remains significant (31 percent in 2015), and Tajikistan ranks 129 of 188 countries on the Human Development Index.[1]

3. **Tajikistan has a National Development Strategy (NDS) and a medium-term development program (MTDS)**. The NDS covers the period through 2030 and sets goals in energy and food security, communications, and employment generation. These goals are supported by MTDS targets for 2016–20.

4. **Tajikistan's record in implementing past Fund advice is mixed (Annex I).** Despite some progress in macroeconomic stabilization and structural and financial sector reforms, implementation of Fund advice is incomplete in key areas.

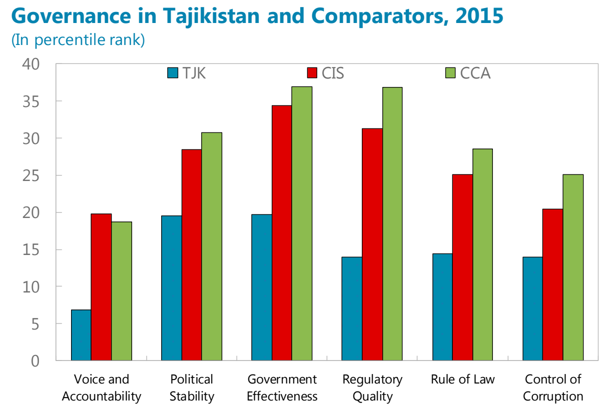
ECONOMIC DEVELOPMENTS DURING 2015–16

5. **Economic activity was strong, despite large external shocks that weakened the external position**. Remittances from Tajik migrant workers in Russia, nearly 37 percent of GDP in 2014, declined by 45 percent in nominal USD terms in 2015-16. Nonetheless, real GDP growth was 6-7 percent in 2015-16, supported by an expansionary fiscal policy which boosted investment in construction and industry and informal sector activity. Inflation remained low. The current account deficit widened from 2¾ percent in 2014 to 6 percent of GDP in 2015 before narrowing to 3¾ percent of GDP in 2016. End-2016 reserves provided 2¼ months of import cover.

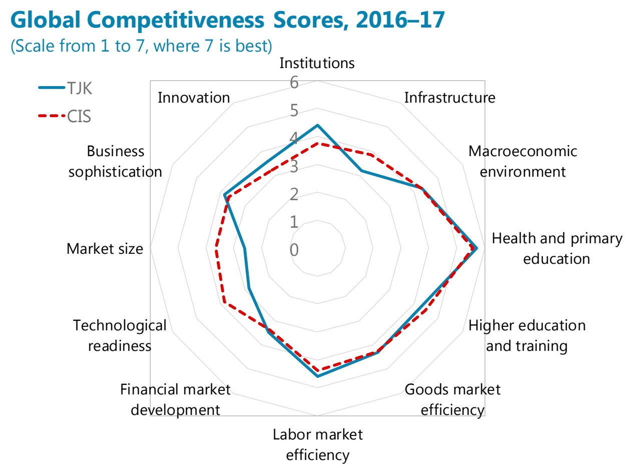
[1] See World Bank—Systematic Country Diagnostic, Private Sector Inputs, March 2017.

Figure 1. Tajikistan: Governance, Competitiveness, Growth, and Jobs Nexus

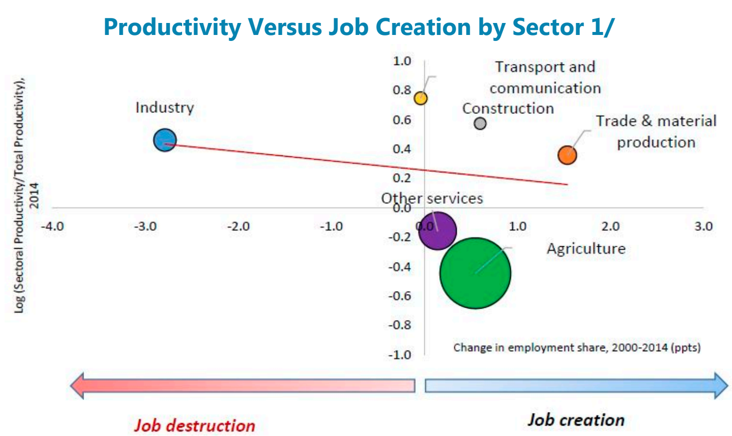
Tajikistan has poorer overall governance than CCA and CIS peers….



…and is far from the global competitiveness frontier…



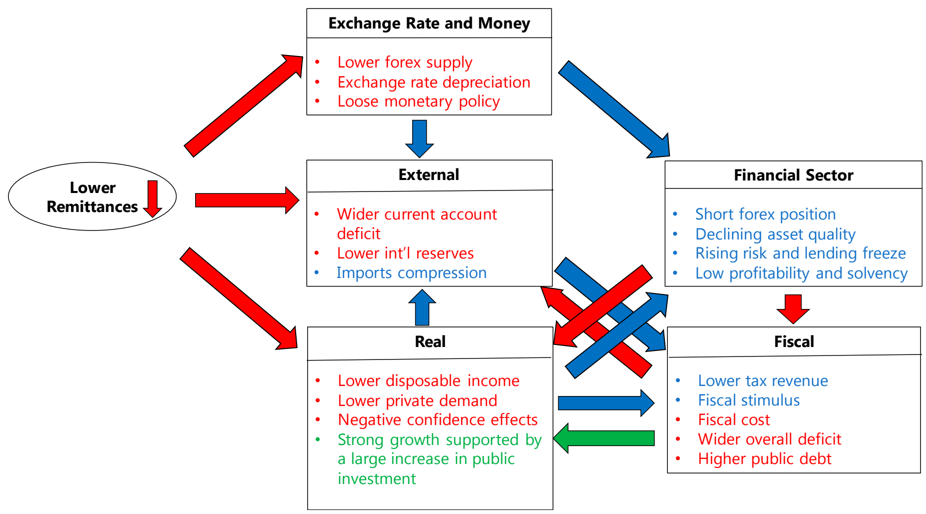
… thus, it has low productivity and limited job opportunities.



1/ Size of bubble reflects sector's share of total employment in 2000.

Sources: World Governance Indicators, Global Competitiveness Indicators, and World Bank Systematic Country Diagnostic.

Tajikistan: Negative Remittances Shock and Macro Linkages



Note: Color of bullets corresponds to source of incoming arrows, which reflect the impacts of the remittance shock and intersectoral linkages.

6. The sharp decline in remittances resulted in a large depreciation against the dollar. Between 2015 and 2016, the somoni depreciated against the dollar by a cumulative 33 percent in nominal terms, and the real effective exchange rate depreciated by 21 percent. The pace of depreciation of the somoni against the dollar varied, reflecting both the changing tempo of foreign exchange (FX) inflows and policy actions. In 2015 and early 2016, the exchange rate depreciated significantly and the official and market exchange rates diverged. During February-December 2016, the exchange rate stabilized and the official and market rates converged.[2]

7. Fiscal policy was expansionary, softening the impact of the shocks on growth but contributing to an increase in debt. Tax collection was below budget (with reports that businesses were pressured to meet revenue targets), and capital expenditures increased. To partially offset these, a wage increase for public employees was delayed and the number of SOEs paying dividends widened. Nonetheless, the overall balance, including Public Investment Program (PIP) spending, widened from balance in 2014 to a deficit of 10.6 percent of GDP in 2016 (4.5 percent of GDP from regular budget operations and 6.1 percent to recapitalize banks). Combined with the depreciation of the somoni, this increased public debt significantly.

8. Monetary policy was accommodative. Despite the increase in the National Bank of Tajikistan (NBT) policy rates from 8 to 11 percent in March-July 2016, monetary aggregates grew strongly in 2016 (broad money growth was 37 percent), reflecting the large increase in credit to government following the recapitalization of the two largest banks, and the strong demand for

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[2] In 2015, the National Bank of Tajikistan (NBT) closed unlicensed FX bureaus and required that all cash FX transactions be processed by banks. In February 2016, the NBT introduced a 50 percent surrender requirement on Russian ruble remittance inflows. Penalties for unauthorized FX transactions were approved by Parliament in March 2016. In February-December 2016, a two-way FX market was re-established. Until recently, Tajikistan maintained an MCP, which arose from the use of an official somoni-USD rate for governmental transactions, based on the previous day's prevailing market rate. This MCP was removed in September 2017.

somoni currency after the stabilization of the exchange rate. Private sector credit grew moderately in 2015, but declined in 2016.

9. External shocks led to a significant escalation in banking sector stress. The banking system had longstanding weaknesses arising from poor governance. These weaknesses led to widespread lending to connected parties and unprofitable state-owned enterprises (SOEs). Banks were also exposed to significant direct and indirect exchange rate risk from short open FX positions and FX lending to unhedged borrowers. The large external shock and exchange rate depreciation caused a sharp increase in nonperforming loans (NPLs), as a share of gross loans, from 25 percent at end-2014 to 54 percent at end-2016.[3] As NPLs rose, the creditworthiness of borrowers deteriorated, and credit to the private sector declined (Annex II). Profitability fell. Capital adequacy also deteriorated from nearly 15 percent at end-2014 to 7 percent in June 2016. The two largest banks Tojiksodirotbank (TSB) and Agroinvestbank (AIB) became insolvent and illiquid.

10. Measures to enhance financial sector stability and development were implemented, but addressing longstanding weaknesses will require further decisive action. In response to stress in the banking sector, the NBT put TSB and a smaller bank (TajPromBank (TPB)) into temporary administration in May 2016 and initiated asset quality reviews of all systemic banks. A bank recapitalization plan was launched in December 2016 at a fiscal cost of 6 percent of GDP and restructuring plans for TSB and AIB were prepared. Legislation on the regulation of payment services was approved and strategic priorities on consumer protection were adopted in 2017. However, more decisive action will be needed to break from past practices and ensure a return to long-term viability and compliance with regulatory requirements (Box 1, Annex III). Other reforms such as enhanced monitoring of systemic banks, strengthened banking regulation and supervision (e.g., initiatives to lower dollarization, increase minimum capital requirements for new banks, develop stress testing, and implement risk-based supervision), improved financial inclusion, and establishment of a Financial Stability Committee are likely to yield tangible results only over the medium-term.

[3] The NBT uses a 30+ days overdue threshold to classify NPLs. Although this threshold is more conservative than the international standard (90+ days overdue), there are weaknesses in the recognition of NPLs in Tajikistan. Using this conservative threshold could offset the understatement of NPLs.

Box 1. Bank Recapitalization Plan

The Plan. In December 2016, the authorities announced a plan to recapitalize four banks (including TSB and AIB). Subsequently, the plan was amended to recapitalize only the two systemic banks (at a cost of TJS 3.32 billion, 6.1 percent of GDP), and liquidate the two smaller banks (TPB and Fonombank), with the Deposit Guarantee Fund paying out insured depositors. AIB and TSB were recapitalized with five-year government local currency bonds at 2 percent interest, which were collateralized by bank assets. The banks used the bonds to obtain liquidity from the NBT to honor deposits and other liabilities. The incumbent chairmen/CEOs of these banks were retained, and those who were removed previously during temporary administration were reinstated. Supervisory boards of the banks were chaired by senior government officials. Banks were instructed to produce a three-year plan to ensure financial viability, limit lending for a year, and take measures to reduce losses. The banks became majority state-owned. The authorities are working with the EBRD to assess the viability of these banks.

Staff assessment. While the recapitalization plan alleviated depositors' concerns and helped maintain financial stability, it had significant shortcomings. It was expensive but even so, on account of the large NPLs, fell significantly short of the amount needed to meet regulatory requirements. Moreover, further supervisory forbearance was necessary and banks' capital shortfalls were not addressed in a robust way, implying the likely need for further financial support in the future. The structure of the recapitalization was not in line with international standards, and the liquidity impact created negative spillovers to inflation and the exchange rate. The shareholders were shielded from losses and chairmen/CEOs were reinstated, increasing moral hazard. The restriction on new lending could be a drag on economic growth.

OUTLOOK AND RISKS

11. Developments so far in 2017 point to a challenging near-term macroeconomic outlook.

- ***There are headwinds to growth***. Real GDP growth in the first seven months remained strong at 6.4 percent. However, even with a strong rebound, remittances will not reach 2014 levels for several years. Private sector credit continued to decline. Together with ongoing banking sector difficulties, these trends are likely to weigh on economic confidence and growth.

- ***Inflationary and depreciation pressures continue***. Despite NBT actions to manage liquidity pressures (including an increase in the refinance rate to 16 percent), growth of monetary aggregates moderated slightly in January-July but remained high (broad money expanded by 26 percent y-o-y).[4] Inflation increased to 8.8 percent in July with food and energy price inflation increasing to 12.2 and 10.7 percent, respectively. A gap between official and market

[4] The NBT acted to manage liquidity pressures—the policy interest rate was increased, reserve requirements were raised, and the 14- and 28-day bills were used extensively for liquidity management. The exchange rate pressures from January-May led to the reemergence of a gap between official and market cash rates.

exchange rates reemerged in early 2017. In May, the authorities unified the official exchange rate with market interbank rates.[5]

- ***Debt continues to rise***. In 2017H1, the overall fiscal balance improved with a small deficit of 0.3 percent of GDP. However, tax revenues underperformed relative to the budget owing to lower imports, but this was offset by overperformance of non-tax revenues. In September, the authorities issued a $500 million, ten-year Eurobond, with a coupon of 7.125 percent to finance a large energy project, pushing government debt to an estimated 49 percent of GDP.

12. Staff project a generally weaker macro outlook for 2017. Inflation is expected to reach 10 percent at end-2017. Growth is projected to weaken to 4½ percent due to fiscal consolidation and declining private sector credit. The authorities target a decline in the budget deficit of two percentage points of GDP, mainly by reining in capital spending.[6,7] Staff project a higher budget deficit mainly due to the need for additional bank recapitalization.[8] The external current account deficit is projected to widen to 6.5 percent of GDP, reflecting the liquidity created by the bank recapitalization and imports for a large energy project.

13. The baseline projections point to lower growth in the medium term, but with improved fiscal and external positions. The baseline scenario assumes prudent macroeconomic policies, but limited reforms, implying that vulnerabilities would remain. Excluding the bank recapitalization needs in 2018, fiscal consolidation is projected to result in a decline in the overall deficit to around 2 percent of GDP. The real effective exchange rate would remain generally stable. The external position would stabilize over the medium term and the current account deficit decline to around 4.5 percent in the outer years. Exports would perform modestly, despite a boost in electricity exports from the large energy project. The dollar value of remittances would rebound and reserves increase to more than 3.5 months of imports over the medium term. Growth would be limited to 4 percent, with weak external demand, fiscal consolidation, and limited reforms. After an increase in 2017, inflation is projected to decline and remain in single digits.

14. The strong-reform scenario—with more fiscal adjustment and deep structural reforms—would deliver higher growth and lower vulnerabilities. Growth would rise to 5 percent in 2018, and to 6 percent in and after 2020. Owing to additional fiscal consolidation, the deficit would decline to around ¾ percent of GDP, with lower public debt than under the baseline. Inflation would fall to about 6 percent. The positive effects of structural reforms—including better SOE and bank performance, improvements in public investment efficiency, and a better business environment—

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[5] The difference between the official and cash rates exceeded 2 percent in April-May, as the authorities did not allow the official exchange rate to depreciate as rapidly as cash and spot market rates to anchor market expectations and prevent excessive depreciation.

[6] The consolidation is for the overall fiscal balance, including PIP outlays, but excluding bank recapitalization.

[7] There is room to improve the efficiency of capital spending, see the 2015 Article IV consultation staff report.

[8] In addition to the recapitalization of December 2016, preliminary staff estimates suggest the need for around 7½ percent of GDP in additional capital for banks to meet regulatory requirements as a going concern. These costs are allocated over 2017-18.

would strengthen corporate and bank balance sheets, increase competitiveness, attract higher investment, and generate more employment and growth. These reforms would more than offset the negative impact of fiscal consolidation on growth.

15. Staff view risks as mostly on the downside and some could be high impact (Annex IV). Delays of structural reforms, particularly in banks or SOEs, would hurt confidence in the banking system. Weakened confidence could result in a bank run, with a large adverse impact on growth. Slower growth in emerging markets would reduce remittances, loans, and FDI. Further, the debt sustainability analysis indicates that Tajikistan's risk of external debt distress has increased from low to high, suggesting high fiscal vulnerabilities to adverse shocks.[9]

Authorities' Views

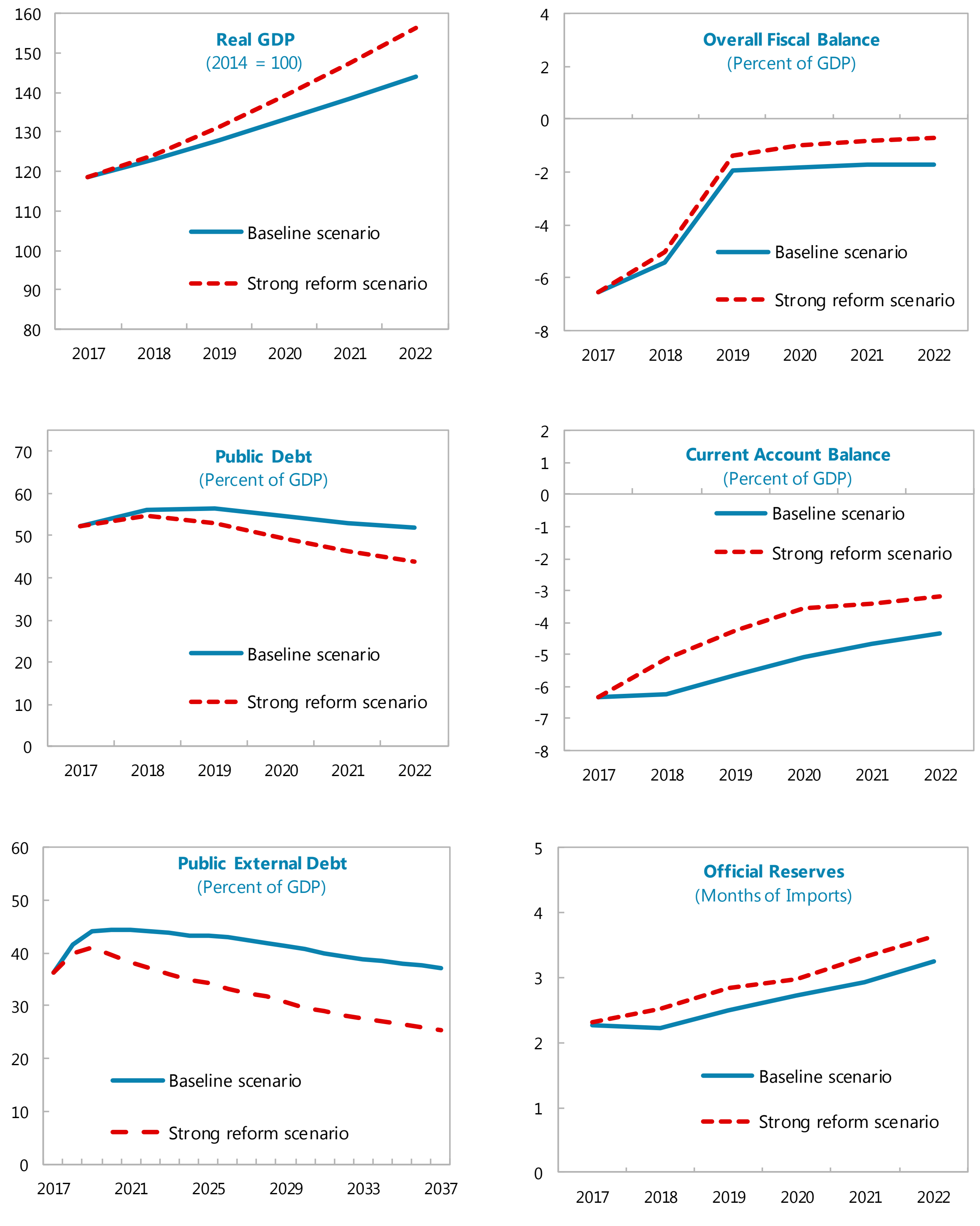
16. The authorities noted that remittances have started to rebound and are more upbeat about medium-term economic prospects. They expect significantly higher medium-term growth (7-7½ percent), which will be supported by growth in manufacturing, investment in fixed assets, continued stable growth in agriculture, and a pickup in consumption. They also expect lower inflation (7-8 percent) in 2017, in line with the NBT's policy goals and the low inflation outturns of recent years.

POLICY DISCUSSIONS

Prudent macroeconomic policies, prompt action to address the weaknesses in the banking sector, and other structural reforms are needed to maintain macroeconomic and financial stability and generate inclusive growth. In the near term, the policy mix and sequencing will need to be geared toward addressing the most immediate vulnerabilities and include bank repair and fiscal consolidation. Bank repair will entail a focus on restoring viability and, where needed, resolution at least cost. Fiscal consolidation will need to rely on curtailing capital spending and be complemented by a flexible exchange rate and tighter monetary policy. Over the medium term, the focus of the banking reform should shift to the issues of governance and NPL workout, while macro-structural reforms should focus on improving revenue administration, SOE performance, the monetary policy framework, and the business environment.

[9] The risk of external debt distress has increased due to a higher debt level, projected non-concessional borrowing, lower expected growth, a weaker external outlook, and a downgrade of Tajikistan's CPIA classification (reflecting weaker institutions and policies and thereby lower debt carrying capacity).

Figure 2. Tajikistan: Baseline and Strong Reform Scenarios, 2017–22



Sources: National authorities; and IMF staff calculations.

A. Macroeconomic Policies

Debt and Fiscal Policies

17. Debt needs careful management. Staff projections suggest a high risk of debt distress under the baseline scenario, as the ratios of the PV of public and publicly guaranteed (PPG) external debt to the sum of GDP and remittances and external debt service to revenue breach the LIC-Debt Sustainability Framework (DSF) thresholds. The PV of public debt to GDP ratio also remains above the 38 percent LIC Debt Sustainability Analysis (DSA) threshold over the medium term. The DSA assumes that authorities borrow $1.2 billion to finance a large energy project during 2017-32, with a total project cost of $3.9 billion.[10] The projected recapitalization needs and the financing of the project result in an increase in public debt in the short and medium terms. Fiscal risks from policy slippages, additional potential bank recapitalization needs, and liabilities of SOEs (around 8½ percent of GDP) are also significant and could further increase public debt over the medium term.

18. Fiscal consolidation is needed to ensure debt sustainability and manage risks. Fiscal space has been used up and public debt has risen. Staff recommends an operational fiscal anchor of a medium-term primary deficit below 1½ percent of GDP, which is consistent with reducing the PV of public debt to GDP ratio to the 38 percent LIC DSA threshold and the risk of debt distress to moderate in the strong reform scenario. It would also help create a fiscal buffer to manage risks.

Staff Recommendations

19. Staff urged additional measures to mitigate risks and ensure debt sustainability while strengthening the social safety net. The authorities' views on growth and revenues could be a risk, especially considering the underperformance of tax revenues and delays in donor disbursements in recent years.

- ***Additional revenue and expenditure measures.*** The SIP *an Examination of Tajikistan's Tax Potential* discusses tax potential and its fiscal policy implications. Staff recommended expanding the tax base through reductions of exemptions and preferences, which reached 11 percent of GDP in 2016, and have eroded the productivity of the VAT and the real estate and immovable properties taxes. Further, cuts to non-priority expenditure, including capital spending, could help offset any revenue shortfall and ensure the achievement of the 2017 deficit target. Staff supported the planned rebalancing of current expenditure to increase social outlays and lower non-priority capital expenditure. The social safety net could be strengthened by expanding benefits and making them better-targeted toward poor and vulnerable groups to help manage fiscal costs.

- ***No central bank financing of development projects.*** Staff counseled against using NBT financing for the large energy project or other projects in the future.

[10] The DSA envisages this project is financed by $1.2 billion of external borrowing (including the recent $500 million Eurobond), $1.2 billion in domestic revenue, and $1.5 billion of export proceeds due to early electricity generation.

- ***Ensure debt sustainability.*** To ensure that debt risks are contained the overall deficit, including PIP outlays, should be gradually narrowed to 0.7-1.7 percent of GDP over the medium term. In addition, borrowing should be on concessional terms to reduce the PV of public debt below the 38 percent of GDP anchor and assure debt sustainability. These recommendations, reflected in the strong-reform scenario, would mitigate the risk of debt distress. The DSA prepared by staff indicates that non-concessional borrowing in excess of $1.2 billion would further threaten debt sustainability.

Authorities' Views

20. The authorities viewed the 2017 deficit target level (2.5 percent of GDP) as appropriate over the medium term to manage risks of debt distress. They agreed that a sound fiscal framework is indispensable to ensure fiscal and debt sustainability and noted potential risks. In that regard, they would consider the mission's recommendations on tax revenue and the SIP on tax potential. Revenue measures underway include an expansion of the tax base by revising tax preferences, identification of new tax sources, and an information campaign on tax administration. While social outlays would be protected, cuts in expenditures might be adopted later in the year if needed. They disagreed with the assumption of further bank recapitalization in 2017–18 and maintained that the state will not be responsible for SOEs' liabilities under the law. They also considered staff's macroeconomic projections to be too conservative and expected external debt to remain below their ceiling (40 percent of GDP) in the medium term. They emphasized that the large energy project was a high priority and would be partly financed by non-concessional external debt. Their assessment was that, even with $1.2 billion of external non-concessional borrowing, the risk of debt distress would remain moderate.

Exchange Rate and Monetary Policies

21. The external position is moderately weaker than the level consistent with medium-term fundamentals and desirable policy settings. The real exchange rate is assessed to be close to equilibrium, but reserves are significantly lower than recommended by the reserve metric (see Annex V). Exchange rate and monetary policies should address exchange market and inflationary pressures, maintain exchange rate competitiveness and rebuild reserves judiciously.

Staff Recommendations

- ***Exchange rate.*** During January-May 2017, an actual deviation of more than 2 percent emerged between the official exchange rate and the prevailing market rate. This deviation arose from the authorities' practice of calculating the official rate during this period at a more appreciated level than the market rate. Staff welcomed the unification of the official and market exchange rates on May 23. The official exchange rate should continue to equal the market rate, with the exchange rate determined by market forces, and intervention should only be conducted to smooth excessive market volatility. Staff urged the NBT to clarify that banks are free to sell foreign exchange cash, and build its foreign exchange (FX) reserves gradually over time (about $60 million in 2017), as greater reserve accumulation could add to depreciation pressures and thereby increase financial sector risks.

- ***Monetary policy.*** To counter inflationary pressures, staff recommended further monetary policy tightening through greater sales of NBT notes at market interest rates to mop up liquidity and establishing a standing deposit facility. Increasing the refinance rate in the absence of effective interest rate transmission would likely have a limited impact. Moreover, an increase in reserve requirements is not recommended, as excess liquidity is not spread equally among banks. Further mopping-up would be required if additional bank recapitalizations were to take place. Given the impact of sterilization on the NBT's income and its already negative capital, NBT recapitalization is also needed.

- ***Communication.*** The NBT should actively and regularly communicate to explain the monetary framework, that the exchange rate will be set by market forces, and its determination to pursue price stability.

- ***Multiple currency practices (MCPs*****)**. Until recently, Tajikistan maintained an MCP stemming from the use of an official somoni- dollar rate for government transactions based on the previous day's prevailing market rate, which potentially could deviate by more than 2 percent from the current day's prevailing market rate at the time of the transaction. In September 2017, the NBT removed the MCP by committing to adjust the exchange rates for government transactions so as not to deviate by more than 2 percent from the prevailing market rate at the time of the transaction.

Authorities' Views

22. The NBT broadly agreed with staff views on monetary and exchange rate policies, while disagreeing on the sources of inflationary pressure. It considered inflationary pressure to be temporary due to exogenous changes in external and domestic conditions and seasonal factors. While the NBT expected these factors to improve later in 2017, it also agreed with the possibility of a negative alternative scenario in which inflation could reach the level projected by staff. The NBT noted that it had tightened monetary policy, but was constrained by the impact on its income position. Moreover, the NBT had adopted several measures to enhance: information on, and the transparency of, monetary and foreign exchange policies; the quality and availability of statistics; economic analysis and research; and macroeconomic forecasts, especially of inflation. On measures implemented for security reasons, the authorities intend to notify the Fund soon of exchange restrictions introduced since the last notification in 2004.

B. Structural Reforms[11]

Structural reforms in the financial sector are an overriding priority to overcome pressing macroeconomic vulnerabilities. However, strong reforms in other areas are also needed to secure sustainable and more inclusive growth.

[11] **The lack of data precludes analysis on labor markets.**

Financial Sector

23. Banking sector reform is critical to restore confidence in the banking system. The SIP *The Challenges of the Tajik Banking Sector* discusses in greater detail recommendations to promote financial sector development, inclusion, and stability.

Staff Recommendations

24. Staff recommended actions to address the large vulnerabilities and to ensure inclusive, growth-friendly financial sector development. These measures are set out in greater detail in Annex III.

- ***Crisis management framework.*** Swiftly submit legislative amendments—to the NBT, banking, deposit insurance, and liquidation laws—to parliament to strengthen the bank resolution and emergency liquidity frameworks.

- ***Bank restructuring and promoting viability.*** Implement additional actions to restore long-term viability of the two largest systemic banks, and to address the weaknesses discovered by the asset quality reviews in other systemic banks. Additional financial assistance to banks will be needed to meet regulatory capital requirements.

- ***Bank governance.*** Address governance weaknesses (the prevalence of related party-lending, credit risk concentration, the low risk mitigation provided by collateral, and the indirect credit risk from FX borrowing by unhedged borrowers) through identification of ultimate beneficial ownership, and improvement of internal risk management frameworks. Promoting competition and allowing state-owned banks to originate, price and monitor credit independently would also help.

- ***Framework to address NPLs.*** Support the NPL recovery process through modernization of the bankruptcy law, the foreclosure regime, and upgraded NBT regulation. Ambitious NPL workout objectives should be set for banks' Board members and senior managers. System-wide schemes could be also explored. Further, tax disincentives to NPL workouts should be addressed.

- ***Other regulatory and supervisory measures.*** Shift banking supervision from rules -compliance to a risk-based and forward-looking approach. Increase risk-awareness in the banking system including through implementation of micro and macro prudential measures, intensified regulation (stronger capital requirements and internal governance), and stepped up NBT communication.

- ***Financial inclusion.*** Develop further the mobile banking initiatives that have resulted in greater inclusion.

Authorities' Views

25. The authorities acknowledged the need for further reforms to strengthen banking system performance and stability, but underlined the efforts made during the last two years.

They highlighted the structural reforms that are under way toward strengthening the institutional framework. They noted that the recapitalization of large banks was needed to alleviate social tensions in late-2016 but led to exchange rate pressures and an increase in domestic debt. They emphasized that the debt service of the recapitalization bonds would be paid directly by commercial banks, rather than the budget. They also maintained that there would be no more government financial assistance to banks and pointed to their planned close cooperation with the EBRD on the restructuring of the two systemic banks. They are also considering removing tax disincentives to NPL workouts.

26. The authorities underscored their efforts to broaden financial inclusion and promote financial sector development and stability. They highlighted the approval of the legislation on payment services and credit bureaus, and adoption of strategic priorities for consumer protection. Regarding financial stability, the NBT emphasized upgrades to banking regulation and enhanced supervision.

Fiscal

27. Structural fiscal reforms are needed to improve service delivery, enhance the business climate, and reduce fiscal risks. Tax administration needs significant improvement to reduce taxpayer harassment, which could erode the tax base. The PIP needs careful review both to ensure the selection of high return projects and their effective implementation. Decisive measures are needed to improve the performance of SOEs, especially Barki Tojik (energy company), and Talco (aluminum company).

Staff Recommendations

28. The following targeted measures are aimed at improving tax administration, enhancing the efficiency of spending, and reducing fiscal risk.

- ***Clarify the tax code and tax administration procedures.*** Ensure access to information on taxes, increase the level and number of services to taxpayers, simplify tax collection procedures, prevent tax violations through computerization, use an electronic declaration system, and improve tax and customs procedures.

- ***Strengthen the efficiency of public spending.*** Improve fiscal institutions to reduce waste and boost the efficiency of public expenditure, preserve critical social expenditures that protect the poor and vulnerable.

- ***Develop strong frameworks to identify and monitor growth-enhancing PIP projects.*** Strengthen the monitoring of PIP implementation and enhance commitment controls to ensure that expenditures can react quickly in the event of shortfalls in revenue.

- ***Enhance SOEs' oversight and mitigate fiscal risks.*** The SIP *An Assessment of State-Owned Enterprises in Tajikistan* discusses the performance of the 24 largest SOEs and associated fiscal risks. The authorities should (i) build on the momentum to improve SOEs' performance, and issue a resolution requiring SOEs to provide financial and operational plans at the beginning of every year and establish an accountability mechanism, (ii) set an aggregate debt limit on SOEs based on capacity to repay, and (iii) move ahead with action plans for the financial turnaround of Barki Tojik and Talco to achieve cost recovery.

Authorities' Views

29. The authorities broadly agreed with the thrust of advice on fiscal structural reforms. They considered that fiscal structural policies could help modernize the economy, maintain macroeconomic stability, strengthen tax collection, reduce state participation in the economy, and boost the role of the private sector. They noted that reforms were implemented to streamline tax administration procedures and introduce electronic filing, to enhance transparency, improve the efficiency and fairness of taxes, and ease the burden on taxpayers. In this context, they highlighted the widespread use of information sharing and electronic records to facilitate tax collections. Concerning the PIP, they noted that it is developed on a three-year basis in coordination with donors and includes priority projects for the country. Accordingly, it would be difficult to make immediate changes. They agreed to accelerate reforms of SOEs to reduce fiscal risks.

Monetary Framework

30. Monetary management reforms are needed to anchor inflation and exchange rate expectations and enhance monetary transmission. The increased transparency of the monetary and exchange rate regime will facilitate investment planning. It is critical that the NBT establish a new monetary policy anchor. The NBT wishes to adopt inflation targeting (IT).

Staff Recommendations

- ***Adopt reserve money targeting.*** IT will require augmenting the NBT's institutional capacity, developing new instruments, and improving the functioning of financial markets. This will take time. Accordingly, the NBT should announce that it is targeting reserve money as an interim anchor, while it prepares the move to IT. In the near term, the NBT should strengthen liquidity management, further develop the domestic money markets, and establish new facilities to improve the interest rate transmission channel.

- ***Strengthen communications.*** The NBT should pursue a strong communication strategy to promote the use of the new facilities to deepen financial markets and strengthen the interest rate transmission mechanism.

Authorities' Views

31. The NBT noted that it has been working toward an IT regime as a high priority since 2015. The NBT has already prepared the roadmap framework for IT implementation as part of its strategy and is seeking TA and support from the IMF and other IFIs. The operational structure of monetary policy has been revised. Work is underway to improve the effectiveness of monetary policy instruments and the transmission mechanism, and expand instruments in the interbank and financial markets. The NBT noted that it has increased significantly the volume of securities sold in 2017 compared to previous years. In March 2017, it introduced standing credit facilities and started conducting overnight and credit auctions. These auctions are based on liquidity forecasts which facilitate the pursuit of a balanced monetary policy. The NBT highlighted its development of new instructions to implement refinancing operations that can enhance the role of the refinancing rate and improve the transmission mechanism.

Business Environment

32. Improving the business climate will support higher and more productive investment. The structural reforms discussed above are essential to ensure macroeconomic stability and recovery from the ongoing financial sector stress, and will improve the business environment. In addition, reducing the costs of and barriers to doing business can have a significant role in enhancing the productivity of investment. Progress in these reforms will position Tajikistan to take advantage of larger regional markets.

Staff Recommendations

33. Staff recommended the following measures to improve the business climate, drawing on discussion with other IFIs.

- ***Bolster anti-corruption efforts***. Strengthen the legislative framework in line with the United Nations Convention Against Corruption, further develop and mobilize the AML/CFT framework, and publish income and asset declarations of high-level officials.
- ***Reduce the cost of doing business***. Streamline procedures, improve electricity supply and transparency of tariffs, and enhance trade facilitation through faster procedures.

Authorities' Views

34. The authorities welcomed staff's diagnosis and recommendations. They agreed with the thrust of the staff's assessment; namely, the need to maintain macroeconomic and financial stability and to invigorate structural reforms to create dynamic, job-rich, and poverty-reducing growth. They stated that this was a major thrust of their NDS.

PROGRAM AND OTHER ISSUES

35. The authorities expressed interest in a Fund program. They raised it at the 2015 Annual Meetings and program discussions were held in 2016, but were not concluded. In 2016, priority was accorded to program discussions, which delayed the Article IV consultation beyond the 12-month cycle. In spring 2017, the authorities restated their interest. To respond without delaying the Article IV consultation further, the 2017 Article IV discussions were used to help identify reforms that could be supported by an IMF program. The authorities are implementing reforms to pave the way to resume program discussions. They have prepared a medium-term fiscal strategy to assure debt sustainability, and provided the information needed for an assessment of the macroeconomic implications (on growth, exports, and debt sustainability) of the large energy project. They are preparing banking reforms that include: (i) legislative amendments to create effective bank resolution and emergency liquidity assistance frameworks in line with international best practices; (ii) resolution plans for TSB and AIB, consistent with the planned legislative amendments and international best practices; and (iii) time-bound plans to address the deficiencies highlighted in the asset quality reviews of other systemic banks. Staff has indicated that a Fund-supported program would need early measures to address economic vulnerabilities, prudent macroeconomic policies to limit debt accumulation, a flexible exchange rate with prudent monetary policy to limit inflation, as well as decisive macro-critical reforms.

36. Safeguards and data provision. The most recent safeguards assessment (2009) of the NBT recommended improved transparency, information technology, and accounting controls. The NBT's audit is in accordance with international standards and is published. The NBT's 2016 financial statements show that its equity position continues to be negative. Staff noted recent difficulties in receiving certain macroeconomic data due to personnel changes and communication issues. It urged the authorities to share data on a timely basis to facilitate the policy dialogue and in line with Tajikistan's obligations under Article VIII, Section 5 of the Fund's Articles. Data have some shortcomings in the areas of national accounts, price statistics, and monetary statistics, but are broadly adequate for surveillance (Informational Annex). The authorities pledged to provide timely data.

STAFF APPRAISAL

37. The authorities have made considerable efforts to manage the impact of the negative external shocks. Exchange rate flexibility and the delay in the wage increase for public sector employees helped manage the impact of the external shock in 2015 and early 2016. In 2016, several welcome reforms were implemented: exchange rates converged in early 2016, the liquidity support interest rate was increased, a greater number of SOEs started paying dividends, the fiscal risks assessment was strengthened, and reserves were accumulated. Moreover, the monetary tightening in early 2017 helped manage liquidity pressures. The unification of the official and market exchange rates, and efforts to promote financial sector development and stability are welcome.

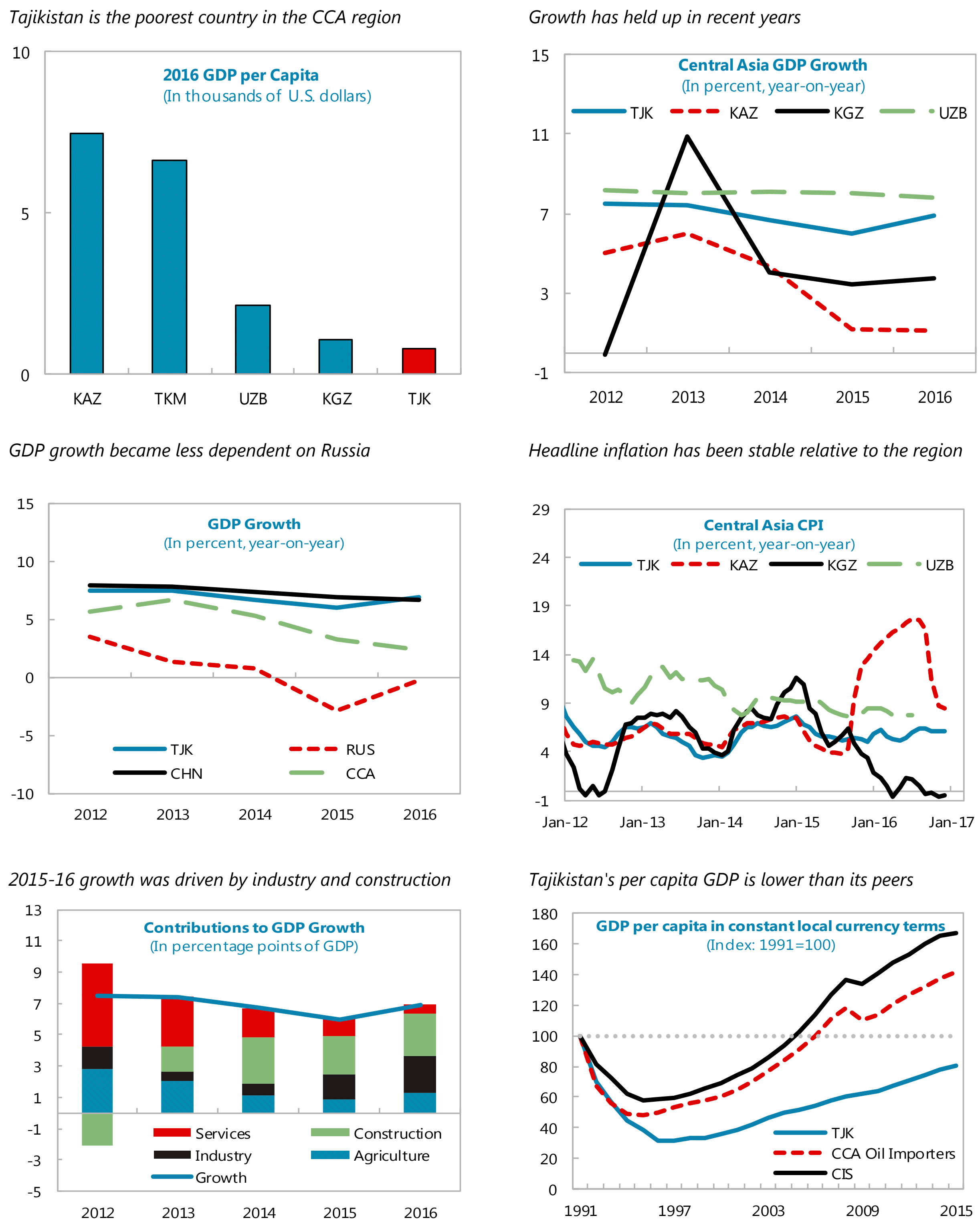
38. However, a step-up in policy efforts is needed as the economy is still facing vulnerabilities, especially in the banking sector. These vulnerabilities stem from the legacy of governance challenges, the large size of the external shocks, and the lack of a sufficiently strong and comprehensive policy response. The external position in 2016 was moderately weaker than the level consistent with medium-term fundamentals and desirable policy settings. Accordingly, the authorities should seek to build reserves over time and reduce vulnerabilities to risks. The 2016 bank recapitalization plan was expensive, and may prove inadequate to tackle the sources of banking distress, while fostering moral hazard and holding back economic growth. Further, the type of capital provided was not appropriate. The bailout of the two large banks has rightly been complemented with rehabilitation plans to improve their financial positions, with specific objectives and milestones. Nonetheless, deeper and more urgent reforms are needed, based on an assessment of the banks' viability. Specific timebound plans should be agreed to resolve these banks in a manner that protects public finances and ensures an equitable treatment of creditors. Additionally, legislation on bank resolution and emergency liquidity assistance needs to be strengthened urgently and weaknesses in other banks addressed promptly to assure financial stability and maintain depositor confidence.

39. Careful implementation of prudent fiscal and monetary policies in 2017 will support macroeconomic stability. Fiscal consolidation, including an expansion of the tax revenue base and cuts in non-priority expenditure, will boost public debt sustainability. Disciplined implementation of the 2017 budget would be a welcome start to this consolidation. A further tightening of monetary policy—through greater sales of NBT notes at market interest rates to mop up liquidity, the launch of a standing deposit facility, and curbs on the use of NBT credit to finance public investment projects—will help anchor expectations and contain inflationary pressures.

40. Sustained and strong implementation of structural reforms accompanied by prudent macroeconomic policies would yield higher and more job-rich growth over the medium term. Fiscal consolidation and concessional financing would reduce the risk of debt distress and help rebuild policy space. Maintaining exchange rate flexibility together with strengthening the monetary policy framework will help support competitiveness. Ambitious structural reforms to improve bank governance and performance, clarify the tax code and tax administration, improve the efficiency of public spending, enhance SOE oversight and accountability, and create a better business environment would lift growth significantly over the medium term and result in higher investment, higher incomes, and more and better paying jobs.

41. It is proposed that the next Article IV consultation be held on the standard 12-month cycle.

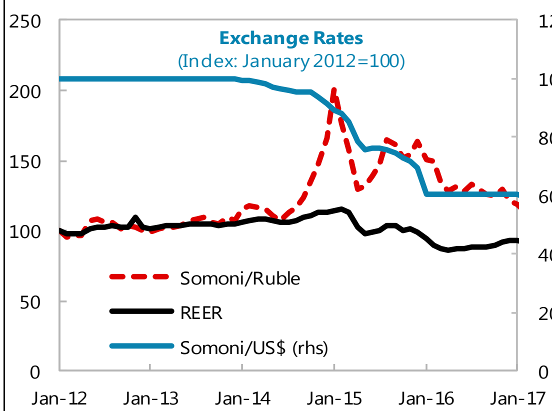
Figure 3. Tajikistan: Economic Developments Compared to other Countries in the Region



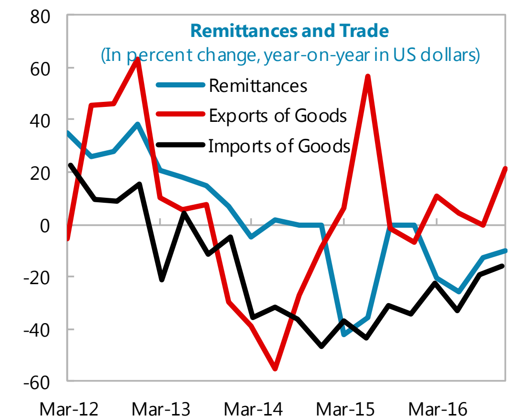
Sources: National authorities, World Development Indicators, and IMF staff calculations.

Figure 4. Tajikistan: Monetary and External Developments

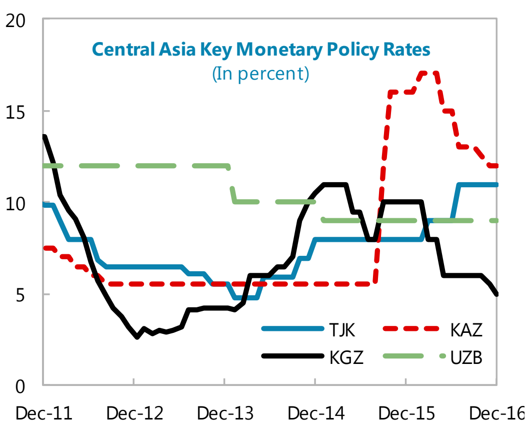
Substantial exchange rate adjustment has occurred



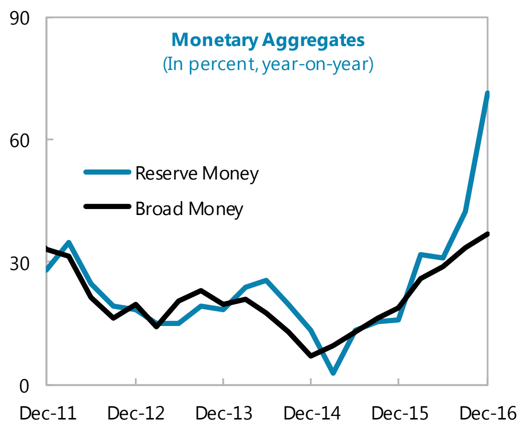
Remittances and imports have fallen



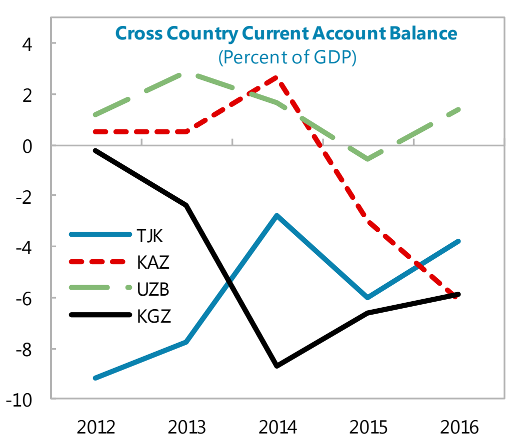
Tajikistan has recently raised its key policy rate



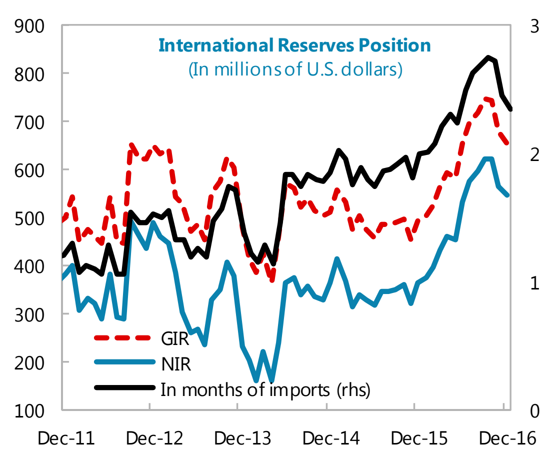
Money growth increased significantly in 2015–16



After widening in 2015, the current account deficit narrowed in 2016



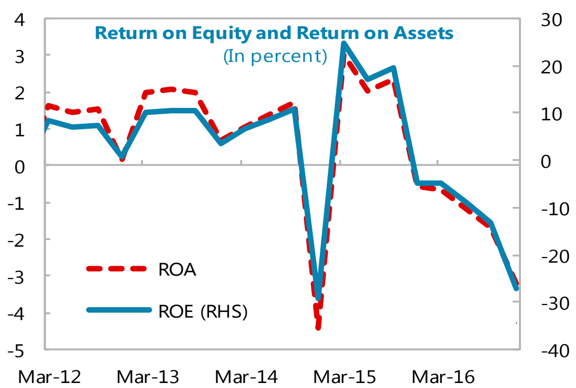
Reserves have started to recover, but remain low



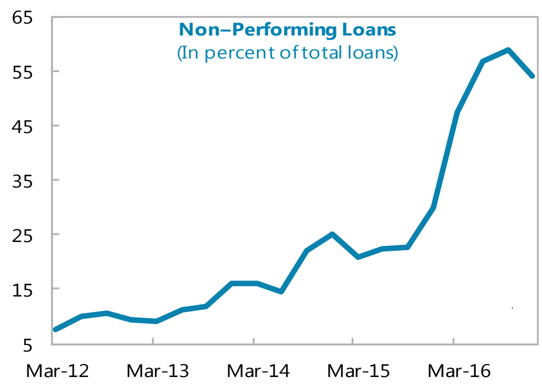
Sources: National authorities; and IMF staff calculations.

Figure 5. Tajikistan: Financial and Fiscal Developments

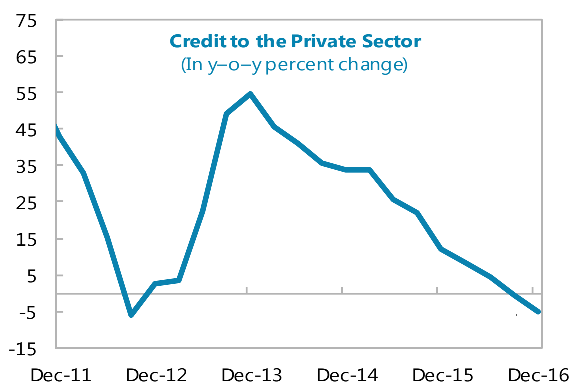
Profitability of the financial sector has plummeted



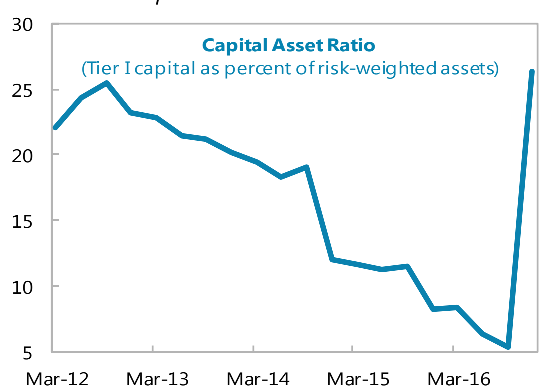
Non–performing loans have increased sharply



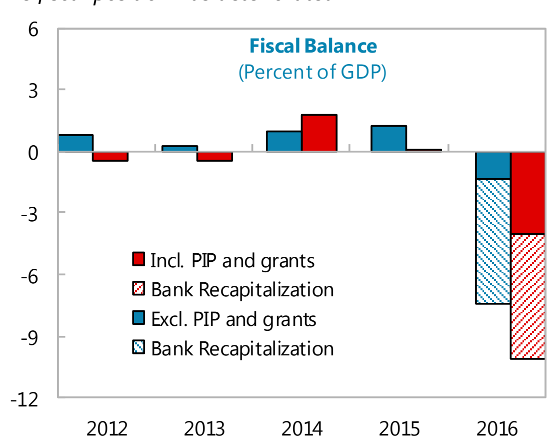
Private credit declined in 2016



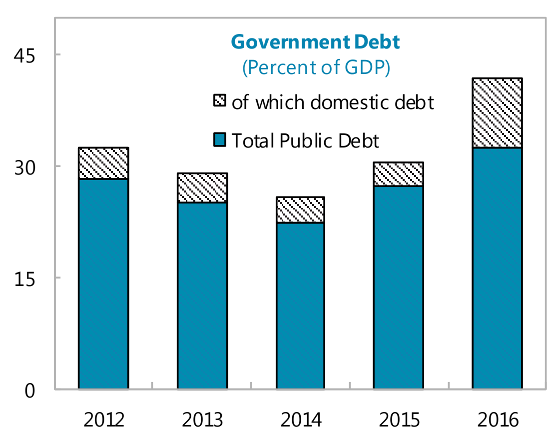
After plummeting, the banking system capital recovered due to bank recapitalization



The fiscal position has deteriorated



Debt increased significantly in 2015–16



Sources: National authorities; and IMF staff calculations.

Table 1. Tajikistan: Selected Economic Indicators, 2014–22

(Quota : SDR 174 million)
(Population : 8.7 million ; 2016)
(Per capita GDP: US$799; 2016)
(Poverty rate: 31 percent; 2015)
(Main exports: aluminum, gold, cotton; 2016)

	2014 Est.	2015 Est.	2016 Est.	2017 Proj.	2018 Proj.	2019 Proj.	2020 Proj.	2021 Proj.	2022 Proj.
	(Annual percent change; unless otherwise indicated)								
National accounts									
Real GDP	6.7	6.0	6.9	4.5	4.0	4.0	4.0	4.0	4.0
GDP deflator (cumulative)	5.5	0.1	5.3	10.0	6.0	6.0	6.0	6.0	6.0
Headline CPI inflation (end-of-period)	7.4	5.1	6.1	10.0	8.0	6.0	6.0	6.0	6.0
Headline CPI inflation (period average)	6.1	5.8	5.9	8.9	8.0	6.0	6.0	6.0	6.0
	(In percent of GDP; unless otherwise indicated)								
Investment and saving 1/									
Investment	19.3	19.2	21.7	17.4	17.4	16.4	16.1	16.7	16.7
Fixed capital investment	16.3	17.5	20.2	16.1	15.9	15.9	15.8	16.2	16.7
Government	10.1	13.8	15.0	11.6	11.2	11.0	10.7	10.9	11.2
Private	6.2	3.7	5.2	4.5	4.7	4.9	5.1	5.3	5.5
Gross national savings	16.5	13.2	17.9	11.1	11.1	10.8	11.0	12.1	12.4
Public	10.1	11.9	4.4	5.1	5.7	9.1	8.9	9.2	9.5
Private	6.4	1.3	13.5	6.0	5.4	1.7	2.1	2.9	2.9
General government finances									
Revenue and grants	28.4	29.9	28.8	27.4	29.1	29.4	29.6	29.6	29.8
Tax revenue	22.8	22.0	20.6	19.3	21.0	21.5	21.8	22.1	22.4
Expenditure and net lending	28.4	31.8	39.4	33.9	34.5	31.3	31.4	31.4	31.4
Current	18.2	18.0	18.3	18.3	19.8	20.3	20.6	20.4	20.3
Capital	10.1	13.8	15.0	11.6	11.2	11.0	10.7	10.9	11.2
Overall balance (excl. PIP and stat. discrepancy) 2/ 3/	0.9	1.2	-7.5	-3.7	-3.1	0.6	0.7	1.2	1.5
Overall balance (incl. PIP and stat. discrepancy) 2/ 3/	0.0	-1.9	-10.6	-6.5	-5.4	-1.9	-1.8	-1.7	-1.7
Domestic financing	-1.7	-2.0	7.3	1.6	0.6	-2.8	-0.7	-0.4	-0.2
External financing	-0.1	1.9	2.8	4.9	4.8	4.7	2.5	2.1	1.9
Total public and publicly-guaranteed debt	27.5	34.3	41.8	52.4	56.2	56.3	54.6	52.9	51.8
Monetary sector 4/									
Broad money (12-month percent change)	7.1	18.7	37.1	9.9	17.3	11.8	16.4	17.2	18.4
Reserve money (12-month percent change)	13.2	16.0	71.1	15.7	7.7	6.7	10.6	15.5	17.6
Credit to private sector (12-month percent change)	31.5	12.7	-4.9	-11.2	3.0	4.7	5.6	8.4	12.4
Velocity of broad money (eop)	5.0	4.5	3.3	3.9	...	...	...	...	...
Refinancing rate (in percent, eop/ latest value)	8.0	8.0	11.0	...	...	...	...	...	...
	(In percent of GDP; unless otherwise indicated)								
External sector									
Exports of goods and services (U.S. dollar, percent change)	-10.7	-1.4	12.0	0.5	0.4	2.8	3.1	14.2	3.1
Imports of goods and services (U.S. dollar, percent change)	-19.1	-19.9	-10.4	12.4	10.5	10.4	7.2	7.0	4.7
Current account balance	-2.8	-6.0	-3.8	-6.3	-6.2	-5.6	-5.1	-4.6	-4.3
Trade balance (goods)	-32.5	-28.7	-27.6	-31.3	-36.5	-38.8	-39.5	-38.9	-38.4
FDI	3.3	5.4	5.0	3.0	3.2	3.2	3.2	3.2	3.2
Total public and publicly guaranteed external debt	24.0	31.0	32.4	39.7	42.1	44.6	45.0	45.1	45.0
Exports of goods and services, in millions of U.S. dollars	836	824	923	928	931	957	987	1,127	1,161
Imports of goods and services, in millions of U.S. dollars	-4,143	-3,319	-2,974	-3,341	-3,691	-4,073	-4,365	-4,668	-4,888
Current account balance, in millions of U.S. dollars	-258	-472	-265	-458	-444	-429	-412	-400	-395
Total public and publicly guaranteed external debt, in millions of U.S. dollars	2,065	2,149	2,243	2,616	2,960	3,345	3,581	3,811	4,038
Gross official reserves (in millions of U.S. dollars)	511	494	653	701	758	911	1,057	1,197	1,401
In months of next year's imports	1.8	2.0	2.3	2.3	2.2	2.5	2.7	2.9	3.2
In percent of broad money	29.8	32.0	34.8	41.0	39.1	43.4	45.0	45.1	46.2
Memorandum items:									
Nominal GDP (in millions of somoni)	45,605	48,402	54,471	62,625	69,037	76,107	83,900	92,492	101,963
Nominal GDP (in millions of U.S. dollars)	9,242	7,857	6,953	7,234	7,133	7,607	8,091	8,606	9,143
Social and poverty-related spending (in percent of GDP)	11.9	12.5	13.1	13.7	14.3	14.8	15.3	15.8	16.3
Nominal effective exchange rate (Index 2010=100)	99.2	93.9	77.7	...	...	...	...	...	...
Real effective exchange rate (Index 2010=100)	109.4	104.2	88.4	...	...	...	...	...	...
Average exchange rate (somoni per U.S. dollar)	4.93	6.16	7.83	...	...	...	...	...	...

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 2013-2015 where statistical discrepancy is treated as below the line domestic financing item.

3/ The 2016 overall balance includes 6.1 percent of GDP for bank recapitalization in addition to regular fiscal operations and projects 4 percent of GDP for bank recapitalization in 2017 and 3.5 percent of GDP for bank recapitalization in 2018. Estimates of bank recapitalization costs are preliminary and subject to change.

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

Table 2. Tajikistan: General Government Operations, 2014–22
(In millions of somoni, unless otherwise indicated)

	2014	2015	2016	2017		2018	2019	2020	2021	2022
	Act.	Est.	Est.	Budget	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.
Overall revenues and grants	12,949	14,494	15,676	17,861	17,150	20,065	22,363	24,797	27,412	30,342
Total revenues	12,248	13,059	14,059	15,710	14,898	17,556	19,653	21,750	24,121	26,716
Tax revenues	10,403	10,642	11,246	13,202	12,086	14,506	16,352	18,260	20,464	22,804
Income and profit tax	1,903	2,311	2,379	2,859	2,759	3,068	3,412	3,795	4,222	4,697
Payroll taxes	1,374	1,372	1,383	1,620	1,622	1,824	2,051	2,306	2,593	2,916
Property taxes	182	207	242	279	277	306	340	377	419	467
Taxes on goods and services	6,340	6,187	6,577	7,176	6,834	8,605	9,746	10,798	12,154	13,434
VAT	4,639	4,553	4,750	5,515	4,692	6,642	7,539	8,318	9,368	10,302
Excises and other internal indirect taxes	1,701	1,634	1,827	1,660	2,141	1,963	2,206	2,480	2,787	3,132
International trade and operations tax	605	566	665	820	595	703	803	984	1,075	1,291
Nontax revenues	1,845	2,417	2,813	2,508	2,812	3,049	3,302	3,490	3,657	3,912
Of which: Extra-budgetary funds	731	1,005	1,365	1,372	1,472	1,623	1,789	1,973	2,175	2,397
Grants	701	1,434	1,617	2,151	2,253	2,510	2,709	3,047	3,291	3,626
Of which: Public Investment Program (PIP) financing	670	1,024	1,617	1,785	1,859	1,877	1,969	2,001	2,129	2,347
Total expenditures and net lending	12,965	15,401	21,448	19,315	21,231	23,818	23,830	26,312	29,000	32,059
Current expenditures	8,311	8,709	9,954	12,111	11,434	13,694	15,449	17,306	18,905	20,661
Expenditures on goods and services	5,491	5,956	6,459	8,251	7,134	8,644	9,389	10,430	11,359	12,262
Wages and salaries	3,163	3,294	3,789	4,361	4,374	4,850	5,347	5,894	6,498	7,163
Others	2,329	2,662	2,670	3,890	2,761	3,794	4,042	4,536	4,861	5,099
Of which: extra-budgetary funds	691	1,104	1,954	1,287	1,387	1,623	1,789	1,973	2,175	2,397
Interest payments	214	198	777	499	665	1,006	1,311	1,542	1,667	1,796
External	153	127	721	373	432	730	1,027	1,269	1,405	1,545
Domestic	62	71	56	126	232	275	284	273	262	251
Transfers and subsidies	2,606	2,556	2,718	3,361	3,635	4,044	4,749	5,334	5,880	6,604
Transfers to households	2,487	2,437	2,579	3,129	3,386	3,770	4,447	5,000	5,512	6,198
Of which: Social benefits and social assistance	233	232	175	234	201	222	245	270	297	328
Subsidies and other current transfers	119	119	139	232	249	275	303	334	368	406
Capital expenditures	4,620	6,687	8,169	7,204	7,286	7,703	8,376	9,000	10,089	11,392
Externally financed PIP	1,115	2,526	3,329	3,492	3,642	3,483	3,873	4,137	4,827	5,592
Of which: with loans from China	216	1,240	1,476	246	261	871	1,000	1,244	1,290	1,421
Domestically financed	3,505	4,160	4,840	3,711	3,644	4,220	4,503	4,864	5,262	5,800
Net lending	33	5	3,325	0	2,510	2,422	5	5	5	5
Statistical discrepancy ("+" = additional spending)	-807	-951	-283	…	…	…	…	…	…	…
Overall balance (incl. PIP) 1/	-15	-907	-5,772	-1,454	-4,080	-3,753	-1,467	-1,516	-1,588	-1,716
Overall balance (excl. PIP and PIP-related grants) 1/	430	595	-4,060	254	-2,297	-2,148	436	620	1,111	1,529
Overall balance (incl. PIP and excl. bank recapitalization)	-15	-907	-2,452	-1,454	-4,080	-3,753	-1,467	-1,516	-1,588	-1,716
Total financing (incl. PIP)	-792	-44	5,489	1,454	4,080	3,753	1,467	1,516	1,588	1,716
Net external	-26	910	1,500	1,466	3,050	3,312	3,586	2,063	1,948	1,900
Disbursements	445	1,502	1,712	1,707	4,064	4,479	4,832	3,364	3,357	3,572
Amortization	-471	-592	-212	-241	-1,015	-1,167	-1,247	-1,300	-1,409	-1,672
Net domestic	-766	-954	3,989	-12	1,031	441	-2,118	-548	-360	-183
Memorandum items:										
Recapitalization bonds–NBT	120	120	120	…	120	120	120	120	120	0
Recapitalization bonds–commercial banks	…	…	3,320	…	2,505	2,416	…	…	…	…

Sources: Tajikistan authorities, and Fund staff estimates.

1/ The 2016 overall balance includes TJS 3,320 million for bank recapitalization in addition to regular fiscal operations and projects TJS 2,508 million for bank recapitalization in 2017 and TJS 2,419 million for bank recapitalization in 2018. Estimates of bank recapitalization costs are preliminary and subject to change.

Table 3. Tajikistan: General Government Operations, 2014–22
(In percent of GDP; unless otherwise indicated)

	2014	2015	2016	2017		2018	2019	2020	2021	2022
	Act.	Est.	Est.	Budget	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.
Overall revenues and grants	28.4	29.9	28.8	30.3	27.4	29.1	29.4	29.6	29.6	29.8
Total revenues	26.9	27.0	25.8	26.7	23.8	25.4	25.8	25.9	26.1	26.2
Tax revenues	22.8	22.0	20.6	22.4	19.3	21.0	21.5	21.8	22.1	22.4
Income and profit tax	4.2	4.8	4.4	4.9	4.4	4.4	4.5	4.5	4.6	4.6
Payroll taxes	3.0	2.8	2.5	2.8	2.6	2.6	2.7	2.7	2.8	2.9
Property taxes	0.4	0.4	0.4	0.5	0.4	0.4	0.4	0.4	0.5	0.5
Taxes on goods and services	13.9	12.8	12.1	12.2	10.9	12.5	12.8	12.9	13.1	13.2
VAT	10.2	9.4	8.7	9.4	7.5	9.6	9.9	9.9	10.1	10.1
Excises and other internal indirect taxes	3.7	3.4	3.4	2.8	3.4	2.8	2.9	3.0	3.0	3.1
International trade and operations tax	1.3	1.2	1.2	1.4	0.9	1.0	1.1	1.2	1.2	1.3
Nontax revenues	4.0	5.0	5.2	4.3	4.5	4.4	4.3	4.2	4.0	3.8
Of which: Extra-budgetary funds	1.6	2.1	2.5	2.3	2.4	2.4	2.4	2.4	2.4	2.4
Grants	1.5	3.0	3.0	3.7	3.6	3.6	3.6	3.6	3.6	3.6
Of which: Public Investment Program (PIP) financing	1.5	2.1	3.0	3.0	3.0	2.7	2.6	2.4	2.3	2.3
Total expenditure and net lending	28.4	31.8	39.4	32.8	33.9	34.5	31.3	31.4	31.4	31.4
Current expenditures	18.2	18.0	18.3	20.6	18.3	19.8	20.3	20.6	20.4	20.3
Expenditures on goods and services	12.0	12.3	11.9	14.0	11.4	12.5	12.3	12.4	12.3	12.0
Wages and salaries	6.9	6.8	7.0	7.4	7.0	7.0	7.0	7.0	7.0	7.0
Others	5.1	5.5	4.9	6.6	4.4	5.5	5.3	5.4	5.3	5.0
Interest payments	0.5	0.4	1.4	0.8	1.1	1.5	1.7	1.8	1.8	1.8
External	0.3	0.3	1.3	0.6	0.7	1.1	1.3	1.5	1.5	1.5
Domestic	0.1	0.1	0.1	0.2	0.4	0.4	0.4	0.3	0.3	0.2
Transfers and subsidies	5.7	5.3	5.0	5.7	5.8	5.9	6.2	6.4	6.4	6.5
Transfers to households	5.5	5.0	4.7	5.3	5.4	5.5	5.8	6.0	6.0	6.1
Of which: Social benefits and social assistance	0.5	0.5	0.3	0.4	0.3	0.3	0.3	0.3	0.3	0.3
Subsidies and other current transfers	0.3	0.2	0.3	0.4	0.4	0.4	0.4	0.4	0.4	0.4
Capital expenditures	10.1	13.8	15.0	12.2	11.6	11.2	11.0	10.7	10.9	11.2
Externally financed PIP	2.4	5.2	6.1	5.9	5.8	5.0	5.1	4.9	5.2	5.5
Of which: with loans from China	0.5	2.6	2.7	0.4	0.4	1.3	1.3	1.5	1.4	1.4
Domestically financed	7.7	8.6	8.9	6.3	5.8	6.1	5.9	5.8	5.7	5.7
Net lending	0.1	0.0	6.1	0.0	4.0	3.5	0.0	0.0	0.0	0.0
Statistical discrepancy ("+" = additional spending)	-1.8	-2.0	-0.5	…	…	…	…	…	…	…
Overall balance (incl. PIP) 1/	0.0	-1.9	-10.6	-2.5	-6.5	-5.4	-1.9	-1.8	-1.7	-1.7
Overall balance (excl. PIP and PIP-related grants) 1/	0.9	1.2	-7.5	0.4	-3.7	-3.1	0.6	0.7	1.2	1.5
Overall balance (incl. PIP and excl. bank recapitalization)	0.0	-1.9	-4.5	-2.5	-6.5	-5.4	-1.9	-1.8	-1.7	-1.7
Total financing (incl. PIP)	-1.7	-0.1	10.1	2.5	6.5	5.4	1.9	1.8	1.7	1.7
Net external	-0.1	1.9	2.8	2.5	4.9	4.8	4.7	2.5	2.1	1.9
Disbursements	1.0	3.1	3.1	2.9	6.5	6.5	6.3	4.0	3.6	3.5
Amortization	-1.0	-1.2	-0.4	-0.4	-1.6	-1.7	-1.6	-1.5	-1.5	-1.6
Net domestic	-1.7	-2.0	7.3	0.0	1.6	0.6	-2.8	-0.7	-0.4	-0.2
Memorandum items:										
Recapitalization bonds–commercial banks	…	…	6.1	…	4.0	3.5	…	…	…	…
Public debt (in percent of GDP)	27.5	34.3	41.8	…	52.4	56.2	56.3	54.6	52.9	51.8
Nominal GDP (in millions of somoni)	45,605	48,402	54,471	58,910	62,625	69,037	76,107	83,900	92,492	101,963

Sources: Tajikistan authorities, and Fund staff estimates.

1/ The 2016 overall balance includes 6.1 percent of GDP for bank recapitalization in addition to regular fiscal operations and projects 4 percent of GDP for bank recapitalization in 2017 and 3.5 percent of GDP for bank recapitalization in 2018. Estimates of bank recapitalization costs are preliminary and subject to change.

Table 4. Tajikistan: Accounts of the National Bank of Tajikistan, 2014–18

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

	2014	2015	2016	2017	2018
	Dec.	Dec.	Dec	Dec	Dec
	Act.	Est.	Est.	Proj.	
	(In millions of somoni)				
Net foreign assets	1,176	1,623	3,306	4,682	5,688
Gross assets	2,734	3,457	5,143	6,659	7,448
Gross liabilities	1,558	1,834	1,837	1,977	1,760
Net international reserves 1/	1,928	2,545	4,299	5,879	6,926
Gross international reserves 1/	2,711	3,455	5,142	6,657	7,446
Gross reserve liabilities	783	910	843	778	520
Net domestic assets	4,895	5,417	8,742	9,263	9,333
Net credit to general government	-666	-1,031	2,261	3,411	3,968
General government	-169	-737	2,261	3,411	3,968
Credit to the private sector	475	378	114	-514	-1,006
Net claims on banks / other fin corporations	21	-182	-452	-1,077	-1,569
NBT bills	-80	-182	-739	-1,299	-1,791
Liquidity loans	96	178	195	127	127
Credit to nonbank / non-financial institutions 2/	453	560	566	563	563
Other items net	5,086	6,070	6,367	6,366	6,372
Reserve money	6,070	7,040	12,048	13,945	15,021
Currency in circulation	4,760	5,305	8,390	10,459	11,266
Bank reserves	1,244	1,560	3,465	3,365	3,635
Required reserves	417	500	484	655	623
Somoni	231	194	167	201	92
Foreign exchange	186	306	317	453	532
Other bank deposits	827	1,060	2,981	2,711	3,011
Other deposits	67	174	193	121	121
	(12-month growth in percent)				
Reserve money	13.2	16.0	71.1	15.7	7.7
Net foreign assets	-30.2	38.1	103.7	41.6	68.6
Gross international reserves	19.0	27.4	48.8	29.5	41.8
Net international reserves	74.4	32.0	68.9	36.8	58.7
Net domestic assets	33.1	10.7	61.4	6.0	18.9
	(12-month growth in percent of reserve money)				
Reserve money (12-month percent change)	13.2	16.0	71.1	15.7	7.7
Net foreign assets	-9.5	7.4	23.9	11.4	7.2
Gross international reserves	8.1	12.3	24.0	12.6	5.7
Net international reserves	15.3	10.2	24.9	13.1	7.5
Net domestic assets	22.7	8.6	47.2	4.3	0.5
Net credit to general government	-8.8	-6.0	46.8	9.5	4.0
Credit to the private sector	9.5	-1.6	-3.7	-5.2	-3.5
NBT bills	5.9	-1.7	-7.9	-4.6	-3.5
Other items net	22.0	16.2	4.2	0.0	0.0
Memorandum items:					
Net international reserves (in millions of U.S.dollars)	363	364	546	619	705
Net international reserves (percent of broad money)	21.2	23.6	29.1	36.2	36.3
Official exchange rate (somoni/U.S. dollars; eop)	5.31	6.99	7.88	…	…

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

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

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

Table 5. Tajikistan: Monetary Survey, 2014–18

	2014	2015	2016	2017	2018
	Dec.	Dec.	Dec.	Dec.	Dec.
	Act.	Est.	Est.	Proj.	
	(In millions of somoni, end-of-period stock)				
Net foreign assets	-957	-239	1,791	3,234	4,240
National Bank of Tajikistan 1/	1,176	1,623	3,306	4,682	5,688
Commercial banks	-2,132	-1,862	-1,515	-1,448	-1,448
Net domestic assets	11,579	13,931	15,287	15,535	17,772
Net credit to general government (incl. Roghun OJSC)	-1,817	-2,695	1,400	2,384	4,697
Net credit to public non-financial corporations	846	1,666	1,773	1,906	2,003
Credit to the private sector	9,516	10,729	10,202	9,055	9,326
Net credit to other financial corporations	-72	-18	37	37	37
Other items net	3,106	4,250	1,874	2,153	1,708
Broad money	9,092	10,790	14,788	16,254	19,061
Somoni broad money	5,826	6,535	10,238	11,215	13,152
Currency outside banks	4,054	4,591	7,588	8,860	9,974
Deposits	1,772	1,944	2,650	2,355	3,177
Foreign currency deposits	3,266	4,255	4,550	5,039	5,909
Non-liquid liabilities 2/	1,530	2,902	2,289	2,516	2,951
	(12-month growth in percent)				
Broad money	7.1	18.7	37.1	9.9	17.3
Net domestic assets	32.1	20.3	9.7	1.6	14.4
Of which: Credit to the private sector	31.5	12.7	-4.9	-11.2	3.0
Non-liquid liabilities	105.7	89.6	-21.1	9.9	17.3
	(12-month growth in percent of broad money)				
Broad money	7.1	18.7	37.1	9.9	17.3
Net foreign assets	-16.8	7.9	18.8	9.8	6.2
National Bank of Tajikistan	-6.0	4.9	15.6	9.3	6.2
Commercial banks	-10.8	3.0	3.2	0.5	0.0
Net domestic assets	33.2	25.9	12.6	1.7	13.8
Net credit to general government	-15.3	-9.7	38.0	6.7	14.2
Credit to the private sector	26.8	13.3	-4.9	-7.8	1.7
Other items net	22.3	12.6	-22.0	1.9	-2.7
Memorandum items:					
Deposit dollarization (in percent)	64.8	68.6	63.2	…	…
Velocity	5.0	4.5	3.3	3.9	3.6
Money multiplier	1.5	1.5	1.2	1.4	1.5

1/ Excludes nonmonetary gold.

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

Table 6. Tajikistan: Balance of Payments, 2014–22 1/

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

	2014	2015	2016	2017	2018	2019	2020	2021	2022
	Est.	Est.	Est.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.
Current account	-258	-472	-265	-458	-444	-429	-412	-400	-395
Balance on goods and services	-3,307	-2,495	-2,050	-2,414	-2,760	-3,116	-3,378	-3,541	-3,727
Balance on goods	-3,001	-2,254	-1,913	-2,264	-2,603	-2,953	-3,199	-3,345	-3,511
Exports	527	572	691	688	684	701	721	852	877
Imports	3,528	2,826	2,604	2,952	3,287	3,654	3,920	4,197	4,388
Balance on services	-306	-241	-138	-150	-157	-163	-179	-196	-216
Balance on income	2,184	1,526	1,214	1,432	1,689	1,953	2,152	2,277	2,409
Balance on transfers	865	497	572	523	627	734	814	865	923
Capital and financial account	422	648	630	506	501	582	558	539	599
Capital transfers	124	144	144	215	194	197	193	198	210
FDI	309	426	344	218	231	245	259	274	291
Portfolio Investment	2	0	0	0	0	0	0	0	0
Other capital flows	-13	78	142	73	76	140	105	67	98
Errors and omissions	-249	-146	-207	…	…	…	…	…	…
Overall balance 2/	-85	30	159	48	57	153	146	139	204
Memorandum items:									
Nominal GDP	9,242	7,857	6,953	7,234	7,133	7,607	8,091	8,606	9,143
Remittances, inflows	3,384	2,259	1,867	2,183	2,552	2,932	3,222	3,413	3,614
Current account balance (in percent of GDP)	-2.8	-6.0	-3.8	-6.3	-6.2	-5.6	-5.1	-4.6	-4.3
Gross reserves	511	494	653	701	758	911	1057	1197	1401
(in months of next year's imports of goods and services)	1.8	2.0	2.3	2.3	2.2	2.5	2.7	2.9	3.2
Total Public and Publicly Guaranteed (PPG) external debt 3/	2,065	2,149	2,243	2,616	2,960	3,345	3,581	3,811	4,038
(in percent of GDP)	24.0	31.0	32.4	39.7	42.1	44.6	45.0	45.1	45.0
Debt service on PPG external debt	126	126	141	161	191	223	245	270	294
(in percent of exports of goods and services)	15.1	15.3	15.2	17.3	20.5	23.3	24.8	23.9	25.4

Sources: Tajik authorities; and Fund staff estimates.

1/ This reflects the new STA database.
2/ Overall balance corresponds to change in gross reserves.
3/ External debt is defined as debt to nonresidents.

Table 7. Tajikistan: Financial Soundness Indicators, 2010–17

(In percent; unless otherwise indicated)

	2010	2011	2012	2013	2014	2015	2016	2017Q1	2017Q2
Capital adequacy									
Regulatory capital to risk-weighted assets	27.1	24.4	25.9	22.1	14.7	11.1	15.1	20.7	19.45
Regulatory Tier 1 capital to risk-weighted assets	23.7	21.2	23.3	20.2	12	8.3	26.4	30.3	28.5
Asset quality 1/									
Nonperforming loans net of provisions to regulatory capital	5.3	3.8	5.7	27.3	51.3	92.4	131.4	85.5	87.5
Nonperforming loans to total gross loans	7.4	7.2	9.5	15.9	25	29.9	54	50.8	50.3
Earnings and profitability									
Return on assets (ROA) 2/	1.2	0.2	0.8	1.5	-3.7	0.4	-3.2	1.4	-0.4
Return on equity (ROE) 2/	6.3	0.9	3.9	7.8	-24.2	3.7	-27.2	5.2	-1.5
Interest margin to gross income	50.4	46.4	33.2	40.4	32	41.9	44.5	64	53
Noninterest expenses to gross income	62.3	86.3	75.8	65.9	66.5	64.1	171.9	65.7	69.2
Liquidity									
Liquid assets to total assets	26	24.5	30	23.8	21.5	25	32.4	30.3	29.6
Liquid assets to short-term liabilities	62.5	65.1	83.7	79.7	71.4	65.7	80.5	75.7	75.8
Sensitivity to market risk									
Net open position in foreign exchange to regulatory capital	-0.3	-5.6	-0.7	2.4	0.8	-25.7	-14.3	-12.7	-6.6
Additional									
Capital to total assets	18.9	19.3	20.5	18.8	13.1	10.1	25	26.7	26.5
Large exposures to regulatory capital	60.4	68.1	58.5	93.3	103.5	194.6	165.7	116.9	121.5
Trading income to total income	9.7	-5.1	27	23	25	12.6	-11.8	16.5	19.7
Personnel expenses to noninterest expenses	55	54.4	50.8	55.5	53.2	56.5	54.3	54.9	55
Customer deposits to gross customer loans	105.6	109.9	110.5	87.9	83	88.5	109	114.5	111.2
Foreign-currency-denominated loans to total gross loans	57.8	64.4	69.8	66.6	64.3	69.6	69.9	69.6	71.1
Foreign-currency-denominated liabilities to total liabilities	51.5	58.1	62.9	60.3	64.5	69.8	67.9	70.1	70.7
Residential real estate loans to total gross loans	1.3	1.4	1.5	1.5	1.2	1.2	1.3	1.3	1.4

Source: National Bank of Tajikistan.
1/ Nonperforming loans include customer and interbank loans.
2/ Annualized net income before tax to average assets or capital.

Table 8. Tajikistan: Millennium Development Goals 1/ 2/

	TJK						LIC	ECS
	1990	1995	2000	2005	2010	2015	2015	2015
Goal 1: Eradicate extreme poverty and hunger								
Employment to population ratio, 15+, total (%) (modeled ILO estimate)	..	59.7	58.6	58.4	59.5	61.2	71.9	53.7
Employment to population ratio, ages 15-24, total (%) (modeled ILO estimate)	..	42.3	38.8	38.6	39.7	40.2	57.1	34.2
GDP per person employed (constant 2011 PPP $)	..	3,809	3,541	4,771	5,535	6935.9	3657.7	64251.6
Income share held by lowest 20%	..	..	*8.3*	*7.8*	*8.4*	*8.8*	..	..
Poverty gap at $1.90 a day (2011 PPP) (%)	..	..	*17.5*	*3.6*	*0.9*	*4.1*	..	..
Poverty headcount ratio at $1.90 a day (2011 PPP) (% of population)	..	..	*54.4*	*15.4*	*4.7*	*19.5*	..	..
Prevalence of underweight, weight for age (% of children under 5)	..	..	..	14.9	..	..	19.8	..
Vulnerable employment, total (% of total employment)	..	..	..	..	..	..	..	13.6
Goal 2: Achieve universal primary education								
Literacy rate, youth female (% of females ages 15-24)	..	..	99.8	..	..	99.9	..	..
Literacy rate, youth male (% of males ages 15-24)	..	..	99.8	..	..	99.9	..	..
Persistence to last grade of primary, total (% of cohort)	..	..	95.5	99.4	98.9	99.1	..	..
Primary completion rate, total (% of relevant age group)	..	98.9	91.3	101.1	100.9	95.8	65.9	..
Adjusted net enrollment rate, primary (% of primary school age children)	..	..	94.5	97.4	98.1	98.9	80.9	..
Goal 3: Promote gender equality and empower women								
Proportion of seats held by women in national parliaments (%)	..	..	15.0	17.5	19.0	19.0	23.9	26.1
School enrollment, primary (gross), gender parity index (GPI)	..	1.0	0.9	1.0	1.0	1.0	0.9	..
School enrollment, secondary (gross), gender parity index (GPI)	..	..	0.9	0.8	0.9	..	0.8	..
School enrollment, tertiary (gross), gender parity index (GPI)	..	..	0.4	0.5	0.5	0.7	0.6	..
Share of women in wage employment in the nonagricultural sector (% of total nonagricultural employment)	..	23.3	23.2	22.9	*28.9*	..	..	..
Goal 4: Reduce child mortality								
Immunization, measles (% of children ages 12-23 months)	..	70	88	85	94	97	78.0	93.6
Mortality rate, infant (per 1,000 live births)	85	93	74.3	54.1	44.7	38.5	53.2	9.7
Mortality rate, under-5 (per 1,000 live births)	108.4	119.8	93	65.2	52.6	44.8	76.1	11.2
Goal 5: Improve maternal health								
Adolescent fertility rate (births per 1,000 women ages 15-19)	57.0	53.1	44.6	41.8	40.6	37.8	96.4	17.2
Births attended by skilled health staff (% of total)	..	80.9	70.7	82.4	87.7	..	..	..
Contraceptive prevalence, any methods (% of women ages 15-49)	..	..	33.9	37.9	*37.1*	*27.9*	..	..
Maternal mortality ratio (modeled estimate, per 100,000 live births)	107	129	68	46	35	32	496	16
Pregnant women receiving prenatal care (%)	..	..	71.3	77.1	..	..	..	..
Unmet need for contraception (% of married women ages 15-49)	..	..	..	..	..	..	..	..
Goal 6: Combat HIV/AIDS, malaria, and other diseases								
Children with fever receiving antimalarial drugs (% of children under age 5 with fever)	..	..	68.9	2	..	..	..	..
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)	..	..	219	196	128	87	232	36
Prevalence of HIV, female (% ages 15-24)	0.1	0.1	0.1	0.1	0.1	0.1	1.2	..
Prevalence of HIV, male (% ages 15-24)	0.1	0.1	0.1	0.1	0.1	0.1	0.7	..
Prevalence of HIV, total (% of population ages 15-49)	0.1	0.1	0.2	0.2	0.3	0.3	3.1	..
Tuberculosis case detection rate (%, all forms)	..	..	21	41	72	80	56	82
Goal 7: Ensure environmental sustainability								
CO2 emissions (kg per PPP $ of GDP)	..	0.5	0.4	0.2	0.2	..	..	..
CO2 emissions (metric tons per capita)	..	0.4	0.4	0.4	0.3	..	..	..
Forest area (% of land area)	2.9	2.9	2.9	2.9	2.9	3.0	27.4	38.0
Improved sanitation facilities (% of population with access)	..	89.5	90.4	92.1	93.7	95.0	28.3	93.1
Improved water source (% of population with access)	..	57.7	59.6	64.6	69.7	73.8	65.6	98.5
Marine protected areas (% of territorial waters)	0.0	..	0.0	..	..	..	..	..
Net ODA received per capita (current US$)	..	11.3	20.0	36.8	56.7	49.8	52.9	9.4
Goal 8: Develop a global partnership for development								
Total debt service (% of exports of goods, services and primary income)	..	..	..	5.8	30.9	16.8	16.8	..
Internet users (per 100 people)	0.0	..	0.0	0.3	11.6	19.0	19.0	71.1
Mobile cellular subscriptions (per 100 people)	0.0	0.0	0.0	3.9	77.9	98.6	98.6	125.1
Fixed telephone subscriptions (per 100 people)	4.5	4.5	3.5	4.1	4.8	5.3	5.3	33.2
Fertility rate, total (births per woman)	5.2	4.6	4.0	3.5	3.5	3.5	3.5	1.8
Other								
GNI per capita, Atlas method (current US$)	..	210	170	320	910	1110.0	611.8	23108.9
GNI, Atlas method (current US$) (billions)	..	1.2	1.1	2.2	6.9	9.7	403.4	21075.2
Gross capital formation (% of GDP)	24.8	28.7	9.4	14.8	17.9	..	23.6	20.6
Life expectancy at birth, total (years)	62.9	62.4	63.7	66.1	68.6	69.8	..	..
Literacy rate, adult total (% of people ages 15 and above)	..	..	99.5	..	..	99.8	..	..
Population, total (millions)	5.3	5.8	6.2	6.9	7.6	8.7	659.3	912.
Trade (% of GDP)	63.0	137.5	199.7	78.8	68.0	52.8	56.6	78.7

Source: World Bank Millennium Development Goals Databank.

1/ Final three columns show latest available observation after 2010 (generally 2015). Figures in italics refer to periods prior to those specified. The last two columns are averages for Low Income Countries (LIC) and Europe & Central Asia (ECS) countries.
2/ Data in "2015" column is updated to 2016 where available.

Annex I. Response to Past Fund Advice

The authorities have a mixed record on implementing past Fund advice.

Exchange Rate and Monetary Policy	
Advice	**Response**
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.	**Mostly done**. After a reduction in reserves, the authorities allowed substantial depreciation to restore competitiveness. In 2016, after the exchange rate stabilized, the authorities started to rebuild reserves.
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.	**Partially done**. There have been some sales of nonmonetary gold to the NBT.
Pursue more conservative reserve management practices, and seek technical assistance from international partners in this area.	**Partially done**. The authorities requested TA from the Fund and prepared a reserve management strategy. However, recommendations on diversification of reserve assets and asset/liability matching were not fully implemented.
Actively use the refinance rate to signal tighter monetary conditions as long as price pressures persist.	**Done**. Refinance rate was raised from 8 to 11 percent in 2016 and from 11 to 16 percent in 2017. New monetary policy instruments have been introduced and rates on these have been linked to refinance rate to strengthen its policy signal.
Limit NBT liquidity assistance to a short-term, periodic basis, and only to solvent banks meeting all prudential norms and secured by proper collateral.	**Not done**. Lending to insolvent banks rolled over with limited collateral. A large part of NBT liquidity assistance was repaid when two banks were recapitalized in late-2016.
Avoid further transfers of government deposits into commercial banks.	**Done.** No government deposits have been transferred into commercial banks since 2015. At end-2016, the authorities withdrew all deposits in commercial banks except from one bank subject to liquidation proceedings.
Develop the government debt market so that a monetary policy framework can be developed in support of a more flexible exchange rate regime	**Partially done.** Modest progress has been made in development of the primary market, with the MOF issuing about TJS 35-40 million per month at an interest rate of 0.99 percent.
Unify the official and bilateral interbank/cash market exchange rates.	**Done**. Partially implemented in February-December 2016 and after May 2017. The authorities have eliminated the multiple currency practices in September 2017.
Ensure that the official exchange rate is calculated using only interbank transactions.	**Done.** Rates converged in February 2016, but in late 2016/early 2017 gaps emerged between official and interbank/cash rates. Rate converged again in May 2017.
Remove the specified allowable rates for foreign currency transactions between banks and their customers.	**Done.** The 1 percent cap on resale of foreign exchange acquired from the interbank/intrabank market was removed in September 2017.

Financial Sector	
Advice	***Response***
Immediately improve 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.	**Partially done**. The establishment of the financial stability committee is underway, supported by technical assistance from the Fund and the World Bank. Completion is contingent on the adoption of the amended NBT Law. The payout from Deposit Insurance Fund was increased from TJS 14,000 to 17,500 per depositor.
Rapidly resolve AIB in line with good international practices, 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. 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.	**Not done**. However, the NBT is working with the EBRD on the preparation of a Strategic Restructuring Plan for AIB.
No liquidity assistance 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.	**Not done**. In December 2016, support was provided without a resolution strategy for AIB being in place. The design of the recapitalization plan was not in line with good international practices.
Shift 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 in violation of prudential norms	**Partially done**. NBT has improved and tightened supervision in 2016-2017. During this period, two banks and more than 40 microfinance organizations have been slated for liquidation; provisional administration has been appointed in 3 banks; the NBT has restricted or limited several transactions of 7 banks which were assessed as overly risky; and replaced bank management in several cases. The NBT is working with LEG to prepare legislative changes to strengthen the legal framework.
Fiscal Policy and SOE	
Advice	***Response***
Continue to prioritize expenditure while protecting, or even increasing, social outlays. Work closely with donors to secure additional financing to support social expenditures for returning migrant workers and to improve mechanisms for delivering social assistance.	**Partially done.** Social outlays have been prioritized.
Maintain an overall balanced budget in 2015 to help contain pressure on the foreign exchange market.	**Not done.** The overall budget balance was -1.9 percent of GDP.
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.	**Not done.** With the recent Eurobond issue, the government borrowed on non-concessional terms, although all other government borrowing has been on concessional terms.

Pursue a comprehensive restructuring of Barki Tojik (BT) in cooperation with donors to rationalize the electricity sector, improve financial discipline, lessen pressure for directed lending from banks to support major loss-making SOEs, and reduce fiscal risks.	**Not done.** The BT reform agenda focused on restructuring and financial recovery is underway**.** Some progress has been made. Specifically, the Asian Development Bank (ADB) is providing support in the form of the technical assistance and advisory support to implement the restructuring of BT. Functional unbundling into generation, transmission and distribution has been completed and BT has submitted a resolution to the Government to complete legal separation. On financial recovery, a revised action plan was approved by the Deputy Prime Minister on April 5, 2017 and some progress was achieved on its implementation.
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.	**Done.** Except for Talco Management**.**
Increase SOE transparency by requiring all large SOEs to conduct and publish IFRS audits.	**Partially done**. There is a requirement for all large SOEs to conduct audits and, for those that are not State Unitary Enterprises, to publish them. However, there is an enforcement problem and few comply**.**
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.	**Partially done**. All SOEs are required to submit detailed investment plans annually and some do. The annual statement of fiscal risks from SOEs was submitted to the parliament along with the budget.
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.	**Partially done**. An annual statement of fiscal risks arising from SOEs was submitted to the parliament along with the budget. A fiscal risks mitigation strategy and action plan was adopted by the MoF in late 2016 and a committee was established to oversee its implementation.
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.	**Not done**.
Other Structural policies	
Advice	***Response***
Implement measures to facilitate labor migration to alternative destinations including targeted language and skills training, and active engagement with other countries to establish labor migration agreements.	**In progress.** The measures taken to date to facilitate labor migration are concentrated in the Russian Federation, but the authorities are discussing measures with Turkey, Kazakhstan, UAE, and some Eastern European countries.
Source: Tajikistan 2015 Article IV Staff Report and IMF staff.	

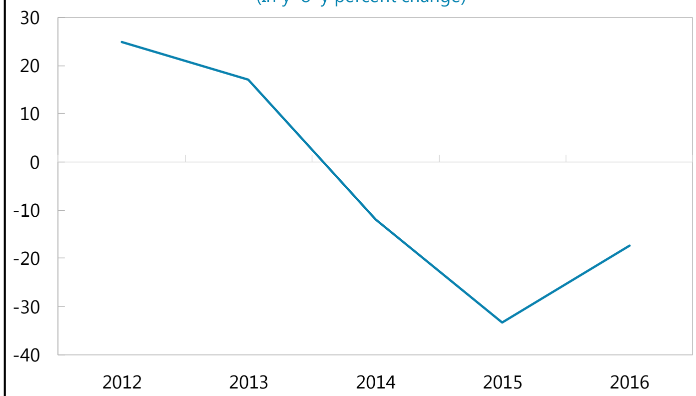
Annex II. Macro-Financial Linkages

1. **Data limitations hamper analysis of macro-financial linkages in Tajikistan.** Due to the limitations of national accounts data, it is difficult to estimate the output gap, and measure the relationship between the business and financial cycles.

2. **Remittances are the main channel linking Tajikistan to the global economy.** Remittances, which come mostly from Russia, decreased from $3.4 billion in 2014 to $1.9 billion in 2016. The resulting exchange rate depreciation weakened bank balance sheets. Due to the recapitalization of banks with government bonds, the bank-sovereign nexus has increased substantially. The capital of the two largest banks — representing 39 percent of banking system capital—has become dependent on the state's creditworthiness. However, the banks' reliance on government deposits has declined in late-2016, with the shift in government deposits from two large banks to the NBT.

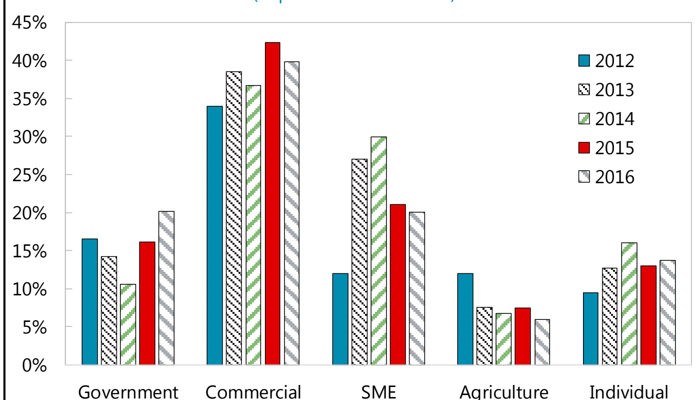
3. **Poor governance and troubles in the banking sector limit financial flows to the economy.** The financial sector in Tajikistan is small, with considerable connected lending, dollarization, and limited international linkages. From 2012-16, the size of the banking sector (measured as total net assets), was about 25 percent of GDP, with credit to the private sector at around 18 percent of GDP. During 2014-16, about 40 percent of the credit to the private sector was provided to large enterprises; about 20 percent to small and medium size enterprises; about 20 percent to state-owned enterprises (SOEs); 14 percent to households; and the rest to others. However, most of the credit to large enterprises was provided to a few connected clients,

Remittances Inflows
(In y–o–y percent change)



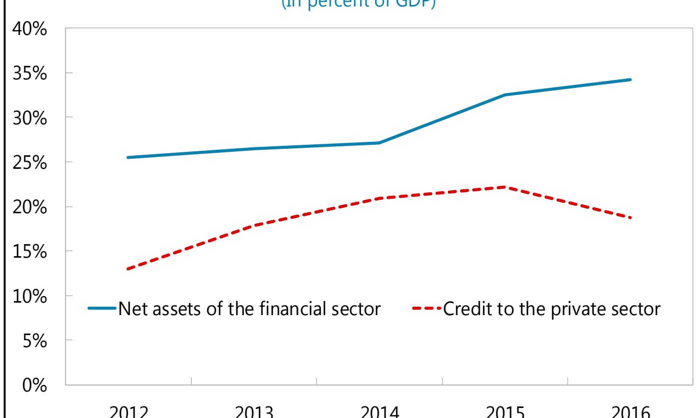
Source: National Bank of Tajikistan.

Loans per Five Largest Customer Categories
(In percent of total loans)



Source: National Bank of Tajikistan.

Size of the Financial Sector and Credit to the Private Sector
(In percent of GDP)



Source: National Bank of Tajikistan.

mostly SOEs operating in agriculture related business. About 90 percent of NPLs are from these SOEs. Banking sector stress in 2015-16 has resulted in a decline in private credit and depositors being unable to access their deposits. Moreover, the bank recapitalization plan's stipulation of no new lending for a year for the two largest banks will decrease financial flows to the economy.

4. The deterioration of borrowers' creditworthiness has had adverse implications for the financial sector. Decreased credit demand, lower creditworthiness, and reduced collateral values have inhibited credit extension and negatively affected the financial sector health. The decline in credit is expected to continue both because of supply and demand factors.

Annex III. Financial Sector Reform Measures

1. **Given the importance and urgency of financial sector repair and reform, this annex sets out needed short- and medium-term reform measures.** Banking reform is critical to to support economic growth and financial inclusion. The following short-term actions are needed to address the largest vulnerabilities and medium-term measures can help ensure inclusive, growth-friendly financial sector development.

Short Term

- **Strengthen the bank resolution and emergency liquidity frameworks**. Legislative amendments are needed to the NBT, banking, deposit insurance, and liquidation laws, especially to limit available remedies to monetary compensation, so a court may not overturn or suspend resolution decisions of the NBT, except if the NBT acts in an unlawful manner or in breach of applicable norms. Emergency liquidity assistance should be provided at the NBT's sole discretion and only under very limited circumstances to banks that meet predetermined preconditions.

- **Systemic banks.** AIB and TSB have been recapitalized and started to implement reforms. Additional bold actions will be needed to restore the long-term viability of these banks and their compliance with prudential regulations. It is not yet clear whether these objectives are within reach. There are two important concerns. The first relates to the quality and quantity of the capital provided, neither of which meet regulatory, and economic requirements to be classified as capital. While the recapitalization has provided the banks with temporary liquidity support, it has not provided the loss-absorbing capacity needed to restore confidence in the banks. The second concern regards the effectiveness of the rehabilitation measures implemented to date. The financial situation has continued to deteriorate, which confirms that the return, if any, to regulatory compliance, long-term profitability, and business viability will take a long time. Against this background, there is a strong case for adopting a more effective resolution of the two largest systemic banks, in line with best international practices.

- **Banks in liquidation.** The decision to liquidate TPB and Fononbank was appropriate. To bolster confidence in the banking system, it is important to ensure early completion of the payout of all depositors from the deposit guarantee fund (up to the amount insured of TJS 17,500). Staff notes that a significant share of the value of deposits has been paid out (in mid-May 2017 TJS 17.7 million out of a total TJS 21 million of insured deposits has been paid), but many small depositors remain unpaid (around 35 percent in Fononbank, and 55 percent in TPB). The completion of this payout process will help establish the operational efficiency of the current deposit insurance framework.

- **Follow-up of the Asset Quality Reviews (AQRs) performed on other systemic banks.** Follow-up to these AQRs is needed to ensure that asset classifications, provisions and accounting adjustments have been (or are being) made pursuant to IFRS and NBT regulations, and that the ensuing regulatory capital needs, if any, have been (or are being) met. These potential capital needs should be assessed with respect to any quantitative requirement set by NBT regulations (i.e. not only the capital adequacy ratio). Likewise, identified weaknesses regarding internal governance, risk management or internal control, need to be addressed, to the extent possible based on observed infringements of NBT qualitative regulations.

Medium Term

- **Banking sector**. Since August 2016, good progress has been made in strengthening banking supervision and regulation. The NBT has conducted a significant number of on-site inspections giving rise to (i) action plans to eliminate the identified violations with a schedule for the measures to be implemented, and (ii) sanctions. AIB and TSB are subject to closer scrutiny, especially regarding the monitoring of funds allotted by the government, and the control of the priority of cash payments. Also, the NBT now performs stress-testing of commercial banks on a quarterly basis, based on credit-portfolio and credit-risk analysis.

- **Tax disincentives**. Preliminary discussions have confirmed the existence of tax disincentives for provisions, restructurings and write-offs, which would need to be alleviated going forward.

- **Bank ownership.** A list of banks' shareholders with qualifying holdings has been published on the NBT's website. Staff recommends developing this further to identify the banks' ultimate beneficial owners and subject them to the banks' own disclosure.

- **Regulatory changes.** Regulatory amendments have been adopted regarding the strengthening of AML/CFT, and the reserves and loan loss provisions. Draft regulations for Islamic banking have been prepared with a view to controlling and supervising the activities of Islamic lending institutions. More needs to be done to make the capital adequacy framework more risk-sensitive – e.g. to include controlled entities in the scope of consolidation, take account of risks other than credit risk, and tailor capital requirements to the banks' risk profiles or sizes – and accordingly align it closer to international standards.

- **Macro-prudential.** Several recommendations have been prepared for regulations to reduce the dollarization. Some NBT letters have been issued (to recommend that the interest on deposits in foreign exchange be reduced) or prepared (to prohibit the issuance of mortgage credits in foreign exchange), or even draft amendments to instructions (to increase the risk-weight of credits denominated in foreign exchange). Valuable work is also being carried out by the Financial Stability Committee with a view to defining the systemic banks, reducing risk concentration and facilitating NPL resolution. However, the NBT still needs to have its mandate extended by law to be empowered to issue regulations in this field.

- **Financial inclusion**. The use of mobile banking has contributed to an increase in financial inclusion. Efforts to improve consumer protection are being made. However, the use of credit bureaus is still hampered by the limited reliability of the data provided by lending institutions about their borrowers' indebtedness. The NBT has prepared amendments to the Law on credit bureaus, to make the provision of such (complete, accurate, and timely) data compulsory.

- **Communication**. The NBT should communicate regularly with the public on banking reform and restructuring.

Annex IV. Risk Assessment Matrix

Nature/Source of Risk	Likelihood[12]	Expected Economic Impact if Realized	Recommended policy response
Banking sector crisis. Depositors lose confidence in banks and make large scale deposit withdrawals.	**Medium**	**High** - Large-scale deposit withdrawals, sharp reduction/depletion of banks' capital, In the near term, state intervention in banks, possible deposit freeze, exchange rate depreciation and/or increase in inflation, and decline in credit to the economy. -Lower growth results in a decline in domestic revenue and a higher fiscal deficit. - Exchange rate depreciation and/or high inflation leads to further dollarization and capital flight. - Banking sector constrained in fulfilling its intermediation role, resulting in less credit to the economy, inefficient allocation, lower access to finance, and slower growth.	Possible state intervention in banks, deposit freeze, exchange rate depreciation and/or increase in inflation. Strengthen fiscal and monetary policies to maintain macroeconomic stability and implement reforms to improve bank governance and performance and strengthen bank supervision, including for AML/CFT.
Delays or reversal of structural reforms, particularly in banks or SOEs. Maintaining, or increasing, the role (or interference) of the state in economic activity will limit growth and job creation prospects.	**Medium to high**	**High** The banking sector's financial health deteriorates due to rising losses and NPLs, shortcomings in governance, and nonenforcement of prudential requirements. SOE performance deteriorates and results in the state taking over SOE liabilities, adding to government debt, and continued poor service delivery would hurt investment climate.	Restructure and/or resolve loss-making banks, strengthen supervision and regulation of banks, and strengthen legislation to resolve banks in financial difficulty. Strengthen monitoring of SOE performance, enforce dividend policy, and improve accountability of SOEs' management.
Protracted period of slow growth in emerging markets, especially in Russia due to low oil prices, and slower growth in China.	**Low**	**Medium** - Sustained slow growth in Russia would affect growth in Tajikistan through lower demand for migrant workers and lower remittances. - Slower growth in China could reduce loans to finance capital projects and inward FDI, which could reduce investment and growth and result in pressure on the somoni.	Allow exchange rate flexibility and tighten fiscal and monetary policies. Ensure that banks' open FX positions and FX exposures (e.g., loans to unhedged borrowers) are managed carefully.

Nature/Source of Risk	Likelihood	Expected Economic Impact if Realized	Recommended policy response
Greater stability in Afghanistan and Pakistan. A safe trading route through Afghanistan and Pakistan would help open new markets.	**Medium**	**Medium to High** - Would allow Tajikistan to export significantly more goods and hydropower to South Asia. - Would support higher growth, economic and export diversification, and job creation.	Improve business climate to spur domestic and foreign investment; ensure greater transparency and efficiency of public spending to support infrastructure development; strengthen anti-corruption efforts. Assure exchange rate flexibility to support competitiveness.
Heightened security dislocation in the Middle East and or South or Central Asia having negative spillovers to Tajikistan.	**Low**	**Low to Medium** - Would reduce economic confidence, investment and result in lower growth and result in volatility of the exchange rate. -Lower growth results in a decline in domestic revenue and a higher fiscal deficit. - Excessive volatility of the exchange rate leads to further dollarization, capital flight and inflation.	Strengthen fiscal and monetary policies to maintain macroeconomic stability. Closely monitor banking sector and enforce prudential norms.

[1] The Risk Assessment Matrix (RAM) shows events that could materially alter the baseline path (the scenario most likely to materialize in the view of IMF staff). The relative likelihood is the staff's subjective assessment of the risks surrounding the baseline ("low" is meant to indicate a probability below 10 percent, "medium" a probability between 10 and 30 percent, and "high" a probability between 30 and 50 percent). The RAM reflects staff views on the source of risks and overall level of concern as of the time of discussions with the authorities. Non-mutually exclusive risks may interact and materialize jointly.

Annex V. External Sector Assessment

The external position in 2016 was moderately weaker than the level consistent with medium-term fundamentals. Tajikistan's balance of payments suffered severely from a slump in remittances in 2015-16. Nevertheless, the current account deficit narrowed in 2016 because of lower domestic demand and substantial exchange rate depreciation. Over the medium term, external imbalances are expected to persist as public investment supported by external borrowing would cause imports to rise and the trade deficit to widen. The exchange rate has depreciated significantly against the U.S. dollar since early 2015. As a result, the real effective exchange rate appears to be in line with economic fundamentals, but official FX reserves are less than adequate and need to be rebuilt.

1. **The economy is land-locked. Exports concentrate on primary goods and account for 13 percent of GDP, while imports stand at more than 40 percent of GDP.** The wide trade deficit is largely financed by remittances, which account for about 30 percent of GDP, and external borrowing. The external competitiveness of Tajikistan is weak, with the primary goods exports susceptible to domestic capacity constraints and global market fluctuations. The heavy reliance on remittances points to limited job creation domestically.

2. **Tajikistan has been affected by a severe external shock since 2015.** Remittances declined by 33 percent in 2015, as demand for Tajik migrants (mostly working in Russia) declined and the U.S. dollar value of their wages plummeted, reducing foreign exchange inflows (FX) and disposable incomes for a large part of the population. This resulted in lower private demand, consumption, and imports. As a consequence, imports declined by 20 percent in 2015. The current account deficit widened from 2¾ percent of GDP in 2014 to 6 percent in 2015.

3. **In 2016, the balance of payments remained under pressure, but some signs of recovery are emerging.** The current account deficit narrowed to 3¾ percent of GDP in 2016 from 6 percent in 2015. Remittances declined by 33 percent in 2015. The decline in remittances was partially offset by the improved trade balance, which benefited from buoyant exports (growing by 20¾ percent in 2016) and lower imports (declining by 7¾ percent). Capital inflows remained buoyant, resulting in an increase in reserves. Preliminary data indicate that remittances have started to rebound in 2017, while imports have continued to contract.

4. **The exchange rate depreciated significantly against the U.S. dollar since early 2015**. The cumulative nominal depreciation against the dollar exceeded 42 percent between 2015 and mid-2017. In addition to market intervention, the authorities introduced a 50 percent surrender requirement on Russian ruble remittance inflows. The authorities also, in some periods, set official exchange rates at levels that deviated from the market rates by more than 2 percent to signal their intention to prevent excessive depreciation of the domestic currency.

5. **The real effective exchange rate depreciated by 13 percent in 2015, and further by 9 percent in 2016.** It stabilized by mid-2016, but in yearly average terms it still depreciated by 15 percent in 2016.

Over the medium term, external imbalances are expected to persist due to strong public investment to be financed externally. The planned development of a large energy project would have a high import component, and thus result in higher imports and a wider trade deficit in the next few years. Although exports would also increase in outer years once the energy projects starts operations, the current account deficit would increase substantially in the next few years before declining.

Tajikistan Exchange Rate Assessment

	EBA-Lite CA	EBA-Lite-ES	EBA-Lite REER
Underlying CA balance (2016)	-3.8	-3.8	
CA Norm	-5.0	-4.4	…
Required adjustment of CA	1.2	0.6	…
Implied over (+)/under (-) valuation	-5.3	-2.6	-12

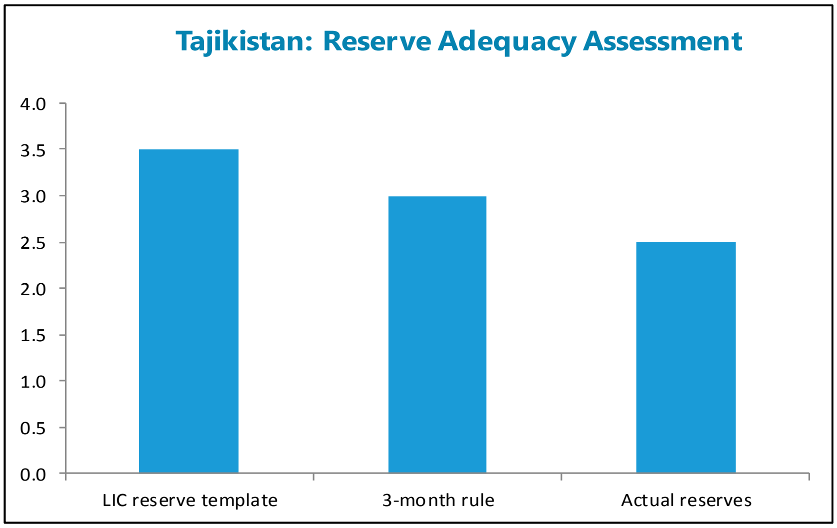
6. The EBA-lite framework suggests that the exchange rate is broadly in line with fundamentals. Both the current account (CA) and real effective exchange rate (REER) approaches are based on panel regression of macro variables, but the REER approach assumes no systematic misalignment across the analysis period. The external sustainability (ES) approach, instead, estimates the CA norm to sustain a targeted net IIP. Under the CA approach, the current account deficit norm is estimated at 5 percent of GDP, compared to the actual level of 3¾ percent of GDP. Closing the gap would require a real appreciation of 5¼ percent.[1] The IREER approach suggests an undervaluation of 12 percent. The ES analysis indicates a current account deficit norm of 4½ percent of GDP, and closing the gap would require an appreciation of 2½ percent in real effective terms.

7. A forward-looking approach might indicate less undervaluation. Since the macro data used in the CA and IREER approaches are historical while bank restructuring and possibly a large infrastructure project could require substantial budget spending in the next few years, the currency is likely to be less undervalued than suggested by the CA and IREER analysis if a forward-looking approach is undertaken. Moreover, external borrowing for the large energy project would deteriorate the IIP and require the current account norm to improve under the ES approach, which could suggest less undervaluation.

8. Gross reserves increased to 2¼ months of imports by end-2016 compared to 2 months of imports in 2015. However, reserves remain low—below the traditional 3-months of-imports benchmark, and below the Fund’s reserve adequacy metric estimate, which suggests 3½ months of

[1] Trade elasticities are from “A Method for Calculating Export Supply and Import Demand Elasticities,” IMF working paper 10/180.

imports.[2] The optimal reserve level estimated using the Fund's reserve adequacy metric is higher than the previous one, because of deteriorating fiscal balance and 2016 balance of payments developments.



9. In sum, the external position in 2016 was moderately weaker than the level consistent with medium-term fundamentals and desirable policy settings. Accordingly, the authorities should seek to build reserves over time and implement polices to ensure effective use of imports for development projects to reduce vulnerabilities and risks.

[2] The application of the reserve adequacy metric is based on "Guidance Note: Assessing Reserve Adequacy in Credit-Constrained Economies." The cost of reserves is based on estimates of marginal product of capital.

INTERNATIONAL MONETARY FUND

REPUBLIC OF TAJIKISTAN

October 18, 2017

STAFF REPORT FOR THE 2017 ARTICLE IV CONSULTATION—DEBT SUSTAINABILITY ANALYSIS

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Prepared by staff of the International Monetary Fund (IMF) and the International Development Association (IDA)

Tajikistan's risk of external debt distress has increased from low to high in the baseline scenario. The economy's external position remains sensitive to external shocks. Further, there are significant vulnerabilities—mainly arising from the banking sector—that can affect the public debt dynamics. Tajikistan's CPIA-based classification has been recently downgraded to weak performer, reflecting a lower debt capacity.[1] *Medium- and long-term fiscal sustainability can be promoted through adhering to prudent borrowing policies, building fiscal buffers, taking decisive actions to address financial vulnerabilities, and implementing structural reforms to address fiscal risks and unlock growth potential.*

[1] The low-income country debt sustainability framework (LIC DSF) recognizes that better policies and institutions allow countries to manage higher levels of debt, and thus the threshold levels are policy-dependent. Tajikistan's policies and institutions, as measured by the World Bank's Country Policy and Institutional Assessment (CPIA), are classified as a "weak performer", with an average rating of 3.00 during 2014-16. The relevant indicative thresholds for this category are: 27 percent for the PV of PPG external debt to GDP + remittances, 80 percent for the PV of PPG external debt in percent of exports + remittances, 200 percent for the PV of external debt in percent of revenue, 12 percent for the ratio of external debt service to exports plus remittances, and 18 percent for the external debt service to revenue ratio. Also, the benchmark for the PV of total public debt in percent of GDP is 38 percent.

BACKGROUND

1. The current DSA uses two scenarios—a baseline scenario that encompasses current policies, and an alternative, strong-reform, scenario assuming aggressive reforms. It is based on Tajikistan's current CPIA performance classification which is lower than its 2015 classification. The analysis concludes that Tajikistan's risk of debt distress is high (see Figure 1) under the baseline scenario as two debt indicators—the present value (PV) of public and publicly guaranteed (PPG) external debt in percent of the sum of GDP and remittances and the PPG external debt service to revenue—breach the indicative thresholds for several years. Given the importance of remittances in the economy, the calculation of debt indicators incorporates remittances.

2. The public debt stock is projected to increase substantially in the short- to medium terms, driven by large energy sector investment, fiscal costs related to the banking sector, and continued exchange rate depreciation (Figure 2). Over the past five years, Tajikistan's public debt increased from a modest level to 42.3 percent of GDP at end-2016, and PPG external debt at end-2016 increased to 32.9 percent of GDP. Public debt is projected to peak at more than 50 percent of GDP in the medium term under the baseline scenario, and stay slightly lower (49 percent of GDP) in the strong reform scenario. Meanwhile, it is projected that additional public funding of bank recapitalization will be needed. Thus, domestic debt, which stood at 9.4 percent of GDP at end-2016, is projected to increase to 14 percent of GDP in the medium term.

3. Tajikistan remains vulnerable to additional factors. SOEs continue to perform poorly and contingent liabilities have increased. The authorities are also planning to develop a large energy project that would require substantial external borrowing.

MACROECONOMIC ASSUMPTIONS

4. Growth is projected to decline in 2017 and over the medium term, while the fiscal deficit declines and inflation remains generally low. Real GDP growth increased to 6.9 percent in 2016, as higher investment offset the decline in remittances, consumption, and imports. Although investment supported growth in 2016, in the baseline scenario growth is expected to slow somewhat in 2017 and over the medium to long term, initially due to fiscal adjustment and banking sector difficulties and throughout by limited structural reform. Fiscal consolidation will reduce the fiscal deficit in 2017 and stabilize it over the medium term. After an increase in 2017, inflation is projected to decline and remain in single digits. The real effective exchange rate is assumed to remain broadly stable reflecting the external sector assessment that finds no significant exchange rate misalignment.

5. Compared to the 2015 DSA, the current macroeconomic framework projects a less pronounced near-term slowdown in growth but lower growth over the medium and long terms. This reflects two principal factors. First, real GDP growth was higher in 2015 and 2016 than earlier projected, as higher investment compensated for lower consumption.[2] Over the medium and long terms, the higher-than-previously-expected banking sector losses and limited reforms are projected to lead to lower growth.

6. Pressures in the banking system are likely to affect economic prospects. In 2016, NPLs increased to 54 percent from 30 percent the previous year. The government's decision to recapitalize banks led to exchange rate and inflationary pressures in early 2017. The pressures in the financial system are expected to reduce economic confidence and growth.

7. After a challenging 2015-16, the external position is projected to stabilize over the medium term. Under the baseline scenario, the current account deficit is expected to widen from 3.8 percent of GDP in 2016 to 6.5 percent in 2017, reflecting the liquidity created by the bank recapitalization and imports for a large energy project, and subsequently to decline to around 4.5 percent in the outer years. Exports, which are concentrated on primary goods, would perform modestly despite a boost from expected electricity exports as a large energy project is completed. The dollar value of remittances, which continued to decline in 2016, is projected to rebound over the medium term on the back of economic recovery in the source countries and initiatives to diversify countries receiving Tajik migrant workers. With FDI and debt inflows covering current account deficit, reserves are expected to increase to more than 3.5 months of imports over the medium term under both scenarios. In the strong reform scenario, which envisages more aggressive reforms, the current account deficit would gradually decline to below 4 percent of GDP in the outer years, and financing needs would be lower given more prudent macroeconomic policies. Nevertheless, the balance of payments remains susceptible to external shocks in both scenarios.

8. In comparison to the previous DSA, the public debt-to-GDP ratio in the current DSA is estimated to be higher over the short and medium terms in the baseline. The higher public debt-to-GDP ratio in the current DSA reflects the impact of bank recapitalization on domestic debt, including 6 percent of GDP in 2016, plus an additional projected 4 percent of GDP in 2017, and 3.5 percent of GDP in 2018 in both scenarios. Domestic debt is used for bank recapitalization and repaid.

9. As in the previous DSA, both the baseline and strong reform scenarios assume external borrowing as part of the financing for the large energy project. In the previous DSA, the medium-term fiscal framework included annual expenditure of about 2 percent of GDP for this project. The current DSA assumes that, in addition to budget resources, the authorities would mobilize $1.2 billion non-concessional external borrowing for this energy project during 2017-28, which is estimated to cost $3.9 billion. While the authorities have already raised $500 million in 2017, staff estimate that additional external financing might be needed in 2018-19.

10. The current projections envisage a significant upfront fiscal adjustment to reduce the fiscal deficit and lower public debt. The baseline macroeconomic framework projects fiscal adjustment of 2 percent of GDP in 2017, net of the cost of bank recapitalization. This adjustment is expected to be achieved mainly through lower capital expenditures. The overall fiscal deficit is projected to remain stable at

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[2] The staff team has reviewed the authorities' new GDP estimates using the production and expenditure methods and discussed with STA. Considering this review, staff has revised its estimate of 2015 growth (from the previous Article IV report) upward to equal the authorities' estimates.

below 2 percent of GDP over the medium term and improve over the long term in the baseline scenario, while in the strong reform scenario an additional adjustment of about 1 percent of GDP is projected from 2020.

Tajikistan: Baseline External DSA Compared to Previous DSA, 2015–34 1/
(In percent of GDP, unless otherwise indicated)

	DSA May 2015		Current DSA		(current vs. previous)	
	2015-19	2020-34	2015-19	2020-34	2015-19	2020-34
Real GDP growth, percent	4.4	5.0	5.1	4.0	0.7	-1.0
GDP deflator, percent	7.9	6.0	5.5	6.0	-2.4	0.0
Nominal GDP (billions somonis)	67.3	216.5	62.1	181.1	-5.2	-35.4
Revenue and grants	26.3	26.2	28.9	30.3	2.6	4.1
Expenditure and net lending	28.6	29.6	34.2	32.7	5.6	3.1
Overall balance (incl. PIP)	-2.3	-3.5	-5.3	-2.3	-3.0	1.2
Public debt	30.4	33.0	43.6	40.9	13.2	7.9
Domestic debt	3.2	2.8	10.2	3.9	7.0	1.1
External debt	48.0	49.5	38.2	42.7	-9.8	-6.8
of which: Large Development Projects			2.3	0.4	2.3	0.4
Exports of goods and services	19.9	25.0	12.5	11.3	-7.4	-13.7
Imports of goods and services	-48.4	-51.0	-47.3	-52.2	1.1	-1.2
Current account balance	-5.1	-2.9	-5.6	-4.4	-0.5	-1.5

Sources: Authorities, IMF, and World Bank staff.

[1] The current DSA used new BOP data for 2014-16 based on STA TA.

EXTERNAL DSA

Baseline Scenario

11. Based on Tajikistan's current CPIA-based performance classification, two debt indicators breach indicative thresholds under the baseline, while all debt indicators would breach the thresholds under stress tests. The PV of PPG external debt-to-(GDP + remittances) ratio is projected to peak at 28.1 percent in 2019 and stay above or upon the indicative threshold (27 percent) for four years before declining gradually to below 20 percent in the outer years. Meanwhile, the PV of external debt-to-exports + remittances ratio is projected to peak at 77 percent in 2019, and the PV of external debt-to-revenue would peak at 151 percent, but both indicators are below the respective thresholds. Debt service indicators would be significantly higher than average in 2025-27, because of large repayments in those years. The external debt- service-to-exports + remittances ratio would peak at 11 percent in 2025, and debt service-to-revenue ratio would breach the threshold in 2025 at 20.6 percent and remain near this level through 2027. In the most extreme stress tests, the PV of external debt to GDP + remittances, the PV of external debt-to-exports + remittances, the PV of external debt-to-revenue, external debt-service-to-exports + remittances and external debt-service-to-revenue all breach the indicative thresholds with large margins with the most severe shocks.

Tajikistan: Key Macroeconomic Data for Debt Sustainability Analysis Scenario 1/
(In percent of GDP)

	2015 Est.	2016 Est.	2019 Proj.	2024 Proj.	2027 Proj.	2037 Proj.
			Baseline			
Real GDP growth, percent	6.0	6.9	4.0	4.0	4.0	4.0
GDP deflator, percent	0.1	5.3	6.0	6.0	6.0	6.0
Revenue and grants	29.9	28.8	29.4	29.3	31.9	30.8
Expenditure and net lending	31.8	39.4	31.3	31.5	35.7	32.1
Overall balance (incl. PIP and stat. discrepancy) [2]	-1.9	-10.6	-1.9	-2.2	-3.8	-1.3
Exports of goods and services	10.5	13.3	12.6	12.1	11.3	9.3
Imports of goods and services	42.2	43.0	53.5	52.7	51.7	50.3
Current account balance	-6.0	-3.8	-5.6	-4.2	-4.0	-4.5
Gross international reserves	2.0	2.3	2.8	3.3	4.4	4.4
			Strong Reform			
Real GDP growth, percent	6.0	6.9	5.5	6.0	6.0	6.0
GDP deflator, percent	0.1	5.3	6.0	6.0	6.0	6.0
Revenue and grants	29.9	27.9	29.4	28.7	32.6	31.4
Expenditure and net lending	31.8	38.5	30.8	30.9	34.7	31.2
Overall balance (incl. PIP and stat. discrepancy) [2]	-1.9	-10.6	-1.4	-2.2	-2.1	0.3
Exports of goods and services	10.5	13.3	12.3	10.7	9.4	6.5
Imports of goods and services	42.2	43.0	51.1	46.6	43.8	35.2
Current account balance	-6.0	-3.8	-4.3	-3.6	-3.7	-3.4
Gross international reserves	2.0	2.3	2.8	3.6	4.5	4.4

Sources: Authorities, IMF, and World Bank staff.

[1] The current DSA used new BOP data for 2014-16 based on STA TA.

[2] Overall balance in 2016 includes 6.1 percent of GDP of bank recapitalization in addition to 4.5 percent of GDP deficit from regular fiscal operations.

12. **Tajikistan's external position continues to be susceptible to negative shocks.** The increased reliance on external financing and vulnerability to remittances shocks and exchange rate depreciation suggest the need to broaden the revenue base, diversify exports, and deepen reforms to improve the policy framework and institutional capacity. Further, to assure debt sustainability, it is also important that the authorities limit contracting debt on non-concessional terms in the future.

Strong-Reform Scenario

13. **Debt indicators stay below the thresholds in the strong reform scenario, but under the stress test most debt indicators breach thresholds.** The PV of PPG external debt-to-GDP + remittances ratio is projected to decline gradually from a peak of 27 percent in 2019 to 14 percent by end–2037. The PV of external debt-to-exports + remittances ratio is expected to decline monotonically from 77 percent to 53 percent by the end of the projection period, while the PV of external debt-to-revenue will drop from 140 percent to below 60 percent. Like the baseline scenario, external debt service indicators would spike in 2025–27 but remain below the thresholds. Under the stress test, PV of external debt to GDP + remittances,

PV of external debt to exports + remittances and external debt service-to-revenue would breach the indicative thresholds with the most severe shocks, while external debt service-to-exports + remittances and PV of external debt-to-revenue would breach the thresholds by only small margins at their peaks.

PUBLIC DSA

14. Public debt indicators are projected to increase over the medium term, reflecting financing for the large energy project and additional domestic debt of about 7.5 percent of GDP in 2017-18 for bank recapitalization. Under the baseline scenario, the PV of public debt would rise from 35.2 percent of GDP in 2016 to a peak of 50.7 percent in 2019 and is projected to be above the benchmark (38 percent for a weak policy performer) for nine years until 2026. Under the strong-reform scenario, the PV of public debt would peak at 48.8 percent of GDP in 2018, and stay above the benchmark until 2022. In addition, the liabilities of SOEs present a fiscal risk, which if realized would increase the public debt level.

15. Standard stress tests indicate that public debt is sensitive to potential shocks. As a large proportion of public debt is denominated in foreign currency, exchange rate changes can adversely affect the government's debt level. The most extreme stress test—which is a 30 percent depreciation of the nominal exchange rate—shows the PV of the debt-to-GDP ratio to peak at 65 percent and remain above the benchmark across the whole projection period.

FISCAL CONTINGENT LIABILITIES

16. There are substantial fiscal contingent liabilities arising from the poorly managed SOE and banking sectors. Contingent liabilities, equivalent to 8.5 percent of GDP in 2016, could be added to public debt should the associated risks materialize. This figure is based on information for the stock of accrued liabilities of the 23 largest SOEs at end-December 2016 plus all deposits in Amonat Bank, which are government guaranteed as they are not insured by the deposit insurance fund. These liabilities could add to the already high risk of debt distress.

CONCLUSION

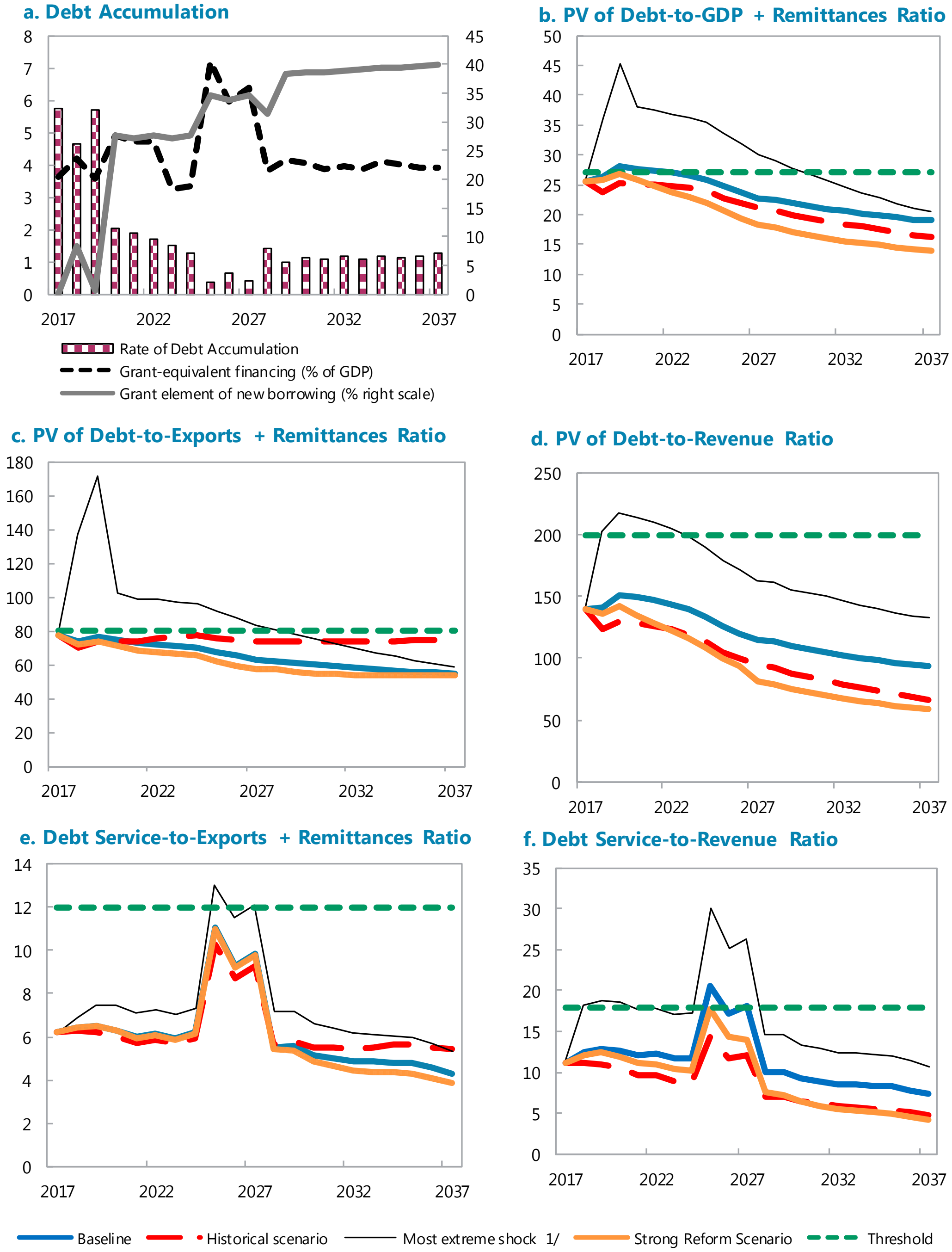
17. The DSA, which uses the thresholds of a CPIA performance rating of a weak policy performer, concludes that Tajikistan's risk of debt distress is high. Under the baseline scenario, two debt indicators breach the indicative thresholds, and all debt indicators breach the thresholds under the stress test. Public debt indicators are expected to increase over the medium term given the projected costs of bank recapitalization and external financing for a large energy project and remain above the benchmark for a few years, while the most severe shock would cause public debt to stay above the benchmark across the projection period under the baseline scenario.

18. Tajikistan's risk of debt distress would be lower in a strong-reform scenario. Under the strong-reform scenario, baseline indicators stay below the thresholds, but stress tests of debt indicators still show a breach of the thresholds.

19. Considering the risks, the government should develop a prudent macro-fiscal framework to contain debt risks. The authorities will need to reduce the fiscal deficit, avoid contracting and guaranteeing large amounts of external debt on non-concessional terms, address the vulnerabilities in the financial sector and quasi-fiscal liabilities arising from SOEs, and allow a margin to absorb the debt impact of potential economic shocks. Also, the government should seek to broaden the revenue and export bases through diversification and continued reforms to improve the policy framework and institutional capacity, which would lead to a higher growth path over the medium and long run. Further, the authorities should augment their debt management capacity. It is important that these issues be addressed and that contingent liabilities be managed actively so they do not add to the state's liabilities.

20. The authorities' views. The authorities consider that the debt risk remains moderate and are committed to keeping external debt below 40 percent of GDP over the medium term, the upper limit set under Tajikistan's debt management strategy. Regarding domestic debt, the authorities disagree with the assumption of public sector led bank recapitalizations in 2017–18 because of the harmful macroeconomic effects of the one carried out in 2016. They also maintain that the state will not take on SOEs liabilities because SOEs are solely responsible for their liabilities under Tajikistan laws. Therefore, they expect domestic debt to begin declining in 2017 as the recapitalized banks repay the outstanding bonds and expect no significant fiscal risks emerging from SOEs liabilities. They also emphasize that staff's macro projections might be too conservative—they expect annual real GDP growth at or above 7 percent per year over the medium and long terms, as opposed to staff's baseline projection of 4 percent, and consider that remittances growth is likely to be stronger than the staff projection. In the meantime, the authorities are actively seeking external financing, both on concessional and non-concessional terms, for the large energy project. The authorities believe that there is fiscal space for additional external borrowing for this project based on the macroeconomic indicators and their projections. They note that the attracted external resources are primarily used in strategic infrastructure projects financing and in implementation of reforms, which in turn will stimulate economic growth in the long term and strengthen the economy.

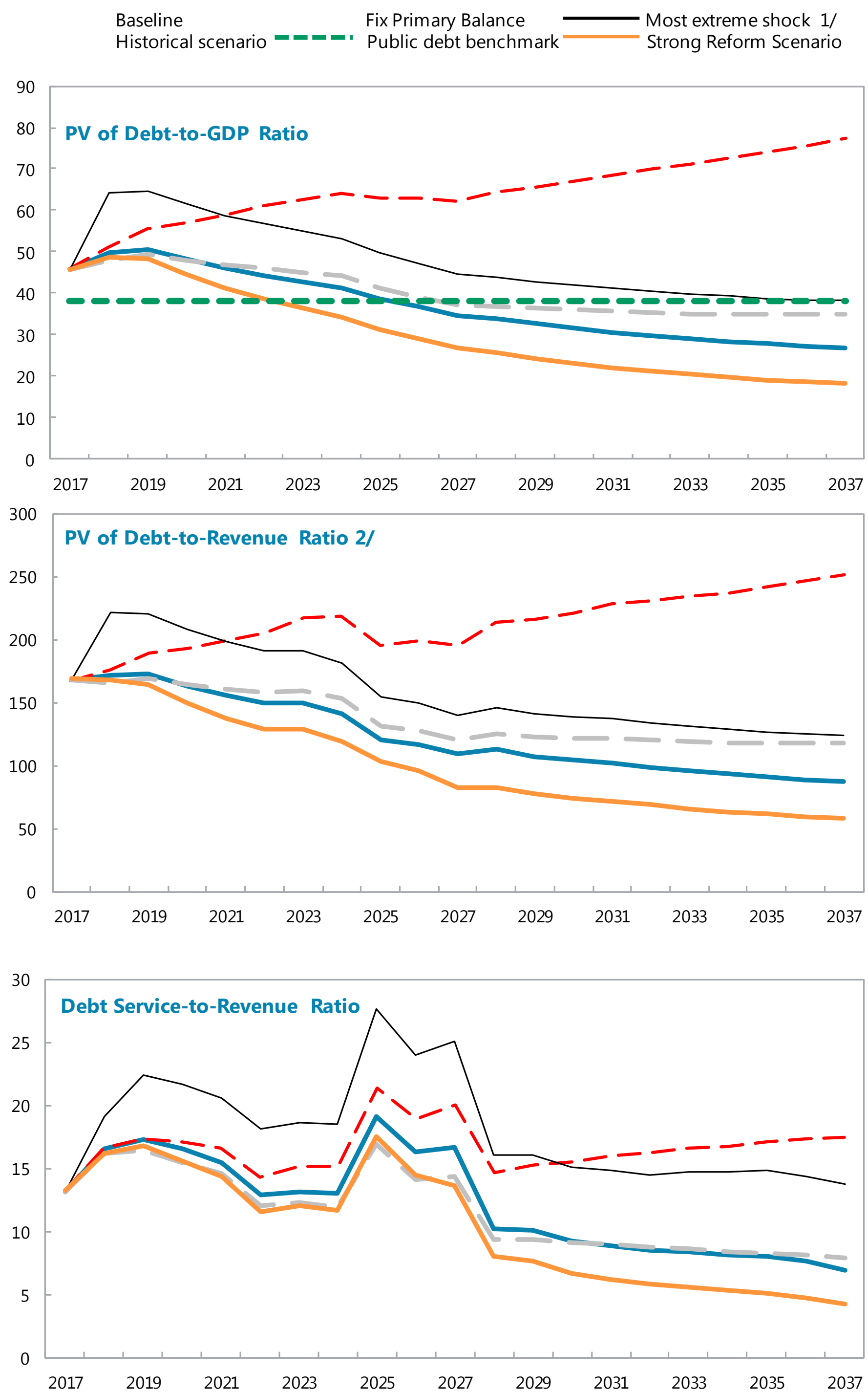
Figure 1. Tajikistan: Indicators of Public and Publicly Guaranteed External Debt Under Alternatives Scenarios, 2017–37 1/ -Baseline



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 2027. In figure b. it corresponds to a Non-debt flows shock; in c. to a Non-debt flows 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, 2017–37 1/ -Baseline



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 2027.
2/ Revenues are defined inclusive of grants.

Table 1. Tajikistan: External Debt Sustainability Framework, Baseline Scenario, 2014–37 1/

(In percent of GDP, unless otherwise indicated)

	Actual			Historical 6/ Average	Standard 6/ Deviation	Projections								
	2014	2015	2016			2017	2018	2019	2020	2021	2022	2017-2022 Average	2027	2037
External debt (nominal) 1/	**44.7**	**52.3**	**57.8**			**62.2**	**63.1**	**61.6**	**60.0**	**57.9**	**55.7**		**48.0**	**40.2**
of which: public and publicly guaranteed (PPG)	24.4	31.5	32.9			39.7	42.1	44.6	45.0	45.1	45.0		43.1	38.0
Change in external debt	-2.3	7.6	5.5			4.3	0.9	-1.4	-1.7	-2.0	-2.2		-1.8	-0.2
Identified net debt-creating flows	-4.3	8.6	6.0			0.8	0.5	0.1	-0.4	-0.8	-1.0		-0.8	0.6
Non-interest current account deficit	**1.4**	**3.6**	**2.6**	**4.9**	**4.2**	**5.1**	**4.8**	**3.3**	**2.5**	**2.3**	**2.2**		**2.5**	**2.3**
Deficit in balance of goods and services	35.8	31.8	29.6			33.4	38.7	41.0	41.7	41.2	40.8		40.5	41.0
Exports	9.0	10.5	13.3			12.8	13.1	12.6	12.2	13.1	12.7		11.3	9.3
Imports	44.8	42.2	43.0			46.2	51.7	53.5	53.9	54.2	53.5		51.7	50.3
Net current transfers (negative = inflow)	-15.7	-10.7	-11.3	-25.9	17.7	-14.2	-16.2	-16.9	-17.2	-17.1	-16.7		-15.4	-13.6
of which: official	-0.6	-0.5	-0.6			-0.6	-0.6	-0.6	-0.6	-0.5	-0.5		-0.4	-0.3
Other current account flows (negative = net inflow)	-18.7	-17.4	-15.8			-14.1	-17.7	-20.8	-22.0	-21.8	-21.9		-22.6	-25.0
Net FDI (negative = inflow)	**-3.3**	**-5.4**	**-5.0**	**-4.0**	**2.9**	**-3.0**	**-3.2**	**-3.2**	**-3.2**	**-3.2**	**-3.2**		**-3.0**	**-2.4**
Endogenous debt dynamics 2/	**-2.3**	**10.4**	**8.4**			**-1.2**	**-1.0**	**0.0**	**0.3**	**0.2**	**0.0**		**-0.3**	**0.7**
Contribution from nominal interest rate	1.4	2.5	1.3			1.3	1.5	2.4	2.6	2.4	2.2		1.5	2.2
Contribution from real GDP growth	-2.9	-3.2	-4.1			-2.5	-2.5	-2.4	-2.3	-2.3	-2.2		-1.9	-1.5
Contribution from price and exchange rate changes	-0.8	11.0	11.2			...	...	...	...	-1.3	...		...	...
Residual (3-4) 3/	**2.0**	**-0.9**	**-0.5**			**3.5**	**0.4**	**-1.5**	**-1.3**	0.1	**-1.2**		**-0.9**	**-0.8**
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/	...	...	50.8			55.6	56.8	56.0	53.6	51.1	48.3		36.4	28.6
In percent of exports	...	...	380.7			433.1	434.7	444.8	439.7	390.0	380.5		323.5	307.0
PV of PPG external debt	**...**	**...**	**25.8**			**33.1**	**35.8**	**39.0**	**38.7**	**38.2**	**37.6**		**31.6**	**26.4**
In percent of exports	**...**	**...**	**193.6**			**258.0**	**274.3**	**309.8**	**317.2**	**292.0**	**296.0**		**280.6**	**282.9**
In percent of government revenues	**...**	**...**	**100.0**			**139.1**	**140.8**	**151.0**	**149.3**	**146.6**	**143.5**		**114.6**	**93.4**
Debt service-to-exports ratio (in percent)	**26.9**	**34.6**	**20.8**			**43.8**	**44.2**	**50.0**	**48.5**	**41.5**	**39.7**		**54.1**	**42.7**
PPG debt service-to-exports ratio (in percent)	**15.2**	**15.4**	**15.3**			**20.7**	**24.2**	**26.4**	**27.0**	**24.0**	**25.2**		**44.3**	**22.3**
PPG debt service-to-revenue ratio (in percent)	**5.1**	**6.0**	**7.9**			**11.2**	**12.4**	**12.9**	**12.7**	**12.1**	**12.2**		**18.1**	**7.4**
Total gross financing need (Billions of U.S. dollars)	0.0	0.1	0.0			0.6	0.5	0.5	0.4	0.4	0.4		0.7	0.9
Non-interest current account deficit that stabilizes debt ratio	3.7	-4.0	-2.9			0.7	3.9	4.7	4.2	4.3	4.4		4.2	2.5
Key macroeconomic assumptions														
Real GDP growth (in percent)	6.7	6.0	6.9	6.8	1.2	4.5	4.0	4.0	4.0	4.0	4.0	4.1	4.0	4.0
GDP deflator in US dollar terms (change in percent)	1.8	-19.8	-17.6	3.5	15.3	0.0	-5.2	2.5	2.3	2.3	2.2	0.7	1.9	1.9
Effective interest rate (percent) 5/	3.2	4.8	2.2	3.4	1.2	2.3	2.3	4.0	4.4	4.3	4.0	3.6	3.3	5.8
Growth of exports of G&S (US dollar terms, in percent)	-10.7	-1.4	12.0	-3.4	21.4	0.5	0.4	2.8	3.1	14.2	3.1	4.0	3.7	4.7
Growth of imports of G&S (US dollar terms, in percent)	-19.1	-19.9	-10.4	5.1	25.7	12.4	10.5	10.4	7.2	7.0	4.7	8.7	4.5	6.2
Grant element of new public sector borrowing (in percent)	...	...	...	...	...	0.1	8.4	0.5	27.5	27.1	27.5	15.2	34.5	39.8
Government revenues (excluding grants, in percent of GDP)	26.9	27.0	25.8			23.8	25.4	25.8	25.9	26.1	26.2		27.6	28.3
Aid flows (in Billions of US dollars) 7/	0.1	0.2	0.2			0.4	0.4	0.3	0.4	0.4	0.5		1.0	1.1
of which: Grants	0.1	0.2	0.2			0.3	0.3	0.3	0.3	0.3	0.3		0.5	0.6
of which: Concessional loans	0.0	0.0	0.0			0.1	0.1	0.1	0.2	0.1	0.1		0.5	0.5
Grant-equivalent financing (in percent of GDP) 8/	...	...	...			3.6	4.2	3.6	4.9	4.7	4.7		6.4	3.9
Grant-equivalent financing (in percent of external financing) 8/	...	...	...			35.0	40.0	33.9	59.1	60.1	60.9		62.4	65.5
Memorandum items:														
Nominal GDP (Billions of US dollars)	9.2	7.9	6.9			7.2	7.1	7.6	8.1	8.6	9.1		12.2	21.9
Nominal dollar GDP growth	8.7	-15.0	-11.9			4.5	-1.4	6.6	6.4	6.4	6.2	4.8	6.0	6.0
PV of PPG external debt (in Billions of US dollars)			1.8			2.2	2.5	2.9	3.1	3.2	3.4		3.8	5.7
(PVt-PVt-1)/GDPt-1 (in percent)						5.7	4.6	5.7	2.0	1.9	1.7	3.6	0.4	1.3
Gross workers' remittances (Billions of US dollars)	3.4	2.3	1.9			2.2	2.6	2.9	3.2	3.4	3.6		4.8	8.5
PV of PPG external debt (in percent of GDP + remittances)	...	...	20.3			25.4	26.4	28.1	27.7	27.4	27.0	27.0	22.7	19.0
PV of PPG external debt (in percent of exports + remittances)	...	...	64.0			77.0	73.3	76.3	74.4	72.5	72.0		62.5	54.7
Debt service of PPG external debt (in percent of exports + remittances)	...	...	5.1			6.2	6.5	6.5	6.3	6.0	6.1		9.9	4.3

Sources: Country authorities; and staff estimates and projections.

1/ Includes both public 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

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 2. Tajikistan: Public Sector Debt Sustainability Framework, Baseline Scenario, 2014–37
(In percent of GDP, unless otherwise indicated)

	Actual					Estimate	Projections							
	2014	2015	2016	Average 5/	Standard Deviation 5/	2017	2018	2019	2020	2021	2022	2017-22 Average	2027	2037
Public sector debt 1/	27.9	34.7	42.3			52.4	56.2	56.3	54.6	52.9	51.8		46.3	38.5
of which: foreign-currency denominated	24.4	31.5	32.9			39.7	42.1	44.6	45.0	45.1	45.0		43.1	38.0
Change in public sector debt	-1.1	6.8	7.6			10.2	3.8	0.1	-1.7	-1.7	-1.1		-1.1	-0.4
Identified debt-creating flows	-1.0	7.6	10.3			11.0	5.3	-2.0	-1.8	-1.8	-1.7		1.0	-0.9
Primary deficit	-0.4	1.3	10.0	2.9	3.4	5.5	4.0	0.2	0.0	-0.1	-0.1	1.6	2.7	0.8
Revenue and grants	28.4	29.9	28.8			27.4	29.1	29.4	29.6	29.6	29.8		31.9	30.8
of which: grants	1.5	3.0	3.0			3.6	3.6	3.6	3.6	3.6	3.6		4.4	2.5
Primary (noninterest) expenditure	27.9	31.3	38.8			32.8	33.0	29.6	29.5	29.6	29.7		34.6	31.6
Automatic debt dynamics	-0.2	6.3	0.3			1.5	-2.2	-2.2	-1.8	-1.7	-1.6		-1.7	-1.7
Contribution from interest rate/growth differential	-1.9	-1.3	-2.2			-2.2	-1.9	-2.0	-1.8	-1.6	-1.5		-1.7	-1.7
of which: contribution from average real interest rate	-0.1	0.2	0.0			-0.3	0.1	0.2	0.4	0.5	0.5		0.1	-0.2
of which: contribution from real GDP growth	-1.8	-1.6	-2.2			-1.8	-2.0	-2.2	-2.2	-2.1	-2.0		-1.8	-1.5
Contribution from real exchange rate depreciation	1.7	7.6	2.5			3.7	-0.3	-0.2	0.0	-0.1	-0.1		...	...
Other identified debt-creating flows	-0.3	0.0	0.0			4.0	3.5	0.0	0.0	0.0	0.0		0.0	0.0
Privatization receipts (negative)	-0.3	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		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			4.0	3.5	0.0	0.0	0.0	0.0		0.0	0.0
Residual, including asset changes	-0.1	-0.8	-2.7			-0.8	-1.5	2.1	0.1	0.1	0.5		-2.1	0.5
Other Sustainability Indicators														
PV of public sector debt	...	...	35.2			45.8	49.9	50.7	48.3	46.0	44.4	47.5	34.7	26.9
of which: foreign-currency denominated	...	...	25.8			33.1	35.8	39.0	38.7	38.2	37.6		31.6	26.4
of which: external	...	...	25.8			33.1	35.8	39.0	38.7	38.2	37.6		31.6	26.4
PV of contingent liabilities (not included in public sector debt)	...	...	...			...	...	...	...	...	...		...	...
Gross financing need 2/	1.7	3.9	12.5			9.2	8.8	5.3	4.8	4.5	3.7		8.0	3.0
PV of public sector debt-to-revenue and grants ratio (in percent)	...	...	122.3			167.3	171.7	172.5	163.4	155.3	149.2		108.8	87.2
PV of public sector debt-to-revenue ratio (in percent)	...	...	136.4			192.6	196.2	196.2	186.3	176.5	169.4		126.0	95.1
of which: external 3/	...	...	100.0			139.1	140.8	151.0	149.3	146.6	143.5		114.6	93.4
Debt service-to-revenue and grants ratio (in percent) 4/	7.3	8.2	8.5			13.2	16.6	17.3	16.5	15.5	12.8		16.7	7.0
Debt service-to-revenue ratio (in percent) 4/	7.8	9.1	9.5			15.2	19.0	19.7	18.8	17.6	14.6		19.4	7.6
Primary deficit that stabilizes the debt-to-GDP ratio	0.6	-5.5	2.5			-4.7	0.2	0.1	1.7	1.6	1.1		3.8	1.2
Key macroeconomic and fiscal assumptions														
Real GDP growth (in percent)	6.7	6.0	6.9	6.8	1.2	4.5	4.0	4.0	4.0	4.0	4.0	4.1	4.0	4.0
Average nominal interest rate on forex debt (in percent)	1.5	1.5	1.5	1.5	0.1	2.2	2.9	3.5	3.7	3.7	3.6	3.2	2.4	1.3
Average real interest rate on domestic debt (in percent)	-1.5	4.3	-1.6	-1.3	3.2	-5.0	-2.4	-2.9	-2.8	-2.6	-2.4	-3.0	-2.0	0.5
Real exchange rate depreciation (in percent, + indicates depreciation)	7.3	32.9	8.4	-0.1	16.1	11.7	...	...	...	...	...	...	...	...
Inflation rate (GDP deflator, in percent)	5.5	0.1	5.3	12.1	9.4	10.0	6.0	6.0	6.0	6.0	6.0	6.7	6.0	6.0
Growth of real primary spending (deflated by GDP deflator, in percent)	9.3	18.6	32.6	6.1	11.2	-11.5	4.6	-6.9	3.8	4.1	4.5	-0.2	6.2	3.9
Grant element of new external borrowing (in percent)	...	...	...	...	...	0.1	8.4	0.5	27.5	27.1	27.5	15.2	34.5	39.8

Sources: Country authorities; and staff estimates and projections.

1/ Coverage of public sector is general government and 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 3. Tajikistan: Sensitivity Analysis for Key Indicators of Public Debt—Baseline, 2017–37

	Projections							
	2017	2018	2019	2020	2021	2022	2027	2037
PV of Debt-to-GDP Ratio								
Baseline	46	50	51	48	46	44	35	27
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	46	48	49	48	47	46	37	35
A2. Primary balance is unchanged from 2017	46	51	56	57	59	61	62	77
A3. Permanently lower GDP growth 1/	46	50	51	49	47	46	38	38
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviation in 2018-2019	46	49	48	45	43	41	28	16
B2. Primary balance is at historical average minus one standard deviation in 2018-2019	46	52	57	54	52	50	40	31
B3. Combination of B1-B2 using one half standard deviation shocks	46	49	52	49	46	44	30	16
B4. One-time 30 percent real depreciation in 2018	46	64	65	62	59	57	45	38
B5. 10 percent of GDP increase in other debt-creating flows in 2018	46	56	57	55	53	51	41	32
PV of Debt-to-Revenue Ratio 2/								
Baseline	167	172	172	163	155	149	109	87
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	167	165	169	164	160	158	120	118
A2. Primary balance is unchanged from 2017	167	175	189	193	198	205	195	251
A3. Permanently lower GDP growth 1/	167	172	174	165	158	153	119	122
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviation in 2018-2019	167	168	165	154	145	137	90	53
B2. Primary balance is at historical average minus one standard deviation in 2018-2019	167	177	193	184	175	168	125	99
B3. Combination of B1-B2 using one half standard deviation shocks	167	170	179	167	156	148	96	51
B4. One-time 30 percent real depreciation in 2018	167	222	220	208	198	191	140	124
B5. 10 percent of GDP increase in other debt-creating flows in 2018	167	194	195	186	178	172	130	104
Debt Service-to-Revenue Ratio 2/								
Baseline	13	17	17	17	16	13	17	7
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	13	16	16	16	15	12	14	8
A2. Primary balance is unchanged from 2017	13	17	17	17	17	14	20	17
A3. Permanently lower GDP growth 1/	13	17	17	17	16	13	17	9
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviation in 2018-2019	13	16	17	16	15	12	16	5
B2. Primary balance is at historical average minus one standard deviation in 2018-2019	13	17	17	17	16	13	18	8
B3. Combination of B1-B2 using one half standard deviation shocks	13	16	17	16	15	13	17	5
B4. One-time 30 percent real depreciation in 2018	13	19	22	22	21	18	25	14
B5. 10 percent of GDP increase in other debt-creating flows in 2018	13	17	18	18	16	14	19	9

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.

Table 4. Tajikistan: Sensitivity Analysis for Key Indicators of Public and Publicly Guaranteed External Debt—Baseline, 2017–37

(In percent)

	Projections							
	2017	2018	2019	2020	2021	2022	**2027**	2037
PV of debt-to GDP ratio								
Baseline	33	36	39	39	38	38	32	26
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2017-2037 1/	33	31	34	33	33	32	26	19
A2. New public sector loans on less favorable terms in 2017-2037 2/	33	37	42	42	43	43	43	43
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2018-2019	33	35	37	37	36	36	30	25
B2. Export value growth at historical average minus one standard deviation in 2018-2019 3/	33	38	45	44	44	43	36	27
B3. US dollar GDP deflator at historical average minus one standard deviation in 2018-2019	33	38	48	47	47	46	38	32
B4. Net non-debt creating flows at historical average minus one standard deviation in 2018-2019 4/	33	43	54	53	52	51	42	28
B5. Combination of B1-B4 using one-half standard deviation shocks	33	35	43	43	42	41	34	27
B6. One-time 30 percent nominal depreciation relative to the baseline in 2018 5/	33	52	56	55	55	54	45	37
PV of debt-to-exports ratio								
Baseline	258	274	310	317	292	296	281	283
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2017-2037 1/	258	240	267	272	251	254	233	201
A2. New public sector loans on less favorable terms in 2017-2037 2/	258	283	331	347	327	340	385	462
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2018-2019	258	270	305	311	286	290	273	274
B2. Export value growth at historical average minus one standard deviation in 2018-2019 3/	258	385	652	665	610	618	577	524
B3. US dollar GDP deflator at historical average minus one standard deviation in 2018-2019	258	270	305	311	286	290	273	274
B4. Net non-debt creating flows at historical average minus one standard deviation in 2018-2019 4/	258	328	427	435	399	404	373	305
B5. Combination of B1-B4 using one-half standard deviation shocks	258	322	471	480	441	447	419	395
B6. One-time 30 percent nominal depreciation relative to the baseline in 2018 5/	258	270	305	311	286	290	273	274
PV of debt-to-revenue ratio								
Baseline	139	141	151	149	147	144	115	93
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2017-2037 1/	139	123	130	128	126	123	95	66
A2. New public sector loans on less favorable terms in 2017-2037 2/	139	145	161	163	164	165	157	153
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2018-2019	139	136	144	142	139	136	108	88
B2. Export value growth at historical average minus one standard deviation in 2018-2019 3/	139	148	174	171	168	164	129	95
B3. US dollar GDP deflator at historical average minus one standard deviation in 2018-2019	139	149	186	183	179	176	140	113
B4. Net non-debt creating flows at historical average minus one standard deviation in 2018-2019 4/	139	168	208	205	200	196	152	101
B5. Combination of B1-B4 using one-half standard deviation shocks	139	137	167	164	161	157	124	95
B6. One-time 30 percent nominal depreciation relative to the baseline in 2018 5/	139	203	217	214	210	205	163	132

Table 4. Tajikistan: Sensitivity Analysis for Key Indicators of Public and Publicly Guaranteed External Debt—Baseline, 2017–37 (Concluded)

(In percent)

	Projections							
	2017	2018	2019	2020	2021	2022	**2027**	2037
Debt service-to-exports ratio								
Baseline	21	24	26	27	24	25	44	22
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2017-2037 1/	21	22	23	22	19	20	29	15
A2. New public sector loans on less favorable terms in 2017-2037 2/	21	24	23	25	23	24	36	36
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2018-2019	21	24	26	27	24	25	44	22
B2. Export value growth at historical average minus one standard deviation in 2018-2019 3/	21	32	49	52	46	48	89	46
B3. US dollar GDP deflator at historical average minus one standard deviation in 2018-2019	21	24	26	27	24	25	44	22
B4. Net non-debt creating flows at historical average minus one standard deviation in 2018-2019 4/	21	24	28	31	27	28	55	29
B5. Combination of B1-B4 using one-half standard deviation shocks	21	28	37	39	35	36	66	34
B6. One-time 30 percent nominal depreciation relative to the baseline in 2018 5/	21	24	26	27	24	25	44	22
Debt service-to-revenue ratio								
Baseline	11	12	13	13	12	12	**18**	7
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2017-2037 1/	11	11	11	11	10	10	12	5
A2. New public sector loans on less favorable terms in 2017-2037 2/	11	12	11	12	12	12	15	12
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2018-2019	11	12	12	12	12	12	17	7
B2. Export value growth at historical average minus one standard deviation in 2018-2019 3/	11	12	13	13	13	13	20	8
B3. US dollar GDP deflator at historical average minus one standard deviation in 2018-2019	11	13	16	16	15	15	23	9
B4. Net non-debt creating flows at historical average minus one standard deviation in 2018-2019 4/	11	12	14	14	14	14	22	10
B5. Combination of B1-B4 using one-half standard deviation shocks	11	12	13	13	13	13	19	8
B6. One-time 30 percent nominal depreciation relative to the baseline in 2018 5/	11	18	19	19	18	18	26	11
Memorandum item:								
Grant element assumed on residual financing (i.e., financing required above baseline) 6/	25	25	25	25	25	25	25	25

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 5. Tajikistan: External Debt Sustainability Framework, Strong Reform Scenario, 2014–37 1/

(In percent of GDP, unless otherwise indicated)

	Actual			Historical 6/ Average	Standard 6/ Deviation	Projections								
	2014	2015	2016			2017	2018	2019	2020	2021	2022	2017-2022 Average	2027	2037
External debt (nominal) 1/	**44.7**	**52.3**	**57.8**			**62.2**	**61.4**	**58.0**	**54.1**	**50.4**	**46.8**		**36.0**	**28.4**
of which: public and publicly guaranteed (PPG)	24.4	31.5	32.9			39.7	40.6	41.7	40.4	39.1	37.7		33.1	25.9
Change in external debt	-2.3	7.6	5.5			4.3	-0.7	-3.5	-3.9	-3.7	-3.6		-1.5	-0.4
Identified net debt-creating flows	-4.3	8.6	6.0			0.8	-1.1	-2.0	-2.7	-2.5	-2.5		-0.8	0.2
Non-interest current account deficit	**1.4**	**3.6**	**2.6**	**4.9**	**4.2**	**5.1**	**3.8**	**2.0**	**1.2**	**1.2**	**1.3**		**2.5**	**2.0**
Deficit in balance of goods and services	35.8	31.8	29.6			33.4	37.3	38.8	38.7	37.7	36.8		34.4	28.7
Exports	9.0	10.5	13.3			12.8	12.9	12.3	11.7	12.3	11.7		9.4	6.5
Imports	44.8	42.2	43.0			46.2	50.2	51.1	50.4	50.0	48.5		43.8	35.2
Net current transfers (negative = inflow)	-15.7	-10.7	-11.3	-25.9	17.7	-14.2	-16.0	-16.5	-16.5	-16.0	-15.4		-12.9	-9.4
of which: official	-0.6	-0.5	-0.6			-0.6	-0.6	-0.6	-0.5	-0.5	-0.5		-0.4	-0.2
Other current account flows (negative = net inflow)	-18.7	-17.4	-15.8			-14.1	-17.5	-20.3	-21.0	-20.5	-20.1		-18.9	-17.3
Net FDI (negative = inflow)	**-3.3**	**-5.4**	**-5.0**	**-4.0**	**2.9**	**-3.0**	**-3.2**	**-3.1**	**-3.1**	**-3.0**	**-2.9**		**-2.5**	**-1.7**
Endogenous debt dynamics 2/	**-2.3**	**10.4**	**8.4**			**-1.2**	**-1.7**	**-0.8**	**-0.8**	**-0.8**	**-0.8**		**-0.9**	**-0.1**
Contribution from nominal interest rate	1.4	2.5	1.3			1.3	1.5	2.3	2.4	2.2	2.0		1.2	1.5
Contribution from real GDP growth	-2.9	-3.2	-4.1			-2.5	-3.1	-3.1	-3.2	-3.0	-2.8		-2.1	-1.6
Contribution from price and exchange rate changes	-0.8	11.0	11.2			...	...	...	...	-1.2	...		...	...
Residual (3-4) 3/	**2.0**	**-0.9**	**-0.5**			**3.5**	**0.4**	**-1.5**	**-1.2**	0.0	**-1.1**		**-0.7**	**-0.5**
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/	...	...	50.8			55.6	55.6	53.3	49.1	45.3	41.5		27.1	20.4
In percent of exports	...	...	380.7			433.1	430.3	433.4	420.6	367.8	354.2		287.6	315.6
PV of PPG external debt	**...**	**...**	**25.8**			**33.1**	**34.8**	**37.0**	**35.4**	**33.9**	**32.4**		**24.3**	**17.9**
In percent of exports	**...**	**...**	**193.6**			**258.0**	**269.4**	**300.8**	**303.3**	**275.7**	**276.4**		**257.8**	**277.1**
In percent of government revenues	**...**	**...**	**101.5**			**139.5**	**135.8**	**141.9**	**134.7**	**128.6**	**122.4**		**81.6**	**58.9**
Debt service-to-exports ratio (in percent)	**26.9**	**34.6**	**20.8**			**43.8**	**44.2**	**49.9**	**48.0**	**40.6**	**38.7**		**51.9**	**41.0**
PPG debt service-to-exports ratio (in percent)	**15.2**	**15.4**	**15.3**			**20.7**	**24.1**	**26.3**	**26.8**	**23.8**	**24.9**		**43.9**	**20.0**
PPG debt service-to-revenue ratio (in percent)	**5.1**	**6.0**	**8.0**			**11.2**	**12.2**	**12.4**	**11.9**	**11.1**	**11.0**		**13.9**	**4.2**
Total gross financing need (Billions of U.S. dollars)	0.0	0.1	0.0			0.6	0.5	0.4	0.3	0.3	0.3		0.7	0.9
Non-interest current account deficit that stabilizes debt ratio	3.7	-4.0	-2.9			0.7	4.5	5.4	5.1	4.9	4.8		4.0	2.3
Key macroeconomic assumptions														
Real GDP growth (in percent)	6.7	6.0	6.9	6.8	1.2	4.5	5.0	5.5	6.0	6.0	6.0	5.5	6.0	6.0
GDP deflator in US dollar terms (change in percent)	1.8	-19.8	-17.6	3.5	15.3	0.0	-5.2	2.5	2.3	2.3	2.2	0.7	1.9	1.9
Effective interest rate (percent) 5/	3.2	4.8	2.2	3.4	1.2	2.3	2.3	4.1	4.5	4.5	4.2	3.6	3.5	5.6
Growth of exports of G&S (US dollar terms, in percent)	-10.7	-1.4	12.0	-3.4	21.4	0.5	0.4	2.8	3.1	14.2	3.1	4.0	3.7	4.7
Growth of imports of G&S (US dollar terms, in percent)	-19.1	-19.9	-10.4	5.1	25.7	12.4	8.3	10.0	7.0	7.7	5.0	8.4	6.9	5.5
Grant element of new public sector borrowing (in percent)	...	...	...	...	...	0.1	2.0	-5.7	23.4	23.6	24.4	11.3	34.8	39.8
Government revenues (excluding grants, in percent of GDP)	26.9	27.0	25.4			23.7	25.7	26.1	26.3	26.4	26.5		29.8	30.4
Aid flows (in Billions of US dollars) 7/	0.1	0.2	0.2			0.4	0.3	0.3	0.4	0.4	0.5		0.9	0.8
of which: Grants	0.1	0.2	0.2			0.3	0.3	0.3	0.3	0.3	0.4		0.4	0.3
of which: Concessional loans	0.0	0.0	0.0			0.1	0.0	0.0	0.1	0.1	0.1		0.5	0.5
Grant-equivalent financing (in percent of GDP) 8/	...	...	...			3.5	3.7	3.0	4.4	4.4	4.5		4.6	2.0
Grant-equivalent financing (in percent of external financing) 8/	...	...	...			34.3	39.3	32.5	61.7	63.7	65.2		57.8	58.1
Memorandum items:														
Nominal GDP (Billions of US dollars)	9.2	7.9	6.9			7.2	7.2	7.8	8.4	9.2	9.9		14.6	31.7
Nominal dollar GDP growth	8.7	-15.0	-11.9			4.5	-0.4	8.2	8.4	8.4	8.3	6.2	8.0	8.0
PV of PPG external debt (in Billions of US dollars)			1.8			2.2	2.5	2.8	2.9	3.1	3.2		3.5	5.6
(PVt-PVt-1)/GDPt-1 (in percent)						5.7	4.0	5.1	1.4	1.3	1.1	3.1	0.4	1.0
Gross workers' remittances (Billions of US dollars)	3.4	2.3	1.9			2.2	2.6	2.9	3.2	3.4	3.6		4.8	8.5
PV of PPG external debt (in percent of GDP + remittances)	...	...	20.3			25.4	25.7	26.9	25.7	24.7	23.7	25.4	18.3	14.1
PV of PPG external debt (in percent of exports + remittances)	...	...	64.0			77.0	72.0	74.0	71.1	68.4	67.2		57.4	53.6
Debt service of PPG external debt (in percent of exports + remittances)	...	...	5.1			6.2	6.5	6.5	6.3	5.9	6.0		9.8	3.9

Sources: Country authorities; and staff estimates and projections.

1/ Includes both public 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.

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 6. Tajikistan: Public Sector Debt Sustainability Framework, Strong Reform Scenario, 2014–37

	Actual					Estimate	Projections							
	2014	2015	2016	Average 5/	Standard Deviation 5/	2017	2018	2019	2020	2021	2022	2017-22 Average	2027	2037
Public sector debt 1/	27.9	34.7	42.3			52.4	54.6	53.1	49.6	46.4	44.0		35.8	26.3
of which: foreign-currency denominated	24.4	31.5	32.9			39.7	40.6	41.7	40.4	39.1	37.7		33.1	25.9
Change in public sector debt	-1.1	6.8	7.6			10.2	2.2	-1.5	-3.5	-3.2	-2.4		-1.3	-0.6
Identified debt-creating flows	-1.0	7.6	10.2			11.0	4.4	-3.2	-3.4	-3.2	-3.1		-0.8	-2.3
Primary deficit	-0.4	1.3	10.0	2.9	3.3	5.4	3.6	-0.3	-0.7	-0.8	-0.9	1.1	1.2	-0.6
Revenue and grants	28.4	29.9	27.9			27.2	29.2	29.4	29.8	30.0	30.2		32.6	31.4
of which: grants	1.5	3.0	2.5			3.5	3.5	3.4	3.5	3.6	3.7		2.8	1.0
Primary (noninterest) expenditure	27.9	31.3	37.9			32.7	32.8	29.1	29.1	29.2	29.3		33.8	30.8
Automatic debt dynamics	-0.2	6.3	0.3			1.5	-2.7	-2.9	-2.6	-2.4	-2.2		-2.0	-1.7
Contribution from interest rate/growth differential	-1.9	-1.3	-2.2			-2.2	-2.5	-2.7	-2.6	-2.3	-2.1		-2.0	-1.7
of which: contribution from average real interest rate	-0.1	0.2	0.0			-0.3	0.0	0.2	0.4	0.5	0.5		0.1	-0.1
of which: contribution from real GDP growth	-1.8	-1.6	-2.2			-1.8	-2.5	-2.8	-3.0	-2.8	-2.6		-2.1	-1.5
Contribution from real exchange rate depreciation	1.7	7.6	2.5			3.7	-0.3	-0.2	0.0	-0.1	-0.1		...	...
Other identified debt-creating flows	-0.3	0.0	0.0			4.0	3.5	0.0	0.0	0.0	0.0		0.0	0.0
Privatization receipts (negative)	-0.3	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		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			4.0	3.5	0.0	0.0	0.0	0.0		0.0	0.0
Residual, including asset changes	-0.1	-0.8	-2.7			-0.8	-2.3	1.7	-0.1	0.1	0.7		-0.5	1.6
Other Sustainability Indicators														
PV of public sector debt	...	...	35.2			45.8	48.8	48.4	44.7	41.3	38.7	44.6	27.0	18.2
of which: foreign-currency denominated	...	...	25.8			33.1	34.8	37.0	35.4	33.9	32.4		24.3	17.9
of which: external	...	...	25.8			33.1	34.8	37.0	35.4	33.9	32.4		24.3	17.9
PV of contingent liabilities (not included in public sector de	...	...	...			...	...	...	...	...	...		...	...
Gross financing need 2/	1.7	3.9	12.4			9.2	8.4	4.6	3.9	3.5	2.6		5.6	0.7
PV of public sector debt-to-revenue and grants ratio (in percent)	...	...	126.2			168.4	167.2	164.4	149.7	137.5	128.1		82.8	58.0
PV of public sector debt-to-revenue ratio (in percent)	...	...	138.4			193.1	190.3	185.7	169.8	156.5	146.1		90.5	60.0
of which: external 3/	...	...	101.5			139.5	135.8	141.9	134.7	128.6	122.4		81.6	58.9
Debt service-to-revenue and grants ratio (in percent) 4/	7.3	8.2	8.8			13.3	16.2	16.8	15.6	14.3	11.6		13.6	4.3
Debt service-to-revenue ratio (in percent) 4/	7.8	9.1	9.6			15.2	18.4	19.0	17.7	16.3	13.2		14.9	4.4
Primary deficit that stabilizes the debt-to-GDP ratio	0.6	-5.5	2.4			-4.7	1.5	1.2	2.8	2.3	1.5		2.5	0.0
Key macroeconomic and fiscal assumptions														
Real GDP growth (in percent)	6.7	6.0	6.9	6.8	1.2	4.5	5.0	5.5	6.0	6.0	6.0	5.5	6.0	6.0
Average nominal interest rate on forex debt (in percent)	1.5	1.5	1.5	1.5	0.1	2.2	2.9	3.5	3.8	3.8	3.8	3.3	2.5	1.4
Average real interest rate on domestic debt (in percent)	-1.5	4.3	-1.6	-1.3	3.2	-5.0	-2.8	-2.9	-2.8	-2.6	-2.4	-3.1	-2.0	0.5
Real exchange rate depreciation (in percent, + indicates depreciation)	7.3	32.9	8.4	-0.1	16.1	11.7	...	...	...	...	...	...	...	...
Inflation rate (GDP deflator, in percent)	5.5	0.1	5.3	12.1	9.4	10.0	6.0	6.0	6.0	6.0	6.0	6.7	6.0	6.0
Growth of real primary spending (deflated by GDP deflator, in percent)	9.3	18.6	29.4	5.8	10.3	-9.9	5.6	-6.3	5.8	6.4	6.4	1.3	9.6	5.8
Grant element of new external borrowing (in percent)	...	...	...	...	...	0.1	2.0	-5.7	23.4	23.6	24.4	11.3	34.8	39.8

Sources: Country authorities; and staff estimates and projections.

1/ Coverage of public sector is general government and 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 7. Tajikistan: Sensitivity Analysis for Key Indicators of Public Debt—Strong Reform, 2017–37

	Projections							
	2017	2018	2019	2020	2021	2022	2027	2037
PV of Debt-to-GDP Ratio								
Baseline	46	49	48	45	41	39	27	18
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	46	47	49	48	47	46	37	45
A2. Primary balance is unchanged from 2017	46	50	54	55	56	57	55	76
A3. Permanently lower GDP growth 1/	46	49	49	45	42	40	30	28
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviations in 2018-2019	46	48	48	44	41	38	26	16
B2. Primary balance is at historical average minus one standard deviations in 2018-2019	46	51	55	51	48	45	32	21
B3. Combination of B1-B2 using one half standard deviation shocks	46	49	52	48	44	41	27	15
B4. One-time 30 percent real depreciation in 2018	46	63	62	58	54	51	35	26
B5. 10 percent of GDP increase in other debt-creating flows in 2018	46	55	55	51	48	45	33	22
PV of Debt-to-Revenue Ratio 2/								
Baseline	168	167	164	150	138	128	83	58
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	168	163	167	160	156	154	113	143
A2. Primary balance is unchanged from 2017	168	172	183	183	185	189	169	241
A3. Permanently lower GDP growth 1/	168	168	166	152	140	132	92	90
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviations in 2018-2019	168	166	163	148	135	125	79	51
B2. Primary balance is at historical average minus one standard deviations in 2018-2019	168	174	187	172	158	148	98	67
B3. Combination of B1-B2 using one half standard deviation shocks	168	168	176	160	146	136	83	47
B4. One-time 30 percent real depreciation in 2018	168	217	212	194	179	168	109	83
B5. 10 percent of GDP increase in other debt-creating flows in 2018	168	190	187	172	159	150	101	70
Debt Service-to-Revenue Ratio 2/								
Baseline	13	16	17	16	14	12	14	4
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	13	16	16	15	14	12	14	9
A2. Primary balance is unchanged from 2017	13	16	17	16	16	13	17	15
A3. Permanently lower GDP growth 1/	13	16	17	16	14	12	14	6
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviations in 2018-2019	13	16	17	15	14	11	13	4
B2. Primary balance is at historical average minus one standard deviations in 2018-2019	13	16	17	16	15	12	15	5
B3. Combination of B1-B2 using one half standard deviation shocks	13	16	17	16	15	12	14	4
B4. One-time 30 percent real depreciation in 2018	13	19	22	20	19	16	20	9
B5. 10 percent of GDP increase in other debt-creating flows in 2018	13	16	18	17	15	12	16	6

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.

Table 8. Tajikistan: Sensitivity Analysis for Key Indicators of Public and Publicly Guaranteed External Debt—Strong Reform, 2017–37

(In percent)

	Projections							
	2017	2018	2019	2020	2021	2022	2027	2037
PV of debt-to-GDP+remittances ratio								
Baseline	25	26	27	26	25	24	18	14
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2017-2037 1/	25	24	26	26	26	26	22	15
A2. New public sector loans on less favorable terms in 2017-2037 2/	25	26	28	28	27	27	25	23
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2018-2019	25	25	26	25	24	23	18	14
B2. Export value growth at historical average minus one standard deviation in 2018-2019 3/	25	27	31	30	29	28	21	14
B3. US dollar GDP deflator at historical average minus one standard deviation in 2018-2019	25	27	31	29	28	27	21	16
B4. Net non-debt creating flows at historical average minus one standard deviation in 2018-2019 4/	25	35	43	36	34	33	25	15
B5. Combination of B1-B4 using one-half standard deviation shocks	25	25	30	28	27	26	20	14
B6. One-time 30 percent nominal depreciation relative to the baseline in 2018 5/	25	33	34	33	31	30	23	18
PV of debt-to-exports+remittances ratio								
Baseline	77	72	74	71	68	67	57	54
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2017-2037 1/	77	70	75	76	77	80	81	80
A2. New public sector loans on less favorable terms in 2017-2037 2/	77	74	78	76	75	75	78	86
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2018-2019	77	71	73	70	67	66	56	52
B2. Export value growth at historical average minus one standard deviation in 2018-2019 3/	77	81	97	92	89	88	73	60
B3. US dollar GDP deflator at historical average minus one standard deviation in 2018-2019	77	71	73	70	67	66	56	52
B4. Net non-debt creating flows at historical average minus one standard deviation in 2018-2019 4/	77	134	165	99	95	94	78	58
B5. Combination of B1-B4 using one-half standard deviation shocks	77	72	84	80	78	76	64	55
B6. One-time 30 percent nominal depreciation relative to the baseline in 2018 5/	77	71	73	70	67	66	56	52
PV of debt-to-revenue ratio								
Baseline	139	136	142	135	129	122	82	59
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2017-2037 1/	139	123	131	130	128	127	92	59
A2. New public sector loans on less favorable terms in 2017-2037 2/	139	139	149	144	141	137	111	95
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2018-2019	139	133	138	131	125	119	79	57
B2. Export value growth at historical average minus one standard deviation in 2018-2019 3/	139	143	165	156	149	142	93	60
B3. US dollar GDP deflator at historical average minus one standard deviation in 2018-2019	139	144	174	165	157	150	99	71
B4. Net non-debt creating flows at historical average minus one standard deviation in 2018-2019 4/	139	163	197	187	179	171	111	64
B5. Combination of B1-B4 using one-half standard deviation shocks	139	134	161	153	145	138	92	61
B6. One-time 30 percent nominal depreciation relative to the baseline in 2018 5/	139	195	204	193	184	175	116	83

Table 8. Tajikistan: Sensitivity Analysis for Key Indicators of Public and Publicly Guaranteed External Debt—Strong Reform, 2017–37 (concluded)

(In percent)

	Projections							
	2017	2018	2019	2020	2021	2022	2027	2037
Debt service-to-exports+remittances ratio								
Baseline	6	6	6	6	6	6	10	4
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2017-2037 1/	6	6	6	6	6	6	10	6
A2. New public sector loans on less favorable terms in 2017-2037 2/	6	6	5	6	6	6	7	6
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2018-2019	6	6	6	6	6	6	10	4
B2. Export value growth at historical average minus one standard deviation in 2018-2019 3/	6	7	7	7	7	7	12	5
B3. US dollar GDP deflator at historical average minus one standard deviation in 2018-2019	6	6	6	6	6	6	10	4
B4. Net non-debt creating flows at historical average minus one standard deviation in 2018-2019 4/	6	10	11	7	7	7	12	5
B5. Combination of B1-B4 using one-half standard deviation shocks	6	6	7	7	6	7	11	4
B6. One-time 30 percent nominal depreciation relative to the baseline in 2018 5/	6	6	6	6	6	6	10	4
Debt service-to-revenue ratio								
Baseline	11	12	12	12	11	11	14	4
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2017-2037 1/	11	11	11	10	10	10	12	4
A2. New public sector loans on less favorable terms in 2017-2037 2/	11	12	11	11	10	10	11	7
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2018-2019	11	12	12	12	11	11	14	4
B2. Export value growth at historical average minus one standard deviation in 2018-2019 3/	11	12	13	13	12	12	15	5
B3. US dollar GDP deflator at historical average minus one standard deviation in 2018-2019	11	13	15	15	14	14	17	5
B4. Net non-debt creating flows at historical average minus one standard deviation in 2018-2019 4/	11	12	13	14	13	13	17	6
B5. Combination of B1-B4 using one-half standard deviation shocks	11	12	13	13	12	12	15	5
B6. One-time 30 percent nominal depreciation relative to the baseline in 2018 5/	11	18	18	17	16	16	20	6
Memorandum item:								
Grant element assumed on residual financing (i.e., financing required above baseline) 6/	24	24	24	24	24	24	24	24

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.

INTERNATIONAL MONETARY FUND

REPUBLIC OF TAJIKISTAN

October 18, 2017

STAFF REPORT FOR THE 2017 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 June 30, 2017)

Membership Status: Joined April 27, 1993; Article VIII

General Resources Account

	SDR Million	Percent Quota
Quota	174.00	100.00
Fund Holdings of Currency	174.00	100.00
Reserve position in Fund	0.00	0.00

SDR Department

	SDR Million	Percent Allocation
Net Cumulative allocation	82.08	100
Holdings	22.08	26.90

Outstanding Purchases and Loans

	SDR Million	Percent of Quota
ECF Arrangements	71.77	41.25

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

[1] Formerly PRGF.

Projected Payments to the Fund[1]

	Forthcoming				
	2017	2018	2019	2020	2021
Principal	10.44	20.88	18.27	13.05	6.52
Charges/Interest	0.17	0.36	0.36	0.36	0.36
Total	**10.61**	**21.24**	**18.63**	**13.40**	**6.88**

[1] 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)[1]	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

[1] The MDRI provides 100 percent debt relief to eligible member countries that qualify 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.

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

Tajikistan's de jure exchange rate is managed floating. The de facto exchange rate arrangements has been reclassified to stabilized from other managed, effective February 1, 2016. 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. Until recently, Tajikistan maintained an MCP stemming from the use of an official somoni-dollar rate for government transactions based on the previous day's prevailing market rate, which potentially could deviate by more than 2 percent from the prevailing market rate at the time of the transaction. In September 2017, the NBT removed the MCP by committing to adjust the exchange rates for government transactions so as not to deviate by more than 2 percent from the prevailing market rate at the time of the transaction. 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 has 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 was discussed by the Executive Board at the time of the 2015 Article IV consultation.

Article IV Consultation

The 2015 Article IV consultation with Tajikistan was concluded on June 1, 2015.

Resident Representative

Mr. Sobolev, Resident Representative of the Fund, started his assignment in Dushanbe in August 2016.

Technical Assistance

The following list summarizes the technical assistance provided by the Fund to Tajikistan since 2006.

Tajikistan: Technical Assistance, 2006–17		
Fund Department	**Area of Assistance**	**Mission Dates**
MCM MCM	Banking Supervision Banking Supervision	August 2017 April 2017
MCM	Monetary Policy Framework and Implementation	April 2017
LEG	Bank Resolution Framework	October 2016
STA	National Accounts Statistics	July 2016
MCM	Monetary and Foreign Exchange Operations	April 2016
FAD	Accounting and Financial Reporting, Treasury Management, and Fiscal Oversight of State-Owned Enterprises	March 2016
STA	Monetary and Financial Statistics	October 2015
MCM	Financial Stability	October 2015
MCM	Reserve Management	September 2015
FAD	Improving Tax Disputes Resolution Processes in the Tax Committee	June 2015
MCM	Improving Accounting Controls at NBT	April 2015
STA	BOP	April 2015
FAD	Tax Administration	March 2015
STA	Monetary and Financial Statistics	December 2014
MCM	Bank Resolution	May 2014
FAD	PFM Reform	April 2014
FAD	Tax Administration	April/July/November 2014
STA	BOP	April 2014
STA	Monetary and Financial Statistics	December 2013
MCM	Improving Accounting Controls at NBT	October 2013
FAD	PFM Reform	August/November 2013
FAD	Tax Administration	June/November 2013
MCM	Banking Supervision	March 2013
FAD	Tax Administration	March 2013
MCM	Improving Accounting Controls at NBT	February 2013
STA	BOP	December 2012
STA	Monetary and Financial Statistics	November 2012
MCM	Improving Accounting Controls at NBT	November 2012
FAD	Tax Administration	June/August/Oct 2012
STA	National Accounts Statistics	May 2012
STA	Monetary and Financial Statistics	April 2012
FAD	Tax Policy Review	April 2012

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

RELATIONS WITH THE WORLD BANK

(As of August 25, 2017)

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	Macro-monitoring	Ongoing	Ongoing
	Implementation & Capacity Building of e-Procurement	Ongoing	Project closing November 12, 2017
	Governance in Service Delivery (TA)	Completed	Project closing June 6, 2017
	Tajikistan Public Sector Accounting Reform Project	Completed	Closed
	Tajikistan Systematic Country Diagnostic	Consultation mission May 10, 2017	Fiscal Year 2018
	Review of Government Payroll and HR	Completed	Closed
	Public Finance Management Modernization	Supervision missions April 2017 October 2017	Project closing June 30, 2021
	Tax Administration Project	Supervision missions June, 2017 November 2017	Project closing December 31, 2019
	Private Sector Competitiveness project	Supervision missions June, 2017 November-December, 2017	Project closing June 30, 2018
	Tajikistan - Support to Tajikistan's PPP Program	Ongoing	Project closing September 29, 2017
	Financial Sector Policy Dialogue (PA)	Completed	Project closing in June 15, 2017
	Tajikistan FSAP Update (ESW)	Ongoing	Program closing: January 21, 2018
	Strengthening the Financial Sector: Implementing FSAP recommendations (P159759)	Ongoing	Project closing June 29, 2018
	Tajikistan #D001 Strengthening Financial Stability and Supervision Frameworks	Ongoing	Project closing August 31, 2018

Title	Products	Provisional Timing of Missions	Expected Delivery Date
	Tajikistan #E009 Deposit Insurance	Ongoing	Project closing October 31, 2019
	Tajikistan Growth Diagnostics	Ongoing	Project closing June 30, 2017
	DeMPA	Completed	Project closing May 25, 2017 (to be extended)
	Capacity Building for MoEDT	Completed	Project closing June 24, 2017
	Tajikistan Tax Efiling Impact Evaluation	Completed	Project closing June 30, 2017
	Tajikistan PEFA 2016	Ongoing	Project closing January 30, 2018
	Tajikistan MTDS	Ongoing	Project closing November 30, 2017
	Evidence Based Tax Assessment	Ongoing	Project closing June 15, 2018
	Agriculture, Rural and Environment		
	Agriculture Commercialization Project	Supervision missions June 2017, August, 2017 February 2018	Project closing June 30, 2021
	Environment, Land Management and Rural Livelihoods-GEF	Supervision missions May 2017 November 2017	Project closing May 31, 2018
	Climate Adaptation & Mitigation Program for Central Asia (CA)	Supervision mission May 2017 November 2017	Project closing April 30, 2021
	Tajikistan Risk-Resilience Assessment	Completed	Project closing May 5, 2017
	Water		
	Second Dushanbe Water Supply Project	Supervision missions July 2017 February 2018	Project closing September 30, 2018
	Social Accountability in water sector	Supervision missions July 2017	Project closing January 31, 2018

Title	Products	Provisional Timing of Missions	Expected Delivery Date
	Second Public Employment for Sustainable Agriculture and water Resources Management Project (PAMP II)	Supervision missions June 2017 December 2017	Project closing February 28, 2020
	Infrastructure		
	Tajikistan Multimodal Transport	Completed	Closed
	PSIA/ Poverty Diagnostic of WASH sector	April 2017	June 29, 2017
	Energy		
	Winter Energy Project	Ongoing	December 29, 2017
	CASA-1000	Supervision missions July, 2017	June 2020
	EITI Implementation	Ongoing	October 31, 2017
	Nurek Hydropower Rehabilitation Project Phase I (IDA PPA)	Ongoing	December 31, 2023
	Social Safety Nets		
	SSN Strengthening Project	Supervision missions July 2017 September 2017	Closing date September 30, 2017 (to be extended till June 30, 2019 if agreed with the Government)
	Tajikistan Jobs Diagnostic and Strategy	Ongoing	Project closing June 30, 2017
	Health		
	Health Services Improvement Project	Supervision missions July 2017 December 2017	Project Closing December 31, 2019
	Tajikistan JSDF Nutrition Grant 2	July 2017 December 2017	May 07, 2018
	Micronutrient Status Survey	Ongoing	February 16, 2018
	Tajikistan HRITF Impact Evaluation	Ongoing	March 20, 2019

Title	Products	Provisional Timing of Missions	Expected Delivery Date
	Education		
	Global Partnership for Education (GPE 4)	Supervision missions April 2017 July 2017	Project closing September 30, 2017
	High Education Project	Supervision missions March 2017 October 2017	Project closing October 31, 2021
	Tajikistan READ-2. Classroom Assessment	Ongoing	Project closing June 30, 2019
	Statistics		
	TJ - Implementation of the NSDS	May, 2017 December 2017	Project closing June 30, 2018
	Let's Work Pillar 2 Tajikistan	Ongoing	Project closing June 30, 2017
	Transport		
	Central Asia Road Links – Tajikistan	Supervision Mission May 2017 November 2017	August 31, 2020
	Urban Development		
	Strengthening Critical Infrastructure against Natural Hazards	Supervision missions September, 2017	Approved by the Board on July 27, 2017 Project closing December 31, 2023
	Central Asia Hydrometeorology Modernization Project	Supervision missions May 2017 November 2017	Project closing June 30, 2018
Fund Work Program in Next 12 Months	2017 Article IV mission and consultation Possible ECF program negotiation Budget discussion staff visits Surveillance staff visit 2018 Article IV mission Risk Based Supervision and Regulation TA Monetary Policy Implementation & Operations TA PFM: Fiscal Reporting TA PFM: Budget Execution and Control TA Tax Policy Transparency TA Banking Resolution TA Government Finance Statistics TA Real Sector - National Accounts TA	May 2017/ Summer 2017 Fall 2017 February 2018 May 2018 Resident advisor	September 2017 December 2017 September 2018

Title	Products	Provisional Timing of Missions	Expected Delivery Date
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 2017	July 2017

RELATIONS WITH THE EUROPEAN BANK FOR RECONSTRUCTION AND DEVELOPMENT

(As of June 21, 2017)

EBRD has the following priorities in Tajikistan:

Stabilizing and rebuilding trust in the banking sector so as to increase the sector's capacity for financial intermediation as a means to facilitate access to finance and lower the high real interest rates. Conditional on creating a positive reform momentum, the Bank will be able to increase its operations in the banking sector including through further equity investments in banks and MFIs and through increased local currency lending, which will help reduce foreign exchange risk for local businesses. In addition to lending activities EBRD is working on two equally important policy dialogue initiatives in the financial sector. Technical Cooperation for "Transformation and Turnaround of the Largest Banks" and "Enhancement of the development of the financial sector through facilitating improvement of corporate governance of banks."

Developing private enterprises and agribusiness. This requires improving the business environment by cutting red tape and lowering other formal and informal barriers to doing business, which are among the highest in the region. Simplifying tax policies and improving tax administration are of paramount importance to incentivize firms operating in the real economy to become more transparent. Progress with reforms in this area will create more bankable private enterprises that will be able to benefit from EBRD and local commercial bank financing. The Bank's ability to provide agricultural financing will also strongly depend on progress made with reforms in the banking sector. The Bank is working with private companies directly as well as is implementing ECTAP program (enhanced competitiveness of Tajik agribusiness program) through partner financial institutions in cooperation with the EU.

The EBRD's Advice for Small Businesses team helps small and medium-sized businesses work with international industry advisers and local consultants to access the know-how to transform their businesses. Active in Tajikistan since 1997, operations expanded significantly in 2007. To date more than 600 SMEs have had access to business advice and industry expertise. Advisory projects have been implemented across more than 15 industry sectors, with the most common being agribusiness, construction, and wholesale and retail trade. Projects evaluations one year after completion show strong client impact (date from 2007-2016): 67% of evaluated clients increased their turnover; 88% of evaluated clients improved productivity (revenue per employee); 66% of evaluated clients increased their number of employees; 16% of clients accessed finance (direct, indirect, and external investments). New framework initiative to be launched in 2017 in partnership with local FIs – Women in Business.

Improving the availability, reliability and quality of municipal services such as water supply, solid waste, and urban transport as a necessary precondition for commercialization of these utilities. Once the quality of municipal services improves, the willingness to pay for them will increase as well, in turn generating resources that will allow for further improvements in quality.

Progress towards commercialization and improvements in quality therefore go hand in hand. However, to address the affordability constraints of the Tajikistani population and the debt capacity constraints of the government, a high level of grant co-financing will be required. EBRD continues to be active in the sector.

Improving the quality of energy supply, regulation and energy efficiency, which is vital for all sectors of the economy as well as for the quality of life of Tajik citizens. The first priorities are to rehabilitate the existing infrastructure and restructure the state power utility company Barki Tojik. Progress with reforms in these areas will allow for the commercialization of the sector and opening it up for private sector investment. Improving energy efficiency and reducing energy losses could also contribute to improving energy security. Conditional on the government's commitment to progress with energy sector reform, the Bank will selectively finance the rehabilitation of the energy sector infrastructure and will support energy efficiency measures at Barki Tojik.

EBRD Activity in Tajikistan to Date

110 Number of projects	**66** Number of active portfolio projects
€630 million Cumulative EBRD investment	**€375 million** Current portfolio of projects
€252 million Cumulative disbursements	**€124 million** Operating assets
25% Private sector share of portfolio	**4%** Equity share of portfolio

Data valid as of: 30 April 2017

RELATIONS WITH THE ASIAN DEVELOPMENT BANK

(As of June 19, 2017)

The Asian Development Bank (ADB) has partnered with Tajikistan since 1998 and has approved over $1.5 billion in concessional loans, grants, and technical assistance. ADB is Tajikistan's largest multilateral development partner and plays an important role in aligning the country's aid, with ongoing necessary reforms. ADB promotes country-level activities that address the government's development objectives, particularly through the Development Coordination Council.

During more than 18 years, the ADB supported Tajikistan in post-conflict reconstruction, rehabilitation from disasters triggered by natural hazards; transition to market economy; energy, transport, and irrigation infrastructure; education and healthcare; rural development, regional connectivity and private sector development through strengthened public sector management.

ADB recognizes that Tajikistan, as a landlocked country, must have economic integration and interaction with its Asian neighbors. With ADB support, over 650 kilometers of Tajikistan's roads have been rehabilitated, creating international trade links and bringing social services to the country's people.

By installing a centralized computer system, developing a national "single window" facility, and improving key customs posts along borders, ADB has helped Tajikistan boost regional cooperation and trade, through more efficient and transparent customs services. It has also encouraged the country's participation in the Central Asia Regional Economic Cooperation (CAREC) Program.

In the energy sector, projects supported by ADB have helped to improve three hydropower plants and to install or upgrade over 600 kilometers of power transmission and distribution lines.

ADB-supported projects have made clean water available to nearly 30,400 households in Tajikistan, with over 140,000 hectares of land benefiting from improved irrigation, drainage, and flood management. A special ADB climate resilience project has helped over 100,000 residents cope with the adverse effects of climate change. In 2016, ADB approved a project to boost agriculture production and food security by improving water resource management of the Pyanj River Basin.

In the education sector, ADB has helped to build or upgrade 1,770 rural classrooms and learning institutions, and to train more than 68,700 teachers to better educate 173,000 students. ADB is implementing a project to promote demand-driven, flexible technical and vocational education and training in the country. The project is expected to benefit two-thirds of the labor force, including returning migrants, rural residents, and women, who need more marketable skills.

In health, ADB has helped strengthen Tajikistan's drug quality control mechanisms, develop a family group practice framework, rehabilitate and equip about 240 rural health care facilities, and train approximately 960 family doctors and nurses. ADB has nurtured a stable microfinance industry in Tajikistan. Policy-based budget support has helped increase public funding for critical social expenditure and has led to policy reforms to improve the investment climate, tax administration, public finance management, and social protection.

ADB helps Tajikistan develop a range of knowledge products on creating productive employment through public–private partnerships and vocational training, strengthening infrastructure development (especially in transport and energy), promoting economic diversification, enhancing climate resilience, and ensuring food security.

As a catalyst for private investments, ADB provides direct financial assistance to non-sovereign public sector and private sector transactions in the form of direct loans, equity investments, guarantees, B loans, and trade finance. Since its inception, ADB has approved one private sector transaction in Tajikistan amounting to $11 million. The total outstanding balance of trade finance transactions in the country as of 31 December 2016, was $2.8 million, representing .03% of ADB's total non-sovereign portfolio.

ADB's Trade Finance Program (TFP) fills market gaps by providing guarantees and loans through partner banks in support of trade. In Tajikistan, the TFP has supported $22.2 million in trade between 137 transactions. In addition to filling market gaps, the TFP's objective is to mobilize private sector capital/ involvement in developing Asia. In Tajikistan, 41.6% of the $22 million in trade supported through the TFP was co-financed by the private sector.

Under the CAREC Program, ADB supports the development of regional energy policy and energy trading projects, rehabilitating regional transport corridors, and facilitating regional trade. ADB cooperates with the private sector and civil society organizations within Tajikistan to strengthen the effectiveness, quality, and sustainability of the assistance it provides.

The ADB country partnership strategy, 2016–2020 emphasizes widening Tajikistan's economic base by exploring its domestic and international competitive advantages and improving the country's investment climate to create jobs with higher incomes. Achieving these objectives will require Tajikistan to develop and improve its transport, energy, and municipal infrastructure. It will also mean upgrading the skills of the labor force and improving food security.

ADB plans to support inclusive economic growth in Tajikistan with an estimated program of $320 million in 2017–2019. This investment pipeline will fund power sector development, help bolster food security, support structural reforms to strengthen the investment climate, develop transport and municipal infrastructure, upgrade skills, and improve health services.

STATISTICAL ISSUES

(As of July 31, 2017)

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 statistics: There are significant deficiencies in the statistical techniques for national accounts, most notably in quarterly national accounts and the informal economy. Technical assistance from the Fund in 2012 and 2016 advised extensively on developing discrete quarterly gross domestic product (GDP) estimates, improving the accuracy of the annual estimates including the consistency between GDP estimates by production and expenditure, and on developing a methodology for the estimation of the informal sector. The authorities have also put in place a strategy for statistical system development, including the development of regional accounts and the implementation of the 2008 SNA.
Prices statistics: The consumer price index (CPI) for Tajikistan is published monthly by the Tajstat. The index has national coverage. Expenditure weights, which include the value of consumption from own production, are updated annually. At the elementary index level the Dutot formulation is used. This formulation is problematic in that it fails the commensurability test meaning that it does not perform well when items selected for pricing are of significantly different product sizes. Instead the Jevons formulation is recommended. At the higher level of aggregation, the modified Laspeyres formulation is used, in line with international recommendations. Seasonally unavailable prices are treated by the carry forward of last observed prices. This treatment can introduce a downward bias in the CPI and should be replaced by an appropriate imputation technique. The producer price index (PPI) for Tajikistan is also published monthly, although results up to end of 2010 only are available online. Prices are collected from about 200 enterprises which account for about 75-80 per cent of total production. Indexes are published according to 9 different activities with annually updated weights derived from the value of annual production 2 years prior. The Tajstat has previously noted the need to introduce international classifications for goods and services and to improve coverage and the weighting structure of the index.
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. No data is provided for the GFS Yearbook, neither for Public Sector Debt Statistics.
Monetary and financial statistics: STA provided technical assistance in the area of monetary and financial statistics (MFS) to the NBT in 2002, 2006, 2012 and 2015 with the main objective to improve the quality of statistics. The NBT adopted the recommended standards and submits to STA the MFS data using the IMF's standardized report forms (SRFs) for the central bank, other depository corporations, and other financial corporations are for publications in the *"International Financial Statistics"* However, the timeliness needs improvement.

<table>
<tr><td colspan="2">Financial sector surveillance: Tajikistan reports the 12 core FSIs and 9 of the 13 encouraged FSIs for deposit takers, and one FSI for real estate markets on a quarterly basis for posting on the IMF’s FSI website. However, the data are reported with a long lag.</td></tr>
<tr><td colspan="2">External sector statistics (ESS): Tajikistan participated in a 20-month project on Improvement of ESS in three Central Asian countries. Considerable improvements were made in coverage, periodicity, and timeliness of ESS. The balance of payments, IIP, and external debt statistics are currently compiled and disseminated quarterly applying the BPM6 framework and based on updated estimation methods. Tajikistan also started participating in the IMF’s Coordinated Direct Investment Survey. Improvements are still needed in: estimation of shuttle trade, travel services, and remittances. Work also needs to be continued on expanding the coverage of reporters for ESS purposes and for maintaining consistency between datasets.</td></tr>
<tr><th colspan="2">Data Standards and Quality</th></tr>
<tr><td>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.</td><td>A Data ROSC was published on March 30, 2005.</td></tr>
<tr><th colspan="2">Reporting to STA</th></tr>
<tr><td colspan="2">Country page in the International Financial Statistics (IFS) has been published since February 2003.</td></tr>
</table>

Tajikistan: Table of Common Indicators Required for Surveillance

(as of August 2017)

	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	08/31/2017	09/01/2017	D	W	W		
International Reserve Assets and Reserve Liabilities of the Monetary Authorities[1]	July 2017	08/25/2017	D	W	W		
Reserve/Base Money	July 2017	08/25/2017	W	M	W	O, O, LO, O	LO, O, O, O, NO
Broad Money	July 2017	08/25/2017	M	M	M		
Central Bank Balance Sheet	July 2017	08/25/2017	W	M	W		
Consolidated Balance Sheet of the Banking System	July 2017	08/25/2017	M	M	M		
Interest Rates[2]	July 2017	08/25/2017	M	M	I		
Consumer Price Index	July 2017	08/25/ 2017	M	M	M	LO, LO, LNO, O	LO, LO, LO, O, O
Revenue, Expenditure, Balance and Composition of Financing[3]—General Government[4]	July 2017	07/22/2017	M	M	M	LO, LO, O, O	O, O, O, LO, LO
Revenue, Expenditure, Balance and Composition of Financing[3]—Central Government	July 2017	07/22/2017	M	M	M		
Stocks of Central Government and Central Government-Guaranteed Debt[5]	March 2017	04/27/2017	Q	Q	I		
External Current Account Balance	March 2017	05/02/17	Q	Q	I	LNO, LNO, O, O	LO, O, O, O, O
Exports and Imports of Goods and Services	March 2017	05/02/17	Q	Q	I		
GDP/GNP	June 2017	07/20/2017	M/A	M	I	O, LNO, LNO, LNO	LO, LO, LNO, O, O
Gross External Debt	March 2017	04/27/17	Q	Q	I		

[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, extra budgetary 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.