

## **Republic of Tajikistan: Sixth Review Under the Three-Year Arrangement Under the Extended Credit Facility—Staff Report; and Press Release**

In the context of the sixth review under the three-year arrangement under the Extended Credit Facility, the following documents have been released and are included in this package:

- The staff report for the sixth review under the three-year arrangement under the Extended Credit Facility, prepared by a staff team of the IMF, following discussions that ended on February 29, 2012, with the officials of Republic of Tajikistan on economic developments and policies. Based on information available at the time of these discussions, the staff report was completed on April 24, 2012. The views expressed in the staff report are those of the staff team and do not necessarily reflect the views of the Executive Board of the IMF.
- A Press Release dated May 7, 2012.

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

Letter of Intent sent to the IMF by the authorities of Republic of Tajikistan\*  
NBT Reform Action Plan and Financial Sector Stability Action Plan\*

\*Also included in Staff Report

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

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INTERNATIONAL MONETARY FUND

REPUBLIC OF TAJIKISTAN

**Sixth Review Under the Three-Year Arrangement Under the Extended Credit Facility**

Prepared by the Middle East and Central Asia Department  
in Consultation with Other Departments

Approved by Juha Kähkönen and Dhaneshwar Ghura

April 24, 2012

**Mission:** Discussions were held in Dushanbe during February 16–29 for the sixth review under the three-year arrangement under the Extended Credit Facility (ECF).

**Team:** Messrs. Schneider (head) and Junius, Memes. Unigovskaya and Cerovic (all MCD), and Ms. Nkusu (SPR). Mr. Aisen, the resident representative, assisted the mission, and Mr. Owen (Deputy Director, MCD) attended the final policy discussions.

**Key Tajik officials:** President Rakhmon, First Deputy Prime Minister Davlatov, Minister of Finance Nadjmuddinov, National Bank of Tajikistan (NBT) Chairman Shirinov, and Minister of Economic Development and Trade Rahimzoda.

**Fund relations:** A three-year, SDR 78.3 million (US\$116 million, 90 percent of quota) arrangement under the ECF was approved by the IMF's Executive Board on April 21, 2009, and augmented to SDR 104.4 million (US\$152 million, 120 percent of quota) on June 7, 2010 (EBS/10/95).

**Exchange system:** Tajikistan has accepted the obligations under Article VIII, Sections 2, 3, and 4, and maintains an exchange system free of restrictions on payments and transfers for current international transactions. The de facto exchange rate regime has been classified as crawl-like since March 2011.

**ECF:** The authorities met the program's quantitative performance criteria for end-December 2011. In the Memorandum of Economic and Financial Policies (MEFP) of December 22, 2011, and President Rahmon's Letter of Intent (LOI), the authorities outline their economic program covering the period through December 2012.

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

**Outreach:** The mission met with local representatives of the donor community, including the Asian Development Bank (ADB), the World Bank, EBRD, and the European Union, and briefed members of the diplomatic community. The mission also gave a press briefing.

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## Executive Summary

**Economic growth in Tajikistan has been strong despite external shocks, and inflation is on a downward trend.** Stronger than expected agricultural production and robust growth in inward remittances helped fuel real GDP growth in excess of 7 percent in 2011. Headline inflation has also returned to single digits, due in large part to declining international food prices. Program performance through end-December was good, but concerns remain with respect to weaknesses in key banks, and the potential quasi-fiscal cost of dealing with these problems. Structural reforms continue, and transparency has increased, but decisive action is needed with respect to reform of the tax code and improvements to tax administration.

### **The authorities plan to:**

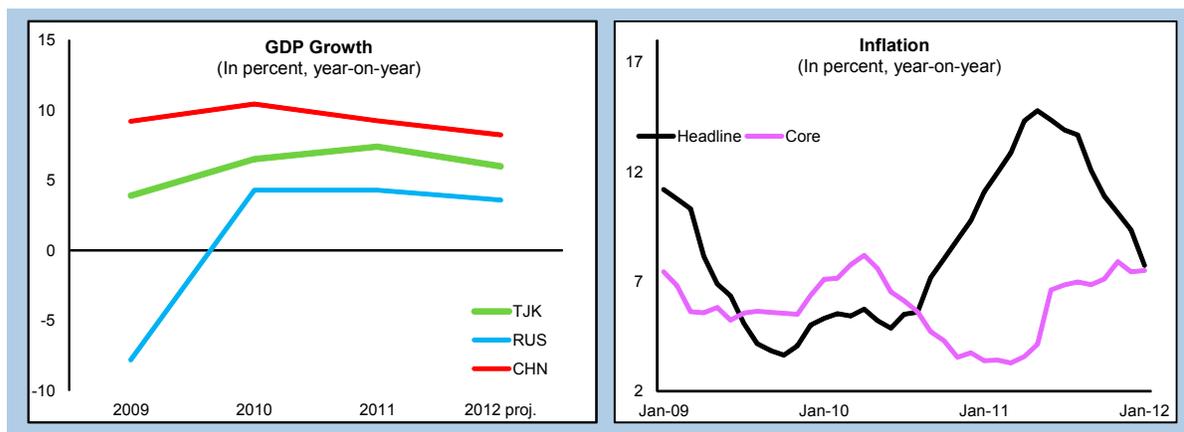
- Maintain a conservative fiscal stance in line with the macroeconomic framework agreed during recent reviews, targeting a deficit of 0.5 percent of GDP.
- Maintain a prudent monetary policy to facilitate further reductions in inflation, but within this constraint look for opportunities to ease liquidity conditions for banks.
- Press ahead with measures to address financial system vulnerabilities and efforts to reform tax policy, tax administration, and strengthen public financial management.
- Continue discussions with staff on a successor program to the current ECF, but also continue with drafting a new three year poverty reduction strategy (2012–15).

### **Staff agrees with the authorities' policy strategy and notes:**

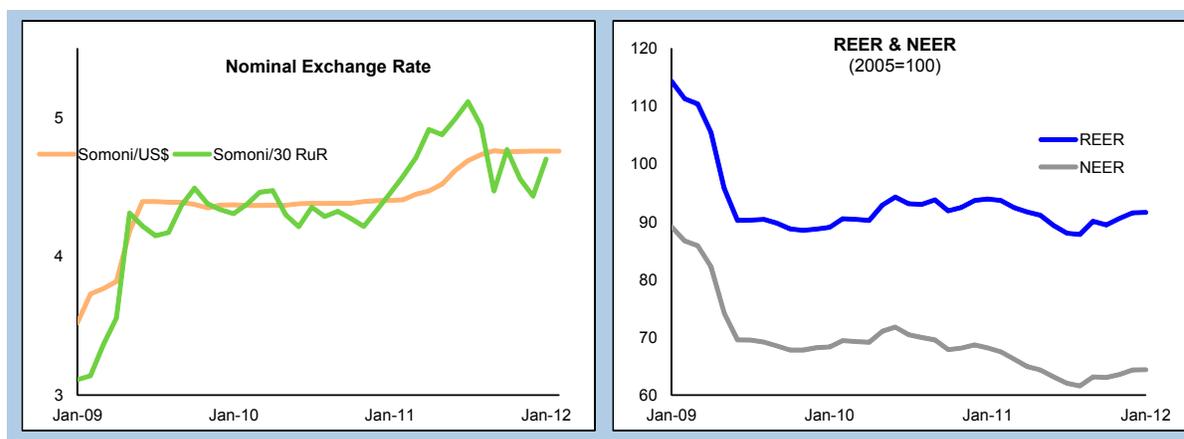
- The fiscal stance for 2012 remains appropriate, but further consolidation will be necessary over the medium-term to maintain fiscal and external sustainability.
- The primary objective of monetary policy should remain price stability, and in this context a careful watch on core inflation is needed.
- An ambitious approach to reform of tax policy is needed to make a durable improvement to the business environment, but must be complemented by greater progress in improving tax administration.
- A durable improvement to financial sector indicators will require supporting measures to address corporate governance concerns and directed/connected lending.

## I. RECENT ECONOMIC DEVELOPMENTS

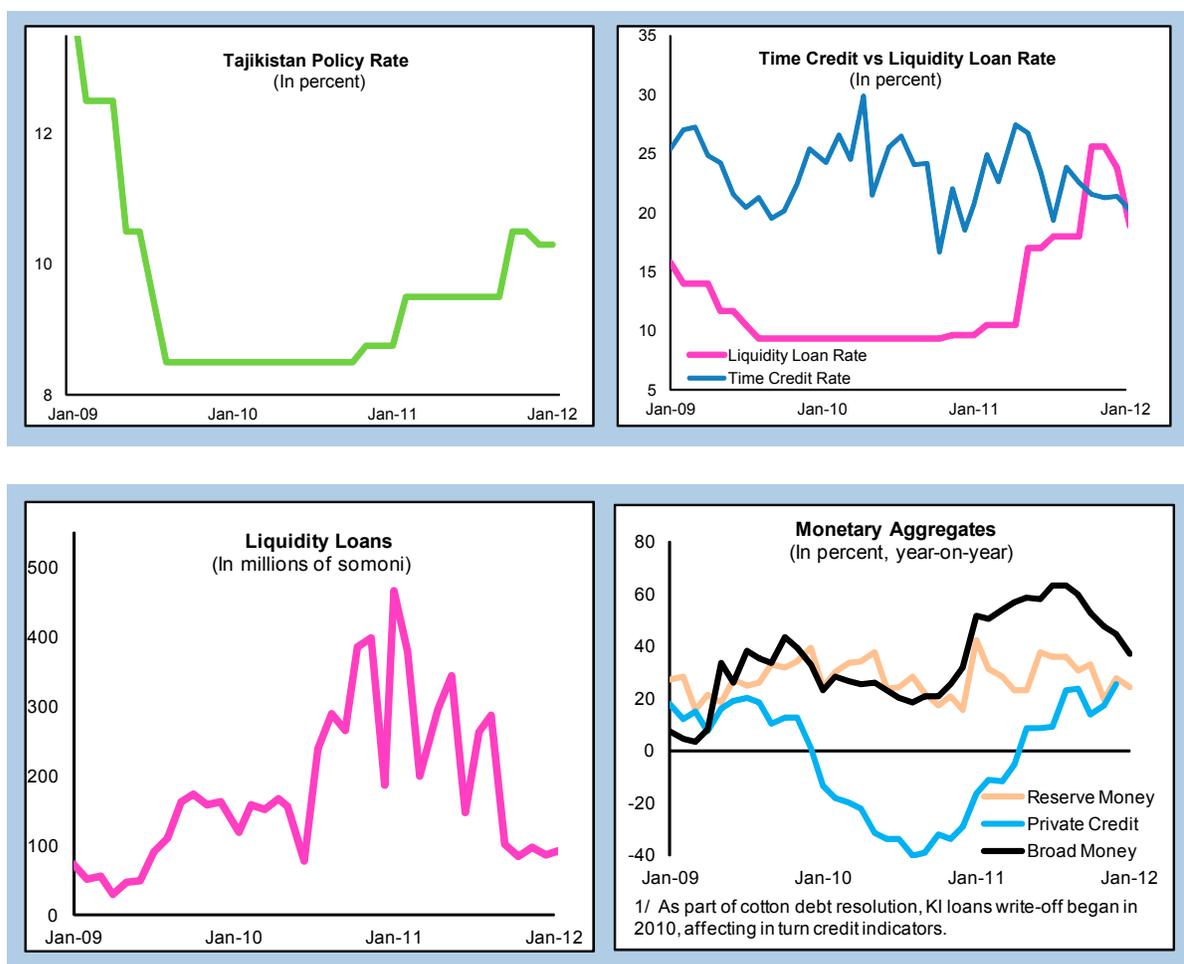
1. **Economic growth in 2011 was stronger than projected, and headline inflation has returned to single digits.** Real GDP growth for 2011 reached 7.4 percent, driven mainly by agriculture, construction, and services—the latter supported by robust inward remittances. After peaking at 14.8 percent in May, headline inflation ended the year at 9.3 percent, and declined further in early 2012 due largely to lower food prices. Core inflation (CPI excluding food and energy) increased in the middle of 2011 due to higher administered prices and some spillover into services, and has hovered around 7 percent since fall 2011. A stable exchange rate in the second half of 2011 likely helped to moderate inflation expectations and could, together with a more benign outlook for non-energy commodity prices, lead to a lasting decline of inflation rates. However, high oil prices and recent increases in electricity tariffs will add upward pressure on energy prices. Additionally, trade disruptions and the increase of rail transport tariffs in Uzbekistan at the beginning of 2012 highlight risks to import prices.



2. **The external accounts deteriorated by less than anticipated.** The external current account balance shifted from a surplus of 2.1 percent in 2010 to a deficit of 2.3 percent in 2011 (compared with an earlier projected deficit of 4.2 percent). While higher food and fuel prices raised the import bill, inward remittances increased by 34 percent in 2011. Fuel imports also dropped sharply following the increase in fuel tariffs by Russia, which lessened the impact on the current account balance. As a result, the somoni has been remarkably stable *vis-à-vis* the U.S. dollar since September, and the NBT was able in the fourth quarter to accumulate international reserves more rapidly than expected.



3. **Fiscal performance was stronger than targeted.** In 2011, Tajikistan recorded a fiscal surplus (excluding the foreign financed public investment plan—PIP) of 0.5 percent of GDP, compared with a targeted end-year deficit of 0.6 percent. This mainly reflects stronger-than-projected revenues. Notably, tax revenues in January 2012 (seasonally one of the lower months for tax collection) continue to exceed projections.
4. **Monetary policy was tightened in the second half of 2011, but eased in early 2012 in light of lower inflation.** The NBT refinance rate was lowered to 9.0 percent in February 2012—back to the level of summer 2011. However, the interest rate for NBT liquidity loans to commercial banks stood above 20 percent in March, in line with the authorities’ commitment to set this rate with a mark-up on average credit rates. The volume of liquidity lending was reduced such that reserve money growth declined from over 35 percent in July to below 28 percent by December 2011. Private sector credit growth was 23.9 percent by end-2011. The recapitalization of the NBT continues, but at a slower pace than anticipated. Efforts to secure repayment of cotton debts by private investors have fallen short, but the MOF made the first direct injection of capital (via T-bill issuance) in December 2011.
5. **Intra-test date volatility of liquidity lending and the dependence of some banks on such liquidity support remain a concern.** The demand for liquidity support from the NBT reflects the absence of functioning money markets and insufficient capital levels of some banks. The interbank market is virtually non-existent—severely limiting the ability of banks to manage their own liquidity. While the system-wide capital adequacy ratio is sufficiently high at over 19 percent, one large bank has fallen below the minimum level of 15 percent. Discussions on recapitalization strategies are ongoing, as are discussions on addressing the problems of a second, smaller, distressed bank. But a durable improvement to banking sector performance and financial intermediation will require supporting measures to address corporate governance concerns and directed/connected lending.



## II. PROGRAM REVIEW AND POLICY DISCUSSIONS

### A. Program Review

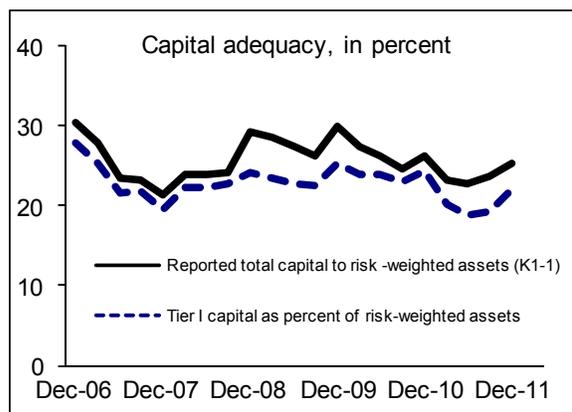
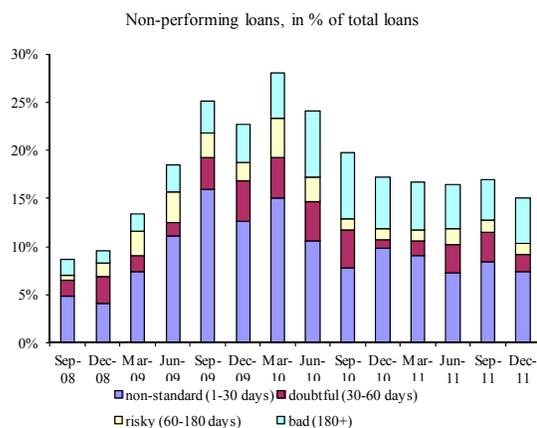
6. **Performance on quantitative targets was strong.** All quantitative performance criteria and indicative targets for end-December were met. The government budget recorded a surplus of 0.5 percent of GDP in 2011 against a programmed deficit of 0.6 percent of GDP, and indicative targets on tax revenue and social spending were met. No new arrears were accumulated, and external debt has been contracted on concessional terms. With the tighter fiscal position and control over liquidity loans (on a quarterly basis), reserve money growth was kept to levels consistent with inflation objectives. Due to strong remittances and exports, and sharper-than-expected import compression following Russia's increase in fuel export taxes, the NBT over-performed with respect to NIR accumulation. NBT foreign exchange reserves rose some \$27 million in the fourth quarter, compared with the target of \$11 million.

### Box 1. Tajikistan: Financial Sector Developments

**Vulnerabilities in Tajikistan's financial sector remain a cause of concern.** Implementation of the Financial Sector Stability Action Plan (FSSAP) has improved aspects of accounting and provisioning, but further steps are needed for some banks with respect to capital adequacy and dependence on NBT liquidity support.

**Banking system profitability remains low and non-performing loans relatively high.** Despite strong economic growth, favorable commodity prices for key exports, and a stable exchange rate (vis-à-vis the US dollar) in the second half of 2011 ROA was below 1 percent and ROE just above 3 percent. Classified loans also remain stubbornly high. While classified loans declined markedly in 2010 due to the write-off of cotton loans, banks were not able to lower the NPL ratio below 15 percent (1+ days overdue) and 7 percent (30+ days overdue) system-wide on a sustained basis. In line with tighter regulation, the ratio of provisions to non-performing loans increased significantly.

**The capital adequacy ratio (CAR) has been increased from 12 to 15 percent for the largest eight banks in Tajikistan.** While this induced capital injections in some banks, one large bank, struggles to meet minimum CAR. With technical assistance from the IMF and the World Bank, options for a restructuring or recapitalization are now being considered.



**Directed lending and lending to related parties remain at the root of the low profitability of Tajikistan's banking system.** Although the interest rate for government securities issued to compensate for the write-off of directed cotton sector loans was increased to 8 percent since the beginning of 2012 it remains below the refinancing rate of the NBT and average inflation rates in the past two years. The share of non-interest bearing assets also increased through the purchase of Roghun shares in the financing campaign of early 2010.

**The financial system has few direct linkages to the European banking system, but is still vulnerable to shocks.** The higher CAR requirements have strengthened the banking sector, but stress tests conducted on the basis of end-2011 data indicate that the exposure to large borrowers remains a potential pitfall. Additionally, liquidity tests indicate that especially a run on foreign exchange-deposits could lead to sizable liquidity shortfalls after a few days.

**The NBT should continue to implement the Financial Sector Stability Action Plan,** but also strengthen forward looking financial supervision with a view to reducing the dependence of commercial banks on NBT liquidity support. The establishment of a prompt remedial action framework (with assistance from the World Bank) is an important step in this regard. Additionally, to protect its international reserves, the NBT should cease issuing liquidity loans in foreign exchange.

7. **Performance on structural benchmarks is largely on track.** One end-December benchmark was delayed due to late provision of technical assistance but has now been completed, and one end-March benchmark is assessed as partially met.

- ***Implementation of a Treasury Single Account*** at the republican level has been completed, following training of staff at selected localities. The authorities intend to expand the system beyond the republican level during 2013–14.
- ***The external financial audit of Roghun OJSC*** was completed in draft as of end-April, and audited financial statements for 2008-09 are expected to be published on the MOF web site by end-May.
- ***A fiscal risk assessment for state owned enterprises*** was delayed due to a lack of TA funding. Funding became available in early 2012, and the assessment was completed in early April and published on the MOF website.
- ***A draft tax code has been prepared, and is a significant improvement over the current version,*** but does not reflect some key recommendations.<sup>1</sup> The authorities’ are concerned over potential revenue loss at a time of pressing spending needs, and have requested additional time and support (including temporary budget support from donors) to devise a tax reform that would minimize revenue loss. A revised draft for parliament is expected by September 2012.

8. **Stricter regulations on provisioning and classification of assets in line with the FSSAP have clarified financial system vulnerabilities.** One large bank (a key recipient of NBT liquidity support) faces particular challenges. In an effort to meet more stringent minimum CAR requirements established under the FSSAP, the bank at end-December reclassified a significant portion of its loan book to “other assets”, ostensibly as part of a planned sale to a new entity (a non-bank investment vehicle). The resulting de-provisioning of these loans allowed for a significant boost to end-year profitability and the CAR for this bank. As the market value of these assets has yet to be determined, and their sale is apparently not imminent, the staff recommended to reverse the reclassification and re-issue end-2011 financial statements accordingly. This was accomplished in late-April 2012. In the meantime, staff recommended close monitoring and strengthened supervision, including a

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<sup>1</sup> An April 2011 FAD tax policy mission recommended elimination of the road users tax and the general sales tax, unification of profit tax rates, raising the VAT rate, and eliminating numerous tax exemptions. Some of these recommendations have been incorporated in the current draft. A technical assistance mission visited Dushanbe in early April to work with the authorities on options for further streamlining and mitigating the short-term revenue loss.

targeted on-site assessment of asset quality, earnings and liquidity, and follow-up with detailed off-site monitoring of these areas.

9. **The state of the large bank<sup>2</sup> noted above is weak, and presents forward-looking risks.** Recent analysis (provided through MCM technical assistance missions and support from the World Bank) suggests that with the reclassification of assets, capital adequacy is likely below the required 15 percent (the deficit vis-à-vis the minimum CAR is estimated to be some SM 200 million or 0.5 percent of GDP). With profitability and cash flow negative, the bank could become insolvent, and a decision is needed on whether/how to restructure and/or recapitalize the bank. A fiscal cost (possibly requiring a supplemental budget) could emerge—particularly as the deposit insurance scheme currently has insufficient funds to cover all insured deposits. Technical assistance is ongoing to sort through restructuring/recapitalization options while seeking to maintain the safety and soundness of the rest of the financial system. The staff have emphasized that a credible restructuring plan is a pre-requisite for engaging in a new IMF-supported program and, equally important, that directed lending (which is at the heart of the current problem) must cease if restructuring is to succeed. Any solution would also need to consider the impact on the NBT.

## **B. Policies for 2012 and Beyond**

10. **The outlook for 2012 is generally positive, but chronic risks remain.** Heavy snowfall in the winter months has brought the promise of higher hydroelectric power production and water for agricultural production, but also the risk of natural disasters (flooding and mudslides). The trend in global food prices suggests less pressure on headline inflation, but oil prices remain high. Regional trade conditions also remain uncertain—significantly raising the cost of doing business and moving goods across borders. With this backdrop, staff and the authorities agreed on a macroeconomic framework to guide policies for the remainder of 2012, and past the expiration of the current ECF program.

11. **Fiscal policy will be guided by the framework agreed during recent reviews.** The government will target a fiscal deficit (excluding the foreign financed PIP) of no more than 0.5 percent of GDP.<sup>3</sup> Efforts will be made to save any excess revenue so as to minimize the need to further draw down the government's limited fiscal cushion (held as deposits in the NBT). The authorities noted that some actions might be needed to boost salaries and wages

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<sup>2</sup> Agroinvestbank, which was restructured in 2004, splitting off problem cotton loans into Kredit-Invest. The European Bank for Reconstruction and Development (EBRD) took a 25 percent stake in AIB in 2009.

<sup>3</sup> A deficit of 0.5 percent of GDP is an expansion relative to the 2011 outturn, but a consolidation relative to the 2011 budget (which targeted a deficit of 1 percent of GDP). Staff believe this remains appropriate, as it reflects priority spending, an agreed path back toward fiscal balance (see EBS/11/64), and because some factors affecting revenue over-performance in 2011 (the sharp rise in prices for commodity imports) may well ease in 2012. However, staff urged the authorities to save any revenue over-performance in 2012.

in key social sector areas by mid-year, and that there may also be spending needs should natural disasters emerge. But efforts would be made to deal with these pressures within the agreed fiscal envelope. The authorities also concurred with staff that further consolidation would be needed over the medium term so as to preclude the need for monetary financing of the deficit and to gradually rebuild the fiscal buffer. But they highlighted the tension between this objective and the short-term revenue losses that would likely accompany significant reform of the tax code, and emphasized the need for additional donor support in this regard.<sup>4</sup>

12. **Monetary policy will focus on price stability, but strike a balance vis-à-vis macro-prudential concerns.** The authorities agreed to target reserve money growth consistent with a further reduction in inflation, while providing sufficient room for private sector credit. In this context, they noted the February decision to lower the refinancing rate in line with the steady decline in inflation. They also highlighted the weak condition of several banks, and the additional costs arising from required temporary contributions to the deposit insurance scheme. In this context, they indicated they would look for opportunities to ease liquidity conditions where possible, but within the boundaries for net domestic assets and reserve money established under the framework. The authorities will continue to allow exchange rate flexibility in line with fundamental movements in the terms of trade and to gradually build the NBT's foreign exchange reserves, but will intervene to limit unwarranted volatility.<sup>5</sup>

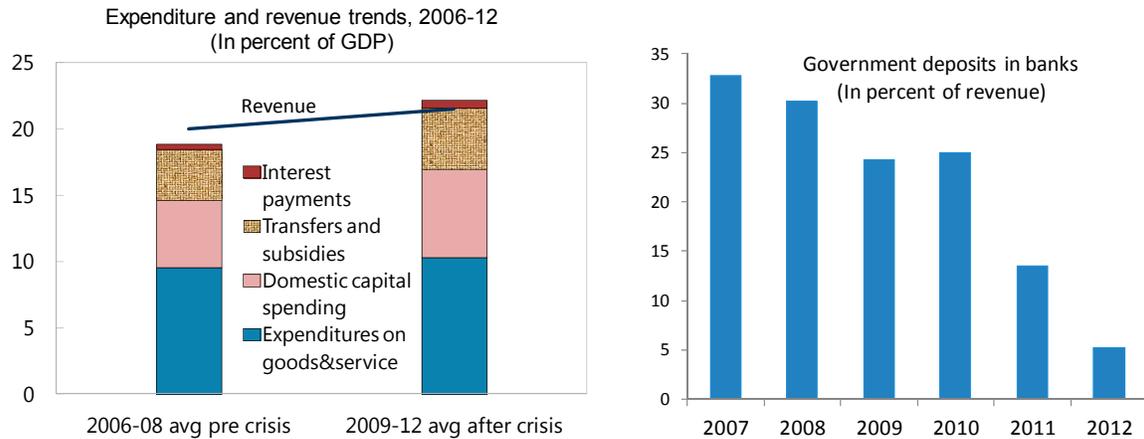
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<sup>4</sup> Lack of data on taxpayers and estimates on tax buoyancy make it difficult to assess the size of the potential loss. A static analysis based on 2011 data suggests that some of the recommendations (such as elimination of the retail sales and road tax, combined with an increase in the VAT) could potentially lower revenue in 2013 by 0.4-0.6 percent of GDP. An FAD technical assistance mission visited Dushanbe during April 2-15 to discuss options in this regard.

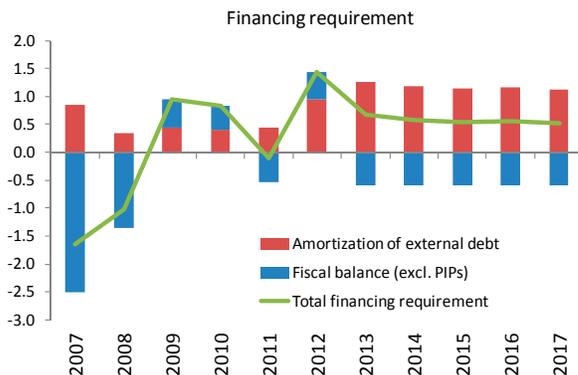
<sup>5</sup> Results of the most recent update to the exchange rate assessment suggest the need for a depreciation of some 5 percent in the real effective exchange rate over the next three years to maintain external equilibrium.

### Box 2. Tajikistan – Changing Fiscal Dynamics

**Tajikistan’s fiscal dynamics are projected to tighten in coming years, highlighting the need for a shift to post-crisis budget policies.** Since the global crisis of 2008, expenditures have outpaced revenue increases, and during 2009-10, the government ran small deficits, financed in part by deposits in the NBT. This fiscal buffer has declined from some 30 percent of annual domestic revenues in 2008 to about 11 percent by end-2011. At the same time, expenditure on wages and salaries has steadily increased, and debt service is expected to rise sharply starting in 2012 as principal payments on debt to China become due.



**To preserve fiscal sustainability, fiscal consolidation will be necessary.** In the absence of external sources of financing and with a shallow domestic debt market, government fiscal space is limited. While the authorities could seek external grants to relief fiscal pressure, these efforts will need to be complemented by fiscal consolidation to preserve fiscal sustainability.



**To stem the draw-down of government deposits, staff projects that (absent new budget support) fiscal consolidation of at least 1.1 percent of GDP will be needed beginning 2013.** The budget, excluding externally financed PIPs, will need to revert to a surplus of at least 0.6 percent. This will still require domestic financing of about 0.5 percent of GDP on a sustained basis, which could be obtained from expanded domestic borrowing, privatization, or asset operations (e.g., gold sales). While in 2011 T-bills net sales amounted to SM25 million, or 0.1 percent of GDP, issuance could

expand to 0.5 percent of GDP in the medium-term. A more ambitious approach—rebuilding the fiscal cushion to 20 percent of revenues by 2017—would require sharper fiscal consolidation, on the order of 2 percent of GDP starting in 2013.

**A tighter fiscal stance will likely require some expenditure cuts in the short-run, possibly including non-priority capital spending.** Building revenues on the basis of the new tax code (expected by end-2012) should be a priority. However, immediate revenue gains are unlikely, and a heavy reliance on expenditure consolidation may be necessary in the short run. Taken together with risks stemming from external shocks and exchange rate movements, the authorities must carefully prioritize spending and identify areas for contingent cuts.

**13. Debt management policies should remain conservative in light of Tajikistan's current high debt risk rating under the joint Bank-Fund debt sustainability framework.**

The authorities are in the process of drafting a new debt management strategy, and in this context raised the possibility of raising the public debt limit from the current 40 percent of GDP in nominal terms to 40 percent of GDP in NPV terms. From their perspective, the current debt limit has constrained the government's ability to contract large loan packages essential for infrastructure development. The staff highlighted the results from the most recent debt sustainability analysis framework, which indicates that Tajikistan remains at a high risk of debt distress. Staff also emphasized that, with limited domestic resources, a small reserve cushion, and frequent external shocks, it will be important to maintain a conservative strategy with respect to public debt. However, in light of recent improvements to institutional capacity, the limits could be reviewed again in 2013.<sup>6</sup>

**14. Structural reform remains essential to achieving the growth and social objectives**

outlined in the government's National Development Strategy and Poverty Reduction Strategy. The authorities indicated that work has begun on the new three-year segment (2013-15) of the national development strategy, as well as a new poverty reduction strategy to cover the same period. In discussions with the authorities, staff emphasized the following as key to sustained macroeconomic stability and inclusive growth: (i) further enhancing the independence and governance of the NBT; (ii) building on recent progress in strengthening public financial management and transparency; (iii) active reform of tax policy and tax administration; (iv) financial sector reform—particularly a more active supervisory function at the central bank and fostering stronger corporate governance<sup>7</sup>; and (v) capital market development—building on the progress made in government securities auctions.

### **C. Follow-On Program**

**15. The current ECF arrangement has made progress in meeting macroeconomic objectives and facilitating structural reforms.** Economic outcomes during 2009–11 have generally been in line with or better than projections at the onset of the program. Real GDP growth generally exceeded expectations, inflation came in below projections, external debt has been kept in check, and gross reserve accumulation has—in nominal terms—exceeded targets set under the original program. Government spending has shifted to accommodate

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<sup>6</sup> Tajikistan has made slow but steady progress on the Country Policy Institutional Assessment (CPIA). If recent gains can be held through 2012, Tajikistan could transition from a weak to medium policy performance. This could, in turn, lead to higher debt/export thresholds—and possibly lead to a move from high to medium debt distress risk.

<sup>7</sup> The World Bank is to undertake a multi-year TA program supported by the FIRST Initiative. The main objectives are to support financial sector stability in Tajikistan by strengthening the supervisory and regulatory framework for banks and deposit-taking micro-finance organizations (MFOs) and increase the NBT's capacity to monitor the financial sector more effectively and address vulnerabilities in a timely manner.

higher wages, salaries and transfers (to protect the poor and encourage provision of basic services), while investment spending has been robust. Virtually all structural benchmarks and most measures outlined in the MEFP have been completed—albeit some with delays. Progress has also been made on heightened transparency at the NBT, and with respect to the financial operations of state enterprises (including Roghun). In the latter half of the program, new emphasis was put on addressing financial sector vulnerabilities, and reforming a complicated tax code—with a view to encouraging greater transparency and boosting prospects for private sector growth.

#### Tajikistan -- Economic Outturns versus 2009 ECF Projections

(In percent, unless otherwise indicated)

	2009	2010	2011	Average
Real GDP (Prog)	2.0	3.0	5.0	3.3
Real GDP (Act)	3.9	6.5	7.4	5.9
CPI (Prog)	13.0	10.0	9.0	10.7
CPI (Act)	5.0	9.8	9.3	8.0
Ext. Debt-to-GDP (Prog)	34.2	36.8	35.0	35.3
Ext. Debt-to-GDP (Act)	34.0	34.4	32.0	33.5
Gross Reserves, millions of US dollars (Prog)	228	293	348	290
Gross Reserves, millions of US dollars (Act) <sup>1</sup>	278	476	572	442
Reserve Cover (Prog)	1.3	1.5	1.7	1.5
Reserve Cover (Act) <sup>1</sup>	1.2	1.5	1.6	1.4

<sup>1</sup>The over-performance of gross reserves in nominal terms has not translated into a higher import cover because the value of imports turned out much higher than anticipated at the time of the ECF approval.

16. **At the authorities' request, discussions on a successor arrangement were initiated in the context of the review mission.** The authorities indicated that, while a new program was needed, additional time for thought on program objectives was needed. The staff intends to continue discussion on macroeconomic policies, and the structure of the 2013 budget, and will field another mission for program discussions when requested by the authorities.

#### D. Forward Looking Risks

17. **Tajikistan remains vulnerable to external shocks, but also to internal risks.** On the external front chronic trade disputes and abrupt changes in trade policies can create disruptions to the external current account, and can also (as was seen in 2011) spill over into

the exchange rate. Climatic conditions can also have a serious impact on industrial production and agricultural input, and can lead to unanticipated spending needs in the event of natural disasters. The current problems in the banking system also pose serious quasi-fiscal risks, and should not be underestimated given the embryonic state of the deposit insurance system. Debt sustainability also remains a concern, as a range of potential shocks (lower growth, less favorable financing terms, or slow progress on fiscal consolidation) could result in an unsustainable debt burden. Related to this, the financing of the Roghun hydropower project<sup>8</sup> remains an unknown, and could have significant implications for macroeconomic stability and fiscal/external sustainability.

### III. STAFF APPRAISAL

18. **Tajikistan has successfully emerged from the global crisis**, and has navigated a difficult external environment with comparative success. Two years of robust growth—supported by a recovery of remittances to pre-crisis levels and relatively good agricultural yields—have lifted per capita GDP and provided some space to maintain robust capital investment and to raise social sector spending. Tajikistan remains vulnerable to a range of external shocks, and economic outcomes hinge critically on regional trade, transport, and investment policies. Comparatively low institutional capacity, governance issues, and lack of policy coordination also give rise to vulnerabilities. These factors have complicated macroeconomic management and program performance, and work against the government’s growth and development objectives.

19. **Program performance through end-2011 has been strong.** All quantitative performance criteria and indicative targets have been met. Preliminary data for January-February also suggest that the authorities are broadly on track to meet indicative program targets for March. Progress on structural reforms has also been good, with three out of the four benchmarks fully met. The remaining benchmark (a draft of the new tax code) is considered partially met, but with a commitment to keep working on a solution that balances meaningful reform with greater efforts to achieve a revenue-neutral outcome. Technical assistance to achieve this objective is already underway.

20. **Positive progress notwithstanding, macroeconomic policies and development objectives could be strengthened by decisive structural reforms.** These should, in staff’s view, focus most importantly on reinvigorating the transition to a market economy. In effect, this means (i) progressively subjecting state enterprises to greater financial discipline; (ii) breaking directed/connected lending links with banks, which should facilitate stronger bank performance and public confidence in the banking system; and (iii) reforms to tax policy and tax administration to make a lasting and significant change to the business environment. In

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<sup>8</sup> A World Bank techno-economic assessment study and an environmental and social impact assessment of the Roghun project are ongoing.

this context, a solution to current banking system problems is essential to avoid a crisis. The staff urges the authorities to move quickly to enhance supervision, as recommended, and work with TA recommendations to produce a credible, time-bound workout strategy for banks not meeting prudential criteria. To ensure success this must be backed by changes in supervision and governance such that directed/connected lending does not give rise to a recurrence of these problems. Staff also continues to urge a bold approach to reform of the tax code, given the lasting impact that a credible streamlining of the tax system could have on the investment environment and private sector-led growth. While the current draft reflects a significant improvement, further streamlining the number of taxes, elimination of exemptions, and unifying the profit tax rates would be a further step forward.

21. **Looking ahead, macroeconomic policies must continue to navigate a difficult external environment.** Downside risks to global and regional growth, as well as turbulent international commodity prices, represent a risk to near-term growth prospects, as well as fiscal and external current account balances. Changing fiscal dynamics and medium-term financing constraints also pose challenges going forward. Staff welcomes the authorities' view that further fiscal consolidation—while prioritizing expenditures to meet essential infrastructure and social spending needs—is needed to maintain macroeconomic stability. Efforts to expand financing options (through domestic debt, sale of assets, increases in the medium-term tax take, or additional budget support) will also be necessary. The commitment to exchange rate flexibility is also welcome, as are efforts to boost competitiveness. A continued cautious approach to external debt is needed however, particularly in light of the high risk of debt distress and underlying vulnerability to shocks.

22. **Staff supports the authorities' request for completion of the sixth review, and the seventh disbursement.** The authorities have successfully implemented the program under the ECF arrangement through December 2011, and completion of the review would provide additional support to external buffers, facilitate timely receipt of donor support, and bring the current program to a close.

Table 1. Tajikistan: Selected Economic Indicators, 2010–17

	2010	2011	2012	2013	2014	2015	2016	2017
	Act.	Est.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.
(Annual percent change; unless otherwise indicated)								
<b>National accounts</b>								
Real GDP	6.5	7.4	6.0	6.0	6.0	6.0	6.0	6.0
GDP deflator (cumulative)	12.5	13.3	12.0	7.3	7.0	7.0	7.0	7.0
Headline CPI inflation (end-of-period)	9.8	9.3	9.0	7.3	7.0	7.0	7.0	7.0
Headline CPI inflation (period average)	6.4	12.4	7.8	8.4	7.1	7.0	7.0	7.0
Core CPI inflation (period average)	6.0	5.6	7.5	7.5	7.1	7.0	6.5	6.2
(In percent of GDP; unless otherwise indicated)								
<b>Investment and saving 1/</b>								
Investment	17.9	20.5	19.9	17.1	17.0	19.4	19.0	19.2
Fixed capital investment	12.9	15.5	15.4	14.1	14.0	16.4	17.5	17.7
Government	10.9	12.5	11.4	8.6	7.7	8.9	9.0	9.2
Private	2.0	3.0	4.0	5.5	6.3	7.5	8.5	8.5
Gross national savings	20.0	18.1	16.3	12.1	12.1	14.3	13.4	14.8
Public	7.2	10.0	8.1	7.3	6.9	7.5	7.3	7.2
Private	12.9	8.1	8.1	4.9	5.1	6.7	6.0	7.6
<b>General government finances</b>								
Revenue and grants	23.2	24.9	25.7	24.7	24.4	25.2	25.2	25.2
Tax revenue	18.0	19.4	19.3	19.4	19.6	19.9	20.1	20.3
Expenditure and net lending 6/	26.9	27.3	29.0	26.0	25.2	26.6	26.8	27.2
Current 6/	15.0	15.1	17.5	17.4	17.5	17.6	17.8	18.0
Capital	10.9	12.5	11.4	8.6	7.7	8.9	9.0	9.2
Overall balance (excl. PIP and stat. discrepancy)	-0.4	0.5	-0.5	0.6	0.6	0.6	0.6	0.6
Overall balance (incl. PIP and stat. discrepancy)	-3.7	-2.5	-3.3	-1.3	-0.7	-1.4	-1.6	-2.0
Domestic financing	-0.4	-0.1	1.4	0.7	0.6	0.5	0.6	0.5
External financing	4.1	2.6	1.8	0.7	0.2	0.9	1.1	1.5
Overall balance (incl. PIP, stat. discrepancy, Roghun OJSC) 2/	-1.1	-3.6	-6.0	-3.4	-2.1	-3.0	-1.6	-2.0
Total public and publicly-guaranteed debt	36.1	34.3	33.5	34.9	35.5	35.8	36.1	34.8
<b>Monetary sector</b>								
Broad money (12-month percent change)	26.2	44.2	23.2	18.2	18.0	18.2	17.4	17.2
Reserve money (12-month percent change)	15.8	27.9	19.4	15.7	15.7	15.9	15.2	15.0
Credit to private sector (12-month percent change) 4/	-25.7	23.9	18.2	15.5	17.4	22.5	15.4	16.8
Velocity of broad money (eop)	4.9	4.1	4.0	3.8	3.7	3.5	3.4	3.3
Refinancing rate (in percent, eop, latest value for current year)	8.25	9.80	9.0	...	...	...	...	...
(In percent of GDP; unless otherwise indicated)								
<b>External sector 3/</b>								
Exports of goods and services (U.S. dollar, percent change)	32.3	7.0	0.0	8.5	7.6	7.8	8.0	9.5
Imports of goods and services (U.S. dollar, percent change)	9.4	36.6	7.0	9.0	6.7	8.4	8.8	6.3
Current account balance	2.1	-2.3	-3.6	-5.0	-4.9	-5.2	-5.6	-4.4
Total public and publicly guaranteed external debt	33.9	32.1	31.2	32.5	32.8	32.7	32.6	31.0
Gross official reserves (in U.S. dollars)	476	572	662	762	862	992	1,142	1,292
In months of next year's imports 5/	1.5	1.6	1.7	1.8	1.9	2.0	2.2	2.3
In percent of broad money	21.4	16.9	15.0	13.6	12.4	11.6	11.0	10.2
<b>Memorandum items:</b>								
Nominal GDP (in millions of somoni)	24,705	30,069	35,686	40,602	46,031	52,186	59,163	67,073
Nominal GDP (in millions of U.S. dollars)	5,642	6,523	7,242	7,697	8,258	9,001	9,858	10,817
Nominal effective exchange rate (Index 2000=100)	69.5	62.1	...	...	...	...	...	...
Real effective exchange rate (Index 2000=100)	92.1	90.2	...	...	...	...	...	...
Average exchange rate (somon per U.S. dollar)	4.38	4.61	...	...	...	...	...	...

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

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

2/ For consolidation, Roghun equity sales in 2010–11 are added to general government revenue. Over 2011–15, it is assumed that the remaining financing needs of Roghun OJSC are met from external sources at concessional terms.

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

4/ Decline in 2010 is due to resolution of Kredit Invest (KI) carrying large nonperforming loans to the cotton sector.

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

6/ Including statistical discrepancy.

Table 2. Tajikistan: General Government Operations, 2010–13  
(In millions of somoni; unless otherwise indicated)

	2010	2011		2012	2013
	Act.	EBS/11/191	Act.	Proj.	Proj.
Overall revenues and grants	5,722	7,351	7,483	9,175	10,023
Total revenues	5,153	6,698	6,792	8,069	9,223
Tax revenues	4,436	5,759	5,833	6,878	7,868
Income and profit tax	780	990	987	1,217	1,387
Payroll taxes	567	730	741	930	1,063
Property taxes	152	177	171	206	236
Taxes on goods and services	2,582	3,403	3,472	4,074	4,659
VAT	1,823	2,433	2,511	2,910	3,327
Excises and other internal indirect taxes	759	970	962	1,164	1,331
International trade and operations tax	355	458	461	452	523
Nontax revenues	718	940	960	1,191	1,355
Of which: Extra-budgetary funds	404	430	457	517	589
Grants	568	653	690	1,106	800
Of which: Public Investment Program (PIP) financing	367	492	534	868	628
Total expenditures and net lending	6,457	8,298	8,127	10,340	10,556
Current expenditures	3,698	4,958	4,450	6,262	7,061
Expenditures on goods and services	2,414	3,410	2,964	4,204	4,822
Wages and salaries	1,141	1,452	1,465	1,920	2,268
Others	1,274	1,958	1,499	2,284	2,554
Of which: extra-budgetary funds	362	430	473	517	589
Interest payments	121	192	156	323	225
External	100	159	127	167	160
Domestic	0	33	29	155	64
To NBT (for recapitalization bonds)	...	15	0	26	41
To banks (for cotton debt resolution bonds)	...	18	18	14	24
Transfers and subsidies	1,162	1,356	1,330	1,735	2,014
Transfers to households	1,087	1,221	1,238	1,575	1,812
Subsidies and other current transfers	75	136	92	160	202
Capital expenditures	2,693	3,185	3,756	4,069	3,486
Externally financed PIP	1,178	1,270	1,438	1,853	1,414
Of which: with loans from China	475	572	646	298	133
Domestically financed	1,515	1,915	2,317	2,216	2,072
Net lending	67	155	-79	9	9
Statistical discrepancy ("+" = additional spending)	185	18	98	...	...
Overall balance (incl. PIP)	-920	-965	-741	-1,165	-534
Overall balance (excl. PIP and PIP-related grants)	-110	-187	164	-180	252
Total financing (incl. PIP)	920	965	741	1,165	534
Net external	1,020	653	769	650	271
Disbursements	1,118	778	905	986	786
Program loans	307	0	0	0	0
Project loans	811	778	905	986	786
Amortization	-97	-125	-135	-335	-515
Net domestic	-100	312	-29	515	263
NBT	-253	207	388	365	157
Commercial banks	-35	80	24	125	81
Operations with assets 1/	187	25	-440	25	25
Accumulation of arrears	0	0	0	0	0
<i>Memorandum items:</i>					
Recapitalization bonds–NBT 2/	...	140	120	140	140
Recapitalization bonds–commercial banks 2/	353	...	...	...	...

Sources: Tajikistan authorities, and Fund staff estimates.

1/ Includes transfer of MDRI deposits to the NBT in 2011 towards NBT recapitalization.

2/ Issuance to compensate the NBT and banks for losses related to cotton lending as part of cotton debt resolution.

Table 3. Tajikistan: General Government Operations, 2010–13  
(In percent of GDP; unless otherwise indicated)

	2010	2011		2012	2013
	Act.	EBS/11/191	Act.	Proj.	Proj.
Overall revenues and grants	23.2	23.5	24.9	25.7	24.7
Total revenues	20.9	21.4	22.6	22.6	22.7
Tax revenues	18.0	18.4	19.4	19.3	19.4
Income and profit tax	3.2	3.2	3.3	3.4	3.4
Payroll taxes	2.3	2.3	2.5	2.6	2.6
Property taxes	0.6	0.6	0.6	0.6	0.6
Taxes on goods and services	10.5	10.9	11.5	11.4	11.5
VAT	7.4	7.8	8.4	8.2	8.2
Excises and other internal indirect taxes	3.1	3.1	3.2	3.3	3.3
International trade and operations tax	1.4	1.5	1.5	1.3	1.3
Sales taxes	0.5	0.3	0.4	0.2	0.2
Import duties	0.9	1.2	1.1	1.0	1.0
Nontax revenues	2.9	3.0	3.2	3.3	3.3
<i>Of which:</i> Extra-budgetary funds	1.6	1.4	1.5	1.4	1.4
Grants	2.3	2.1	2.3	3.1	2.0
<i>Of which:</i> Public Investment Program (PIP) financing	1.5	1.6	1.8	2.4	1.5
Total expenditure and net lending	26.1	26.5	27.0	29.0	26.0
Current expenditures	15.0	15.9	14.8	17.5	17.4
Expenditures on goods and services	9.8	10.9	9.9	11.8	11.9
Wages and salaries	4.6	4.6	4.9	5.4	5.6
Others	5.2	6.3	5.0	6.4	6.3
<i>Of which:</i> extra-budgetary funds	1.5	1.4	1.6	1.4	1.4
Interest payments	0.5	0.6	0.5	0.9	0.6
External	0.4	0.5	0.4	0.5	0.4
Domestic	0.0	0.1	0.1	0.4	0.2
To NBT (for recapitalization bonds)	...	0.0	0.0	0.1	0.1
To banks (for cotton debt resolution bonds)	...	0.1	0.1	0.0	0.1
Transfers and subsidies	4.7	4.3	4.4	4.9	5.0
Transfers to households	4.4	3.9	4.1	4.4	4.5
Subsidies and other current transfers	0.3	0.4	0.3	0.4	0.5
Capital expenditures	10.9	10.2	12.5	11.4	8.6
Externally financed PIP	4.8	4.1	4.8	5.2	3.5
<i>Of which:</i> with loans from China	1.9	1.8	2.1	0.8	0.3
Domestically financed	6.1	6.1	7.7	6.2	5.1
Net lending	0.3	0.5	-0.3	0.0	0.0
Statistical discrepancy ("+" = additional spending)	0.7	0.1	0.3	...	...
Overall balance (incl. PIP)	-3.7	-3.1	-2.5	-3.3	-1.3
Overall balance (excl. PIP and PIP-related grants)	-0.4	-0.6	0.5	-0.5	0.6
Total financing (incl. PIP)	3.7	3.1	2.5	3.3	1.3
Net external	4.1	2.1	2.6	1.8	0.7
Disbursements	4.5	2.5	3.0	2.8	1.9
Program loans	1.2	0.0	0.0	0.0	0.0
Project loans	3.3	2.5	3.0	2.8	1.9
Amortization	-0.4	-0.4	-0.4	-0.9	-1.3
Net domestic	-0.4	1.0	-0.1	1.4	0.7
NBT	-1.0	0.7	1.3	1.0	0.4
Commercial banks	-0.1	0.3	0.1	0.4	0.2
Operations with assets 1/	0.8	0.1	-1.5	0.1	0.1
Accumulation of arrears	0.0	0.0	0.0	0.0	0.0
<i>Memorandum items:</i>					
Public debt (in percent of GDP)	36.1	33.3	34.3	33.9	35.2
Nominal GDP (in millions of somoni)	24,705	31,256	30,069	35,686	40,602
Social and poverty-related expenditure (in percent of GDP) 2/	9.0	9.1	9.4	9.8	...

Sources: Tajikistan authorities, and Fund staff estimates.

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

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

Table 4. Tajikistan: Accounts of the National Bank of Tajikistan, 2010–12  
(End-of-period stock; unless otherwise specified)

	2010	2011	2012			
	Dec. Act.	Dec. Act.	March Proj.	June Proj.	Sept. Proj.	Dec. Proj.
	(In millions of somoni)					
Net foreign assets	1,251	1,788	1,857	1,973	2,034	2,170
Gross assets	2,096	2,722	2,893	3,126	3,206	3,375
Gross liabilities	846	934	1,036	1,153	1,173	1,206
Net international reserves 1/	1,651	2,145	2,215	2,338	2,405	2,551
Gross international reserves 1/	2,096	2,722	2,893	3,126	3,206	3,375
Gross reserve liabilities	446	578	677	788	801	824
Net domestic assets	1,739	2,034	1,885	2,060	2,140	2,393
Net credit to general government	-1,462	-856	-1,018	-765	-552	-360
General government	-1,113	-725	-887	-644	-471	-360
Roghun JSC	-349	-131	-131	-121	-81	0
Credit to the private sector 2/	410	286	311	273	181	309
Claims on banks	262	139	164	126	34	162
Cotton sector	0	0	0	0	0	0
NBT bills	-3	-25	-33	-71	-163	-35
Liquidity loans	186	86	120	120	120	120
Credit to nonbank institutions	148	147	147	147	147	147
Other items net	2,790	2,605	2,592	2,552	2,511	2,444
Retained profits (-) and provisions (+)	2,850	2,304	...	...	...	...
Reserve money	2,990	3,823	3,742	4,033	4,173	4,562
Currency in circulation	2,421	2,988	3,068	3,307	3,380	3,650
Bank reserves	565	834	673	725	792	912
Required reserves	234	337	335	355	391	553
Somoni	128	181	181	193	214	235
Foreign exchange	106	156	154	162	176	318
Other bank deposits	331	497	338	370	402	359
Other deposits	4	1	1	1	1	1
	(12-month growth in percent of reserve money)					
Reserve money	15.8	27.9	30.9	29.2	20.8	19.4
Net foreign assets	28.9	18.0	18.0	13.9	10.1	10.0
Gross international reserves	34.1	20.9	23.3	36.2	16.9	17.1
Net international reserves	23.9	16.5	16.2	31.4	11.1	10.6
Net domestic assets	-13.1	9.9	12.9	15.3	10.8	9.4
Net credit to general government	-23.1	20.2	24.9	24.7	13.8	13.0
Credit to the private sector	-1.4	-4.2	-4.6	-3.3	-2.1	0.6
NBT bills	-0.1	-0.7	-0.9	-2.2	-1.8	-0.3
Other items net	11.4	-6.2	-7.4	-6.1	-0.9	-4.2
<i>Memorandum items:</i>						
Net international reserves (in millions of U.S.dollars)	375	451	463	480	485	501
Net international reserves (percent of broad money)	32.5	29.2	30.6	30.7	29.0	28.4
Official exchange rate (somoni/U.S. dollars)	4.40	4.76	...	...	...	...

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

1/ Excludes nonmonetary gold.

2/ Decrease in 2010 reflects the write-off of credits to KI.

Table 5. Tajikistan: Monetary Survey, 2010–12

	2010	2011	2012			
	Dec.	Dec.	March	June	Sept.	Dec.
	Act.	Act.	Proj.	Proj.	Proj.	Proj.
(In millions of somoni, end-of-period stock)						
Net foreign assets	1,239	1,463	1,531	1,648	1,708	1,844
National Bank of Tajikistan 1/	1,251	1,788	1,857	1,973	2,034	2,170
Commercial banks	-11	-325	-325	-325	-325	-325
Net domestic assets	3,865	5,953	5,781	6,045	6,671	7,205
Net credit to general government (incl. Roghun OJSC)	-1,282	-642	-762	-439	-216	8
National Bank of Tajikistan	-1,462	-856	-1,018	-765	-552	-360
Commercial banks	179	214	256	326	336	368
Credit to the private sector	3,291	4,080	4,029	4,000	4,436	4,821
Other items net	1,856	2,515	2,514	2,484	2,452	2,377
Broad money (excl. bills payable)	5,078	7,340	7,237	7,617	8,304	8,974
Somoni broad money	3,179	4,450	4,388	4,618	5,035	5,441
Currency outside banks	2,011	2,723	2,658	2,770	2,989	3,196
Deposits	1,169	1,727	1,730	1,849	2,045	2,245
Foreign currency deposits	1,899	2,890	2,849	2,999	3,269	3,533
Bills payable 2/	26	76	76	76	76	76
(12-month growth in percent of broad money)						
Broad money (excl. bills payable)	25.7	44.5	27.1	20.2	19.1	22.3
Net foreign assets	17.2	4.4	4.0	3.8	1.5	5.2
National Bank of Tajikistan	18.5	10.6	9.0	6.8	5.0	5.2
Commercial banks	-1.2	-6.2	-5.0	-3.1	-3.5	0.0
Net domestic assets (incl. bills payable)	8.2	41.1	23.5	16.5	17.5	17.1
Net credit to general government	-12.0	12.6	14.1	13.5	8.8	8.9
Credit to the private sector	-28.1	15.5	9.6	4.1	6.3	10.1
Other items net	48.4	13.0	-0.2	-1.1	2.3	-1.9
Bills payable	-0.3	1.0	0.5	0.1	-0.1	0.0
<i>Memorandum items:</i>						
Deposit dollarization (in percent)	61.9	62.6	...	...	...	...
Velocity 3/	4.9	4.1	...	...	...	4.0
Money multiplier	1.7	1.9	...	...	...	2.0

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

1/ Excludes nonmonetary gold.

2/ Liabilities to cotton financiers related to domestic cotton financing.

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

**Table 6. Balance of Payments, 2010–17**  
(In millions of U.S. dollars, unless otherwise indicated)

	2010	2011	2012	2013	2014	2015	2016	2017
	Act.	Est.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.
Current account	120	-153	-263	-383	-404	-466	-551	-473
Balance on goods and services	-1,969	-2,986	-3,269	-3,568	-3,797	-4,121	-4,495	-4,730
Balance on goods	-1,955	-2,795	-3,062	-3,346	-3,557	-3,853	-4,197	-4,420
Exports	594	529	498	548	596	648	706	788
Imports	-2,549	-3,324	-3,561	-3,894	-4,153	-4,501	-4,903	-5,209
Balance on services	-14	-191	-207	-223	-240	-268	-298	-309
Balance on income	-79	-52	-50	-53	-61	-65	-68	-70
Balance on transfers	2,167	2,885	3,057	3,239	3,453	3,720	4,011	4,327
Migrants' remittances, net	2,040	2,798	2,969	3,177	3,399	3,674	3,970	4,291
Capital and financial account	-10	228	312	294	300	430	535	651
Capital transfers	84	116	176	119	89	90	99	56
Public sector (net)	210	161	122	49	11	77	103	155
Disbursements	255	195	197	149	111	181	219	278
Projects financed by China	108	139	60	25	35	50	50	50
Amortization	-45	-34	-75	-100	-99	-104	-116	-123
FDI	16	18	50	135	165	216	266	325
Commercial bank NFA (- increase)	11	66	-5	-4	-4	-4	-4	-4
Other capital flows and errors and omissions 1/	-332	-132	-32	-5	38	50	71	119
Overall balance	109	75	50	-89	-105	-37	-16	178
Financing items	-109	-75	-50	89	105	37	16	-178
Use of international reserves (- increase)	-169	-96	-90	-100	-100	-130	-150	-150
IMF net purchases	60	21	20	0	-4	-12	-22	-28
Residual financing gap 2/	0	0	20	189	209	179	188	...
<i>Memorandum items:</i>								
Nominal GDP	5,642	6,523	7,244	7,700	8,261	9,005	9,862	10,821
Current account balance (in percent of GDP) 2/	2.1	-2.3	-3.6	-5.0	-4.9	-5.2	-5.6	-4.4
Net international reserves	256	285						
Gross reserves	476	572	662	762	862	992	1142	1292
(in months of next year's imports of goods and services) 3/	1.5	1.6	1.7	1.9	2.0	2.1	2.2	2.3
Total Public and Publicly Guaranteed (PPG) external sector debt 4/	1,911	2,093	2,260	2,501	2,707	2,944	3,217	3,350
(in percent of GDP)	33.9	32.1	31.2	32.5	32.8	32.7	32.6	31.0
Debt service on PPG external debt	73	63	111	135	142	157	178	192
(in percent of exports of goods and services)	7.3	5.9	10.4	11.6	11.4	11.7	12.3	12.1

Sources: Tajik authorities; and Fund staff estimates.

1/ Includes change in foreign currency balances held by residents of Tajikistan.

2/ The NBT changed the methodology for compiling various BoP accounts, causing a break in the series in 2011. The residual financing gap in 2012 reflects the expected final disbursement under the 2009–12 ECF while gaps for 2013–16 include mostly financing for HPP Roghun. The World Bank feasibility study, instrumental in identifying the financing, is ongoing.

3/ Excluding imports related to Roghun and projects financed with loans from China.

4/ External debt is defined as debt to nonresidents.

Table 7. Tajikistan: Financial Soundness Indicators, 2008–11  
(In percent; unless otherwise indicated)

	2008	2009	2010	Mar-11	Jun-11	Sep-11	Dec-11
<b>Capital adequacy</b>							
Tier I capital as percent of risk-weighted assets	24.2	25.4	24.5	20.3	18.9	19.3	22.2
Reported total capital to risk -weighted assets (K1-1)	29.2	30.0	26.3	23.2	22.8	23.7	25.3
<b>Asset quality 1/</b>							
Nonperforming loans to gross loans	9.5	21.6	17.2	16.6	16.4	17.0	14.9
Nonperforming loans to gross loans 2/	5.4	10.4	7.5	7.5	9.1	8.7	7.7
Nonperforming loans net of provisions to reg. capital	16.8	38.5	31.2	31.8	32.2	28.3	18.4
Provisions to nonperforming loans	32.5	29.4	35.9	34.8	34.7	40.8	45.7
Banks exceeding maximum single borrower limit 3/	1 of 12	1 of 13	0 of 14	1 of 14	0 of 14	1 of 15	2 of 15
<b>Earnings and profitability</b>							
Reported return on assets (ROA)	2.0	0.8	0.8	0.9	0.9	0.1	0.7
Reported return on equity (ROE)	11.0	3.4	3.8	4.7	4.8	0.6	3.4
Interest income to gross income	59.6	53.0	51.4	48.4	39.5	36.6	35.9
Non-interest expenditures to gross income	55.3	67.1	63.9	61.2	67.2	73.1	73.1
Salary expenditures to non-interest expenditures	32.1	21.1	23.2	22.5	16.9	14.9	14.0
<b>Liquidity</b>							
Liquid assets to total assets	27.2	28.2	24.2	22.3	22.7	20.7	20.5
Liquid assets to demand and savings deposits	104.1	112.2	133.5	116.3	128.5	117.3	105.2
Liquid assets to total deposits	60.0	56.6	49.8	45.2	46.1	42.7	40.9
<b>Sensitivity to market risk</b>							
Net open position in foreign exchange to capital	6.3 long	6.7 long	0.33 short	6.2 long	4 long	4.7 long	3.2 short

Sources: National Bank of Tajikistan.

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

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

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

Table 8. Tajikistan: Capacity to Repay the Fund, 2010–2022

	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Existing and prospective Fund credit 1/													
In millions of SDRs	65.3	78.3	104.4	104.4	101.8	94.0	79.6	61.3	40.5	22.2	9.1	2.6	0.0
In millions of US dollars	99.6	123.6	161.1	161.2	157.1	144.9	122.7	94.4	62.3	34.1	14.1	4.0	0.0
In percent of exports	10.0	11.6	15.1	13.9	12.6	10.8	8.4	5.9	3.6	1.8	0.7	0.2	0.0
In percent of external debt	3.5	3.9	4.7	4.2	3.7	3.1	2.4	1.8	1.1	0.6	0.2	0.1	0.0
In percent of gross reserves	20.9	21.6	24.3	21.1	18.2	14.6	10.7	7.3	4.3	2.1	0.8	0.2	0.0
In percent of quota	75.0	90.0	120.0	120.0	117.0	108.0	91.5	70.5	46.5	25.5	10.5	3.0	0.0
Fund obligation based on existing credit													
In millions of SDRs	0.0	0.0	0.0	0.0	2.9	8.1	14.6	17.1	18.4	15.7	10.5	3.9	1.3
In millions of US dollars	0.0	0.0	0.0	0.0	4.4	12.4	22.5	26.4	28.3	24.2	16.1	6.1	2.0
In percent of exports	0.0	0.0	0.0	0.0	0.4	0.9	1.5	1.7	1.6	1.3	0.8	0.3	0.1
In percent of external debt	0.0	0.0	0.0	0.0	0.1	0.3	0.4	0.5	0.5	0.4	0.3	0.1	0.0
In percent of gross reserves	0.0	0.0	0.0	0.0	0.8	2.0	3.4	3.8	3.9	3.2	2.1	0.7	0.2
In percent of quota	0.0	0.0	0.0	0.0	3.3	9.3	16.7	19.7	21.1	18.1	12.1	4.5	1.5
Fund obligation based on existing and prospective credit													
In millions of SDRs	0.0	0.0	0.0	0.0	2.9	8.1	14.6	18.5	21.0	18.4	13.1	6.6	2.6
In millions of US dollars	0.0	0.0	0.0	0.0	4.7	12.8	22.8	28.7	32.7	28.5	20.4	10.2	4.1
In percent of exports	0.0	0.0	0.0	0.0	0.4	1.0	1.6	1.8	1.9	1.5	1.0	0.5	0.2
In percent of external debt	0.0	0.0	0.0	0.0	0.1	0.3	0.4	0.5	0.6	0.5	0.3	0.2	0.1
In percent of gross reserves	0.0	0.0	0.0	0.0	0.8	2.0	3.4	4.1	4.5	3.8	2.6	1.3	0.5
In percent of quota	0.0	0.0	0.0	0.0	3.3	9.3	16.8	21.2	24.2	21.1	15.1	7.5	3.0
Memorandum items:													
Gross reserves (in millions of US dollars)	476	572	662	762	862	992	1,142	1,292	1,442	1,592	1,742	1,892	2,042
Quota (in millions of SDRs)	87	87	87	87	87	87	87	87	87	87	87	87	87

Sources: Tajik authorities; and Fund staff estimates.

1/ End of period.

Table 9. Tajikistan: Reviews and Disbursements under the Three-Year ECF Arrangement, 2009–12

Date	Scheduled disbursements				Action / condition	Status
	Original program Millions SDRs	Augmentation Million SDRs	Total after augmentation			
			Million SDRs	Percent of quota		
On April 21, 2009	26.100	...	26.100	30.0	Approval of the ECF arrangement	
On or after April 15, 2010	26.120	...	26.120	30.0	Completion of the first and second reviews	Completed on June 7, 2010
On or after September 15, 2010	6.523	6.523	13.045	15.0	Completion of the third review	Completed on November 30, 2010
On or after March 15, 2011	6.523	6.523	13.045	15.0	Completion of the fourth review	Completed on May 11, 2011
On or after September 15, 2011	6.523	6.523	13.045	15.0	Completion of the fifth review	Completed on January 9, 2012
On or after March 15, 2012	6.523	6.523	13.045	15.0	Completion of the sixth review	
<b>Totals</b>	<b>78.31</b>	<b>26.09</b>	<b>104.40</b>	<b>120.0</b>		

Source: Fund staff estimates.

**ATTACHMENT I. TAJIKISTAN: LETTER OF INTENT**

April 23, 2012

Her Excellency  
Ms. Christine Lagarde  
Managing Director  
International Monetary Fund  
700 19th Street, N.W.  
Washington, DC 20431

Dear Ms. Lagarde:

I would like to express my gratitude to the International Monetary Fund (IMF) for its continued support of our economic reforms. Tajikistan's economy has performed well in the past year, but nonetheless remains vulnerable to external shocks. Support from international financial institutions (IFIs) and donors continues to be critical.

Economic performance in 2011 was strong. Despite adverse climate conditions and negative shocks to food and fuel prices, real GDP growth registered 7.4 percent, fueled by trade and services, agriculture, and construction. While inflation has been high (reflecting trends in international commodity markets), it subsided by end-year to single digits. Financial sector indicators remain a concern. We recognize the need for more proactive supervision and lasting solutions for banks not meeting established prudential criteria.

Against this background, we have successfully implemented our reform program supported by the IMF's Extended Credit Facility (ECF). I am pleased to inform you that we succeeded in meeting or over-performing on all of the end-December 2011 performance criteria and indicative targets. We have also implemented most of the structural benchmarks for the sixth and final review under the program. A treasury single account (TSA) was established on the Republican level, audited financial statements for the Roghun OJSC were completed by the auditor in draft and are expected to be published on the MOF website in May, a treasury single account (TSA) was established on the Republican level, and a financial risk statement related to state enterprises was completed and published on the MOF website. We have also submitted a revised tax code to the government for consideration. This is a first draft, and work on revising the tax code to strike a balance between IMF recommendations and short-term revenue considerations will continue. Technical support in this area would be welcome.

While non-performing loans have largely stabilized, weaknesses in some financial institutions remain a concern. One bank in particular is facing immediate challenges with respect to meeting established prudential criteria and may require restructuring and/or

recapitalization. In this context, we have already tightened supervision, undertaken a review and revision of the bank's end-year balance sheets, and have received technical assistance missions from the IMF. We are committed to finding a credible, equitable, and lasting solution for the problems facing this bank. We will continue to work closely with IMF staff in are committed to refraining from directed lending, and will undertake a more proactive approach to financial sector supervision. As agreed with the IMF mission, the NBT will require banks to comply with International Financial Reporting Standards (IFRS). Looking forward, for those banks not meeting established prudential criteria, the NBT will require developing a time-bound action plan for restructuring and/or recapitalization. Every effort will be made to ensure the safety of individual deposits and the stability of the banking system, as well as to limit any fiscal cost. We also fully recognize that directed lending has played a key role in creating these problems, and commit to end this practice.

We are committed to achieving the remaining reforms outlined in the Memorandum of Economic and Financial Policies (MEFP) of December 22, 2011. In addition, as noted above, we intend to tackle decisively financial sector issues to promote financial stability. While recent economic performance is encouraging, we are concerned about inflation, the risks of another global downturn or regional instability, and the potential impact on Tajikistan in terms of growth, poverty, and fiscal and external balances. We ask the international community for assistance in these areas. We remain committed to ensuring that Roghun project and its financing are undertaken in a way consistent with macroeconomic stability, and external and fiscal sustainability. The current ECF supported program expires in May 2012, but we will continue to adhere to macroeconomic parameters in line with staff advice, and intend to continue discussions on a new program.

We hereby request completion by the Executive Board of the sixth review under the ECF arrangement, and disbursement of the seventh loan totaling an amount equivalent to SDR 13.045 million. In parallel, we seek continued concessional support from donors for the coming year to achieve the objectives of the 2010–12 Poverty Reduction Strategy.

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

Finally, in continuing with our commitment to transparency, we hereby request that all program related documents, including this letter, be published on the IMF website.

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

Emomali Rakhmon/s/  
President of the Republic of Tajikistan

Table 1. Tajikistan: Quantitative Performance Criteria and Indicative Targets under the 2011 Extended Credit Facility

(In millions of somoni; unless otherwise indicated)

	2010		2011				2012	
	End-Dec	End-June	End-Sept.	End-Dec.	End-Dec.	End-Mar.	End-Mar.	
	Act.	Prog.	Act.	Prog.	Act.	Prog.	Act.	Prog.
<i>Quantitative Performance Criteria (PC):</i>								
1. Ceiling on cumulative flow of net domestic assets of the NBT 1/ 2/	...	120	19	210	213	678	522	-122
2. Floor on cumulative flow of total net international reserves (in millions of U.S. dollars) 1/ 2/	...	25	3	45	21	32	58	12
3. Zero-ceiling on new lending from the NBT to private sector (continuous quantitative performance criterion) 2/	...	0	0	0	0	0	0	0
4. Floor on cumulative overall fiscal balance of the general government excluding foreign-financed Public Investment Program and related grants 2/	...	-134	150	-208	316	-187	164	208
5. Ceiling on general government wage and pension arrears (continuous quantitative performance criterion)	...	0	0	0	4	4	4	0
6. Ceiling on contracting or guaranteeing of any non-concessional external debt (continuous quantitative performance criterion)	...	0	0	0	0	0	0	0
7. Ceiling on disbursements of concessional external financing (in millions of U.S. dollars) 2/	...	154	87	231	142	308	195	71
8. New external payments arrears (continuous quantitative performance criterion)	...	0	0	0	0	0	0	0
<i>Indicative Targets (IT):</i>								
1. Floor on tax collection 2/	...	2,470	2,717	3,837	4,211	5,759	5,833	1,563
2. Floor on social and poverty-related expenditure 2/	...	1,421	1,200	2,131	1,853	2,841	2,920	775
3. Ceiling on gross equity sales and contributions for Roghun (in millions of somoni) 3/	...	880	840	880	841	880	841	880
4. Ceiling on loans to banks for liquidity purposes by the NBT (average per quarter)	...	227	263	244	218	100	90	100
<i>Memorandum items:</i>								
Program exchange rate	4.40							
NDA of the NBT (in millions of somoni) 1/	1,739	1,285	1,758	1,375	1,952	2,417	2,261	2,305
Net international reserves (in millions of U.S. dollars) 1/ 4/	376	400	378	420	397	408	434	419

1/ At program exchange rates of end-December 2010.

2/ Cumulative from January 1 of the year; performance criteria for end-June and end-December 2011, and indicative targets for end-March and end-September.

3/ Cumulative from January 1, 2010.

4/ Adjusted for presumed forward sale of fx on June 30, 2011 in the amount of 10.8 mln USD.

Table 2. Tajikistan: Structural Benchmarks and Prior Actions for 2011 and 2012

	Date	Rationale	Status
Publish the audited financial statements of Talco Management for 2008–09 together with the audit reports.	Prior action for Board meeting	Transparency	Met on Nov. 17, 2011
NBT to set the interest rate on liquidity loans in Somoni and foreign exchange no lower than the average interest rate on commercial bank credits (as published on the NBT website) of the preceding month, plus a margin of not less than 200 basis points, and to publish this rate on the NBT website.	Prior action for Board meeting	Transparency	Met
Appoint a senior member of the ministry of finance to attend monthly monetary policy committee meetings and to report on monthly projected spending on the Roghun hydropower project.	Prior action for Board meeting	Transparency/liquidity management	Met
Banks not meeting established prudential criteria to submit to NBT for approval time-bound actions plans to become fully compliant with these standards, including correct provisioning for nonperforming loans.	End-March	Financial sector stability	Met on March 31, 2011
Expand the number of large taxpayers under the Large Taxpayer Inspectorate (LTI).	End-June	PFM / Revenue	Met
Issue a government resolution specifying a multi-year (2011–18) schedule for injections of capital from the government into the NBT as part of the NBT recapitalization plan and in line with IMF recommendations.	End-June	NBT recapitalization	Met on June 30, 2011
NBT Board to approve an action plan, in line with IMF recommendations, for addressing weaknesses in the financial sector.	End-June	Financial sector stability	Met on June 24, 2011
National Bank of Tajikistan to publish audited 2010 financial statement	End-September	Transparency	Met on Dec. 13, 2011
Submit to cabinet a strategy for reform of the tax regime.	End-September	Revenue	Met
Fiscal risk statement related to condition of SOEs to be introduced as part of the published 2012 budget document.	End-December	SOE governance	Met on April 11, 2012.
Publish the audited financial statements of Roghun OJSC for 2008 and 2009 with the audit reports on the Ministry of Finance's website.	End-March 2012	Transparency	Partially met.
Submit to cabinet a revised tax code consistent with IMF recommendations.	End-March 2012	Revenue/transparency	Partially met
Implement in line with IMF recommendations a Treasury Single Account (TSA) at the Republican level.	April 1, 2012	Public financial management	Met

**ATTACHMENT II. NBT REFORM ACTION PLAN AND FINANCIAL SECTOR STABILITY  
ACTION PLAN**

**TABLE 1: NBT REFORM ACTION PLAN**

<b>Reform</b>	<b>Timing</b>	<b>Status</b>
<i>GOVERNANCE</i>		
Close down the Cotton Debt Department at the NBT.	June 2009	Done
Develop proposals to restructure the NBT' organizational set up	December 2010	Done
Appoint the NBT Board for a fixed term with 3 non-executive members.	June 2010	Done
Establish NBT Board Committees, such as an audit committee, chaired by a non-executive member of the NBT Board.	June 2010	Done
Create and publish on the NBT's website a register of commercial interests of NBT Board members and top management	June 2010	Done
A draft revised central bank law substantially compliant with the recommendations of Fund staff should be approved by the President of the Republic and submitted to Parliament for enactment.	December 2010	Done
<i>AUDITING</i>		
The appointment of the external auditor for the 8 months ended December 31, 2009 should be finalized in time for the external auditor to attend vault counts in headquarters and all branches to confirm the balances in vaults as well as unissued currency at end-December.	Before end-December 2009	Done.
External audit of the April 2009 financial accounts to be completed.	Prior action for 1 <sup>st</sup> and 2 <sup>nd</sup> reviews	Done. Audit posted on NBT website in April 2010.
Continue NIR reviews by an international audit firm at test dates under the ECF arrangement. Such reviews should be completed before the IMF Board meeting and the TOR for	End-June 2011 audit prior to fifth	Done

Reform	Timing	Status
the reviews should be adapted as needed to ensure that (i) the auditor attends vault counts on the relevant test date; (ii) emerging issues are addressed; and (iii) previous recommendations are being addressed.	Board meeting.	
Publish on its external website in a dedicated section the financial statements and audit opinion within 1 month from completion of the audit, also including all past audit reports.	Continuous	Completed for fiscal year ending April 2009, December 2009, and 2010.
Develop an internal regulation to define a formal policy for the selection and appointment of its external auditor. The policy should stipulate: (i) the composition of the selection committee, including participation by non-executive Board members; (ii) criteria for making the selection; (iii) a timeline for the tendering, bidding and appointment, ensuring the contracting of the external audit not later than 3 months before the year-end; and (iv) multi-year audit contracts.	By September 2010, in time for the 2010 audit selection	Done
Outsource—through a formal tendering process—to an external consulting firm the internal audit of the activities of (i) the international relations department, including foreign exchange lending and liquidity support; (ii) the domestic lending and liquidity support activities; and (iii) the management of foreign currency vault operations at headquarters. Ensure that external consultant contributes to capacity building in the Internal Audit Department.	April 2010	Done
Plan and organize an external quality assurance review of the NBT's Internal Audit Department by certified experts on its compliance with Institute of Internal Auditors (IIA) standards.	June 2011	Extended for 5 years in line with IMF TA recommendations
<i>ACCOUNTING AND OPERATIONS</i>		
Create a new base of the NBT balance sheets and continuously monitor their conformity with analytical data	June 2009	Done
Keep full records of adjustments made with regard to audited financial reports, and keep full records to confirm the data that the IMF publishes in its reports	Continuously	Completed for 2009 and 2010.
Increase the number of sudden checks of cash available in	Continuously	Done

Reform	Timing	Status
the NBT's head office and regional branches.		
Develop a mechanism to transfer and share information between departments on any reclassification of items in the NBT's accounting balance sheet for the purpose of compiling the monetary analysis.	Continuously	Done
Establish a register of the gold bars held in the NBT vaults, including gold owned by the ministry of finance. This register must include details on the serial number of the gold bars and the ownership. This register must be included in the scope of the NIR review, starting with the end-December 2009 test date.	March 2010	Done
Take measures to create a centralized accounting system of the NBT by transferring all accounting functions to relevant departments and introduce software for centralized recording of transactions done by the NBT's regional branches.	June 2010	All departments excluding International Reserves Department now part of centralized accounting system.
Include the issue of accounting and monitoring of the NBT balance sheet items in daily meetings of the working group. Include representatives of the internal audit and accounting into the working group		Not done. No representation from Audit Department
Strengthen cash management by setting up basic structures which assure the segregation of duties between the front-office, back-office and accounting functions in order to mitigate operational risks.		Done

TABLE 2: FINANCIAL SECTOR STABILITY ACTION PLAN

Reform	Timing	Status
<i>Asset Quality</i>		
NBT to approve regulation on uniform classification and provisioning (Regulation 177).	July 2011	Done
Banks to fully provision for NPLs in accordance with established prudential criteria.	August 2011	Done
All banks to work on an accrual basis and (i) stop accruing interest on NPLs, or (ii) make 100 percent provision for interest earned on NPLs.	August 2011	Done
Banks to provide for treasury bills issued in lieu of cotton sector NPLs, in accordance with international financial reporting standards (IFRS) principles.	September 2011	Done
Banks to implement regulation 177 to ensure uniform classification of NPLs and full provisioning.	September 2011	Done
In accordance with Regulation 177, banks to upgrade NPLs to a category requiring lower provisioning <i>only</i> after all amounts due (including principal and interest) have been repaid and the borrower continues to service the loan without default at least for 6 months.	September 2011	Done
In accordance with Regulation 177, all rescheduled accounts to remain in the	September 2011	Done

same asset classification as at the time of the restructuring (for the first restructuring) and downgrade by at least one level for the second restructuring.		
In accordance with regulation 177, NBT to allow banks to upgrade rescheduled NPLs to <i>standard</i> category only after they demonstrate satisfactory performance under the revised terms for at least 6 months.	September 2011	Done
<i>Liquidity, Funding, and Contingency Planning</i>		
NBT to require banks to reflect all material corrections from the annual external audits in their general ledgers to make retroactive corrections.	July 2011	Done
NBT to prepare, on a rolling basis, contingency plans to meet and overcome vulnerabilities in individual banks that may arise during the following 12 months.	August 2011	Done
To assess liquidity position of banks, NBT to require an independent audit for cash counts in all banks.	September 2011	Completed except for head office of one bank.
Banks most vulnerable to liquidity and funding risks to submit contingency liquidity and funding plans for managing liquidity under stressful situations and rectify structural liquidity and funding imbalances, <i>without</i> any reliance on NBT's liquidity facilities.	October 2011	Done

<i>Provisioning and Capitalization</i>		
In line with regulation 177, banks to provision for re-possessed assets, on par with those of doubtful assets.	November 2011	Done
Banks to maintain higher level of provisions and capital for exposures to customers who have unhedged foreign currency risk exposures; and comply with proposed prudential limits for such exposures.	November 2011	Done.
Increase the minimum capital-to-asset ratio (CAR) for the top 6 banks from 12 to 15 percent.	December 2011	Done
NBT to adjust banks' capital adequacy position for correct provisions and asset valuation until actual implementation by banks, and require those banks that either breach or are close to breaching the regulatory minimum to infuse capital within a prescribed timeframe.	December 2011	Done
NBT to improve its prompt remedial action framework (PRAF) including reviewing and understanding the shortcomings of the current framework, creating a supervisory manual covering off- and on-site aspects, develop internal guidelines, procedures, and sanctions to ensure effective remedies are initiated at the earliest stage of bank problems.	January 2012	In progress. [The supervision department is waiting for an expert from the World Bank for assistance].
NBT to review its supervisory function and undertake an assessment of its	March 2012	

compliance with the gaps identified by the assessment of Basel Core Principles (BCP) for effective banking supervision conducted in February 2011.		
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## INTERNATIONAL MONETARY FUND

## REPUBLIC OF TAJIKISTAN

**Sixth Review Under the Three-Year Arrangement Under the Extended Credit Facility–  
Informational Annex**

Prepared by the Middle East and Central Asia Department  
in Consultation with Other Departments

Approved by Juha Kähkönen and Dhaneshwar Ghura

April 24, 2012

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**I. RELATIONS WITH THE FUND**

(As of February 29, 2012)

**I. Membership Status:** Joined April 27, 1993; Article VIII**II. General Resources Account:**

	<u>SDR million</u>	<u>% Quota</u>
Quota	87.00	100.00
Fund holdings of currency	87.00	100.00
Reserve position in Fund	0.00	0.00

**III. SDR Department**

	<u>SDR million</u>	<u>% Allocation</u>
Net cumulative allocation	82.08	100
Holdings	69.76	84.99

**IV. Outstanding Purchases and Loans**

	<u>SDR million</u>	<u>% Quota</u>
ECF Arrangements	91.36	105.01

**V. Latest Financial Arrangements**

Type	Approval Date	Expiration Date	Amount Approved (SDR million)	Amount Drawn (SDR million)
ECF <sup>9</sup>	Apr 21, 2009	May 15, 2012	104.40	91.36
ECF	Dec 11, 2002	Feb 10, 2006	65.00	65.00
ECF	Jun 24, 1998	Dec 24, 2001	100.30	78.28

**VI. Projected Payments to Fund<sup>10</sup>**

	<u>Forthcoming</u>				
	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>
Principal			2.61	7.83	14.36
Charges/Interest	0.01	0.02	0.25	0.24	0.21
<b>Total</b>	<b>0.01</b>	<b>0.02</b>	<b>0.86</b>	<b>8.07</b>	<b>14.57</b>

<sup>9</sup> Formerly PRGF.<sup>10</sup> When a member has overdue financial obligations outstanding for more than three months, the amount of such arrears will be shown in this section.

**VII. Implementation of HIPC Initiative:  
Not Applicable**

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

I. MDRI-eligible debt (SDR Million) <sup>11</sup>	69.31
Financed by: MDRI Trust	69.31
Remaining HIPC resources	--

II. Debt Relief by Facility (SDR Million)

<u>Delivery Date</u>	<u>Eligible Debt</u>		
	<u>GRA</u>	<u>PRGT</u>	<u>Total</u>
January 2006	N/A	69.31	69.31

**IX. 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. Independent governance mechanisms were largely absent, in particular for overseeing audit mechanisms, 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. One more such review is planned for December 2011 is underway and should be completed before the Executive Board meeting for the Sixth Review.

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 internal audit of core functions was recently outsourced, while the NBT is strengthening its internal audit capacity through on-the-job training and technical assistance.

A recent safeguards staff visit concluded that increased transparency and oversight of key operations, notably large scale support of local banks, is needed to help safeguard IMF resources.

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<sup>11</sup> The MDRI provides 100 percent debt relief to eligible member countries that qualified for the assistance. Grant assistance from the MDRI Trust and HIPC resources provide debt relief to cover the full stock of debt owed to the Fund as of end-2004 that remains outstanding at the time the member qualifies for such debt relief.

## **X. Exchange Rate Arrangements**

Since March 2011, the de facto exchange rate regime is classified as crawl-like. The official exchange rate is based on all interbank transactions in foreign exchange. It is calculated and announced daily.

With effect from December 9, 2004, the Republic of Tajikistan accepted the obligations of Article VIII, Sections 2, 3, and 4 of the Articles of Agreement. The Republic of Tajikistan maintains an exchange system that is free of restrictions on the making of payments and transfers for current international transactions, except for exchange restrictions maintained for security reasons that have been notified to the Fund pursuant to Executive Board decision No. 144–(52/51).

## **XI. FSAP Participation**

Tajikistan participated in the Financial Sector Assessment Program during 2007–08, and the FSSA report has been published at <http://www.imf.org/external/country/TJK/index.htm>.

## **XII. Article IV Consultation**

The 2011 Article IV consultation was completed on May 11, 2011.

## **XIII. Resident Representative**

Mr. Aisen, Resident Representative of the Fund, started his assignment in Dushanbe in July 2010.

## **XIV. Technical Assistance**

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

### **Fiscal Affairs:**

July 2004	Revenue Administration Reform
December 2004	Poverty and Social Impact Analysis
June 2005	Public Financial Management
August 2005	Tax Policy and Administration
August 2006	Fiscal ROSC
May 2007	Public Financial Management (Budget Classification)
February/July 2010	Tax Policy and Administration

June 2010	Public Financial Management Reforms
November 2010	Public Financial Management (Regional Advisor)
May 2011	New Tax Code

**Monetary and Financial Systems:**

May 2006	Strengthening the Monetary Policy Framework and Liquidity Management
October/December 2009 and September 2010	NBT Recapitalization Strategy
January 2011	Improving Accounting Controls at NBT
October 2011	Foreign Reserves Management, Internal Audit, Accounting and Recapitalization
March 2012	NBT Accounting Bank Restructuring

**Statistics:**

April 2004	Data ROSC
October 2004	General Data Dissemination System (GDDS)
June 2006	Report on Monetary and Financial Statistics National accounts and price statistics (Regional Advisor)
March 2011	BOP

**September 2011** Safeguards Monitoring

**Legal:**

January 2004	Tax Legislation
May 2004	Tax Legislation
2006	AML/CFT
October 2010	NBT Law Tax Policy/ Tax Code
Feb 2012	Tax Code

**TAJIKISTAN: RELATIONS WITH THE WORLD BANK GROUP**  
(As of September 30, 2011)

23. The Fund's mission met with the World Bank's team during the IMF's September 2011 mission in Dushanbe and in Washington to identify macro critical structural reforms and coordinate the two teams' work for the period September 2011–September 2012. Subsequent interaction in Dushanbe and Washington with staff of both institutions led to finalization of this memorandum.

24. Tajikistan's economy continues to recover from the global economic crisis, but remains vulnerable to exogenous shocks. Despite lower than anticipated rainfall in the early part of 2011, growth appears relatively strong. Inflation has remained a key concern, however, particularly given the negative impact on the poor. The teams agreed that, apart from the need to maintain strong growth and achieve lasting poverty reduction, Tajikistan's main macroeconomic challenges are: (i) to meet—within the context of fiscal and debt sustainability—the country's pressing spending needs while maintaining public debt at or below the authorities' 40 percent of GDP ceiling; (ii) to further strengthen central bank governance and enhance the effectiveness of monetary policy; (iii) to subject the state enterprise sector to greater transparency and financial discipline; and (iv) to develop the financial sector, strengthen bank supervision, and provide for an effective intermediation of savings and investment.

25. Based on this shared assessment, the teams identified six structural reform areas as macro critical, and agreed on the division of labor in these areas:

- ***Central bank governance and operations:*** Due to past directed credits, the central bank has large negative capital. Despite recent governance improvements, checks and balances need to be strengthened further, and the central bank needs to be recapitalized, eliminating crucial constraints to the effectiveness of monetary policy. Key reform areas include: monetary policy formulation, central bank independence and role as lender of last resort, internal and external audit processes, budgeting, and monetary instruments. The Fund takes the lead.
- ***Agricultural sector reform:*** The sector employs 70 percent of the population (mainly low income households), but suffers from excessive government intervention that holds back its growth potential. Key reform areas include: agriculture financing, land reform and property rights, building infrastructure for non-cotton agriculture products. The Bank and other donors take the lead.
- ***Energy sector reform:*** The sector fails to provide reliable electricity supply to the country, while running large deficits that are financed through underinvestment in capital and maintenance, as well as tax and inter-enterprise arrears. Key reform areas

include: increasing production capacity, improving transmission and distribution infrastructure, improved planning of winter energy management and export of summer surplus power, conducting energy audits of key state enterprises, and rationalizing the tariff structure to achieve cost recovery. A reform priority is to strengthen the power utilities' financial controls and reporting system. The Bank takes the lead.

- ***Investment Climate Reform:*** Tajikistan's corporate sector is held back by a business environment that is not conducive to private sector investment and growth. Key reform areas include: reducing risk and uncertainty for the entrepreneur, removing barriers to entry, reducing the cost of doing business, and supporting the private sector to increase productivity and human capacity to drive growth. The Bank leads, on the basis of its latest survey-based investment climate assessment. The tax system also features prominently, and the Fund will take the lead on tax policy, in cooperation with any sector-specific work (such as agricultural taxation) undertaken by donors, while the Bank will take the lead on tax administration, in cooperation with the Fund and other donors.
- ***Public financial management reform:*** Despite recent reforms, budgeting and financing procedures can still be significantly improved, with potentially large benefits for fiscal policy. Key reform areas include: implementation of the Treasury Single Account, closer monitoring of fiscal aspects of large state-owned enterprises (SOEs), social services and safety net reform. The Fund's FAD regional TA advisor works on budget classification issues and SOE monitoring, aiming to reduce quasi-fiscal activities and increase transparency. The Bank leads the switch to per capita based financing in education and health sectors, and will also continue to support public financial external and internal control reform. It will also work on a social spending strategy, and thus assist the implementation of the Fund's ECF benchmark on increasing social spending.
- ***Financial sector reform:*** Tajikistan's financial sector is underdeveloped. Only a small amount of savings is channeled through the banking system, and private sector credit extension is insufficient to facilitate strong, sustained, private-sector-led economic growth. Key reform areas include interbank market, strengthening regulations and supervision, deposit insurance law, and securities market. A Financial Sector Assessment Program (the country's first), carried out jointly by the Bank and the Fund, was discussed with the authorities in late 2007. The Bank leads on supporting implementation of the assessment's recommendations, working on commercial banking laws, the deposit insurance law, AML/CFT issues, and an overall financial sector strategy (in cooperation with the Fund). The Fund leads on Central Bank reform, securities market development, and certain aspects of financial sector supervision (in cooperation with the Bank).

26. The teams have the following requests for information from their counterparts:
- The Fund team requests to be kept informed of progress in the above macro critical structural reform areas. Timing: when milestones are reached (and at least semiannually).
  - The Bank team requests to be kept informed of the Fund's assessments of macroeconomic policies and prospects. Timing: in the context of Art. IV and other missions (and at least semi-annually)
27. The appendix lists the teams' separate and joint work programs during September 2011–August 2012.

**Table 1: JMAP Implementation, September 2011–September 2012**

Title	Products and brief description (pillars)	Provisional Timing of Missions	Expected date of Delivery
<b>A. Mutual information on relevant work programs</b>			
<b>Bank Work Program in next 12 months</b>	<b>PDPG 6</b> <ul style="list-style-type: none"> <li>• Protecting delivery of basic services within a sustainable fiscal framework</li> <li>• Improving the environment for private sector development and growth</li> <li>• Strengthening government effectiveness</li> </ul>	Identification/Pre-appraisal December 2011  Appraisal June 2012	Board August 2012  Disbursement: October 2012
	Private Sector Development Dialogue	PSD TA support (Doing Business) Fall 2011, Spring 2012	
	Rural Investment Climate Study (with DFID TF)	Preliminary findings of study expected by March 2012	
	Agriculture TBD		
	Energy—emergency operation to provide electricity during the cold period from alternative (commercial) sources  Conducting assessment studies for the Roghun HPP project	Supervision of Energy Loss Reduction Project (with additional financing for emergency operation) Sept. , 2011  Contract award—Oct. 2010 and December 2010	
	Social safety nets	Social assistance reforms; analytical work on impact of energy tariff increases on the poor. Implementation mission – November 2011	May 2011
	Health		

	Supporting improving equitable allocation of resources and efficiency in health sector provision through	Supervision mission in Oct 2010 for Community and Basic Health Project	Closing Dec 31, 2010
	<p><b><i>Education</i></b></p> <p>1. Support equity, efficiency and transparency of public resources allocation through national introduction of per capita financing in general education</p> <p>2. Policy, management and fiduciary capacity strengthening in all levels of education sector (support to Education Strategy development, national introduction of Education Management Information System (EMIS), training and coaching in fiduciary area, etc.)</p> <p>3. Improving access to and quality of general education: learning environment upgrade, teaching quality improvement.</p> <p>4. Improving access to higher education especially for poor families and strengthening education quality monitoring through support to a new system of University Entrance exams and national student assessments.</p>	<p><b><i>Fast Track Initiative–3rd Grant (TF), starting April 2010.</i></b></p> <p><b><i>Education Modernization</i></b> (incl. Additional Financing)</p> <p><b><i>READ Grant</i></b> (Russia Education Aid for Development, TF) <i>starting August 2010</i></p> <p><b><i>Supervision for all four including technical: –</i></b>  <u>In 2011:</u>  February, April, September, October, November, December.</p>	<p>For 1-3 September 2012</p> <p>For 4 – October 2014</p>

	<p><b>Financial Sector</b></p> <p>Fall 2011: WB FSD mission on secured transactions, National Processing Center for card payments</p> <p>Jan-Feb 2012: WB &amp; FIRST TA mission on bank regulation and supervision, secured transactions, insurance law and regulations</p> <p>April-May 2012: WB &amp; FIRST TA mission on bank regulation and supervision, secured transactions, insurance law and regulations</p> <p>Aug-Sept 2012: WB &amp; FIRST TA mission on bank regulation and supervision, secured transactions, insurance law and regulations</p>		
<b>Fund work program in next 12 months</b>	<ul style="list-style-type: none"> <li>- Fifth ECF review staff report</li> <li>- TA report on NBT accounting / internal audit/foreign reserves management</li> <li>- NBT safeguards monitoring visit</li> <li>- TA mission on drafting of new tax code</li> <li>- Sixth ECF review</li> </ul>	<p>September 2011: Fifth ECF review mission</p> <p>October 2011 mission (MCM)</p> <p>September 2011</p> <p>October 2011</p> <p>February/March 2012: Sixth ECF review mission</p>	<p>December 2011: Fifth ECF review board meeting</p> <p>October 2011</p> <p>TA report by Nov. 2011</p> <p>April/May 2012: Sixth ECF review board meeting</p>
<b>Fund request to Bank</b>	<ul style="list-style-type: none"> <li>- Follow-up on Barki Tajik audit</li> <li>- Electricity tariff increases</li> <li>- Roghun feasibility study</li> <li>- Cotton/agriculture sector reforms</li> <li>- Any STATCAP work on NA and inflation statistics</li> <li>- PFM work</li> <li>- Social spending</li> </ul>		

	- Financial sector work-		
<b>Bank request to Fund</b>	-Provide BOP/fiscal data for updating macro data base annual meetings  Assessment letter for PDPG6	October 2011 March 2012  Spring / Summer 2012	
<b>B. Agreement on joint products and missions (as needed)</b>			
<b>Joint products in next 12 months</b>	Coordinated presentation to donor conference  Public Expenditure Review (Bank lead, IMF input)	December 2011  TBD	December 2011 donor conference

**INTERNATIONAL MONETARY FUND**EXTERNAL  
RELATIONS  
DEPARTMENT

Press Release No. 12/162  
FOR IMMEDIATE RELEASE  
May 7, 2012

International Monetary Fund  
Washington, D.C. 20431 USA

### **IMF Executive Board Completes Sixth Review Under ECF Arrangement for Tajikistan and Approves US\$20.2 Million Disbursement**

The Executive Board of the International Monetary Fund (IMF) has completed its sixth review of Tajikistan's economic performance under a program supported by the Extended Credit Facility (ECF) arrangement. The decision enables the authorities to draw an amount equivalent to SDR 13.045 million (US\$20.2 million), bringing total disbursements under the arrangement to an amount equivalent to SDR104.4 million (US\$161.9 million). The Board's decision was taken on a lapse of time basis<sup>12</sup>.

The three-year SDR 104.4 million ( US\$161.9 million) ECF arrangement with Tajikistan was originally approved by the IMF's Executive Board on April 21, 2009 and subsequently augmented on June 7, 2010 (see Press Releases [No. 09/136](#) and [No. 10/230](#)).

Adherence to the policies agreed under the Fund-supported program has played an important role in helping Tajikistan maintain solid growth despite adverse external shocks. Stronger than expected agricultural production and a robust rise in inward remittances helped fuel real GDP growth in excess of 7 percent in 2011. Headline inflation has also returned to single digits, due in large part to declining international food prices. A relatively stable exchange rate in the second half of the year likely helped to moderate inflation expectations and could, together with a more benign outlook for non-energy commodity prices and prudent fiscal and monetary policies, lead to a lasting decline of inflation rates.

Program performance through end-2011 was strong, with all quantitative targets met and most structural benchmarks completed. A treasury single account was introduced at the beginning of April to strengthen public financial management, a fiscal risk assessment related to the condition of state owned enterprises was completed and published on the ministry of finance website, and a draft of a revised tax code, incorporating a number of recommendations from IMF technical assistance, was submitted to government. An external

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<sup>12</sup> The Executive Board takes decisions under its lapse of time procedure when it is agreed by the Board that a proposal can be considered without convening formal discussions.

financial audit of the Roghun Open Joint Stock Company (OJSC) is also near completion, and is expected to be published soon.

The outlook for 2012 and the medium-term is positive, but not without risks. High oil prices and recent increases in electricity tariffs will add upward pressure on energy prices. Trade disruptions and higher rail transport tariffs at the beginning of 2012 highlight risks to import prices. Decisive action is needed to address financial sector weaknesses, which represent a quasi-fiscal risk. Key will be minimizing taxpayer cost and addressing the root causes of the problem—directed lending, weak corporate governance, and regulatory forbearance. Over the medium-term, steady budget consolidation will be needed to maintain fiscal sustainability and rebuild buffers drawn down during the crisis. Further reform of tax policy and tax administration will also be needed to support private sector-led growth and job creation.