

## **PROGRAM NOTE**

### **REPUBLIC OF TAJIKISTAN**

**Current IMF-Supported Program:** The three-year SDR 78.3 million (about US\$114.5 million) Enhanced Credit Facility (ECF) arrangement with Tajikistan was approved by the IMF's Executive Board on April 21, 2009 and augmented to SDR104.4 million (US\$152 million) on June 7, 2010. The Executive Board completed the fifth review under the ECF-supported arrangement in January 2012. This enabled the authorities to draw an amount equivalent to nearly SDR 13.0 million (US\$20.1 million), bringing total disbursements under the arrangement to an amount equivalent to SDR 91.4 million (US\$140.9 million).

### **Background**

Tajikistan continues to recover from the 2009–10 global economic crisis, which negatively affected inward remittances, exports of such key products as aluminum and cotton, and foreign direct investment. Despite significant external shocks during the first half of the year, real GDP growth reached 7.4 percent in 2011, up from 6.5 percent in 2010. A recovery of inward remittances has been key—fueling domestic demand and activity in services and construction. Agricultural production was also stronger than expected, despite low precipitation at the beginning of the year. However, in response to increased international food and fuel prices, headline inflation rose to a peak of 15 percent by May 2011, but declined to 9.3 percent by end-December, as international prices stabilized.

Economic prospects in 2012 are good, but downside risks from a potential global or regional slowdown remain. Growth is projected to reach 6 percent and inflation is expected to decline gradually in line with global food prices. However, the systemic risks, together with potential for other chronic shocks (drought, natural disasters and regional trade disputes), argue for fiscal consolidation, a forward-looking monetary policy, exchange rate flexibility, and reforms to bolster competitiveness and investment. Vulnerabilities in the financial and state enterprise sectors could also pose a fiscal risk and be a drag on private-sector growth.

### **The IMF-supported program**

The IMF is working closely with the government of Tajikistan to implement policies geared toward helping maintain the improvement in economic performance seen in the past two years. Financing made available under the ECF program, together with grants to the budget from the Asian Development Bank, the European Union, and the World Bank, will help Tajikistan meet its external financing needs. The ECF program aims to:

- Implement a macroeconomic policy framework aimed at sustaining growth while containing inflationary pressures and preserving debt and fiscal sustainability.
- Raise social expenditures (transfers to households, and spending on education and health) on a sustainable basis, with a view to bolstering delivery of social services.
- Address the overhang of problem loans and cotton sector debt in the financial system—removing this crucial barrier to growth potential and bolstering public confidence in the banking system.
- Improve the financial health of state-owned enterprises (SOEs) by strengthening transparency and governance, and bolstering the work of the SOE supervision unit in the ministry of finance to exert proper ownership control.
- Strengthen central bank governance by, for example, improving oversight, enhancing the internal audit function, and improving the central bank law.
- Enhance prospects for private sector-led growth and government revenue through reform of tax policy and tax administration.

The IMF provides technical assistance to build capacity in public financial management, and to improve tax policy and revenue administration, central bank operations, and the quality and timeliness of government economic statistics.

### **The Challenges Ahead**

The authorities face four key challenges. First, coordination of macroeconomic management needs to be enhanced to avoid pressures to core inflation and the balance of payments. Second, a process of fiscal consolidation will be necessary over the medium-term to maintain fiscal and debt sustainability. Third, pending a positive outcome of techno-economic, social, and environmental assessments of the Roghun hydropower project, a financing strategy will need to be developed in a way consistent with macroeconomic stability and with keeping government debt below 40 percent of GDP over the medium-term. Fourth, the banking system is weighed down with problem loans, which constrain the ability of banks to provide the fresh credit to the private sector needed to accelerate economic growth. Reform of oversight and supervision of the banking system and an end to directed lending is needed to address these problems.