



INTERNATIONAL MONETARY FUND  
WASHINGTON, D.C. 20431

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**MASOOD AHMED**  
Director  
Middle East and  
Central Asia Department

September 8, 2015

Mr. Sean O'Sullivan  
Director General  
Central and West Asia Department  
Asian Development Bank  
6 ADB Avenue, Mandaluyong City  
1550 Metro Manila, Philippines

Dear Mr. O'Sullivan:

Thank you for your August 25, 2015 letter requesting an IMF assessment letter pertaining to an ADB Investment Climate Reforms Program for Tajikistan.

Please find a link to the published [press release](#) for the 2015 Article IV consultation with Tajikistan, which discusses economic developments and provides the views of the IMF Executive Board on economic policies. As there has not been a material change in Tajikistan's economic situation since the 2015 Article IV consultation was completed in June, this press release provides the requested assessment. Generally, assessment letters are provided only when an up-to-date press release is more than six months old or when there has been a material change in the country's macroeconomic situation since its issuance. Tajikistan's staff report for the 2015 Article IV consultation has not yet published and cannot be shared at this time.

Sincerely yours,

A handwritten signature in black ink, appearing to read "Masood Ahmed".

cc: Mr. Daniel H. Heller, Executive Director, IMF

## IMF Executive Board Concludes 2015 Article IV Consultation with Tajikistan

Press Release No. 15/268

June 9, 2015

On June 1, 2015 the Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation<sup>1</sup> with Tajikistan.

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

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

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

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

### Executive Board Assessment<sup>2</sup>

Executive Directors welcomed Tajikistan's significant progress in economic and social developments over the past decade, but observed that falling external demand and

remittances have increased near-term vulnerabilities significantly. Accordingly, Directors encouraged the authorities to act swiftly to reconstitute external and fiscal buffers and strengthen medium-term growth prospects.

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

Directors welcomed the authorities' intention to tighten monetary policy if inflation pressure rises. Against a backdrop of robust credit growth, they stressed that central bank liquidity support should benefit only banks with strong balance sheets and good collateral, and that the government should refrain from shifting further deposits to banks.

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

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

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

#### **Tajikistan: Selected Economic Indicators, 2011–20**

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

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2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Act.	Act.	Act.	Est.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.

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(Annual percent change; unless otherwise indicated)

National  
accounts

Real GDP	7.4	7.5	7.4	6.7	3.0	4.1	5.0	5.0	5.0	5.0
GDP deflator (cumulative)	13.3	11.9	4.3	5.5	12.7	8.0	6.9	6.0	6.0	6.0
Headline CPI inflation (end-of-period)	9.3	6.4	3.7	7.4	11.7	6.5	6.4	6.0	6.0	6.0
Headline CPI inflation (period average)	12.5	5.8	5.0	6.1	12.8	6.3	6.5	6.0	6.0	6.0
Core CPI inflation (period average)	6.0	8.4	5.3	4.6	10.5	5.5	5.9	6.0	6.0	6.0

(In percent of GDP; unless otherwise indicated)

Investment and saving 1/										
Investment	20.5	17.5	17.7	19.2	17.0	17.8	18.3	20.1	21.0	21.7
Fixed capital investment	15.5	13.0	14.7	16.2	15.3	16.3	16.8	17.6	18.5	19.2
Government	12.5	9.0	9.5	10.0	9.7	10.5	10.0	10.3	10.7	11.4
Private	3.0	4.0	5.2	6.2	5.6	5.8	6.8	7.3	7.8	7.8
Gross national savings	15.6	15.0	14.8	10.1	9.9	11.9	13.5	15.9	17.3	18.2
Public	9.1	9.3	8.7	10.1	7.9	8.2	7.8	7.7	7.9	8.2
Private	6.5	5.7	6.1	0.0	2.0	3.7	5.7	8.2	9.4	10.1
General government finances										
Revenue and grants	24.9	25.1	26.9	28.4	26.2	26.5	26.1	26.3	26.5	26.8
Tax revenue	19.4	19.8	21.0	22.8	20.5	20.6	20.8	20.9	21.0	21.1
Expenditure and net lending 2/	28.2	24.8	27.7	28.3	28.0	28.7	28.4	28.8	29.2	30.0
Current 2/	16.0	16.0	18.1	18.2	18.1	18.1	18.2	18.4	18.4	18.6
Capital	12.5	9.0	9.5	10.0	9.7	10.5	10.0	10.3	10.7	11.4
Overall balance (excl. PIP and stat. discrepancy)	-0.3	1.6	0.2	1.0	-0.3	0.0	0.1	0.1	0.2	0.3
Overall balance (incl. PIP and stat. discrepancy)	-3.3	0.3	-0.8	0.1	-1.8	-2.2	-2.3	-2.5	-2.8	-3.2
Domestic financing 2/	0.8	-0.7	0.0	-3.0	1.1	0.9	1.0	1.0	0.8	0.7
External financing	2.6	0.4	-0.1	-0.2	0.7	1.3	1.2	1.5	1.8	2.4
Total public	35.4	32.4	29.2	28.2	29.1	29.7	30.9	30.9	31.7	31.5

and publicly-  
guaranteed  
debtMonetary  
sector 3/

Broad money (12-month percent change)	33.1	19.6	19.7	7.0	16.3	15.4	15.4	14.2	14.0	13.8
Reserve money (12- month percent change)	27.9	18.4	18.3	13.2	14.8	13.2	13.2	12.4	12.3	12.1
Credit to private sector (12-month percent change) 4/	40.9	6.6	53.6	31.5	16.1	15.1	14.2	13.8	13.8	12.9
Velocity of broad money (eop)	5.1	5.1	4.8	5.0	5.0	4.9	4.7	4.6	4.5	4.4
Refinancing rate (in percent, eop/ latest value)	9.8	6.5	5.5	8.0	...	...	...	...	...	...

(In percent of GDP; unless otherwise indicated)

External  
sector 5/

Exports of goods and services (U.S. dollar, percent change)	34.5	41.0	-3.1	-10.6	14.5	9.9	10.0	12.2	10.5	10.4
Imports of goods and services (U.S. dollar, percent change) 6/	47.6	16.9	12.0	0.1	-23.2	1.2	6.1	7.5	7.6	9.0
Current account balance	-4.8	-2.5	-2.9	-9.1	-7.1	-5.8	-4.9	-4.1	-3.7	-3.4
Trade balance (goods)	-47.7	-44.8	-45.5	-43.3	-31.1	-27.9	-26.6	-25.8	-25.1	-24.8
FDI	1.0	3.1	1.2	2.1	2.8	3.2	3.6	3.8	4.2	5.0
Total public and publicly guaranteed external debt	33.1	28.4	25.3	24.5	25.7	26.5	27.0	27.9	28.9	28.9
Exports of goods and services, in millions of U.S. dollars	1,164	1,642	1,591	1,423	1,630	1,791	1,971	2,211	2,443	2,696
Imports of goods and services, in millions of U.S. dollars	4,382	5,124	5,738	5,747	4,414	4,469	4,744	5,097	5,485	5,976



Current account balance, in millions of U.S. dollars	-316	-187	-244	-839	-604	-533	-487	-445	-434	-438
Total public and publicly guaranteed external debt, in millions of U.S. dollars	2,094	2,152	2,148	2,107	2,137	2,390	2,658	2,978	3,362	3,656
Gross official reserves (in millions of U.S. dollars)	501	649	477	511	459	549	659	829	979	1,204
In months of next year's imports 7/	1.2	1.4	1.0	1.4	1.2	1.4	1.6	1.8	2.0	2.2
In percent of broad money	18.3	19.2	11.8	11.4	7.0	6.9	7.0	7.5	7.6	8.0
<i>Memorandum items:</i>										
Nominal GDP (in millions of somoni)	30,069	36,161	40,525	45,605	52,936	59,519	66,835	74,387	82,793	92,148
Nominal GDP (in millions of U.S. dollars)	6,523	7,592	8,506	9,242	8,533	9,173	9,971	10,800	11,745	12,785
Social and poverty-related spending (in percent of GDP)	9.7	10.9	11.1	11.9	12.5	13.1	13.7	14.3	14.8	15.3
Nominal effective exchange rate (Index 2010=100)	92.7	93.0	95.7	99.3	...	...	...	...	...	...
Real effective exchange rate (Index 2010=100)	98.8	99.9	103.4	110.5	...	...	...	...	...	...
Average exchange rate (somon per U.S. dollar)	4.61	4.76	4.76	4.93	...	...	...	...	...	...

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

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

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

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

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

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

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

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

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<sup>1</sup> Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. A staff team visits the country, collects economic and financial information, and discusses with officials the country's economic developments and policies. On return to headquarters, the staff prepares a report, which forms the basis for discussion by the Executive Board.

<sup>2</sup> At the conclusion of the discussion, the Managing Director, as Chairman of the Board, summarizes the views of Executive Directors, and this summary is transmitted to the country's authorities. An explanation of any qualifiers used in summings up can be found here: <http://www.imf.org/external/np/sec/misc/qualifiers.htm>.