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IMF Approves Emergency Post Conflict Assistance for Tajikistan

The International Monetary Fund (IMF) today approved a loan for the Republic of Tajikistan equivalent to SDR 7.5 million (about US$10 million), under the IMF's emergency post conflict assistance, to support the government's economic program for 1997-98.

Background

Political turmoil and civil strife emerged after the independence of Tajikistan in September 1991 and erupted into civil war in 1992. Efforts by the government and the United Tajik Opposition (UTO) to find a political solution formally ended the civil war in June 1997. The Commission on National Reconciliation (CNR) was established under UTO leadership; it is now working with the government to implement the peace accord by resettling refugees, demobilizing soldiers, and reforming the political and election system. The security situation, however, remains unsettled with armed groups outside the control of the government or UTO.

Despite the unsettled situation, Tajikistan achieved progress toward macroeconomic stability throughout much of 1996. In late 1996, however, renewed violence interrupted the authorities' stabilization program—which was supported by a Stand-By Arrangement with the IMF—and financial policies resulted in a widened budget deficit and related monetary expansion. Inflation accelerated to 125 percent on an annual basis during the first half of 1997, while the exchange rate of the Tajik ruble depreciated sharply. Because of fiscal pressures associated with the civil war, the budget deficit on a cash basis increased from 3 percent of GDP for the first three quarters of 1996 to more than 10 percent of GDP in the first half of 1997.

The 1997-98 Program

The 1997/98 program aims to establish financial stability through further fiscal adjustment, tight monetary policy, and enhanced financial discipline in the enterprise sector. Under the program, real GDP growth is expected to reach 4-5 percent in 1998, compared with preliminary rates of about 2 percent in 1997, and about -28 percent in 1996; inflation is targeted to fall to about 21 percent during 1998, from about 190 percent during 1997; and gross international reserves are programmed to rise to 1.5 months of imports at end-1998, from 1.0 months at end-1997 and 0.3 months at-end 1996.

To achieve these objectives, fiscal policy is designed to reduce the government deficit to below 3.0 percent of GDP in 1998 from 3.5 percent of GDP in 1997, and 5.8 percent of GDP in 1996. On the revenue side, efficient implementation of new tax measures will be important, in particular, eliminating value-added tax (VAT) exemptions and meeting revenue targets for sales taxes. On the monetary side, policies aim to reduce substantially the monetization of the fiscal deficit. Consistent with a moderate expansion of base money is the program's exchange rate policy, which permits a nominal exchange rate appreciation under market forces, but contains a commitment to financial tightening in the event of depreciation pressures.

Structural Reforms

The program places considerable emphasis on structural policy measures and institution-building to sustain economic recovery and enhance policy implementation capacity. Four areas are *particularly important for structural reform: privatization, land reform, bank restructuring, and* enterprise reform.

Small-scale privatization will precede large-scale privatization, the latter to be carried out in cooperation with the World Bank. Land reform will remain a crucial component of economic reform, both in the current economic situation and as a potential source of growth; the key will be to increasingly transfer farmland to private farmers. Banking reform will occur first through strengthening banks' capital bases significantly, while ensuring that they meet prudential requirements, followed by the design of a comprehensive bank restructuring program. Banking sector reform will only be sustainable, however, as restructuring of the enterprise sector occurs—the key sectors being cotton and aluminum.

The authorities intend to ensure a continued open trade and exchange regime by refraining from introducing restrictions or requirements on exports or imports during the program. Export taxes were recently abolished and Tajikistan has no major non-tariff barriers to imports. Tajikistan will continue to make use of technical assistance from multilateral and bilateral institutions to build on progress already achieved in a number of areas, including the compilation of statistics, tax administration, building a treasury system, bank supervision, and central bank operations.

Addressing Social Needs

In view of the social cost of the war, outlays on the social safety net need to be increased in the 1998 budget. Further increases will be needed later. The main protection against an erosion of the social safety net, however, will be lower inflation.

The Challenge Ahead

Risks remain high because of continuing security problems. Nevertheless, recent achievements and the commitment shown at the highest levels of government to pursue economic reforms are promising and deserve support. In order to build up both domestic and international confidence in the Tajik economy, it will be important to build up a strong track record of program implementation through prudent fiscal and monetary policies supported by aggressive structural reforms.

Tajikistan joined the IMF on April 27, 1993, and its quota[1] is SDR 60.0 million (about US$81 million). Its outstanding use of IMF financing currently totals SDR 15 million (about US$20 million).

Tajikistan: Selected Economic Indicators

	1996	1997*	1998*
		(Percent change)	
Real GDP	-28.3	2.2	4.4
Consumer prices (end-of-period)	40.5	190.6	21.2
		(Percent of GDP)	
Fiscal balance, cash (deficit-)	-5.8	-3.5	-2.8
External current account balance, excluding official transfers (deficit-)	-10.1	-2.8	-6.8
		(Months of imports)	
Gross international reserves	0.3	1.0	1.5

Sources: Tajik authorities; and IMF staff estimates and projections.
* Projections.

[1] A member's quota in the IMF determines, in particular, the amount of its subscription, its voting weight, its access to IMF financing, and its share in the allocation of SDRs.