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International Monetary Fund
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IMF Executive Board Approves US\$116 Million PRGF Arrangement for the Republic of Tajikistan

The Executive Board of the International Monetary Fund (IMF) today approved a three-year, SDR 78.3 million (about US\$116 million) arrangement under the Poverty Reduction and Growth Facility (PRGF) for the Republic of Tajikistan to support the authorities' economic program. The decision will enable Tajikistan to draw the equivalent of SDR 26.1 million (about US\$38.7 million) from the IMF immediately.

The Executive Board also completed the final review under the Staff-Monitored Program (SMP) and the 2009 Article IV consultation with Tajikistan. Details of the findings of the Article IV will be published in a Public Information Notice in due course.

At the conclusion of the Executive Board's discussion of Tajikistan, Mr. John Lipsky, First Deputy Managing Director and Acting Chair, made the following statement:

“Economic performance was good in 2008, but Tajikistan faces a severe external shock that is being compounded by domestic rigidities. Reflecting the deterioration in global economic conditions, remittance inflows are projected to decline in 2009. Tajikistan’s main exports, cotton and aluminum, are adversely affected by weakening demand. The economy’s resilience is constrained by the strong influence of the state in markets and poor energy infrastructure, further weakening the external position and slowing growth. Despite recent gains, poverty remains widespread, and could increase again.

“Against this background, Tajikistan will receive financial assistance from the Fund under the Poverty Reduction and Growth Facility to help mitigate the effects of this crisis and to support the authorities’ adjustment program. The authorities expect that the Fund’s involvement will unlock budget support from the Asian Development Bank, the World Bank, and the European Union.

“The authorities’ program aims to maintain financial and macroeconomic stability, while alleviating the economic impact of the crisis by adopting a flexible exchange rate regime, raising social and poverty-related expenditures, and laying the foundation for future growth. Resolute implementation of the program should lower the external current account deficit to a more sustainable level and restore growth rates.

“The authorities have made some difficult fiscal policy decisions. They have committed to raising transfers to households in response to the economic crisis, and increasing resource allocations for health and education, even though revenues are expected to decline on account of the crisis. To achieve their overall deficit target, the authorities are delaying some low-priority investment projects and scrutinizing current expenditures carefully.

“The authorities’ intention to further strengthen the governance of the central bank and the management of monetary policy is welcome. The recent publication of the executive summary of the report on the special audit of the National Bank of Tajikistan is an important step in this regard. The report includes specific recommendations to address the deep-rooted governance problems that contributed to the misreporting to the IMF that was revealed in 2007, and the Fund will monitor implementation of these recommendations under the PRGF program. The authorities have already taken important first steps to address these problems, such as submitting legal amendments to parliament that strengthen governance at the National Bank of Tajikistan and seek to prevent future conflicts of interest, conducting an external audit of the National Bank of Tajikistan’s net international reserves position as of end-2008, and appointing an external auditor for the National Bank of Tajikistan’s financial statements for this fiscal year.

“The authorities rightly emphasize ongoing reforms in the agriculture and energy sector. In agriculture, addressing the cotton sector debt overhang and introducing a market-based financing mechanism are necessary to raise the sector’s growth potential. In the energy sector, restoring the financial health of the power utility would help safeguard budget resources, and ensuring a reliable power supply would remove an important growth bottleneck. More transparency and accountability are needed at state-owned enterprises to ensure that budget resources are spent productively and that there is no buildup of contingent liabilities,” Mr. Lipsky said.

ANNEX

Recent Economic Developments

Economic developments in 2008 were positive, despite a severe winter, a prolonged drought, and electricity shortages. Real GDP growth reached 8 percent in 2008, mainly driven by remittance-financed demand in the services and construction sectors, and non-cotton

agricultural production. Inflation receded from its mid-2008 peak to 10 percent year-on-year in March 2009, helped by the recent retrenchment in international commodity prices.

The authorities achieved an overall fiscal surplus of 1 percent of GDP (excluding externally financed investment) in 2008, compared to a target of overall balance under the SMP. Revenues were buoyant, mostly reflecting high nominal GDP and import growth, as well as some administrative gains. At the same time, the authorities maintained strict expenditure control.

Helped by the inflow of remittances, the National Bank of Tajikistan (NBT) strengthened its net international reserves position to \$181 million at end-December 2008. However, gross international reserves of \$199 million covered only 1.2 month of next year's imports. Since the beginning of the year, remittances inflows have declined absolute terms, and the Tajik somoni has depreciated by over 10 percent against the U.S. dollar.

The authorities have also taken important first steps to address the problems that were at the root of misreporting to the IMF that was revealed in late 2007. Specifically, they ended the NBT's involvement in cotton financing and submitted legal amendments to parliament that would strengthen governance at the NBT and prevent future conflicts of interest. The authorities also retained an external auditor to conduct a special audit of the NBT. As a signal of the authorities' commitment to transparency, the Executive Summary of the special audit report was recently published on the NBT's web site. Moreover, they prepared an action plan to follow up on the auditor's recommendations. The IMF will monitor implementation of this action plan under the PRGF. Lastly, the NBT has appointed an external auditor to conduct an audit of its financial statements for the fiscal year ending April 30, 2009, and they have conducted an external audit of Tajikistan's net international reserves position at end-2008.

Program Summary

The authorities' policies under the PRGF-supported economic program aim to:

- Facilitate external adjustment in 2009 through exchange rate flexibility while allowing for rising social spending needs;
- Lay the foundation for medium-term growth and ensuring that there is no build-up of external debt;
- Achieve structural reforms in the areas of central bank governance, state-owned enterprises, and the agriculture sector.

Tajikistan, which became a member of the IMF on April 27, 1993, has a quota of SDR 87.0 million (about US\$129 million).

