

BUFF/10/74

June 10, 2010

**The Acting Chair's Summing Up
Republic of Tajikistan—First and Second Review Under the Three-Year Arrangement
Under the Extended Credit Facility, Request for Waiver of Performance Criteria, and
Request for Augmentation of the Arrangement
Executive Board Meeting 10/57
June 7, 2010**

Executive Directors broadly agreed with the thrust of the staff appraisal. They observed that Tajikistan's growth momentum started to rebound from the second half of 2009, and with improving remittances and exports, the outlook for 2010 is positive. They stressed, however, that risks related to the uncertain external environment and policy implementation remain.

Directors considered the authorities' macroeconomic policies for 2010 generally appropriate. Given the uncertainties around the strength of the recovery, Directors agreed with the need for continued supportive fiscal policy in 2010. In this context, they also stressed the need to further build up international reserves.

Directors acknowledged the importance that the authorities attach to developing hydropower potential to address Tajikistan's structural energy deficit. They called for the cessation of financing the Roghun hydropower project through equity sales, noting with concern the coercive elements in this approach and its adverse social and economic effects. They encouraged the authorities to work closely with the World Bank on the ongoing feasibility study and to form an international consortium to finance the project once the study is completed, taking into account Tajikistan's debt constraints.

Directors cautioned the authorities to carefully balance social and capital spending needs. While recognizing the need for developing hydropower as part of the growth strategy, they emphasized the importance of critical social expenditures, including on education and health. In this context, Directors encouraged the authorities to continue their efforts to improve tax administration and appropriately tax the profits generated by the aluminum production, including those that are shifted offshore through the tolling arrangement.

Directors welcomed the initial steps in the resolution of the cotton debt problem and recapitalization of the National Bank of Tajikistan (NBT). They encouraged the authorities to move quickly with the next steps, including compensating commercial banks for the government mandated cotton debt write-off and implementing the NBT's recapitalization

strategy. Directors also stressed the importance of addressing the remaining serious weaknesses in governance identified by the safeguards assessment of the NBT.

Directors encouraged the authorities to make further progress in reforming state-owned enterprises. They also noted the importance of regular audits and the timely publication of audited financial statements.