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**Statement by Mr. Cippà on the Republic of Tajikistan
Executive Board Meeting
December 19, 1997**

On June 27, 1997 the Tajik government and the United Tajik Opposition (UTO) signed a peace agreement which after five years of civil war offers the prospects of political normalization and the resumption of normal economic activity in Tajikistan. Much has already been done since the signing of the peace agreement to deepen the peace process. The Commission on National Reconciliation (CNR) and its subcommittees have begun to work on the integration of the armed forces of the UTO into the governmental power structures and have been preparing proposals and recommendations on changing the Constitution and the Election Law. Furthermore, a final agreement should soon be reached between the government and the UTO on the distribution of key ministries and departments.

However, much remains to be done to fully reintegrate the opposition in the social, political and cultural life, to create a democratic society, to resettle the returning refugees, and to demobilize and reintegrate the former combatants. Unfortunately, the political and social normalization process is still disturbed by some armed groups who are less supportive of the peace process. Notwithstanding all the difficulties, it can be said however, that the process of real reconciliation and mutual trust in Tajikistan is gaining momentum, and that the social-political climate has begun to normalize. The government is fully committed to the implementation of the peace accord and will take all necessary measures and decisive actions to prevent and hinder any attempts to disturb the peace process.

My authorities are determined to use the window of opportunity opened by the peace agreement to renew their efforts in macroeconomic stabilization and comprehensive economic reforms. Since June 1997, they have taken a number of steps to address the severe economic imbalances which had developed in the first half of 1997. The public expenditures were compressed and net lending reduced, the granting of directed credits was prohibited, central bank credits to banks and the government were strictly limited, regular foreign exchange auctions were restarted, the curb market for foreign exchange was decriminalized, and trade policies were again liberalized. The impact of these measures is already evident. Inflation came down from the very high levels observed in July and August to an average of 3 percent in October - November, and the nominal exchange rate has remained stable since early September.

To further strengthen these efforts, the government and the National Bank of Tajikistan (NBT), with the support of the Fund staff, developed an ambitious economic

program for October 1997 to June 1998 and request now for Emergency Post-Conflict Assistance in the amount of SDR 15 million. The main purposes of the program are to reestablish macroeconomic stability, to strengthen the capacity to implement sound economic policy in a market environment, and to lay the foundation for sustainable growth by enhancing the role of, and opportunities for, the private sector in Tajikistan. The key macroeconomic objectives are to limit inflation to no more than 21 percent during 1998, to achieve a

4-5 percent increase in real GDP in 1998; to make further progress toward a viable external balance of payments, including by increasing the international reserves of the NBT to cover 4 weeks of imports by the end of June 1998, and to complete the process of normalizing the relations with the external creditors.

In order to achieve these objectives, the fiscal deficit will be further reduced and central bank financing of the budget will be strictly limited. The latest projections show that the fiscal deficit target for the fourth quarter of 1997 of 0.6 percent of GDP can be reached thanks to high revenues from the sales tax. The 1998 state budget, which is consistent with the program, has been approved by the Parliament. It envisages a decline in the overall cash deficit to 2.8 percent of GDP. On the revenue side, the improvement of the collection of the sales tax will remain a key element. To strengthen the tax base, it also has been decided to eliminate most of the remaining VAT exemptions and to extend the coverage of the excise taxes. In addition, to streamline, harmonize and simplify the tax system, my authorities introduced a unified import tariff of 5 percent, harmonized the excise tax for domestic and imported goods, reduced the enterprise profit tax rate, and, finally, simplified the accounting procedures for small enterprises.

Expenditure policy needs to be balanced between the requirements of the peace process and fiscal prudence. Savings will be made by the reduction of subsidies for irrigation and public utilities, as well as from the efforts to restrain personnel outlays. Expenditures on health and education will be at least 9 and 13 percent of total expenditures, respectively. And capital expenditures are projected to increase faster than GDP, due to the need to rebuild the damaged infrastructure. With regard to the expenditures on the social safety net, the government will aim at better targeting of social benefits. In implementing measures to improve the social safety net, the government will ensure that their financing remains consistent with the overall budget objective and the financial program. The cumulative stock of arrears on wages and compensation payments will be reduced by at least 50 percent by end-March 1998.

The NBT will support the inflation reduction effort by maintaining an appropriately tight monetary stance. To ensure the most efficient allocation of NBT credit to the economy, credit auctions are being introduced. The first auction will take place in the next few days, and further auctions will be held at a rhythm of two per month. Furthermore, in order to establish a flexible source of financing for government expenditures, a government treasury bill market will be introduced during 1998.

The balance of payments position is difficult and major improvements can only be expected gradually, particularly as reconstruction efforts will result in increased import needs, while the recovery of exports can be expected to take place slowly. For 1997 and 1998 the overall balance of payment deficit is projected to be 1.9 and 4.4 percent of GDP, respectively. Tajikistan will therefore remain dependent on strong international support. Over the program period, an estimated financing gap of US\$ 40 million is expected to be filled by post-conflict provisions from the IMF (US\$ 21 million), the World Bank (US\$ 10 million), and by a grant from the European Union (US\$ 9 million). In addition, a considerable amount of assistance was pledged at the UN-sponsored donor conference in Vienna for the implementation of the peace agreement. The remaining gap could be filled in a Consultative Group meeting to be held in spring 1998.

Tajikistan is burdened by a large external debt (84 percent of GDP), including very significant amounts of external arrears. Several creditor meetings were held with external creditors. As a result, bilateral creditors have agreed to enter into discussions aimed at rescheduling debts which are either overdue or fall due this year. The special debt service account contains enough funds to cover all obligations (after rescheduling) for 1996 and 1997 to all creditors that have been asked to reschedule, except for Uzbekistan, and the 1998 budget envisages sufficient transfers to cover all debt obligations which will fall due in 1998 under the proposed rescheduling terms. Arrears, which arose on the debt that is not currently subject to rescheduling negotiations, including to the European Union, will be reduced substantially by the end of the year, and eliminated completely by end-June 1998.

On structural policies and institution building, the program calls for a significant acceleration of the small-scale privatization with the aim of completing it by end-September 1998. In the agricultural sector, the authorities intend to accelerate the breakup of collective farms and the privatization of state farms. Furthermore, the banking sector will be strengthened by forcing the banks to meet prudential requirements. In a second step, a comprehensive bank restructuring program will be designed in cooperation with the Fund and the World Bank, on the basis of assessments of the true net worth of the big banks. Furthermore, my authorities are going to substantially accelerate the reforms of the cotton sector by privatizing Tajik Cotton Company and completing the privatization of the cotton ginneries. The TADAZ aluminum plant will be downsized by separating activities unrelated to aluminum production. To further develop and improve the regulatory environment for private business, several laws (Law on Property, Law on Securities and the Stock Market, and the Bankruptcy Law) will be reviewed and, if necessary, amended. A new Banking Law will be submitted to the Parliament, and a timetable will be established for the completion of a commercial code. Finally, it is planned to restructure the overall institutional set up for administering and collecting taxes, and enforcing tax laws, on the basis of recommendations to be made by the Fund staff.

With its ambitious stabilization targets and far-reaching structural adjustment objectives, the program goes in many aspects well beyond a usual post-conflict arrangement. But my authorities have realized that building up both domestic and international confidence

in the Tajik economy requires a drastic and convincing turnaround of past trends. Moreover, the achievement of strong macroeconomic stability and the building up of institutions and administrative capacity is a first step towards a comprehensive multi-year economic reform program that could be supported by an ESAF arrangement. They are fully committed to the implementation of the program. To demonstrate their commitment, they have satisfied all the prior actions as they have been outlined in the Memorandum of Economic Policies. Furthermore, they agreed on a number of quantitative performance targets and structural benchmarks in key policy areas, the satisfactory implementation of which will be a condition for the completion of the mid-term review and the approval of the second purchase.

To conclude, my authorities wish to thank the international community for its support of the ongoing peace process in Tajikistan and the rehabilitation of the infrastructure. They would also like to thank Fund management and staff, including the resident representative in Dushanbe, for their highly professional support, courage, and devotion, shown during this important period. They are also very grateful for the technical assistance provided by the Fund.