



COUNTRY ECONOMIC REVIEW

TAJIKISTAN

April 2000

CURRENCY EQUIVALENTS

(as of 20 March 2000)

Currency Unit	=	Tajik ruble (TJR)
TJR1.00	=	\$0.000613
\$1.00	=	TJR1,631

The Tajik ruble was introduced to replace the Russian ruble as the national currency on 10 May 1995 at a rate of TJR1 = 100 Russian rubles (equivalent to TJR50 per US dollar). The exchange rate of the Tajik ruble is currently determined under a managed float system.

ABBREVIATIONS

ADB	-	Asian Development Bank
CCP	-	Cash Compensation Program
CIS	-	Commonwealth of Independent States
CSFB	-	Credit Suisse First Boston
ESAF	-	Enhanced Structural Adjustment Facility
EU	-	European Union
FDI	-	Foreign direct investment
FSU	-	former Soviet Union
GDP	-	gross domestic product
IMF	-	International Monetary Fund
LIBOR	-	London interbank offer rate
NBT	-	National Bank of Tajikistan
NDA	-	Net domestic assets
NIR	-	Net international resources
OSCE	-	Organization for Security and Cooperation in Europe
PPP	-	Purchasing Power Parity
PRC	-	People's Republic of China
PRGF	-	Poverty Reduction and Growth Facility
SOE	-	State-owned enterprise
SSA	-	State Statistical Agency
SPF	-	Social Protection Fund
TADAZ	-	Tursunzoda Aluminum Smelter
UNDP	-	United Nations Development Programme
UTO	-	United Tajik Opposition
WTO	-	World Trade Organization

NOTES

- (i) The fiscal year (FY) of the Government ends on 31 December.
- (ii) In this report, "\$" refers to US dollars.

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EXECUTIVE SUMMARY

Tajikistan made significant progress in macroeconomic stabilization and its transition to a market-based economy in 1997 and 1998. Economic growth slowed in 1999, however, with preliminary figures showing that real gross domestic product (GDP) grew by 3.7 percent, considerably lower than the 1998 growth rate of 5.3 percent and the original 1999 forecast of 5.5 percent. The fall in the growth rate reflects the adverse effects of the Russian financial crisis, the deterioration in Tajikistan's terms of trade, and weather damage to agricultural crops.

In the key agriculture sector, the 1999 grain harvest decreased by 20 percent because of bad weather. Production of cotton, one of Tajikistan's two main exports, declined by 17.6 percent in 1999 because of bad weather and a shortage of inputs after external financing was withdrawn. Industrial output grew by 8.2 percent in 1998 and 5.0 percent in 1999. Production of aluminum, Tajikistan's other major export, increased by 20 percent in 1999. Tajikistan's official unemployment rate was 3.1 percent in the first half of 1999, compared to 3.2 percent in 1998. However, the official statistics grossly underestimate actual unemployment, which is about 30 percent.

Budget overruns and weak tax administration widened the budget deficit during the first three quarters of 1999. However, the authorities intensified revenue collection and rationalized expenditures in the fourth quarter. As a result, the deficit fell to 3.1 percent of GDP in 1999 after a deficit of 3.8 percent in 1998.

The Russian financial crisis has had a detrimental effect on Tajikistan's economy, especially through its effects on the exchange rate and consequent macroeconomic instability, which complicated adherence to the targets under the Poverty Reduction and Growth Facility (PRGF, formerly Enhanced Structural Adjustment Facility, or ESAF) program of the International Monetary Fund (IMF). The official exchange rate to the US dollar depreciated 47.5 percent from August 1998 to August 1999. Since August 1999, however, the exchange rate has remained stable. After inflation of only 2.7 percent in 1998, the currency devaluation carried with it inflationary pressures in 1999, causing the authorities to establish new fiscal and monetary targets and implement new policy measures to shore up the budget and tighten monetary policy. However, the economy faced more shocks in 1999 when the prices of key commodities, including bread and imported fuel, increased. Administrative price increases in electricity and gasoline also contributed to inflation, which was 24 percent for the year.

In 1998, Tajikistan's trade balance deteriorated sharply because of steep declines in prices of cotton and aluminum. The trade balance recovered in 1999, however, due to increased export earnings from aluminum whose price has rebounded. The appreciation of the Tajik ruble vis-à-vis the Russian ruble in the aftermath of the Russian crisis caused exports to Russia and other former Soviet Union (FSU) countries to decline in late 1998 and early 1999. However, Tajikistan's success in diversifying its trading partners since independence cushioned the effects of the crisis somewhat as its main exports, cotton and aluminum, are sold mostly to non-FSU countries.

Tajikistan continues to have a heavy debt service burden. In 1998, external debt represented 91.4 percent of GDP. In April 1999, however, Moscow reduced Tajikistan's debt to Russia by over 50 percent. Agreements have also been signed with several other countries. Consequently, Tajikistan's foreign debt service due has fallen from 17.5 percent of GDP in 1996 to 2.7 percent in 1999.

During 2000 and 2001, the Government will continue to implement the IMF PRGF program, which calls for tight fiscal and monetary policy and continued structural reforms, supported by a flexible exchange rate regime. New program targets proposed in December 1999 call for economic growth of 5.0 percent per year and inflation of 13 percent.

Continued progress in the peace process is the most crucial factor in Tajikistan's efforts to maintain a stable and secure macroeconomic environment that will foster economic development and promote investor confidence. Despite occasional disruptions, the peace process made significant progress in 1999. The United Tajik Opposition (UTO) completed the disarmament of its soldiers in 1999 and emphasized that they are now only a political opposition. The Supreme Court subsequently lifted the 1993 ban on opposition parties. President Rakhmanov was re-elected in November 1999. Parliamentary elections for the lower house took place in February 2000, and those for the upper house in March 2000. These elections officially mark the completion of the peace process set in motion by the 1997 peace accord. For peace to be maintained, it is important that the election victors continue to cooperate with the opposition to create the conditions necessary for promoting economic growth and prosperity.

In December 1999, the Government announced that its privatization program for small enterprises was complete. Land reform has also proceeded well. From June 1998 to October 1999, 183 state and collective farms (out of more than 600 to start) were broken up into smaller private farms, and over 63,000 land share certificates were distributed to farmers. There were 13,034 private peasant farms as of October 1999. However, the privatization of medium and large state-owned enterprises has lagged. As of October 1999, only 7 of 23 cotton-ginning mills had been sold. Nevertheless, the state cotton monopoly was liquidated in January 1999. The Government has also announced its intention to eventually restructure Tajikistan's two largest firms: the electricity monopoly Barki Tajik, and the aluminum smelter TADAZ.

The first round of bank restructuring for four of the five major banks was completed in November 1998 with progress in reducing staff, improving management practices, and expanding the capital base. The new prudential regulations reduced the number of banks from 26 to 16 in 1999 as several weak banks were liquidated or merged with other banks. In April 1999, the National Bank of Tajikistan (NBT) took over one of the five big banks to liquidate it because of noncompliance with prudential regulations. This action should demonstrate the NBT's resolve to the other banks. Agricultural finance has been especially constrained in recent years. There is a crucial need to develop sustainable rural financial institutions in Tajikistan.

Because of the civil war, the sharp contraction in GDP since independence in 1991, and decreased tax revenues, the Government's ability to provide basic public and social services has been severely strained. The estimated poverty rate in Tajikistan is 80 percent. The existing social safety net remains inadequate and poorly targeted. With Tajikistan's high incidence of poverty and the Government's limited resources, there is an urgent need to reform and strengthen the social safety net. A household poverty survey undertaken in August 1999 should provide the basis for a more comprehensive reform of the existing social safety net.

I. RECENT ECONOMIC DEVELOPMENTS

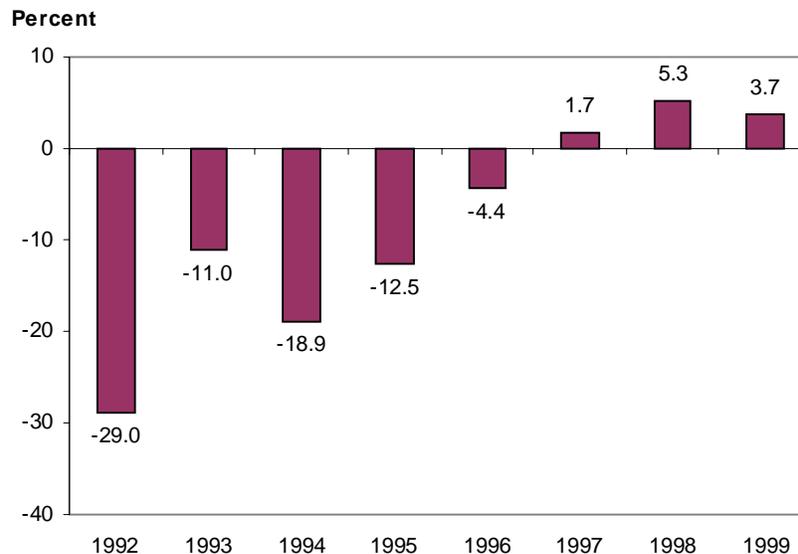
A. Growth, Investment, Savings, and Employment

1. Aggregate Growth

1. Tajikistan made significant progress in macroeconomic stabilization and its transition to a market-based economy in 1997 and 1998. After five consecutive years of economic contraction from 1992 to 1996, real gross domestic product (GDP) grew by 1.7 percent in 1997 and 5.3 percent in 1998 (Figure 1 and Table A.1). Growth in 1998 was broad-based, with the State Statistical Agency (SSA) reporting gross industrial output up by 8.2 percent, gross agricultural output up by 6.3 percent, and gross service sector activity up by 19.7 percent.¹

2. Economic growth continued, albeit more slowly, in 1999. Preliminary figures reported by the SSA indicate that real GDP grew by 3.7 percent in 1999, lower than the 1998 growth rate and the original 1999 projection of 5.5 percent. The decline in the growth rate partially reflects the continuing adverse effects of the Russian financial crisis and the deterioration in Tajikistan's terms of trade. Preliminary figures indicate that gross industrial production grew by 5.0 percent in 1999, while agriculture grew by 3.8 percent.²

Figure 1: Real GDP Growth Rates



Source: Tajik authorities.

¹ Tajikistan's statistical system, inherited from the former Soviet Union, continues to have problems, and data collected continue to be weak. In general, because of the existing data problems, data in this report should be interpreted with caution.

² Again, caution should be used when evaluating these figures. The preliminary estimate of agricultural growth of 3.2 percent is especially problematic because cotton production fell by 17.6 percent, grain production fell by 20 percent, and the entire agriculture sector was constrained by limited credit for purchasing inputs.

2. Sector Growth

a. Agriculture

3. Agriculture is a key sector of Tajikistan's economy, contributing 20 percent to GDP and accounting for 60 percent of employment in 1998³ despite the fact that arable land amounts to only 0.14 hectares per capita. Agriculture continued its recovery in 1998, with gross agricultural output up by 6.3 percent.

4. Since independence in 1991, yearly grain production has nearly doubled as farmers have shifted production in response to the liberalization of bread prices and to meet their own food needs. From 1997 to 1998, the production of potatoes increased by 36 percent, melons by 38 percent, milk by 11 percent, and eggs by 78 percent. However, vegetable and fruit production declined. Despite the general recovery, 1998 production levels (with the exception of grain and potatoes) remained lower than those of 1992, largely due to the breakup of the Soviet Union, the collapse of the trade and payments system, resulting shortages of key inputs, and the intervening civil war (Table 1).

5. Cotton is Tajikistan's most important cash crop. Excluding barter trade in electricity, exports of cotton fiber and products accounted for 20 to 28 percent of total exports from 1994 to 1997 (and a greater share in Soviet times), and the sales tax on cotton exports amounted to as much as 30 percent of total tax revenue. After sharp declines in the early 1990s, cotton production has recovered significantly since the end of the civil war. Output grew from 318,000 tons in 1996 to 353,000 tons in 1997 and 384,000 tons in 1998.

6. World market prices for cotton, however, declined by more than 30 percent after April 1998. This price shock affected Tajikistan's 1998 cotton exports in two ways. First, it directly reduced earnings from cotton exports because of the reduced export price. Second, it reduced physical exports because local cotton exporters postponed shipments, waiting for prices to recover. As a result, cotton export earnings fell from \$202 million in 1997 to \$139 million in 1998 despite the better harvest. As a corollary, sales tax revenues on cotton also declined, contributing to the decrease in the Government's revenue (para. 23).

7. The reduction in cotton earnings in 1998 led to noncompliance with the terms of an international loan granted to pre-finance Tajikistan's cotton production. In early 1998, two foreign trading companies, Paul Reinhart A.G. and Dunavant S.A., through a consortium of banks led by Credit Suisse First Boston (CSFB), granted credits totaling \$77 million to Tajikistan's Agroinvestbank, which then on-lent the money to 11 local cotton traders and to local farmers in the form of fuel, fertilizer, pesticide, and other inputs.⁴ Because of the fall in world prices, however, the cotton traders and farmers have been unable to repay the loan. Both sides agreed in April 1999 to extend the repayment schedule to the end of 1999, which required a renewal of the Government guarantees of the loan.

³ These figures again come from the SSA. Other sources give agriculture as high as a 28 percent share of GDP, and as low as a 45 percent share of employment.

⁴ The loan, which bore an interest rate of LIBOR plus 8 percent, was guaranteed by the Tajik government. The Government was thus deemed to be noncompliant with the terms of their IMF PRGF program. The IMF, however, granted the Government a waiver and released the next tranche of funds.

As of November 1999, the outstanding debt was \$43.5 million, and further rescheduling was required.⁵ Because of this experience, coupled with the Government's refusal to grant new guarantees, the lending consortium declined to provide financing for the 1999 crop. Domestic credit, including credits from the National Bank of Tajikistan (NBT), filled some of the resource gap, but the lending capacity of Tajik commercial banks remains weak. Therefore, credit was insufficient for the purchase of inputs, especially fuel and spare parts for agricultural machinery. Moreover, rains and flooding damaged much of the 1999 crop in some areas. And at harvest time, over 100,000 tons remained unharvested because of heavy rains and snowfall. As a result, although slightly more land was planted in 1999 than in 1998, the 1999 harvest was only 316,300 tons, a decline of 17.6 percent from 1998. Moreover, the 1999 grain harvest of 400,000 tons represents a 20 percent decrease from 1998.

Table 1: Basic Agricultural Products
(Thousands of tons unless otherwise indicated)

Item	1992	1995	1996	1997	1998
Grain	275.7	249.2	548.2	559.4	499.6
Cotton	515.0	411.5	317.7	353.3	383.7
Potatoes	167.4	111.6	107.7	128.1	174.5
Vegetables	542.6	491.4	397.5	350.6	322.2
Melons and gourds	136.3	116.0	52.0	64.1	88.5
Fruits	183.4	148.7	126.3	112.7	97.3
Grape	99.9	96.4	121.6	126.9	46.1
Livestock and birds (live weight)	126.1	95.1	83.1	59.1	59.9
Milk	509.5	382.0	176.4	234.6	260.3
Eggs (millions)	295.9	49.6	6.0	6.9	12.3
Wool (tons)	3,726.0	3,720.0	2,623.0	1,969.0	1,755.0
Honey (tons)	1,787.0	34.0	19.0	10.0	13.0

Source: State Statistical Agency.

b. Industry

8. Tajikistan's industry sector has contracted sharply since independence, falling a total of 73 percent from 1991 to 1996. During the Soviet period, this sector relied heavily on inputs from other Soviet republics and marketed its outputs to these same republics. After 1991, however, the industrial sector experienced a severe contraction as a result of the collapse of the Soviet trade and payments system, power disruptions, shortages of inputs and spare parts, and the civil war. Largely because of the relative political stability under the first full year of the peace agreement as well as the stabilized macroeconomic environment, gross industrial production in 1998 rebounded, growing 8.2 percent. Efficiency improvements from the privatization of small state-owned enterprises (SOEs) were also a contributing factor. In 1998, 26.3 percent of industrial production took place in the private sector. While still low by the standards of the

⁵ In November 1999, government officials, representatives of CSFB, and representatives of the IMF met to discuss rescheduling terms. It was agreed to reduce the debt to \$27.5 million by December 1999, \$13.7 million by March 2000, and \$10.8 million by April 2000. The balance would be paid at the time of the cotton harvest in October and November 2000. The Government, however, would not extend its guarantee beyond 1999. CSFB has indicated its willingness to forego calling the guarantee as long as the new schedule is respected.

former Soviet Union (FSU), this figure represents a significant increase from the 3.5 percent share in 1995.

9. Aluminum is Tajikistan's most important industrial product. Although physical production contracted by 50 percent from 1991 to 1997, its share in industrial output nearly doubled from 22 percent in 1991 to 41 percent in 1997. Aluminum also is Tajikistan's most important export, accounting for over 40 percent of the country's export earnings. The 1998 recovery in industrial production included aluminum, whose production increased by 3.2 percent and accounted for one third of industrial output. Earnings from aluminum exports fell sharply, however, as world market prices for aluminum dropped by over 20 percent in 1998.

10. Other 1998 industrial output also showed signs of recovery. Electricity production increased by 3 percent, machine building and metal processing by 2 percent, light industry by 4.1 percent, and food processing by 19.3 percent. However, certain important sectors continued to decline. Fuel (petroleum extraction and coal production) declined by 20.9 percent (largely because of depleted reserves and inaccessibility), chemical production decreased by 40 percent, and the construction materials industry declined by 15 percent.

11. Gross industrial production continued to rise in 1999, increasing by 5.0 percent, led by increased production of aluminum, electricity, wood and timber, and printing. However, production of machines and metal processing fell by 16 percent, and food processing decreased by 18 percent.

12. Aluminum production increased by 20 percent in 1999 as world market prices increased by 10 percent. As a result, aluminum exports surged in 1999, increasing by 36 percent in value (29 percent in volume), representing 45 percent of the country's export earnings. However, this volatility in prices and export earnings underscores Tajikistan's vulnerability to external influences.

13. The country's primary aluminum smelter, TADAZ, remains under state control and is still operating at less than 50 percent of capacity. Its production costs remain high as the result of inefficient use of energy, the high cost of imported inputs, and weak and inefficient management. It also has accumulated huge debts to its alumina suppliers who threatened to cut off supplies in November 1999 if they did not receive some payment.⁶ TADAZ desperately needs restructuring to remain viable, and the Government has stated its commitment to restructure it, although no firm timetable has been set.

3. Employment and Wages

14. The official unemployment rate in Tajikistan rose to 3.3 percent in 1998 and 3.1 percent in 1999, up from 2.8 percent in 1997 (Table A.3). However, the official statistics grossly underestimate actual unemployment for several reasons. The official data do not account for substantial unemployment and underemployment in inactive SOEs and in rural areas. Moreover, many of the unemployed have not registered as such because of the low unemployment benefits, which are often less than the costs incurred in claiming them. Furthermore, unemployment is exacerbated by the continuing repatriation of refugees from Afghanistan as well as the demobilization of opposition fighters, only a portion of whom are being absorbed into the Government armed forces. On the other hand, official figures also do

⁶ The exact amount of these debts is in dispute, with some estimates exceeding \$120 million. Payment to TADAZ's Uzbek supplier is being effected in cotton because of Tajikistan's shortage of foreign currency.

not account for employment in the growing informal sector of the economy. By some estimates, as much as 57 percent of the workforce participates, at least occasionally, in the informal sector. Actual unemployment is likely to be on the order of 30 percent of the labor force.

15. The state remains the dominant employer in Tajikistan. In 1998, the state accounted for 43 percent of employment, a slight increase from 41 percent in 1997, but still significantly lower than 52 percent in 1992. The private sector's share of employment in 1998 was 33 percent, the same as in 1997, but up from 21 percent in 1992. Employment in collectives, at 22 percent of employment in 1998, accounted for the bulk of the remainder. These figures are reflective of the slow pace of privatization in Tajikistan, especially in large SOEs. Agriculture continues to absorb the vast majority of the workforce. In 1998, 65 percent of the workforce was employed in agriculture, 11 percent in industry and construction, 9 percent in education, 5 percent in health care, 3 percent in transportation and communications, and 3 percent in trade.

16. Real wages have declined significantly since independence in 1991 and remained low at TJR8,750 (\$11.32) per month in 1998. The first three quarters of 1999 saw a further decline as renewed inflation outstripped wage increases. Average 1999 wages through three quarters were TJR11,351 (\$9.77). Of particular concern are the low wages in the education and health sectors, which remain extremely low and averaged TJR6,168 and TJR4,437, respectively, in the first half of 1999. Partially as a result of these low wages, many qualified teachers and health care professionals have abandoned their jobs or left the country, representing a large loss of human capital.

17. The Government incurred significant wage arrears from 1991 to 1997, which contributed to the deterioration of living standards. However, the Government cleared its wage arrears in 1998. Furthermore, in December 1999, President Rakhmonov signed a decree increasing the salaries of teachers, health care workers, and some other public employees by 30 percent starting from January 2000, and by a further 10 percent in April 2000. The minimum wage remains at TJR1,000, unchanged since January 1998. Given the high unemployment and low real wages, poverty remains severe and widespread in Tajikistan, with 83 percent of the population living in poverty.

4. Investment and Savings

18. Data on investment and savings in Tajikistan are indicative at best. From 1992 to 1997, 77 percent of investment was financed by the state. Total fixed investment in 1998 was reported to be 7 percent of GDP, and the state's share fell to 68 percent in 1998 due to budgetary cutbacks. The Government's capital outlays have been squeezed by the country's post-independence fiscal crisis, which was brought on by the civil war and the termination of budgetary support from Moscow. As a result, there has been a significant deterioration of Tajikistan's infrastructure.

19. Foreign direct investment (FDI) has also remained low because of Tajikistan's high country risk and complex (and sometimes contradictory) regulatory environment. FDI rose from \$25 million in 1996 to \$30 million in 1997, but fell to \$24 million in 1998. Projections in 1999 indicated that it would fall further to about \$20 million. The number of joint ventures has remained steady at about 200 since 1996. FDI so far has focused mainly on textiles and mining, and has come mostly from Canada, Italy, Republic of Korea, Russia, Switzerland, and the United Kingdom.

20. Low levels of private domestic investment are also partially explained by the high-risk environment and the uncertain regulatory environment, as well as the general lack of available credit due to the weak banking sector. National savings remained low, at a negative 2 percent of GDP in 1998.

B. Fiscal Developments

21. Tajikistan experienced a sharp decline in government revenues as a percentage of GDP from 1992 to 1997. Revenues were 24.8 percent of GDP in 1992, but had fallen to 13.7 percent in 1997. This ratio has fallen further to 12.0 percent in 1998 (Table A.4). The lack of revenue severely limits the country's ability to repair infrastructure damaged or destroyed during the civil war or to provide an adequate social safety net. The decline in government revenues is a reflection of the severe contraction in the industry sector, the country's traditional tax base, which declined by 71 percent from 1992 to 1997. Sectors that have either grown or contracted less severely, such as services, private small enterprises, the informal sector, and trade, are more difficult to reach for tax collection purposes. The civil conflict also rendered tax collection difficult from 1992 to 1997, and several clashes in 1998 limited the Government's ability to maintain control of some parts of the country and, therefore, to collect taxes.

22. Expenditures have also declined during the transition period, largely as a result of the end of budgetary support from Moscow and the need to reduce an unsustainable deficit. Expenditures declined from 53.8 percent of GDP in 1992 to 17.0 percent in 1997 and fell further to 15.8 percent in 1998. With the exception of defense spending during the civil war, virtually all expenditure categories have declined since independence. Particularly damaging have been the reductions in social sector spending, exacerbating the plight of the most vulnerable groups, and capital outlays, contributing to the deterioration of much of the country's infrastructure.

23. Because expenditures declined more rapidly than revenues, the Government's fiscal deficit improved from 11 percent of GDP in 1995 to 3.3 percent in 1997. But the deficit widened to 3.8 percent of GDP in 1998, largely because of revenue shortfalls due to external shocks. Specifically, the fall in cotton export earnings, on which a 25 percent sales tax is levied, as well as the fall in aluminum export earnings, on which a 4 percent sales tax is levied, caused fiscal revenues to fall short of expectations in 1998. These sales taxes amounted to 4.9 percent of GDP in 1997, but only 4.0 percent in 1998. The Government's revenue collection was also worsened by weaknesses in tax administration. In fact, some 25 percent of the budget deficit can be attributed to poor tax collection. The bulk of Tajikistan's budget deficit has been financed by the World Bank since 1997, although the larger-than-expected deficit of 1998 was also financed by an increase in NBT's net domestic assets and a decrease in official international reserves. However, NBT financing of the deficit decreased from 2.3 percent of GDP in 1996 to only 1 percent of GDP in 1998.

24. Budget overruns and weak tax administration widened the budget deficit to 4.7 percent of GDP during the first three quarters of 1999. Expenditures exceeded budget especially in capital outlays for the domestic rail network and roads, and in spending for the national celebrations in September. However, the authorities intensified revenue collection and rationalized expenditures in the fourth quarter. As a result, the deficit fell to 3.1 percent of GDP in 1999 after a deficit of 3.8 percent in 1998. This deficit is being financed by concessional borrowing from multilateral lending institutions, privatization proceeds, and a small issue of treasury bills.

25. In an effort to improve fiscal transparency and efficiency, the Government cleared its budgetary arrears on wages and pensions in 1998, and also significantly reduced its arrears in social benefits (primarily Cash Compensation payments). Tajikistan has also engaged in mutual tax and expenditure offsets, a practice common to FSU countries. These offsets amounted to 16 percent of revenue in 1997 but decreased to 13 percent in 1998. Because such offsets reduce transparency and efficiency in tax administration, a presidential decree that forbids mutual offsets of tax obligations and expenditures was issued in February 1999.

26. Perhaps most importantly, in November 1998 Parliament adopted a new Tax Code, which became effective in January 1999. Administration of the new Tax Code has been uneven due to confusion regarding its implementation as well as some resistance to its terms, thus contributing to the widening deficit through the first three quarters of 1999. The Government has implemented new policy measures aimed at strengthening tax collection. These measures include starting the administrative reorganization of the State Tax Committee and State Customs Committee, removing the import duty tax exemptions on natural gas, increasing electricity tariffs, and enacting a new excise tax on gasoline.

C. Monetary Developments and Prices

27. Since June 1997, the authorities have pursued a tight monetary policy to reduce inflation and support a flexible but stable exchange rate. As part of this strategy, a presidential decree has prohibited any government agency from requesting credit from the NBT or commercial banks. The NBT has also adopted a policy to stop extending foreign exchange credits to SOEs. Moreover, the NBT has significantly reduced the amount of credit it provides to the Government and commercial banks. Monetary management and performance, however, have been mixed since June 1997.

28. Reserve money and ruble broad money grew by 13 percent and 19 percent, respectively, in 1998, largely in line with Tajikistan's IMF Poverty Reduction and Growth Facility (PRGF, formerly Enhanced Structural Adjustment Facility, or ESAF) program targets (Table A.5). As a result of the Government's tight monetary stance, inflation fell from 160 percent in 1997 to 2.7 percent in 1998⁷ (Table A.6). However, with the depreciation of the Tajik ruble following the Russian financial crisis and the deterioration in Tajikistan's terms of trade, combined with the country's significant deviations from the PRGF program monetary and fiscal targets in the third quarter of 1999, consumer prices rose again in 1999. Fuel prices alone rose by 50 percent in August 1999 due to sharp rises in prices charged by Russia and Uzbekistan, and bread prices rose by 20 percent in the same month. Preliminary figures released by the SSA report 1999 inflation to be 24 percent. Administrative price increases in electricity and gasoline also contributed to the rise in inflation. In the wake of Tajikistan's failure to meet their PRGF targets, the Government requested a waiver for non-observance of performance criteria in December 1999 and has recommitted itself to the program's fiscal and monetary policies and the associated structural and institutional reforms.

29. The fall in world market prices for cotton and aluminum weakened the liquidity positions of these sectors, reducing tax payments and creating pressure on the NBT to extend credits to the Government to finance these sectors and to cover the resulting fiscal deficit. The deficit of

⁷ The 1998 inflation rate of 2.7 percent is the official rate reported by the NBT and is accepted and reported by the IMF also. However, it is arguably an underestimate of the true inflation rate in light of the sharp devaluation of the Tajik ruble in the wake of the Russian financial crisis after August 1998. Other sources estimate a much higher inflation rate. For example, the Economist Intelligence Unit estimates 1998 inflation at 43.4 percent. However, even this rate represents a significant improvement over 1997.

3.8 percent of GDP in 1998 exceeded expectations by 0.6 percent of GDP. To finance this deficit and the cotton sector, the NBT's net domestic assets (NDA) increased by 43 percent in 1998, and net international reserves (NIR) fell significantly. Both diverged substantially from PRGF program targets. In order to preserve macroeconomic stability, the authorities (in consultation with the IMF) established new program targets for 1999 and took additional measures to tighten monetary policy. However, the NBT's NDA increased by 71 percent during the first nine months of 1999 as a result of directed credits to the cotton sector, Tajik Rail, and the national oil company, as well as net credits to the Government. But overall monetary expansion was only slightly greater than expected because credit expansion was offset by a significant increase in foreign exchange sales stemming from World Bank loan disbursement. As a result, however, NIR dropped significantly from negative TJR33 billion to negative TJR87 billion during the first nine months of 1999, and gross international reserves fell from \$65 million to \$40.7 million.

30. Tajikistan's exchange rate was relatively stable through the first half of 1998. Following the onset of the Russian crisis in August 1998, the NBT initially tried to defend the Tajik ruble by intervening in the foreign exchange market, but relented in October and has since allowed the currency to depreciate. As a result, the exchange rate depreciated by 47.5 percent vis-à-vis the US dollar from August 1998 to August 1999 (Table A.7). As of 20 December 1999, the official exchange rate stood at TJR1,436 to the dollar. The curb rate depreciated from TFR1,220 (a spread of 20 percent from the official rate) in December 1998 to TJR1,600 in December 1999 (a spread of 11.4 percent). Although the NBT has stated its intention to reduce this spread to less than 7 percent, there are currently no explicit distortionary policies or restrictions in place to explain the spread. The likely explanation for the spread is the desire of purchasers of foreign exchange to evade taxes on their economic activities.⁸ Until tax collection measures are strengthened, this spread will likely continue.

31. Tajikistan's banking sector has performed poorly since independence as indicated by the accumulation of a large amount of non-performing loans. A 1998 audit by Arthur Andersen indicated that four of the five major banks had a negative net worth. The Government in 1998 began to seriously address the critical issue of banking reform. In May 1998, the Law on Banks and Banking Activities was passed. This law raised the minimum capital requirements of banks, unified reserve requirements for banks, introduced a new chart of accounts for the NBT consistent with international accounting standards, and strengthened prudential regulations to comply with international standards (including the establishment of 10 ratios against which banks are assessed on a monthly basis by the NBT's Banking Supervision Department). Loan-loss provisions were also made tax-deductible. Furthermore, a bank restructuring program was developed in collaboration with the World Bank and IMF.

32. The first round of the bank restructuring program for four of the five major banks was completed in November 1998 with progress in reducing staff, improving management practices, and expanding the capital base in an effort to attract foreign investors. The prudential regulations imposed by the May 1998 law reduced the number of active banks from 26 to 16 in 1999 as several weak and small banks have been liquidated or merged with other banks. The major banks are still struggling to meet the new prudential requirements, whose enforcement has been sporadic. In April 1999, however, the NBT took over the administration of one of the big five banks, Tajikbankbusiness, with the aim of liquidating it for noncompliance with

⁸ From September to November, for example, the Tajik Inter-Bank Currency Exchange offered foreign exchange for sale at the rate of TJR1,436 or less to the dollar, but had very few purchasers, while the curb market flourished at rates over TJR1,600.

prudential regulations. This action should have an important demonstration effect on the other banks. However, the management of some banks still retains a Soviet outlook and will loan only to clients who are guaranteed by the Government rather than engage in their own assessment of clients' creditworthiness. Part of the restructuring program is aimed at enhancing banking skills such as credit risk analysis and portfolio management.

33. In view of the problems resulting from the Government's guarantee of the cotton sector loan in 1998, the Government in July 1999 passed a resolution that limits to \$10 million the foreign commercial loans that it will take or guarantee until April 2000, thus codifying its agreement under the IMF PRGF program.

D. External Trade and Balance of Payments

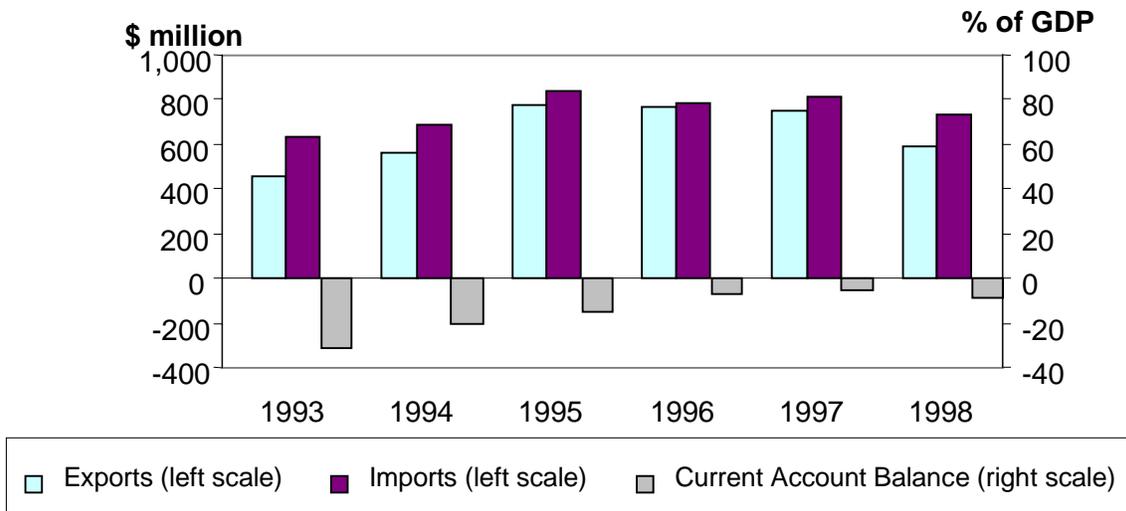
34. Tajikistan's external sector came under considerable strain following independence as foreign trade was disrupted because of the collapse of the inter-republic trade and payments systems and because of a deterioration in the country's terms of trade. As a result, the current account deficit rose to \$208 million (31 percent of GDP) in 1993, and the overall balance of payments deficit rose to \$238 million (35 percent of GDP) (Table A.8). The balance of payments situation has improved significantly since 1993, however, with the current account deficit falling to \$59 million (5.4 percent of GDP) in 1997 and an overall balance of payments deficit of \$33 million (3 percent of GDP). This improvement was the result of several factors, including the liberalization of the country's trade regime, increases in the prices of cotton and aluminum (Tajikistan's primary exports) from 1993 to 1997, constrained import growth due to a lack of financing, and a fall in grain imports due to increased domestic grain production.

35. Tajikistan continued its liberal trade regime in 1998 and 1999. In 1998, a uniform tariff of 5 percent was applied to all major imports except alumina, electricity, and some types of gas. The effective tariff rate was 2.1 percent. Moreover, the country has few non-tariff trade barriers. In February 1999, however, Tajikistan became the fifth country to join the customs union of the Commonwealth of Independent States (CIS) along with Belarus, Kazakhstan, Kyrgyz Republic, and Russia, and raised its average tariff rate from 5 to 8 percent. However, the Government remains committed to a liberal trade regime and has initiated its application for membership in the World Trade Organization (WTO), emphasizing that it will not introduce discriminatory tariffs or non-tariff barriers that would violate WTO policies.

36. Tajikistan's trade balance faces substantial instability because of the lack of diversity in its exports and the volatility in their prices (Figure 2). Excluding barter trade in electricity, over three fourths of Tajikistan's export earnings come from the sale of cotton and aluminum. The rise in world market prices of these two commodities played a significant role in improving Tajikistan's balance of payments from 1993 to 1997. However, world market prices for cotton have dropped by more than 30 percent since April 1998, and aluminum prices fell by 20 percent in 1998. As a result, merchandise export earnings fell by 21.4 percent in 1998. Cotton export earnings declined by 33 percent, not only because of lowered prices, but also because sellers delayed cotton shipments in anticipation of higher world market prices. A sharp appreciation of the Tajik ruble vis-à-vis the Russian ruble in the wake of the Russian financial crisis also reduced exports to Russia and other CIS countries. Rising world market prices for imported petroleum products in late 1998 also contributed to the deterioration of Tajikistan's balance of payments. As a result of these developments, the current account deficit increased to \$113 million, or 8.8 percent of GDP, in 1998. The overall balance of payments deficit decreased to \$20 million (2 percent of GDP), however, as the capital account registered a surplus of \$93 million in 1998, up from a surplus of \$27 million in 1997 and a deficit of \$105 in 1996. The

increase in the capital account surplus resulted from decreased amortization of the debt following debt rescheduling agreements as well as a decrease in commercial banks' net foreign assets due to the authorities' efforts to tighten monetary policy and restructure the banking sector. The current account deficit declined significantly in 1999 to 3.4 percent of GDP. This decline reflects both a decrease in imports and an increase in exports following the depreciation of the Tajik ruble. Aluminum exports, in particular, have largely recovered as world market prices have begun to rise again. Cotton exports, however, remained low in 1999.

Figure 2: External Trade and Current Account



Sources: Tajik authorities and International Monetary Fund.

37. Tajikistan's trade balance recovered in 1999, primarily due to increased export earnings from aluminum whose price had rebounded. Concurrently, the current account deficit fell to 2.8 percent of GDP. In the first nine months of 1999, the export of goods totaled \$505.5 million, an increase of 20 percent over the same period in 1998. Imports fell by 12 percent and amounted to \$482.9 million. Forty-five percent of export revenues were derived from the sale of aluminum. The volume of aluminum exports increased by 29 percent, and revenues increased by 36 percent as aluminum prices recovered. On the other hand, as cotton prices continued their decline, the volume of cotton exports increased by 3 percent, but revenues declined by 18 percent.

38. Tajikistan continues to have a heavy debt service burden, which will require prudent and vigilant management. As Table A.9 illustrates, Tajikistan has experienced some difficulties in meeting its debt service obligations as a result of the post-independence economic contraction and civil war. Debt service due reached 34.4 percent of exports in 1996 while debt service actually paid that year was only 0.1 percent of exports. With the signing of the peace agreement in 1997, however, along with subsequent agreements to reschedule some of the country's debt, the ratio of debt service paid to debt service due has risen substantially. In 1998, debt service due was 11.4 percent of exports, and debt service paid was 7.9 percent of exports. At the end of 1998, external debt represented 91.4 percent of GDP and 328 percent of exports. Two thirds of the debt is owed by the Government. Much of the private sector debt is owed by the aluminum smelter TADAZ. In April 1999, however, Russia agreed to reduce Tajikistan's debt by over 50 percent. Hence, Tajikistan's debt to Russia, which stood at \$288 million at the end of 1998, was \$137 million in November 1999. Agreements have also been signed with Kazakhstan, Kyrgyz

Republic, Turkey, and Uzbekistan. Moreover, the ambassador of Pakistan has informed the Government that Pakistan will accept the terms of debt rescheduling proposed by Tajikistan. India and the European Union (EU) have also indicated a willingness to reschedule Tajikistan's debt. Furthermore, detailed proposals have been presented to the People's Republic of China (PRC) and Turkmenistan, although agreements have not yet been reached with them. As a result, Tajikistan's foreign debt service due has fallen drastically from its high of \$181 million (17.5 percent of GDP) in 1996 to \$41 million (3.2 percent of GDP) in 1998 and \$29 million (2.7 percent of GDP) in 1999.

II. ECONOMIC PROSPECTS AND POLICY ISSUES

A. Macroeconomic Outlook

39. During 2000 to 2001, the Government will continue to implement the IMF PRGF program, which calls for tight fiscal policy, tight monetary policy, and continued structural reforms, supported by a flexible exchange rate regime. Under new program targets proposed in December 1999, economic growth is targeted at 5.0 percent for 2000, inflation is targeted at 13 percent, and official gross reserves are to increase to 3.7 months of imports by 2001. Following the decline in growth in 1999, GDP is expected to recover in 2000 as the effects of the Russian financial crisis are attenuated. Structural reforms, including the privatization of additional SOEs, should also increase productivity and, hence, privately run manufacturing and service-sector activity. Similarly, assuming improved weather conditions in 2000 and 2001, the privatization of additional farmland and several cotton-ginning mills will likely stimulate farmers to increase cotton and grain production. Aluminum production may increase slightly in 2000 following an increase in world prices and the signing in July 1999 of a 15-year agreement with its main Ukrainian supplier of alumina, which should stabilize input supplies. However, the obsolete technology used at the main smelter, intermittent electricity supplies, and prolonged lack of capital investment, as well as the relatively low demand for the low-quality aluminum it produces, will constrain production. Hence, although aluminum production will continue to provide an important source of export earnings, it will contribute little to GDP growth.

40. Barring any further external shocks, the exchange rate should remain stable during 2000 as the effects of the Russian financial crisis recede, thus reducing the inflationary pressures of a further depreciation. Monetary policy will also continue to be tight and will include a tight credit policy, but will take into account the loss of private external financing of the cotton sector. Consistent with the PRGF program's inflation targets, broad money is expected to grow by about 25 percent per year in 2000-2002, and bank credit to the private sector is expected to grow by about 10 percent per year from 2000 onward. Given the existing external debt of the cotton sector and the resulting absence of new external credits, new NBT credits and significant self-financing by cotton growers and the new ginning mill owners will be necessary in the short and medium term. In subsequent years, however, new external financing is expected to become available as Tajikistan's creditworthiness gradually improves, and domestic financing is expected to increase as private savings increase. The financial relations between the NBT and the Ministry of Finance will also be regularized. Starting 1 January 2000, the Government will pay a market interest rate on new borrowing from the NBT, and outstanding government debt as of December 1999 was to be converted into a long-term bond denominated in Tajik rubles. The NBT will pay market interest rates on all government deposits and transfer part of its profits to the budget. Moreover, there will be no sustained government borrowing from the NBT.

41. Tajikistan's fiscal position should continue to improve in the short and medium term. Revenue increases will depend on the effective implementation of the new Tax Code, which was introduced in January 1999, as well as improvements in tax administration. Security improved in 1999 compared to 1998, and as the peace process is further consolidated, tax collection should improve. Because of the difficult fiscal position, the sales tax rate on cotton remained at 25 percent in 1999, but will be reduced to 20 percent in 2000. The revenue base was expanded in 1999 with the introduction of a new excise tax on gasoline, the elimination of the import duty exemption on natural gas, and the full-year effect of the elimination of value added tax (VAT) exemptions on food that took effect in April 1998. This expansion was slightly offset, however, by the lowering of the tax rate on aluminum from 5 percent in 1998 to 4 percent in 1999. The continued recovery of the industry sector, Tajikistan's traditional tax base, will also improve the Government's fiscal position in the coming years. Total revenue should increase from 13.1 percent of GDP in 1999 to eventually reach 14.0 percent of GDP in 2002. Corresponding fiscal deficits should fall from 3.1 percent in 1999 to 2.2 percent in 2000 and 1.2 percent in 2002.

Table 2: Projections for Selected Macroeconomic Indicators, 2000-2002

Item	1998 (actual)	1999 (estimated)	2000	2001 (projected)	2002
Real GDP growth rate (%)	5.3	3.7	5.0	5.0	6.0
Inflation rate (%)	2.7	24.0	13.0	10.0	7.0
Government finance (% of GDP)					
Revenue	12.0	13.1	13.2	13.7	14.0
Expenditure	15.8	16.2	15.9	16.0	16.2
Deficit ^a	3.8	3.1	2.2	1.3	1.2
Current account balance (% of GDP ^b)	(8.8)	(2.8)	(3.5)	(3.0)	(3.0)
Gross official reserves (months of imports)	1.5	1.4	3.3	3.7	3.5
External debt (% of GDP)	91.4	97.2	95.0	90.0	87.0
External debt-service ratio (% of exports ^c)	13.3	7.6	9.3	10.5	12.0

^a Excluding foreign-financed capital expenditure.

^b Including transfers.

^c Net of alumina imports and electricity exports.

Sources: Tajik authorities, International Monetary Fund, and Asian Development Bank staff estimates.

42. A large amount of economic activity in Tajikistan is carried out in the non-cash economy, in which transactions are conducted through barter, accumulation of arrears, and netting-out operations. The existence of non-cash transactions not only hinders the development of a market economy, but also weakens the Government's fiscal position since such transactions generally fall outside the realm of taxable activities. To reduce non-cash transactions and hence to increase tax collection, the Government has banned tax offsets and in-kind payments within the public sector, including those of local governments.

43. Reform of public expenditure will be pursued in 2000 and 2001. The Government's expenditure priorities will continue to include public sector wages, the social safety net, and external debt service. The Government is committed to maintaining spending on health and education at over 22 percent of total expenditures. Indirect producer subsidies, however, will be reduced to eliminate their distortionary effects. In January 1999, wages in the public sector were increased by 10 percent, and will be further increased by 30 percent in January 2000, and by

another 10 percent in April 2000. A public sector employment survey was undertaken in October 1999 to provide input into further restructuring of government employment. Given its tight monetary and fiscal policy, the Government will need to strike a prudent and appropriate balance between maintaining macroeconomic stability and meeting its social sector obligations.

44. The 1999 and 2000 budget deficits will be financed with concessional borrowing from the World Bank and the Asian Development Bank (ADB) (subject to the Government's meeting required conditions)⁹, a drawdown of privatization receipts that are accumulated at the NBT, and a small issue of treasury bills. The NBT will no longer directly finance the budget, with the exception of short-term (maximum one month) loans for liquidity management purposes.

45. Tajikistan will continue to operate a flexible exchange rate regime to facilitate economic adjustment and to support its international reserve targets. Tight monetary and fiscal policies should support efforts to restore confidence in the currency following the devaluation brought on by the Russian crisis and result in a stable exchange rate in the medium term. The current account deficit is expected to remain on the order of 3.0 to 3.5 percent from 2000 to 2002. The current account deficit is expected rise to 3.5 percent of GDP in 2000 because of the necessity to import grain following the poor 1999 harvest and because of stagnant cotton export earnings. The deficit will be financed largely by international financial institutions and bilateral donors. The tight credit policy and improving current account should also result in an increase in gross international reserves from 1.5 months of imports in 1998 to 3.7 months of imports by 2001.

46. Tajikistan's external debt is extremely high—in 1998, external debt was 91.4 percent of GDP. In 1999, the dollar amount of the foreign debt decreased, but debt as a proportion of GDP increased to 97.2 percent because of the devaluation of the currency. From 2000 forward, however, the ratio of foreign debt to GDP is expected to decrease. Tajikistan's heavy debt service burden will require prudent external debt management. Debt rescheduling negotiations are continuing with India, Pakistan, PRC, and Turkmenistan. Because Tajik cotton exporters were unable to repay their loans to CSFB, the debt was rescheduled and government guarantees covering the unpaid balance of \$43.5 million (as of November 1999) remained effective until the end of 1999, and will certainly need to be extended. The authorities intend to strengthen external debt management by drafting and enacting a new law on external borrowing and government guarantees that meets international standards.

47. Tajikistan will continue to face two major risks in the medium term. First, the economy is highly dependent on the export of aluminum and cotton to maintain its current account deficit at manageable levels. The world market prices of these commodities are volatile, however, putting the country's balance of payments position at the mercy of external factors. Cotton and grain production are also subject to the vagaries of weather, putting the external position at further risk. To reduce this risk, Tajikistan must accelerate its structural reforms, including the privatization of farms and large enterprises and the restructuring of the banking sector, which would broaden economic growth and diversify international trade.

48. The second major risk is the halting nature of the peace process. Despite significant advances in the peace process and improved security in the country, Tajikistan remains a

⁹ The processing and disbursement of the ADB loan will depend on the country's capacity to use the assistance effectively. For example, the release of the second tranche (\$10 million) of the ADB's Post-Conflict Infrastructure loan (approved in 1998) has been delayed pending the Government's compliance with certain conditions, including the enactment of the Energy Law and Transport Law, amendment of the Foreign Investment Law, establishment of a unified ministry for energy and transport, and improvement in accounts receivable and cost recovery of Barki Tajik and Takikkomunservice.

relatively high-risk country. As such, desperately needed private foreign investment will remain low in the short term, and domestic entrepreneurship will also be constrained. However, as the Government and the United Tajik Organization (UTO) continue to demonstrate their commitment to the peace process and to maintaining macroeconomic stability, foreign investment should gradually increase. In the meantime, multilateral financial institutions such as the ADB will play an important role in both providing funds for investment and helping to create the stable economic environment that will promote growth and encourage private investment.

B. Policy and Development Issues

1. Peace Process

49. Continued progress in the peace process is the most crucial factor in Tajikistan's efforts to maintain a stable and secure macroeconomic environment that will enable the Government to manage the economy and promote investor confidence.

50. There were several clashes between government soldiers and renegade units of the UTO in 1998. Most UTO troops and commanders, however, have abided by the 1997 peace agreement. Up to late 1998, concerns related to clashes involving factions outside the current power-sharing arrangement between the Government and the UTO; several conflicts in northern Tajikistan (an area that experienced little of the civil war during 1992-1997); and spillover effects of the latter on Tajikistan's relationship with Uzbekistan.¹⁰

51. Despite the occasional disruptions, however, the peace process made significant progress in 1998 and 1999. For example, progress was made (albeit slowly at times) in integrating the UTO into the Government, and the Government has now fulfilled its obligation of appointing UTO members to 30 percent of government posts. In September 1999, a constitutional referendum was held, which legalized religious-based parties (a concession to the opposition), provided for a bicameral parliament, and extended the presidential term from five to seven years. Pursuant to the amnesty law adopted by Parliament in 1997, which granted amnesty to UTO fighters, the UTO announced in August 1999 that the process of disarming opposition fighters and integrating them into the Tajik armed forces was complete. The UTO also emphasized that they are no longer an armed opposition, but only a political opposition, and that the disarmament process was irreversible. Per the 1997 peace agreement, the Supreme Court subsequently lifted the 1993 ban on opposition parties. It is also important to note that the Government and UTO forces worked jointly to suppress several uprisings, including the November 1998 uprising in the north. Security conditions have also improved throughout the country, and 1999 was notable for the relative dearth of armed clashes compared to 1998. However, there are conflicting views regarding security in the eastern Gorno-Badakhshan Autonomous Oblast.

52. A presidential election held on 6 November 1999 resulted in the re-election of President Rakhmonov to a new seven-year term. The official results of the election gave 97 percent of the votes to President Rakhmonov, with a 96 percent voter turnout. Local and Western observers reported significant election irregularities, and the Organization for Security and Cooperation in Europe did not monitor the election because of flaws in preparations leading up to the ballot. Parliamentary elections took place in February and March 2000. The campaign and the results have been largely accepted by leading opposition figures without the public fracturing that

¹⁰ Most of Tajikistan's trade is conducted through Uzbekistan, and Tajikistan imports much of its gas and other energy supplies from Uzbekistan.

occurred during the presidential campaign. These elections officially mark the completion of the peace process set in motion by the 1997 peace accord. However, for the hard-won peace achieved through this process to be maintained, it is important that the election victors continue to work with the opposition in a productive and cooperative manner. Failing to do so would be detrimental in maintaining the peace and security necessary for promoting economic growth and prosperity.

2. Structural Reform

53. The future reform challenge facing the Government is demanding, for at least three reasons. First, administrative and institutional capacity is still weak and continues to contribute to problems in implementing structural reforms. Second, the Russian financial crisis and the large terms-of-trade shock have demonstrated Tajikistan's vulnerability to the external environment, and the response requires skills and perseverance from policymakers. Third, the country's internal political situation remains unsettled despite the progress achieved in the peace process. The Government's main structural reform priorities will continue to include privatization of medium and large SOEs, land reform, and banking reform and restructuring.

a. Privatization and Land Reform

54. Privatization in Tajikistan has proceeded slowly and has encountered some transparency problems. Only 35 percent of recorded GDP is currently generated in the private sector, although this has grown from 15 percent in 1994. Given this low ratio, one of the more obvious ways to encourage economic growth is to improve incentives by accelerating privatization.

55. After a slow start, privatization of small enterprises accelerated in 1999. More than 2500 small enterprises have been sold since January 1998, and the Government announced on 30 December 1999 that its privatization program for small SOEs is now complete. Land reform has also proceeded well. From June 1998 to October 1999, 183 state and collective farms (out of more than 600 to start) were broken up into smaller private farms, and 63,000 transferable, marketable, and inheritable land share certificates were distributed to individual farmers. There were 13,034 private peasant farms as of October 1999.¹¹ The World Bank will help Tajikistan to develop a market for these land share certificates.

56. However, the privatization of medium and large SOEs, including cotton-ginning mills, and has lagged. As of September 1999, only 125 out of 750 enterprises identified for privatization had been privatized. The Government has not demonstrated a strong commitment to this portion of the privatization program, and delays have occurred mainly due to unrealistic pricing. Delays in payment from buyers have slowed the process further, as did the political difficulties in the northern part of the country in late 1998.

57. Nevertheless, the state cotton monopoly was liquidated in January 1999. Tajikistan has also tried to privatize its cotton-ginning mills, and all 23 mills that were offered were sold in 1999. But 19 of the deals were subsequently annulled after the purchasers failed to meet their commitments. These 19 were recently put up for sale again, and in October 1999 three were sold for a total of over \$6 million. Hence, as of 30 December 1999, four mills had been fully paid for, and three more had yielded payment of 30 to 50 percent. The Government needs to

¹¹ As of October 1999, more than half of state and collective farms had been dismantled, and about 45 percent of the country's arable land was in private hands.

redouble its efforts to privatize its large SOEs. Such efforts should include a realistic appraisal of their market prices. The Government has also stated its intention to eventually restructure Tajikistan's two largest firms: the electricity monopoly Barki Tajik, and the aluminum smelter TADAZ. However, the Government plans to retain a majority stake in each. Work on a restructuring plan started in April 1999 with the help of the International Finance Corporation and is due to be completed in February 2000.

58. Privatized enterprises can flourish only if they exist and operate within a stable and transparent legal framework. Recognizing this fact, the Government has adopted a new Civil Code to support the privatization program and govern economic activity. Part of the Code has been presented to Parliament, and another part is planned for presentation in 2000. The Government has also drafted a new Energy Law and a new Transport Law, both of which are scheduled to be submitted to the new parliament when it convenes in April 2000. The Government also created the Law Reform Commission in April 1999 to review the current laws and legal acts, propose appropriate amendments, establish an electronic database of Tajik laws, and publish a collection of the laws. Since independence, a considerable number of new economic laws, decrees, and other legal acts have been passed. As a result of this rapid proliferation of laws, there are many inconsistencies and contradictions between existing laws, and there is considerable ignorance of the laws. The ADB will begin assisting the Government in 2000 to improve the dissemination and knowledge of laws in Tajikistan and reduce the existing inconsistencies, thus enhancing the rule of law.

b. Banking Sector Reform

59. Tajikistan's banking sector has performed poorly since 1991 because of the country's political and macroeconomic instability, poor management skills (including weak credit risk analysis and portfolio management skills), continued Soviet-style directed credits determined by government authorities, and an inadequate legal and regulatory framework. As a result, a large proportion of loans in the banks' portfolios are non-performing, thus severely limiting further credit that the banks can extend. Also, lack of confidence in the banking sector keeps savings low. In view of the importance of a sound banking sector in efficiently allocating capital in a market economy, the Tajik authorities have been implementing a program to reform and restructure the banking sector.

60. A 1998 diagnostic study concluded that four of Tajikistan's five major banks had a negative net worth.¹² These four banks signed operational restructuring agreements with the NBT later in 1998, and progress was subsequently made in the restructuring of three of the four banks with World Bank assistance. The Tajik authorities agreed to write off TJR7.3 billion of non-performing directed credits in Agroinvestbank's portfolio and replace them with a long-term government bond.¹³ This recapitalization should bring the Agroinvestbank's capital ratio to a positive level. The Savings Bank remains the only bank that is still wholly owned by the Government, but the ultimate objective of its restructuring program is full privatization. The Agroinvestbank and Savings Bank signed another agreement in May 1999 to continue reform measures, including the completion of an international audit, limits on increases in its loan portfolio and capital expenditures, staff reductions, adjustments in deposit rates to improve profitability, and collection targets. Operation restructuring of these two banks, however, has

¹² Orienbank had a positive net worth and was allowed to continue operations without a formal restructuring program.

¹³ The Government will, therefore, assume these non-performing loans, which will be transferred to the Asset Management Unit of the Ministry of Finance.

been slow, with little progress in staff reduction and loan recovery. Tajikvneshekonombank achieved significant progress under its restructuring program, reaching a positive capital ratio, and was subsequently allowed to operate freely, subject to a requirement to present a plan to the NBT to satisfy the four prudential requirements that it still was not meeting. Because of the insolvency of Tajikbankbusiness, the NBT has taken over its administration in order to liquidate it. This action should amply demonstrate to other banks the authorities' resolve in pursuing banking sector reform and in enforcing the new prudential regulations. Also, the new Tax Code finally allows banks to deduct 80 percent of their loan loss provisions from their profits as of July 1999.

61. Progress has also been made in strengthening banking supervision. The Central Bank Law, passed by Parliament in late 1996, authorizes the NBT to grant and revoke banking licenses, establish prudential requirements for commercial banks, regulate banks, and issue and revoke licenses for foreign exchange operations. The latest prudential regulations were amended in April 1998. They establish minimum capital requirements as well as 10 ratios similar to those used in developed countries, which the NBT's Banking Supervision Department assesses on a monthly basis. The NBT has implemented a chart of accounts based on International Accounting Standards, and raised the minimum capital requirement to \$500,000 as of 1 January 1999, then to \$750,000 effective 1 July 1999¹⁴, and again to \$1 million effective 1 January 2000. The NBT's supervisory activities were strengthened considerably in 1998 and 1999 as demonstrated by its decision to liquidate six smaller banks that failed to meet their prudential requirements, and especially by its decision to liquidate one of the large banks.

62. Agricultural finance has been especially constrained in recent years. The difficulties in repaying the 1998 cotton loan and the subsequent loss of external financing for the cotton sector has further strained the banking system, especially in the area of rural finance. In the absence of a sound commercial banking sector, the NBT has been obliged to provide agricultural credits. Still, financing for the newly privatized "peasant farms" is virtually nonexistent as the current rural finance system is not designed to accommodate them. The limited lending activities in which Agroinvestbank can engage are aimed at large state-owned and collective farms and agroprocessing enterprises. The virtual nonexistence of a rural financial system has had serious consequences. It has limited savings mobilization, resulting in shortages of working capital, thus limiting the supplies of necessary agricultural inputs. Consequently, farmers either have been forced to borrow from moneylenders, enter into forward contracts with suppliers and traders at unfavorable terms, or simply limit production. In either case, the consequence of this market failure is low agricultural output and inefficient production techniques. There is a desperate need to develop sustainable rural financial institutions in Tajikistan. Given Agroinvestbank's problems, it is not clear that it will be the right institution on which such a rural finance system should be based. As a first step, a study of the entire rural finance system, including existing informal and semi-formal institutions, should be undertaken. Over the medium term, a viable rural finance system should be established through training and institution building.

3. Impact of the Russian Financial Crisis

63. The onset of the Russian financial crisis in August 1998 has had a detrimental effect on Tajikistan's economy. The Tajik ruble had enjoyed over a year of hard-won stability when the crisis hit. Initially, the NBT resisted depreciation pressures on the Tajik ruble by intervening in the foreign exchange market, but reversed its policy in October. The official exchange rate vis-à-

¹⁴ However, only one third of banks were in compliance with this requirement as of September 1999.

vis the US dollar depreciated rapidly, by 23 percent (from TJR754 to TJR985) from the onset of the crisis to the end of 1998, and depreciated further to TJR1436 (a total depreciation of 47 percent) by August 1999. Since August 1999, however, the exchange rate has remained stable and will likely face a much more gradual depreciation as the effects of the crisis recede.

64. The devaluation of the currency carried with it inflationary pressures and general macroeconomic instability endangering the country's adherence to the PRGF program. In fact, because of the Russian crisis (along with the deterioration in Tajikistan's terms of trade), the PRGF program targets for December 1998 and March 1999 were not met. Therefore, new targets for the fiscal deficit and monetary policy for the rest of 1999 were established to maintain macroeconomic stability. New policy measures focusing on improvements in tax collection, tightening monetary policy, and accelerating structural reforms, were proposed in order to achieve the targets. The tight monetary policy, along with generally depressed domestic demand in the country, helped to limit the inflationary pressures of the currency devaluation. Inflation for 1999 was 24 percent, a respectable level under the circumstances (and much of it due to the bad grain harvest and sharp increases in the price of imported gas from Russia and Uzbekistan). Moreover, the slowdown in Tajikistan's growth rate, from 5.3 percent in 1999 to 3.7 percent in 1999, can be attributed partly to the ripple effects of the Russian crisis.

65. The appreciation of the Tajik ruble vis-à-vis the Russian ruble caused exports to Russia and other FSU countries to decline somewhat in late 1998 and early 1999, and the current account deficit increased to 8.8 percent of GDP in 1998, exceeding its target of 5 percent of GDP. However, the fact that Tajikistan has succeeded in diversifying its trading partners since independence cushioned the effects of the Russian crisis. Over three fourths of its exports are comprised of cotton and aluminum, which are sold mostly to non-FSU countries. And while the FSU still provides 59 percent of Tajikistan's imports, it represents only 33 percent of its exports (as of 1998). And Russia provides only 13.6 percent of the country's imports and purchases 8.2 percent of its exports. Moreover, there was no significant increase in imports from Russia in 1999 partly because the exchange rate between the Tajik ruble and Russian ruble remained stable as both continued to depreciate against the dollar, and also because of low domestic demand due to existing low living standards in Tajikistan. Imports from other CIS countries in fact decreased by 5 percent in the first three quarters of 1999. Tajikistan's virtual lack of capital markets also had the ironic side effect of insulating it from the Russian crisis. However, the confidence of foreign investors, already low, could be further shaken.

4. Poverty and the Social Safety Net

66. The dissolution of the Soviet Union and the ensuing civil war in Tajikistan have had severe social and economic consequences for the country. The war itself was devastating, claiming over 60,000 lives, creating 700,000 refugees, and destroying much of the country's infrastructure as well as private homes and other property. Moreover, 26,000 families lost their male heads of household, and 55,000 children were orphaned. GDP contracted by almost 60 percent in the six years following independence in 1991; and unemployment, virtually nonexistent before independence, increased to approximately 30 percent in 1999. Moreover, real wages have declined by 80 percent as nominal wages have failed to keep pace with Tajikistan's high post-independence inflation rates and occasional hyperinflations.

67. Following independence, Tajikistan lost budgetary support from Moscow. The civil conflict also forced the Government to allocate a large portion of its resources to the military. Moreover, tax revenues declined because of the shrunken economic base and reduced government control over war-torn areas. As a result, the Government's ability to provide basic

public and social services has been severely strained. The war, the general economic contraction, and the loss of social services have caused a drastic deterioration in the living conditions of the majority of Tajiks. Tajikistan's per capita GDP in 1998 was \$219, making it the poorest former Soviet republic and one of the poorest countries in the world.¹⁵ The estimated poverty rate in Tajikistan is over 80 percent.¹⁶ The human development index for Tajikistan, as estimated by the United Nations Development Program (UNDP), fell from 0.63 in 1991 to 0.54 in 1998.

68. The World Bank has classified Tajikistan's poor into three categories: the poor, the extremely poor, and the destitute. The poor comprise about 4 million people (60 percent of the population) and include many doctors, teachers, and farmers. They have incomes inadequate to meet their basic food needs and other household expenditures. The extremely poor comprise about 750,000 people (15 percent of the population) and include pensioners, returned and internal refugees, and the chronically unemployed. They face chronic food insecurity or malnutrition and have no regular source of income, with the possible exception of a small pension. The destitute comprise about 250,000 people (5 percent of the population) and include the war handicapped, orphans, and street children. They are unable to care for themselves due to chronic illness or disability and need social support just to survive.

69. Tajikistan enjoyed relatively high standards of health during the Soviet era. The post-independence economic troubles and civil war, however, have resulted in steep reductions in public expenditure on health and, hence, a sharp decline in Tajikistan's health indicators. For example, maternal mortality rates have risen (more than doubling from 1991 to 1995, but subsequently declining to about 1.5 times the 1991 level), as has malnutrition (especially among children). Much of the country's health infrastructure, including hospitals and clinics, was badly damaged during the war or has deteriorated as a result of reduced maintenance expenditures. The health system also experienced a drastic decrease in skilled health care workers, especially doctors, as the low wages encouraged many to abandon their jobs in favor of a more lucrative activity or leave the country altogether. In 1999, the average salary of a health care worker in Tajikistan was TJR4,437 (\$3.09) per month.

70. Similarly, Tajikistan's educational system has been badly damaged by the civil war and subsequent reductions in public expenditure. School enrollment has declined, and many children have left school because of damaged or destroyed facilities. Likewise, many qualified teachers left the country or quit teaching because of the low salaries. In 1999, the average teacher salary was TJR6,168 (\$4.30) per month.

71. Although the political and economic situation has begun to stabilize since the signing of the 1997 peace agreement, external shocks in 1998 and 1999 exacerbated the fragile living conditions of the population. The Russian financial crisis brought a return of inflation, reductions in trade, reduced confidence in the currency, and reduced confidence of foreign investors, all of which contributed to a sharp decline in the growth of GDP. The fall in world market prices of

¹⁵ The per capita income of \$219 was based on the 1998 exchange rate. The equivalent figure for 1997 was \$178; and the preliminary figure for 1999 was \$179 (the decline being due to the currency depreciation). Using the World Bank's atlas methodology, GDP per capita grew from \$330 in 1997 to \$350 in 1998. In Purchasing Power Parity (PPP) terms, Tajikistan's per capita income in 1998 was \$710. By comparison, 1998 PPP per capita GDP in neighboring countries was \$2,696 in Kazakhstan, \$1,593 in Kyrgyz Republic, \$4,141 in Russia, \$1,088 in Turkmenistan, and \$2,041 in Uzbekistan.

¹⁶ Comparisons with poverty rates during the Soviet era are difficult because poverty did not officially exist. However, some families were considered "under-provisioned". In 1989, 50 percent of the population in Central Asia was considered under-provisioned although only 11 percent of the entire Soviet population was so considered.

Tajikistan's two main commodities, cotton and aluminum, also reduced incomes. With agriculture accounting for 60 percent of employment in 1998, the fall in cotton prices, especially after the sector had incurred \$77 million worth of dollar-denominated debt, has been particularly harmful. Major floods in the past two years also destroyed or damaged infrastructure, homes, and crops.

72. As part of the Soviet Union, Tajikistan established a comprehensive social safety net including free health care and education, retirement and social security benefits, and a wide array of subsidies, allowances, and other benefits. After independence, however, public spending on the social sector, comprising health, education, and the social safety net, declined from 19.3 percent of GDP in 1992 to 4.3 percent of GDP in 1997. The absolute decline was even more severe considering that GDP had declined by 60 percent in those years.

73. The primary components of the current social safety net are the Social Protection Fund (SPF) and the Cash Compensation Program (CCP). The SPF was created in 1996 to consolidate the Pension, Employment, and Social Insurance Funds. About 80 percent of the SPF's expenditures are for pensions. The remainder is spent on unemployment benefits, old age security, maternity and sick leave benefits, job creation, and labor regulation. The minimum pension is currently TJR2,000 per month, but social and old age pensions are as low as TJR1,000 per month. Expenditure on the SPF was 1.9 percent of GDP in 1998 and 2.2 percent in 1999.

74. The CCP was introduced in 1995 following the liberalization of prices and elimination of production subsidies. Specifically, the CCP was targeted to replace the bread subsidy and child allowances. The compensation level was set at TJR500 in 1996, and benefits paid out in 1998 represented only 0.4 percent of GDP. Benefits from the CCP and the SPF have been severely eroded by inflation. As a result, many eligible members do not claim the benefit because the costs of doing so exceed the benefit itself. Recently, the Government proposed abolishing the CCP and replacing it with a program providing social assistance to the needy, such as large families with children through services provided by schools. Such a decision, however, might be premature in the absence of a thorough study of the existing program and consideration of alternatives.

75. With Tajikistan's high incidence of poverty and the Government's limited resources, there is an urgent need to reform and strengthen the social safety net. Such reform will require developing ways to identify and help those most in need of assistance. The existing social safety net remains inadequate and poorly targeted. As a first, small step, in May 1999, the Government issued a decree reducing the payment frequency of benefits under the CCP from a monthly to a quarterly schedule, thus reducing the costs incurred by beneficiaries in claiming the benefit. Hence, it is expected that a greater share of the eligible population will now receive the cash compensation. A household poverty survey undertaken in August 1999 with technical assistance from the ADB, UNDP, and the World Bank should provide the basis for more comprehensive reform of the existing social safety net. Preliminary data from this survey show that (i) 83.6 percent of the population live in poverty, based on a monthly poverty line of TJR20,000 per capita; (ii) 46 percent live in absolute poverty, based on a monthly per capita income of TJR10,000; and (iii) the average per capita monthly income of TJR12,390 buys less than half of the minimum consumption basket.

APPENDIX

Table A.1	:	Key Macroeconomic Indicators
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Table A.1: Key Macroeconomic Indicators

Item	1994	1995	1996	1997	1998	1999
A. Income and Growth						
GDP (TJR billion; current prices)	1,786.5	64.8	308.5	632.0	1,025.0	1,345.0 ^a
GDP Growth (%; constant prices)	(18.9)	(12.5)	(4.4)	1.7	5.3	3.7 ^a
Agriculture	—	—	—	6.5	—	—
Industry	—	—	—	(2.8)	—	—
B. Employment and Wages						
Total Employment (thousand; annual average)	1,844.0	1,854.0	1,732.0	1,789.0	1,796.0	1,692.0 ^b
Official Unemployment Rate (%)	1.6	2.0	2.6	2.8	3.3	3.1 ^a
Nominal Average Wage (end of period; TJR per month)	34,904.0	731.0	2,805.0	4,975.0	11,744.3	11,351.0 ^c
Nominal Minimum Wage (end of period; TJR per month)	8,000.0	144.0	322.0	322.0	1,000.0	1,000.0 ^c
C. Money and Inflation (annual % change)						
Consumer Prices (end of period)	1.1	2,131.9	40.6	159.8	2.7	24.0 ^a
Broad Money (M2)	159.4	—	93.2	110.7	30.7	—
Ruble Broad Money	156.3	—	142.6	117.2	18.8	—
D. Government Finance (% of GDP)						
Revenue	42.8	15.2	12.1	13.7	12.0	13.1 ^a
Expenditure and Net Lending	52.9	26.5	17.9	17.0	15.8	16.2 ^a
Overall Surplus/deficit (-) (including transfers)	(10.1)	(11.2)	(5.8)	(3.3)	(3.8)	(3.1) ^a
E. Balance of Payments						
Merchandise Trade Balance (% of GDP)	(15.3)	(9.7)	(1.5)	(5.8)	(11.2)	(4.8) ^a
Current Account Balance (% of GDP)	(20.5)	(14.6)	(7.4)	(5.4)	(8.8)	(2.8) ^a
Export Growth (%)	22.6	39.2	(1.1)	(3.1)	(21.4)	9.4 ^a
Import Growth (%)	7.4	22.2	(6.2)	3.0	(9.7)	(5.1) ^a
F. External Payments Indicators						
Gross Official Reserves (\$ million, end of period)	1.0	4.1	14.0	30.0	65.0	41.0 ^c
(months of imports) d	0.0	0.1	0.3	0.6	1.5	1.0 ^c
External Debt (% of GDP)	91.6	133.6	83.8	100.2	91.4	97.2 ^a
External Debt Service (% of exports)	9.6	30.4	34.4	12.4	11.4	7.6 ^a
Official Exchange Rate (annual average; TJR per \$)	—	135.0	298.3	564.0	773.3	1,230.2 ^a

— = not available, GDP = gross national product.

a Preliminary estimate, 12 months.

b Refers to January-August 1999.

c Refers to the first three quarters of 1999.

d Imports/exports of goods and services excluding alumina and electricity.

e Projection for 1999.

Table A.2: Gross Domestic Product by Sectoral Origin in Current Prices

Item	1992	1993	1994	1995	1996	1997	1998
	R billion			TJR billion			
Gross Domestic Product (GDP)	69.6	707.1	1,786.5	64.8	308.5	632.0	1,025.0
Industry and Construction	31.6	295.3	579.5	24.9	69.5	138.2	203.8
Industry	25.3	231.7	393.8	22.9	63.3	124.7	185.1
Construction	6.3	63.5	185.6	2.1	6.3	13.5	18.7
Agriculture, Fisheries, and Forestry	18.8	148.3	339.7	9.9	85.5	171.4	202.9
Services	19.1	193.4	502.7	23.8	116.2	228.7	513.3
Transport and Communications	3.2	9.2	42.6	1.6	5.2	8.7	10.0
Trade	2.2	23.4	232.5	8.4	31.5	64.2	166.9
Supplies	0.5	11.1	8.3	0.6	2.6	2.5	2.9
Procurement	0.7	6.5	2.5	0.6	3.9	1.7	2.0
Other Sectors of Material Production	0.5	6.1	13.1	1.2	2.9	2.5	4.0
Nonmaterial Services	11.9	137.1	203.7	11.3	70.1	149.1	327.5
Net Indirect Taxes	0.1	70.1	364.7	6.2	37.3	93.8	105.1
	Percent of GDP						
Gross Domestic Product	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Industry and Construction	45.4	41.8	32.4	38.5	22.5	21.9	19.9
Industry	36.4	32.8	22.0	35.3	20.5	19.7	18.1
Construction	9.0	9.0	10.4	3.2	2.0	2.1	1.8
Agriculture, Fisheries, and Forestry	27.1	21.0	19.0	15.3	27.7	27.1	19.8
Services	27.5	27.4	28.1	36.6	37.7	36.2	50.1
Transport and Communications	4.6	1.3	2.4	2.5	1.7	1.4	1.0
Trade	3.2	3.3	13.0	13.0	10.2	10.2	16.3
Nonmaterial Services	17.1	19.4	11.4	17.4	22.7	23.6	0.3
Net Indirect Taxes	0.1	9.9	20.4	9.6	12.1	14.8	10.2

R = Russian ruble, TJR = Tajik ruble.

Sources: Tajik authorities, International Monetary Fund.

Table A.3: Employment
(Thousands of persons unless otherwise specified)

Item	1992	1993	1994	1995	1996	1997	1998	July 1999
Total Employment ^a	1,908	1,845	1,844	1,854	1,732	1,789	1,796	1,692
The State Sector ^b	998	969	924	875	784	739	766	–
Collective Farms	285	297	334	291	267	370	378	–
Cooperatives	49	43	38	24	14	18	18	–
Private Sector Activities	401	419	455	551	570	581	595	–
Clergy and Other Religious Activity	1	1	1	1	1	1	1	–
Unallocated	175	116	93	112	96	80	38	–
Registered Unemployment (end of period)	7	22	32	38	46	51	59	54
Nonworking Students ^a	230	230	234	119	205	192	245	–
Working Age Population at Home ^a	530	405	405	721	857	877	938	–
	Percent of Total Employment							
Total Employment	100.0	100.0	100.0	100.0	100.0	100.0	100.0	–
The State Sector ^b	52.3	52.5	50.1	47.2	45.3	41.3	42.7	–
Collective Farms and Cooperatives	17.5	18.4	20.2	17.0	16.2	21.7	22.0	–
Private Sector Activities	21.0	22.7	24.7	29.7	32.9	32.5	33.1	–
Others	9.2	6.3	5.0	6.1	5.6	4.5	2.2	–
Memorandum Items:	Annual Growth Rate							
Population	0.0	2.7	0.9	1.8	1.5	1.6	2.0	–
Labor Resources	5.9	(2.5)	0.6	7.2	1.0	2.4	4.4	–
Employment	(3.2)	(3.3)	(0.1)	0.5	(6.6)	3.3	0.4	–
Registered Unemployment Rate (%) ^c	0.3	0.8	1.2	1.3	1.6	1.8	1.9	–
Official Unemployment Rate (%) ^d	0.4	1.1	1.6	2.0	2.6	2.8	3.3	3.1

– = not available.

^a Annual averages.

^b Includes central and local governments, state enterprises, and state farms.

^c Defined as the ratio of registered unemployed over total labor resources.

^d Defined as the ratio of registered unemployed over the economically active population.

Source: Tajik authorities.

Table A.4: Summary of State Fiscal Operations

Item	1992	1993	1994	1995		1996	1997	1998	1999
				Jan-May 10	May 11-Dec				
	R million			TJR million					
Total Revenues	17,235	171,224	765,290	582,344	6,977	37,335	86,600	123,515	110,719
Tax Revenues	16,622	159,195	725,086	447,213	5,849	35,951	84,332	119,578	106,091
Individual Income Tax	1,654	13,954	51,748	22,823	550	3,434	7,465	10,312	9,494
Enterprise Profits Tax	5,778	45,527	207,831	162,651	1,467	6,742	7,157	10,900	10,913
Value-Added Tax	4,341	65,417	248,720	164,592	1,550	5,303	9,485	19,765	20,355
Excise Taxes	2,298	13,401	96,412	48,085	1,320	1,891	3,075	1,490	5,636
Customs Duties	88	5,900	54,170	31,750	426	1,598	10,856	12,365	11,737
Sales Taxes on Aluminum and Cotton	—	—	—	—	—	14,535	31,133	40,974	24,363
Retail Sales Tax	—	—	—	—	—	—	—	—	561
Other Taxes	2,463	14,996	66,205	17,312	536	2,448	15,161	23,773	23,033
Nontax Revenues	613	12,029	40,204	135,131	1,128	1,384	2,268	3,937	4,628
Total Expenditures and Net Lending	37,453	329,056	945,245	490,105	12,133	55,173	107,632	162,168	150,329
Current Expenditures	31,587	288,951	689,624	441,569	11,019	52,066	96,557	136,647	120,724
Wages and Salaries	6,735	53,720	125,340	67,450	3,401	8,249	20,962	36,935	35,564
Goods and Services	15,390	124,679	257,832	184,057	1,318	32,751	48,617	60,659	56,037
Subsidies	7,059	56,880	220,175	136,372	4,477	2,301	6,846	6,241	7,069
Social Safety	1,971	44,948	86,277	24,990	497	5,125	12,326	23,993	17,938
Interest Payments	432	8,724	—	28,700	1,326	3,640	7,806	7,315	4,116
Peace Process	—	—	—	—	—	—	—	1,504	0
Capital Expenditures	5,866	40,105	255,621	48,536	1,114	2,275	6,644	29,011	29,511
Net Lending	—	—	—	—	—	832	4,431	(3,490)	93
Overall Balance (Cash Basis)	(20,218)	(157,832)	(179,955)	92,239	(5,156)	(17,838)	(21,032)	(38,654)	(39,610)
Financing	20,218	157,832	179,955	(92,239)	5,156	17,838	21,031	38,653	39,610
External	—	—	—	—	—	10,230	6,940	16,948	31,225
Credit from Banks	19,796	156,419	174,871	(97,000)	4,931	6,980	10,196	16,380	128
Privatization Proceeds	422	1,413	5,084	4,761	225	628	3,895	5,200	8,236
Domestic Nonbank Financing (T-bills)	—	—	—	—	—	—	—	126	22
	Percent of GDP ^a								
Total Revenues	24.8	24.2	42.8	55.0	15.2	12.1	13.7	12.0	13.3
Tax Revenues	23.9	22.5	40.6	42.3	12.8	11.7	13.3	11.7	12.7
Nontax Revenues	0.9	1.7	2.3	12.8	2.5	0.4	0.4	0.4	0.6
Total Expenditures	53.8	46.5	52.9	46.3	26.5	17.9	17.0	15.8	18.0
Current Expenditures	45.4	40.9	38.6	41.7	24.0	16.9	15.3	13.3	14.4
Capital Expenditures	8.4	5.7	14.3	4.6	2.4	0.7	1.1	2.8	3.5
Overall Balance (Cash Basis)	(29.1)	(22.3)	(10.1)	8.7	(11.2)	(5.8)	(3.3)	(3.8)	(4.7)
External Financing	0.0	0.0	0.0	0.0	0.0	3.3	1.1	1.7	3.7
Domestic Financing	29.1	22.3	10.1	(8.7)	11.2	2.5	2.2	2.1	1.0

— = not available, GDP = gross domestic product.

^a Due to the differential value of cash and noncash Russian ruble prior to the currency reform of May 1995, fiscal data as percent of GDP before and after the currency reform are not comparable.

Sources: Tajik authorities, International Monetary Fund.

Table A.5: Monetary Survey
(end of period)

Item	1992	1993	1994	1995	1996	1997	1998	1999 Sep
	R billion			TJR million				
Net Foreign Assets	325	(141)	147	8,035	2,483	(5,281)	(110,808)	(160,628)
Net Domestic Assets	(41)	714	1,338	5,265	23,213	59,413	181,583	247,083
Net Credit to Government	(1)	188	125	8,329	14,387	33,153	88,242	113,255
EU Counterpart Fund (-)	-	-	-	-	-	(3,339)	(3,934)	(4,909)
IDA Counterpart Fund (-)	-	-	-	-	-	-	(2,512)	(14,607)
ADB Counterpart Fund (-)	-	-	-	-	-	-	-	(98)
Credit to Economy	72	640	1,741	5,503	12,447	30,456	78,738	150,246
Special Cotton Financing	0	0	0	0	0	17,373	67,660	71,178
Other Domestic Assets (net)	(112)	(115)	(527)	(8,567)	(3,621)	(18,231)	(46,611)	(67,983)
Broad Money	284	573	1,485	13,300	25,695	54,132	70,775	86,455
Ruble Broad Money	33	562	1,441	8,884	21,557	46,813	55,600	61,214
Currency Outside Banks	16	159	131	5,521	15,720	37,336	46,622	52,876
Deposits	17	403	1,311	3,363	5,837	9,477	8,978	8,337
Foreign Currency Deposits	250	10	44	4,416	4,138	7,319	15,175	25,242
	Annual Percentage Change							
Net Domestic Assets	(895.8)	(1,829.9)	87.4	-	340.9	156.0	205.6	-
Net Credit to Government	27.1	17,282.0	(33.9)	-	72.7	130.4	166.2	-
Credit to Economy	946.7	788.5	171.9	-	126.2	144.7	158.5	-
Broad Money	5,348.4	102.0	159.4	-	93.2	110.7	30.7	-
Ruble Broad Money	-	1,587.2	156.3	-	142.6	117.2	18.8	-
Total Deposits	8,560.1	54.4	227.8	-	28.2	68.4	43.8	-

= not available, ADB = Asian Development Bank, EU = European Union, IDA = International Development Association (World Bank), R = Russian ruble, TJR = Tajik ruble.

Sources: Tajik authorities, International Monetary Fund.

Table A.6: Inflation

Year a	Overall CPI	Food	Nonfood	Services
Quarterly Percentage Change				
1993 Q1	99.3	103.6	73.7	224.4
Q2	157.0	155.7	182.9	125.4
Q3	157.1	203.7	125.1	85.4
Q4	465.3	—	—	—
1994 Q1	(29.7)	(41.8)	(18.6)	57.1
Q2	11.3	3.8	3.2	73.6
Q3	13.9	34.6	11.6	(1.0)
Q4	13.4	16.7	7.4	8.8
1995 Q1	48.1	54.4	27.0	56.3
Q2	50.4	76.7	48.0	71.3
Q3	209.6	223.1	288.0	48.4
Q4	223.5	249.7	121.0	164.7
1996 Q1	53.7	61.7	18.0	32.2
Q2	(13.0)	(16.2)	(0.2)	10.2
Q3	(6.9)	11.7	12.2	14.1
Q4	12.9	14.5	6.8	8.9
1997 Q1	11.9	11.4	4.2	16.2
Q2	36.5	41.1	12.1	29.2
Q3	59.1	61.9	49.4	44.5
Q4	8.5	7.5	20.2	4.2
1998 Q1	3.9	3.6	3.5	5.4
Q2	(6.9)	(8.7)	0.5	0.7
Q3	(5.7)	(8.6)	(0.4)	17.9
Q4	20.6	11.2	16.2	5.5
1999 Q1	6.6	7.1	3.2	8.0
Q2	5.5	5.1	0.0	16.8
Q3	25.2	29.3	10.2	11.2
Q4	—	—	—	—
Annual Percentage Change (end of period)				
1993	7,343.7	—	—	—
1994	1.1	(5.1)	0.7	193.7
1995	2,131.9	2,981.2	1,511.4	951.7
1996	40.6	37.1	41.2	81.0
1997	159.8	173.6	109.9	126.0
1998	2.7	(3.2)	19.2	32.0
1999	24.0	29.6	17.6	53.3

— = not available, CPI = consumer price index.

a Inflation rates for 1993 are based on retail price index; and for 1994-1999, based on CPI.

Sources: Tajik authorities, International Monetary Fund.

Table A.7: Exchange Rates (TJR/\$)^a

Item	1995	1996	1997	1998	1999
Annual Average	135	298	564	773	1,230
Jan	—	299	339	748	985
Feb	—	298	368	754	994
Mar	—	285	392	754	1,008
Apr	—	282	402	754	1,059
May	50	277	416	754	1,132
Jun	52	286	484	754	1,170
Jul	57	296	628	754	1,293
Aug	58	300	740	754	1,377
Sep	121	302	756	754	1,436
Oct	192	305	748	768	1,436
Nov	261	315	748	814	1,436
Dec	288	334	747	918	1,436

— = not available.

^a The Tajik ruble (TJR) was introduced to replace the Russian ruble as the national currency on 10 May 1995 at a rate of TJR1 per 100 Russian rubles (equivalent to TJR50 per US dollar).

Sources: Tajik authorities, International Monetary Fund, Bloomberg.

Table A.8: Balance of Payments
(\$ million)

Item	1992	1993	1994	1995	1996	1997	1998
Current Account	(53)	(208)	(170)	(89)	(76)	(59)	(113)
Merchandise Trade Balance	(55)	(183)	(127)	(59)	(16)	(63)	(145)
Exports	185	456	559	779	770	746	586
Aluminum	—	230	313	390	263	252	234
Cotton	—	117	155	212	157	167	112
Electricity	—	30	29	123	175	155	103
Others	—	79	62	53	176	172	137
Imports	240	639	686	838	786	809	731
Alumina	—	99	141	188	111	107	110
Petroleum and Natural Gas	—	26	160	150	98	99	114
Electricity	—	26	19	164	133	180	117
Grain and Flour	—	95	109	46	53	24	41
Others	—	393	257	290	391	400	350
Services, Income and Transfers (net)	2	(26)	(44)	(30)	(61)	4	32
Services	0	(47)	(49)	(19)	(20)	(1)	18
Income	2	(4)	(19)	(36)	(70)	(35)	(43)
Transfers	0	25	25	25	30	40	57
Capital Account	192	(29)	(52)	(36)	(105)	27	93
Loans	44	56	25	(81)	(90)	(17)	28
Disbursements	44	71	44	20	36	23	51
Amortization	0	15	19	102	125	40	23
Foreign Direct Investment (net)	8	9	12	20	25	30	24
Change in Commercial Banks NFA (-increase)	—	—	(2)	(7)	7	7	86
Other ST Capital (incl. errors and omissions)	140	(95)	(87)	32	(47)	7	(45)
Overall Balance	139	(238)	(223)	(126)	(181)	(33)	(20)
Financing	(139)	238	223	126	223	54	149
Change in Gross Reserves	0	(2)	1	(3)	(10)	(16)	(36)
Financing	(139)	240	222	129	190	50	56
IMF	0	0	0	0	22	10	64
Purchases	0	0	0	0	22	10	64
Repurchases	0	0	0	0	0	0	0
Change in Arrears (+ increase)	0	17	37	112	(39)	(22)	(11)
Other Reserve Liabilities (+ increase)	0	0	0	0	0	15	(13)
Special Debt Service Account	0	0	0	0	(12)	3	9
Reschedulings	(139)	222	184	17	220	44	6
Memorandum Items							
Merchandise Trade Balance / GDP	—	(26.9)	(15.3)	(9.7)	(1.5)	(5.8)	(11.2)
Current Account / GDP (excl. transfers) - derived	—	(34.4)	(23.6)	(18.7)	(10.3)	(9.0)	(13.2)
Current Account / GDP (incl. transfers)	—	(30.7)	(20.5)	(14.6)	(7.4)	(5.4)	(8.8)
Overall Balance / GDP	—	(35.0)	(26.8)	(20.6)	(17.5)	(3.0)	(1.6)
Gross Official Reserves							
(\$ million)	1	2	1	4	14	30	65
(months of imports) ^a	—	0	0	0	0	1	2

— = not available. GDP = gross domestic product, IMF = International Monetary Fund, ST = short-term.

^a Imports of goods and services excluding alumina and electricity.

Table A.9: External Debt and Debt Service

Item	1992	1993	1994	1995	1996	1997	1998	1999
	\$ million							
External Debt	217	509	760	817	867	1,104	1,178	1,062
Multilaterals	32	62	72	81	133	164	278	332
World Bank	0	0	0	0	30	53	91	124
International Monetary Fund	0	0	0	0	22	30	95	99
European Union	32	62	72	81	81	81	89	81
Islamic Development Bank	0	0	0	0	0	0	3	8
Asian Development Bank	0	0	0	0	0	0	0	20
Bilaterals	173	368	540	587	594	582	543	374
Uzbekistan	45	101	179	200	200	171	153	134
Russia	99	209	281	292	288	291	288	137
United States	10	24	24	25	31	32	30	30
Turkey	0	0	20	23	23	26	26	26
Kazakstan	12	18	19	19	19	19	18	18
Pakistan	0	0	0	6	12	14	14	14
China, People's Rep. of	0	5	5	5	5	6	6	6
India	0	0	0	4	4	6	6	6
Kyrgyz Republic	0	0	0	0	0	0	2	2
Switzerland	0	1	2	2	0	0	0	0
Others	7	11	11	11	11	17	0	0
Commercial Credit	12	79	148	149	141	359	357	357
Government Guaranteed	10	74	127	128	75	67	65	65
Nonguaranteed	2	5	21	21	65	292	291	291
	Percent of Total External Debt							
Multilaterals	15	12	9	10	15	15	24	31
Bilaterals	80	72	71	72	68	53	46	35
Commercial Credit	6	16	19	18	16	32	30	34
Memorandum Items:								
External Debt (% of GDP)	75.0	75.1	91.6	133.6	83.8	100.2	91.4	97.2
External Arrears (\$ million)	–	17.0	54.0	172.0	–	281.0	–	–
External Debt Service Due (\$ million) ^a	–	18.4	38.3	129.7	181.0	57.0	41.0	29.1
(% of GDP) ^a	–	2.7	4.6	21.2	17.5	5.2	3.2	2.7
Debt Service Due (% of exports) ^{a,b}	–	5.6	9.6	30.4	34.4	12.4	11.4	7.6
Debt Service Paid (% of exports) ^{a,b}	–	0.3	0.3	0.2	0.1	6.8	7.9	–

– = not available, GDP = gross domestic product.

^a Excluding commercial debt.

^b Exports of goods and services less alumina and electricity imports.

Sources: Tajik authorities, International Monetary Fund.