Tajikistan

Falling remittance inflows, which hit welfare in rural areas, as well as weak external demand for export commodities slowed growth in 2009 and took down foreign exchange reserves. Aluminum and cotton production, in particular, were pummeled. The government launched an ambitious reform program for private sector development. With improvement in its major trade partners, the outlook is for higher, though still moderate, growth. Successful implementation of an ongoing reform program is critical for developing the private sector and broadening the production base, which is needed to underpin long-term growth.

Economic performance

A sharp reduction in workers' remittances (mainly due to economic difficulties in Kazakhstan and the Russian Federation) and weak demand for Tajikistan's main export commodities (aluminum and cotton) were the main factors in slowing GDP growth by more than half in 2009 (to 3.4% versus 7.9%—Figure 3.6.1). Some improvement in prices in the second half of the year for these commodities, together with healthy yields of the noncotton agriculture subsectors, helped buttress growth. Continued work on externally financed large infrastructure projects (including the Sangtuda-1 hydroelectricity plant, the South–North transmission line, and various roads and tunnels) also underpinned expansion.

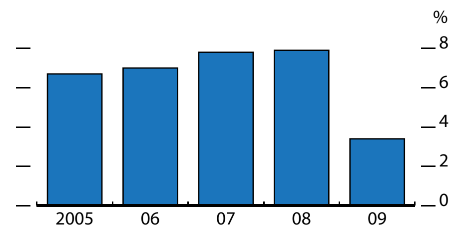
Industrial production, making up about 30% of GDP, contracted by 6.3% during the year, largely due to lower aluminum production, though it strengthened in the fourth quarter. Power shortages at the start of the year also mauled the sector. Despite the 16% fall in cotton output, agriculture grew by 10.5% in 2009, as noncotton agriculture recorded substantially higher output. This performance reflects more land allocated from cotton to food crops and new land plot distributions, which became part of the government's anticrisis employment program.

Remittance inflows in 2009 were $1.8 billion (about 37% of GDP), a nearly one-third drop from those in 2008 (Figure 3.6.2). This wracked private consumption, import demand, and house construction, especially in rural areas, where many households depend on remittances. The International Monetary Fund estimated that the poverty rate rose by 5 percentage points during the year.

Inflation came down to average 6.5% from 20.4% in 2008, largely on declines in energy (notably oil and natural gas) and food, of which Tajikistan is a net importer. On a year-on-year basis, monthly inflation fell steadily after mid-2008 to 4.9% (Figure 3.6.3) in December 2009.

Slowing inflation provided the central bank, the National Bank of Tajikistan, with space to ease monetary policy. However, the underdeveloped nature of the financial market meant that its steps—it

3.6.1 GDP growth



Sources: State Statistical Committee of the Republic of Tajikistan; ADB estimates.

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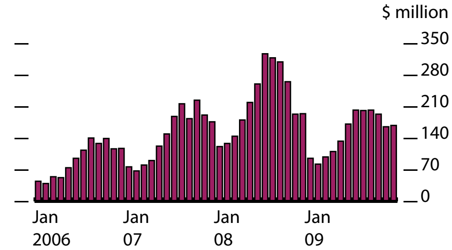
3.6.2 Remittance inflows



Source: International Monetary Fund, Resident Representative Office in Tajikistan.

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cut the refinancing rate four times during 2009 from 13.5% to 8.0% in an attempt to stimulate domestic demand and alleviate the debt-servicing obligations of state-owned enterprises—had little impact on the economy. It is more influenced by remittance inflows and commodity prices. (Broad money growth in 2009 was 10.9%.)

Banks' lack of access to capital inflows is, in addition to slumping remittances and commodity prices, another reason for the tight liquidity since end-2008. Traditionally, most Tajik banks raised capital from Kazakhstan's banks, but this source largely dried up because of that country's own banking liquidity issues.

The local currency, the somoni, depreciated sharply by about 22% against the US dollar in the first half of 2009 (Figure 3.6.4) due to a large drop in foreign exchange receipts from remittances and exports. In the second half the exchange rate was broadly stable. Foreign reserves at end-2009 were low—only $125.3 million, or 0.6 months of imports.

Due to the first-half depreciation, the share of deposits held in foreign currencies has accelerated (the majority of remittance receipts are in Russian rubles and US dollars). However, most demand came from people looking for local currency loans. Due to the perceived risks of further somoni depreciation and the increased foreign exchange–denominated deposit base, banks preferred to grant loans in foreign currencies. Hence, with the currency mismatch, they only gave loans to a small portion of clients, such as traders.

The government launched an anti-global-crisis fiscal plan in April 2009. Similar to those in other countries, it aimed to stabilize the macroeconomy; bolster growth, jobs, and private sector development; and sustain social programs. In support, the International Monetary Fund approved a $120 million loan in April 2009 to run over 2009–2011. Subsequently, the 2009 budget prioritized social sector spending (over capital expenditure), also to help protect the most vulnerable social groups.

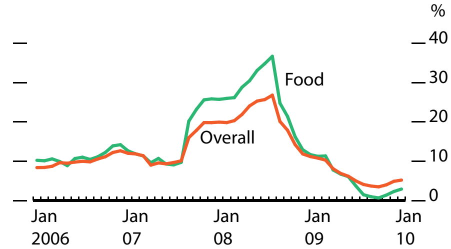
Even though budget revenue was 15% less than planned, the 2009 budget, excluding the largely foreign-financed public investment program, recorded a deficit equivalent to only 0.5% of GDP (Figure 3.6.5). Including the program, the deficit was 7.0% of GDP.

Due to the global recession, a significant price reduction for major export items, particularly aluminum and cotton, as well as weaker internal demand lowered trade turnover by 23% in 2009. Exports fell, and imports shrank by about 23% to $2.2 billion, slightly narrowing the trade deficit to $1.8 billion (some 33% of GDP). Accounting for service payments and a lower level of remittances, the current account deficit increased to 9.7% of GDP (Figure 3.6.6).

The government is pursuing a structural reform agenda aimed to lay the foundations for sustained economic growth. Tajikistan ranked among the top 10 reformers in the World Bank's *Doing Business 2010* report which assessed the business environment in 181 countries.

Actions taken by the government include a 2-year inspections moratorium for small and medium-sized enterprises, which considerably reduces the regulatory burden on business. In July, a program was launched that aims to streamline administrative procedures and make doing business less costly for entrepreneurs. It includes 24 reform items

3.6.3 Inflation



Source: State Statistical Committee of the Republic of Tajikistan. http://www.stat.tj (accessed 25 February 2010).

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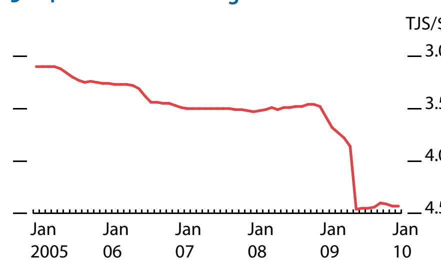
3.6.4 Nominal exchange rate



Sources: International Monetary Fund. International Financial Statistics online database; National Bank of Tajikistan. http://www.nbt.tj (both accessed 12 March 2010).

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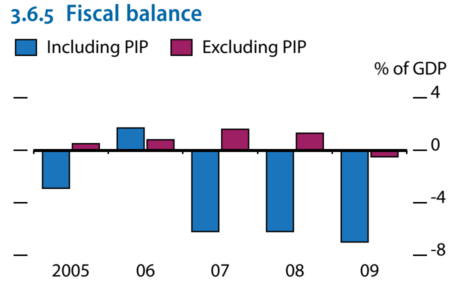
3.6.5 Fiscal balance



PIP = public investment program.

Sources: International Monetary Fund. 2008. *Financial System Stability Assessment*. December; 2009. *Article IV Consultation*. June. http://www.imf.org

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covering areas such as implementing one-stop-shop business registration, licensing and permit reform, improving the tax regime, protecting minority shareholders, and simplifying foreign trade operations.

Economic prospects

The major determinants of economic growth include the economic trajectories of Kazakhstan and the Russian Federation, and export prices for aluminum and cotton. Fortunately, both countries are expected to come back firmly from the recession, posting moderate growth in the next 2 years, while cotton and aluminum prices are also likely to continue firming up. It is also expected that noncotton agriculture will experience healthy growth. In view of these projections, economic growth is put at 4.0% in 2010 and 5.0% in 2011.

In the short run, fiscal policy will need to maintain the social outlays in order to arrest further deterioration in the welfare conditions of lower-income households. Also, additional external support on concessional terms will be necessary to develop infrastructure, particularly in the energy sector, which is needed to underpin sustainable GDP growth.

Increased import prices for food and energy as well as a revival of domestic demand due to rising remittances are the main factors behind growing inflation pressures, which are likely to take the rate to 10.8% and 9.5% in the next 2 years.

Recovering remittances over the next 2 years will also boost domestic demand for imports, which will grow faster than exports. In turn, exports are expected to rise on the back of the global recovery and stronger commodity prices, widening the trade deficit. With larger remittances the current account deficit is forecast to trim to 8.3% of GDP in 2010 and 7.1% in 2011.

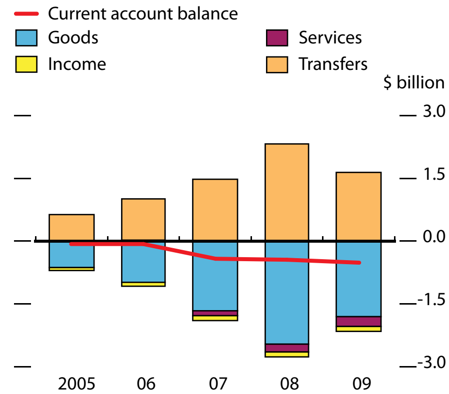
Development challenges

The trajectory of the economy essentially turns on remittance inflows, exports of a few commodities, and public expenditure on large investment projects, since the production and resource base is narrow. However, the country possesses huge hydropower potential, though this may not be fully realized in the foreseeable future for several reasons.

Weak capacity of public institutions, governance, and accountability in policy reforms is the first item on the development agenda, followed immediately by successful implementation of the current reform initiatives. Although the government has started to improve the business and investment environment, infrastructure bottlenecks, including chronic wintertime electricity shortages, remain a major challenge.

The government is therefore seeking funding to complete the Roghun hydroelectric power station, a project essential to tackling economic problems resulting from power outages. But it has to take into account the economic, welfare, and environmental implications of the project and work in cooperation with all interested parties, both at home and abroad.

3.6.6 Current account indicators



Sources: International Monetary Fund. 2008. *Financial System Stability Assessment*. December; 2009. *Article IV Consultation*. June. http://www.imf.org; ADB estimates.

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3.6.1 Selected economic indicators (%)

	2010	2011
GDP growth	4.0	5.0
Inflation	10.8	9.5
Current account balance (share of GDP)	-8.3	-7.1

Source: ADB estimates.