Tajikistan

Rising remittance inflows and strong industry and construction outturns revived growth in 2010, aided by a favorable climate that supported year-round hydropower output. The economy is projected to sustain growth in 2011–2012 despite risks from rising food and fuel prices, transport bottlenecks, and a poor investment climate.

Economic performance

GDP climbed to 6.5% in 2010 from 3.4% in 2009 (Figure 3.6.1). Industry grew by about 10%, as favorable weather allowed higher hydropower production (which accounts for most of the electricity generated), in turn allowing small and medium-sized enterprises to maintain continuous operations in winter. Thus industrial growth mainly came from these enterprises, particularly in light manufacturing and food processing, unlike previous years.

Aluminum production suffered due to limited imports of alumina, caused by intermittent disruptions to rail transit through Uzbekistan. These were largely resolved in the second half of the year. Indeed, the two countries have faced several bilateral issues over the years. At present, the main one relates to differences over managing riparian resources.

Public spending on key infrastructure projects, such as roads, tunnels, and transmission lines, grew, underpinning growth in construction.

Growth in agriculture slowed to a still strong 6.8% after an unusually high 10.5% gain in 2009 (due to a reallocation of land to noncotton agriculture). Slowing activity in retail trade, as disruption in rail transit restricted imports, held services growth to about 5%.

Economic recovery in the Russian Federation lifted remittances by 29% to $2.4 billion in 2010 (Figure 3.6.2), the equivalent of 40% of GDP. They remained a key factor in economic and social stability in Tajikistan, supporting domestic demand and private consumption.

The government launched a massive public campaign to collect funds for building the Roghun hydropower plant in January 2010. It believes that, if carried out, this project could end perennial winter power deficits and allow Tajikistan to become a substantial regional electricity exporter. The campaign targeted raising $1.4 billion to construct the initial phase of Roghun by selling shares to the public. But, after the campaign had raised more than $186 million by May, the government suspended it after seeing the adverse impact on household consumption and economic activity. It remains, however, committed to the project.

End-of-period inflation nearly doubled to 9.8% in 2010 from 5.0% in 2009 (Figure 3.6.3), mainly because of rising food prices—particularly of wheat, following the drought in and subsequent suspension of exports by

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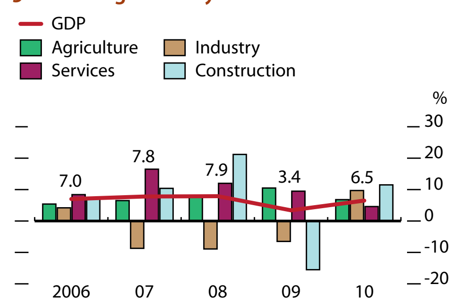
3.6.1 GDP growth by sector



Sources: Tajikistan State Statistics Agency. http://www.stat.tj; International Monetary Fund.

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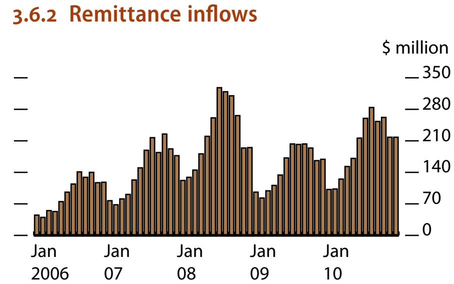
3.6.2 Remittance inflows



Sources: National Bank of Tajikistan; International Monetary Fund.

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the Russian Federation. Higher global fuel prices and the imposition by that country (the main supplier of petroleum) of export duty on hydrocarbons added a further supply-side push. Demand-side pressures from increased remittance spending also stoked inflation, which averaged 6.4% in 2010.

Banks continued to face tight liquidity conditions and high rates of nonperforming loans. They are constrained by a low deposit base and a limited ability to attract capital inflows, while they have significant exposure to risky credits in agriculture and a shortage of sound investment opportunities.

The government wrote off about $500 million of doubtful cotton sector loans. This move cut banks' ratio of nonperforming loans from 28% at end-2009 to about 18% a year later, but as their compensation was in the form of very low yielding T-bills it contributed little to their liquidity, income, and ability to take up new lending opportunities. Trade disruption and delayed cargo deliveries hit trade finance, a sizable part of banks' normal business given that imports are over one-half of GDP.

All these factors restrained credit expansion to the private sector. To mitigate banks' difficulties, the government deposited $50 million collected during the Roghun campaign at commercial banks to strengthen their reserves and add to lending capacity.

In response to rising inflation, the central bank lifted its refinancing rate from 8.0% to 8.25% in November 2010 and to 9.0% in March 2011. In 2010, bank lending rates varied around 25% while deposit rates varied around 6.5%, the large spread reflecting both high doubtful loans and structural difficulties.

Tajikistan continued to pursue fiscal policy aimed at macroeconomic stabilization while sustaining pro-poor programs. The government's postcrisis plan, adopted in early 2010, aimed to lift social expenditure to 11.5% of GDP in 2010, but could not meet the target. This was mainly because revenue collection was under stress in the first half of last year owing to reduced collection of value-added tax on imports and of customs duties, but revenue picked up after the easing of the transit bottleneck.

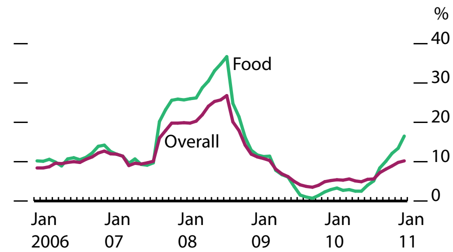
Although government revenue and expenditure did not fully reach budgeted levels, the overall deficit (excluding the public investment program and related grants) kept to the target of 1% of GDP in 2010 (Figure 3.6.4).

Recent fiscal deficits have been financed by external support, but borrowing capacity is low. The government's emphasis on completing infrastructure projects financed by external borrowing raised the debt-to-GDP ratio slightly to 34.4% of GDP in 2010 (Figure 3.6.5). The latest debt sustainability analysis from the International Monetary Fund (IMF), carried out in July 2010, puts Tajikistan at high risk of debt distress. The government is committed to controlling the debt level: its debt management strategy limits the ratio to 40% of GDP.

Higher global prices for aluminum and cotton underpinned a 40.9% surge in exports in 2010, a marked turnaround from the prior-year's 10.7% contraction. In volume terms, exports of aluminum rose moderately but cotton fell, as less land had been allocated to production. Imports grew by only 8.2%, mainly because of the rail disruptions.

The increase in export earnings outpaced the unusually small rise in imports and kept the trade deficit largely unchanged from the previous

3.6.3 Inflation



Source: Tajikistan State Statistics Agency. http://www.stat.tj

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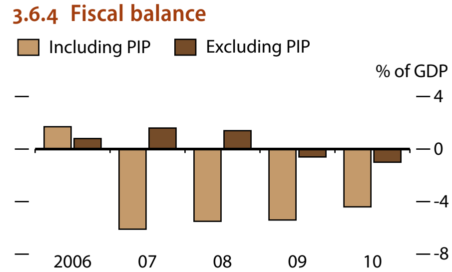
3.6.4 Fiscal balance



PIP = public investment program.

Source: International Monetary Fund. 2010. *Country Report* No. 10/374. December. http://www.imf.org

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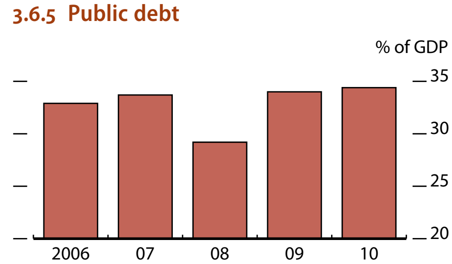
3.6.5 Public debt



Sources: International Monetary Fund; ADB estimates.

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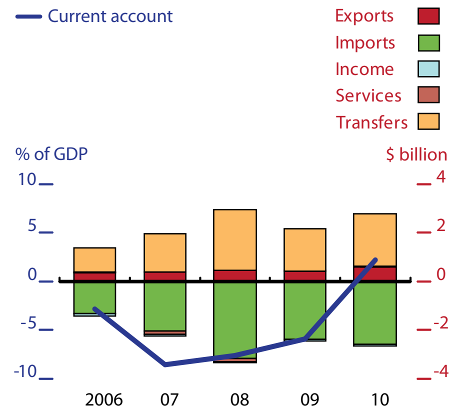
year. With the strong recovery in remittances, the current account is estimated to have moved to a surplus of 2.2% of GDP from a deficit of 5.9% of GDP in 2009 (Figure 3.6.6).

Following the large depreciation in 2009 that mirrored those of major trade partners, the somoni was stable against the US dollar in 2010, depreciating by only 0.7% (Figure 3.6.7). This reflected market conditions—good export performance and rising remittances in the face of restrained conditions on importing.

Foreign reserves picked up from $278 million in 2009 to $640 million. This increase was due to the improvement in the current account, while capital flows and credit disbursements, including those from the IMF, came in broadly as planned. But the level of foreign reserves remained low at year-end, equal to only 2.3 months of projected 2011 imports.

3.6.6 Current account balance



Sources: National Bank of Tajikistan; International Monetary Fund.

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Economic prospects

Growth is projected to edge up to 6.8% in 2011 and 7.0% in 2012, fueled by continued remittance inflows and by increases in aluminum and cotton prices in 2011, both of which fall off but stay high in 2012.

Remittances are forecast to grow by about 7% each year, reaching their precrisis high in 2012. They will underpin rising private consumption expenditure, boosting imports and so buoying budget revenue.

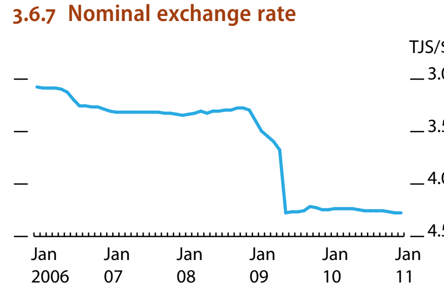
Production of aluminum and cotton is projected to rise moderately, responding to higher global prices (as well as reallocation of land back to cotton), but limited aluminum production capacity and inefficient cotton financing will hold back a stronger response. Agricultural processing, light industry, construction, and services will likely continue their strong growth.

Inflation in 2011 and 2012 is projected to increase to 10.5% and 9.5%, reflecting rising global food and fuel prices. The authorities are committed to maintaining a cautious fiscal and monetary stance under their economic program with the IMF and have averred that they would tighten policies if nonfood price pressures emerge. The central bank has already raised its refinancing rate.

Rising remittance-fueled consumption spending and expanding public investment are projected to generate much stronger import growth in 2011 and 2012 of about 28% and 10%, assuming normal regional trade and cargo transit arrangements. Exports are set to rise, by around 25% and 1%, largely reflecting global price movements. The trade deficit will deteriorate, and even with expected higher remittances the current account balance will move to a deficit of 4.3% and 6.4% of GDP.

These projections are subject to several external and internal risks, including growth in the Russian Federation's economy; the level of precipitation, essential for agriculture and water accumulation for electricity generation; and political and social stability.

3.6.7 Nominal exchange rate



Source: Tajikistan State Statistics Agency. http://www.stat.tj

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3.6.1 Selected economic indicators (%)

	2011	2012
GDP growth	6.8	7.0
Inflation	10.5	9.5
Current account balance (share of GDP)	-4.3	-6.4

Source: ADB estimates.

Development challenges

Tajikistan faces interrelated challenges that hinder reduction of widespread poverty and a move to higher and more sustainable growth. The first is its heavy reliance on remittances, which was keenly felt in 2009's global downturn. The second is its dependence on a

few exportable commodities and very narrow production base. The government therefore needs to strengthen infrastructure and services, improve the business and investment climate, and diversify agricultural output.

Many aspects of doing business, such as business registration procedures, investment protection, and tax systems, need to be improved, as seen clearly in the World Bank's latest *Doing Business* report. The share of private activity in GDP is below half, which is very low internationally. Private investment has been stagnant at less than 5% of GDP over the last 5 years, reflecting an unfavorable business environment and lack of investor confidence.

To boost economic activity, the government needs to focus on reducing risks to private investors, through, for example, providing and enforcing property rights, reducing corruption, and enhancing necessary supporting infrastructure. Improving the security situation and maintaining stability are also important.

Stagnating tax revenue and a weak fiscal position call for reform in the public resource management system, particularly tax policy and administration. Policy makers need to focus on implementing the comprehensive 5-year Tax Administration Reform Strategy, approved in 2010, which has financial and technical support from various development partners. Complemented by more efficient and better governed state-owned enterprises, such an approach could sharply raise revenue performance and reduce the call on the state budget.

3.6.2 Central Asian rankings on the ease of doing business, 2011

Georgia	12
Kyrgyz Republic	44
Armenia	48
Azerbaijan	54
Kazakhstan	59
Tajikistan	139
Uzbekistan	150

Note: Out of 183 countries worldwide. No ranking for Turkmenistan.

Source: World Bank. *Doing Business 2011*.