

Tajikistan

Key developments and challenges

The cancellation of farmers' cotton-related debt is a significant step towards increasing the financial soundness of the sector. A strengthening of the security and transferability of land-user rights is needed to facilitate farmers' access to finance.

Improving the financial transparency and governance of state-owned companies is the first step towards strengthening their performance. A plan to publish audited financial statements of these companies needs to be fully implemented.

The credibility of macroeconomic policy has increased with the improvement in the governance of the central bank. Nonetheless, as the banking sector remains vulnerable to liquidity and foreign exchange shocks, the central bank should take prompt corrective action against banks that violate regulatory requirements.

Country data

Population (in millions)	6.5
Area ('000 sq km)	143.1
GDP (in billion US\$, 2008)	5.1
Average transition score (scale: 1 to 4.33)	2.37

Progress in structural reform

Liberalisation and privatisation

By October 2008 total debt in the cotton sector amounted to US\$ 700 million (14 per cent of GDP), most of which was externally funded on the basis of guarantees and pledges by the National Bank of Tajikistan (NBT). Following a presidential decree in May 2009 to facilitate new commercial financing to the agricultural sector, all farmers' debt accumulated for the growing of cotton is being written off. For that portion of debt not guaranteed by the NBT, creditors will receive government securities as compensation. However, the debt owed by investors to finance cotton infrastructure, such as ginneries, will have to be repaid to the NBT. During 2009 the government has continued to provide financing to the agricultural sector through commercial banks but without limiting loans to cotton growing. The NBT has also taken steps to liberalise cotton exports.

Business environment and competition

To improve the governance and transparency of state-owned enterprises (SOEs), a supervisory unit for the 10 largest SOEs – including the Talco aluminium smelter – was established within the Ministry of Finance in late 2008. SOEs will be required to submit their business plans for 2010 for approval by the unit and the Ministry will publish their annual audited

reports. The financial statements of Talco, which accounts for 3 per cent of GDP and 25 per cent of exports, will be audited by a major international audit firm. Companies registered with the Agency for Securities will also be required to disclose their beneficial ownership.

According to the World Bank's *Doing Business 2010* survey, the business environment improved slightly, with Tajikistan ranked 152nd out of 183 countries compared with 164th last time. The main shortcomings related to trading across borders and the procedures and time required to obtain construction permits. In May 2009 legislative amendments were adopted to reduce the length of time to register a new business from 49 to five days. Almost a quarter of enterprises in the 2008/09 Business Environment and Enterprise Performance Survey (BEEPS IV) identified tax rates as the main obstacle to development. The authorities are progressing with reforms that include the simplification of the tax regime, strengthening of the VAT refund system and streamlining tax inspection. In May 2009 the VAT rate was reduced from 20 to 18 per cent.

Infrastructure

Electricity tariffs have been increased since the beginning of 2008, including a further increase in residential tariffs from 1 August 2009 to 7.5 dirams (1.7 US cents) per kWh. Part of the aim is to enable the state-owned vertically integrated electricity company Barki Tajik to reach cost-recovery levels by the end of 2010. Tajikistan continued to experience electricity shortages during the winter of 2008-09, partly because of low water levels at the Nurek reservoir. Electricity was imported from Kazakhstan, but rationing persisted as supplies from Turkmenistan were blocked by Uzbekistan until March 2009 due to a disagreement over transit fees. By mid-2009, as water levels in the key reservoirs increased, Tajikistan was able to repay Kazakhstan for its power imports through new generation and water release. Tajikistan's aim of achieving self-sufficiency in electricity was boosted when China agreed to invest over US\$ 1 billion in the sector, including the construction of two hydroelectric and thermoelectric power plants in Dushanbe.

Financial sector

A special audit of the NBT, stipulated by the International Monetary Fund (IMF), has confirmed weaknesses in governance. In response, the NBT will publish its audited financial statements for the fiscal year 2009 and its internal audit function will be strengthened, while commercial banking laws will also be amended.

The banking system has been relatively stable and total loans outstanding have grown modestly in real terms in the year to mid-2009. However, some banks experienced liquidity problems towards the end of 2008. In response, banks increased deposit rates and reduced the supply of new credit. Non-performing loans increased from 0.8 per cent in January 2008 to 3.6 per cent of total loans by March 2009, reflecting the poor payment performance by cotton farms that received government-backed loans. The depreciation of the somoni during the first half of 2009 did not have an immediate impact on the capital adequacy of banks, but may have a negative effect on portfolio quality. To address this risk, the NBT is considering applying higher capital requirements for foreign-currency denominated loans to unhedged borrowers.

Macroeconomic performance

Real economic growth in 2008 amounted to 7.9 per cent, supported by record inflows of remittances (some 43 per cent of GDP), public spending on infrastructure and higher output from the non-cotton agricultural sector. However, the economy slowed towards the end of 2008 as the external environment deteriorated, reflected in declining aluminium exports and significantly lower remittances. In the first half of 2009, real GDP grew by 2.8 per cent year on year while the rate of inflation fell from its August 2008 peak of 27 per cent to 7.6 per cent in June 2009.

Tajikistan met the key conditions of a six-month, non-funded IMF programme (agreed in June 2008) and in March 2009 entered a new US\$ 120 million three-year programme with the Fund. This unlocked other donor financing (around US\$ 80 million) that had been frozen since the IMF became aware of the misreporting of pledges, guarantees and direct lending provided by the NBT for the cotton sector. The main focus of the facility is exchange rate flexibility, while accommodating the need for higher social spending and ensuring sustainable debt levels.

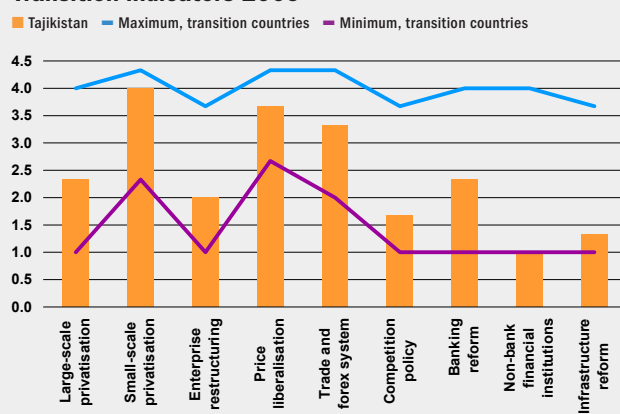
Total donor funding in 2009, representing around 3.7 per cent of GDP, should cover the expected revenue shortfalls (about 1.8 per cent of GDP) from the economic slow-down, while permitting some increase in social expenditure. The fiscal deficit is targeted to widen from 6.1 per cent in 2008 to 8.9 per cent in 2009. The exchange rate policy has remained flexible, mainly because of limited international reserves which amounted to less than one month of imports at the end of 2008. As the external environment has deteriorated, the exchange rate has come under pressure and the somoni depreciated by 22 per cent in nominal terms against the US dollar during the first half of 2009.

The current account deficit narrowed from 8.6 per cent in 2007 to 7.9 per cent in 2008, reflecting a sharp increase in remittances. However, the deficit is likely to widen in 2009 as remittances decline (by 35 per cent during the first half of the year) and the trade deficit increases due to a sharp fall in exports (by 48 per cent during the same period).

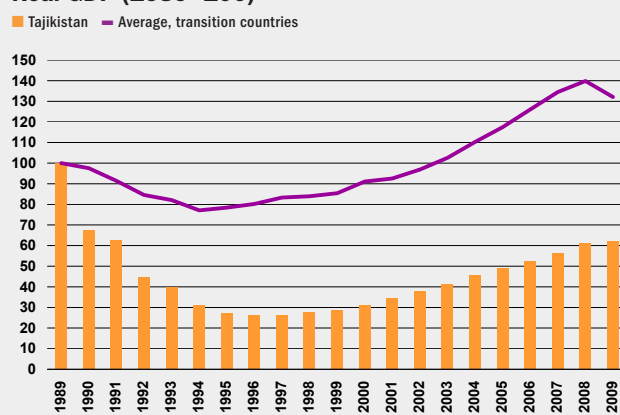
Outlook and risks

Economic growth in 2009 is likely to remain sluggish, but is expected to be followed by a modest upturn in 2010. The economy remains vulnerable to potential risks, such as a loss in confidence in the banking system or to further macroeconomic shocks. In the medium to long term, if reforms in agriculture are implemented as planned, there should be an additional stimulus to growth. Improved governance of SOEs should also enhance the productivity of enterprises that account for a significant proportion of the Tajik economy. External debt levels in relation to infrastructure investment could potentially become a source of macroeconomic vulnerability unless more emphasis is placed on selecting projects on the basis of their anticipated economic returns.

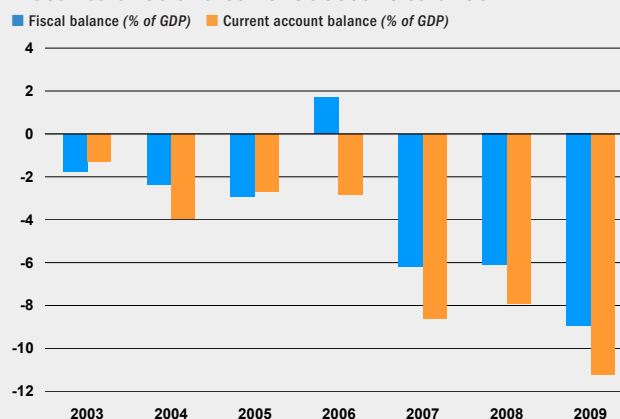
Transition indicators 2009



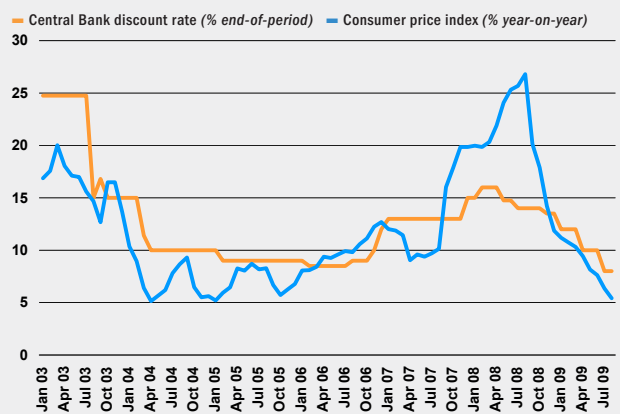
Real GDP (1989=100)



Fiscal balance and current account balance



Interest rates and inflation



Liberalisation and privatisation	Business environment and competition	Infrastructure	Financial sector	Social reform
Current account convertibility – full	Competition office – yes	Telecoms regulatory assessment compliance – low	Capital adequacy ratio – 12 per cent	Share of population living in poverty – 50.8 per cent (2004)
Controls on inward direct investment – no ¹	Quality of insolvency law – very low	Independence of the electricity regulator – no	Deposit insurance system – yes	Government expenditure on health – 1.2 per cent of GDP (2008)
Interest rate liberalisation – full	Secured transactions law – malfunctioning	Separation of railway infrastructure from operations – no	Private pension funds – no	Government expenditure on education – 3.4 per cent of GDP (2008)
Exchange rate regime – managed float		Independence of the road directorate – no		Household expenditure on power and water – 6.0 per cent
Wage regulation – no				
Tradeability of land – limited de facto				

Structural and institutional change indicators

	2003	2004	2005	2006	2007	2008	2009
Enterprises							
Privatisation revenues (cumulative, in per cent of GDP)	6.3	6.7	7.2	7.8	7.9	8.5	na
Private sector share in GDP (in per cent)	50.0	50.0	55.0	55.0	55.0	55.0	55.0
Private sector share in employment (in per cent)	45.8	51.2	52.4	51.9	51.8	53.6	na
Budgetary subsidies and current transfers (in per cent of GDP)	0.4	0.4	0.4	0.4	0.3	0.3	na
Share of industry in total employment (in per cent)	6.1	5.7	5.7	5.5	5.3	4.8	na
Change in labour productivity in industry (in per cent)	16.6	10.9	5.8	9.4	13.8	5.8	na
Investment/GDP (in per cent)	13.2	14.0	14.8	13.7	22.0	20.7	na
<i>EBRD index of small-scale privatisation</i>	3.7	3.7	4.0	4.0	4.0	4.0	4.0
<i>EBRD index of large-scale privatisation</i>	2.3	2.3	2.3	2.3	2.3	2.3	2.3
<i>EBRD index of enterprise reform</i>	1.7	1.7	1.7	1.7	1.7	1.7	2.0
Markets and trade							
Share of administered prices in CPI (in per cent)	0.0	0.0	0.0	0.0	na	na	na
Number of goods with administered prices in EBRD-15 basket	0.0	0.0	0.0	0.0	0.0	0.0	na
Share of trade with non-transition countries (in per cent)	33.2	38.7	38.5	38.7	36.2	42.4	na
Share of trade in GDP (in per cent)	122.5	112.3	56.8	60.0	65.8	71.1	na
Tariff revenues (in per cent of imports)	2.3	2.7	5.0	3.9	3.2	2.6	na
<i>EBRD index of price liberalisation</i>	3.7	3.7	3.7	3.7	3.7	3.7	3.7
<i>EBRD index of forex and trade liberalisation</i>	3.3	3.3	3.3	3.3	3.3	3.3	3.3
<i>EBRD index of competition policy</i>	1.7	1.7	1.7	1.7	1.7	1.7	1.7
Financial sector							
Number of banks (foreign-owned)	15 (4)	12 (3)	12 (3)	10 (2)	11 (4)	12 (4)	na
Asset share of state-owned banks (in per cent) ²	6.1	12.2	9.7	7.6	7.2	na	na
Asset share of foreign-owned banks (in per cent) ²	3.6	6.2	8.9	6.5	6.6	na	na
Non-performing loans (in per cent of total loans)	73.6	18.7	13.8	11.4	4.9	na	na
Domestic credit to private sector (in per cent of GDP)	14.0	17.4	22.3	25.8	29.7	26.1	na
Domestic credit to households (in per cent of GDP)	0.5	1.8	1.5	2.1	3.6	4.1	na
– Of which mortgage lending (in per cent of GDP)	na	na	na	na	na	na	na
Stock market capitalisation (in per cent of GDP)	na	na	na	na	na	na	na
Stock trading volume (in per cent of market capitalisation)	na	na	na	na	na	na	na
Eurobond issuance (in per cent of GDP)	0.0	0.0	0.0	0.0	0.0	0.0	na
<i>EBRD index of banking sector reform</i>	1.7	2.0	2.0	2.3	2.3	2.3	2.3
<i>EBRD index of reform of non-bank financial institutions</i>	1.0	1.0	1.0	1.0	1.0	1.0	1.0
Infrastructure							
Fixed-line (mobile) penetration rate (per 100 inhabitants)	3.8 (0.8)	4.2 (2.1)	4.3 (4.1)	4.8 (32.4)	5.1 (34.9)	5.1 (34.9)	na
Internet users (per 100 inhabitants)	0.1	0.1	0.3	0.3	7.2	7.2	na
Railway labour productivity (1994=100)	38.6	38.0	35.3	42.5	45.1	45.9	na
Residential electricity tariffs (USc kWh)	0.5	0.6	0.6	0.6	0.9	1.1	na
Average collection rate, electricity (in per cent)	73	85	74	97	99	85	na
GDP per unit of energy use (PPP in US dollars per kgoe)	2.5	2.7	2.8	na	na	na	na
<i>EBRD index of infrastructure reform</i>	1.0	1.3	1.3	1.3	1.3	1.3	1.3
– Electric power	1.0	1.7	1.7	2.0	2.0	2.0	2.0
– Railways	1.0	1.0	1.0	1.0	1.0	1.0	1.0
– Roads	1.0	1.0	1.0	1.0	1.0	1.0	1.0
– Telecommunications	2.3	2.3	2.3	2.3	2.3	2.3	2.3
– Water and wastewater	1.0	1.0	1.0	1.0	1.0	1.7	1.7

¹ Approval from the National Bank of Tajikistan is required.

² Including credit unions.

Macroeconomic indicators

	2003	2004	2005	2006	2007	2008 Estimate	2009 Projection
Output and expenditure	<i>(Percentage change in real terms)</i>						
GDP	10.2	10.6	6.7	7.0	7.8	7.9	2.0
Industrial gross output	9.9	13.8	8.5	6.7	9.9	-3.5	na
Agricultural gross output	9.1	11.3	3.1	4.8	6.5	7.9	na
Employment	<i>(Percentage change)</i>						
Labour force (annual average)	1.5	10.4	1.0	1.4	0.7	0.7	na
Employment (annual average)	1.5	10.8	1.1	1.2	0.6	0.8	na
	<i>(In per cent of labour force)</i>						
Unemployment (annual average) ¹	2.4	2.0	1.9	2.2	2.3	2.2	na
Prices and wages	<i>(Percentage change)</i>						
Consumer prices (annual average)	16.4	7.2	7.3	10.0	13.2	20.4	8.6
Consumer prices (end-year)	13.7	5.7	7.1	12.5	19.8	11.8	11.9
Producer prices (annual average)	15.0	17.1	-1.0	22.0	18.4	20.6	na
Producer prices (end-year)	14.1	15.1	2.9	21.5	16.7	-5.6	na
Gross average monthly earnings in economy (annual average)	37.6	36.3	41.1	36.7	39.4	43.1	na
Government sector²	<i>(In per cent of GDP)</i>						
General government balance	-1.8	-2.4	-2.9	1.7	-6.2	-6.1	-8.9
General government expenditure	19.1	20.3	23.0	21.9	28.6	28.2	na
General government debt	66.6	42.9	41.6	34.5	34.9	30.1	na
Monetary sector	<i>(Percentage change)</i>						
Broad money (M2, end-year)	42.0	51.6	30.2	63.4	78.8	6.3	na
Domestic credit (end-year)	-6.5	52.7	32.7	27.2	71.0	19.6	na
	<i>(In per cent of GDP)</i>						
Broad money (M2, end-year)	10.0	11.7	13.0	16.5	21.4	16.5	na
Interest and exchange rates	<i>(In per cent per annum, end-year)</i>						
Monetary policy rate	15.0	10.0	9.0	12.0	15.0	13.5	na
Deposit rate (up to 3 months)	14.6	8.6	8.6	8.2	5.5	5.4	na
Lending rate (up to 3 months)	15.6	21.3	25.6	26.7	22.5	19.6	na
	<i>(Tajik somoni per US dollar)</i>						
Exchange rate (end-year)	2.9	3.0	3.2	3.4	3.5	3.5	na
Exchange rate (annual average)	3.1	3.0	3.1	3.3	3.4	3.4	na
External sector	<i>(In millions of US dollars)</i>						
Current account	-19.9	-81.6	-61.9	-78.8	-318.8	-404.9	-521.7
Trade balance	-103.1	-151.2	-622.0	-986.4	-1,673.0	-2,733.2	-1,981.2
– Merchandise exports	900.0	1,087.8	345.7	349.5	385.2	457.3	348.6
– Merchandise imports	1,003.2	1,239.0	967.7	1,335.9	2,058.1	3,190.5	2,329.8
Foreign direct investment, net	31.6	272.0	54.6	65.9	160.0	300.0	100.0
Gross reserves, including gold (end-year)	135.0	64.0	91.0	111.0	107.0	199.0	na
External debt stock	1,302.6	1,170.3	1,190.0	1,200.5	1,519.8	2,410.9	na
	<i>(In months of imports of goods and services)</i>						
Gross reserves, including gold (end-year)	1.4	0.5	0.9	0.8	0.5	0.6	na
	<i>(In per cent of exports of goods and services)</i>						
Debt service	11.2	28.1	17.9	32.7	13.2	15.0	na
Memorandum items	<i>(Denominations as indicated)</i>						
Population (end-year, million)	6.3	6.3	6.3	6.4	6.4	6.5	na
GDP (in millions of somoni)	4,758.0	6,157.5	7,201.1	9,272.2	12,779.7	17,609.3	19,512.2
GDP per capita (in US dollars)	248.1	328.5	364.3	440.5	578.3	794.8	na
Share of industry in GDP (in per cent)	na	na	na	na	18.3	12.5	na
Share of agriculture in GDP (in per cent)	na	na	na	na	19.4	21.8	na
Current account/GDP (in per cent)	-1.3	-3.9	-2.7	-2.8	-8.6	-7.9	-11.2
External debt – reserves (in US\$ million)	1,167.6	1,106.3	1,099.0	1,089.5	1,412.8	2,211.9	na
External debt/GDP (in per cent)	83.8	56.5	51.5	42.7	40.9	47.0	na
External debt/exports of goods and services (in per cent)	132.3	96.7	197.9	182.9	198.2	278.7	na

¹ Officially registered unemployed.

² Includes externally financed public investment programmes.