

The Macroeconomic Impact of the Global Crisis on Tajikistan

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Outline

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Origins of the global crisis

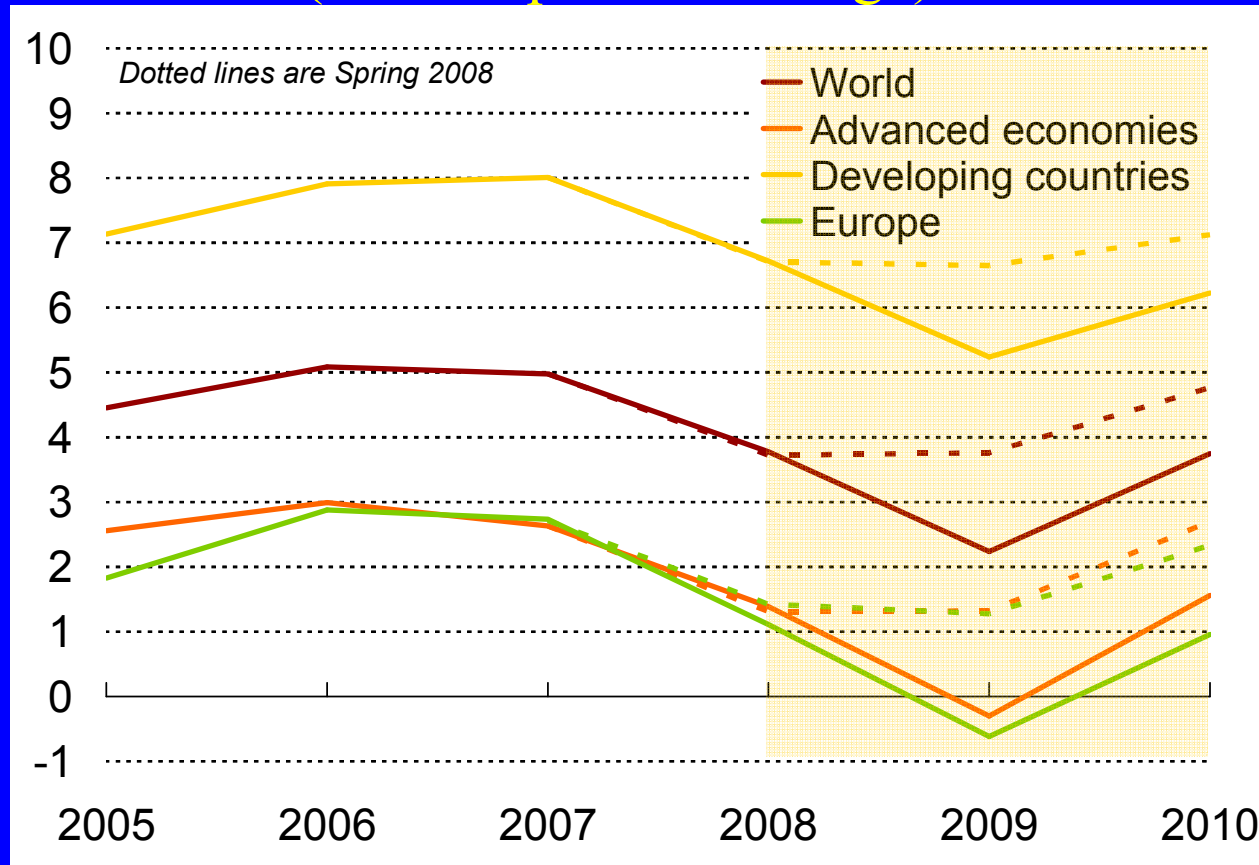
- Discussion ongoing, but it seems that...
- The crisis had four features in common with other crises:
 - asset price increases that turned out not to be sustainable
 - credit booms that led to excessive debt burdens, buildup of marginal loans
 - systemic risk, and the failure of regulation and supervision to keep up
- New dimensions help explain the severity and global scale of the crisis; four key aspects were new:
 - the widespread use of complex and opaque financial instruments
 - increased interconnectedness among financial markets, nationally and internationally, with the United States at the core
 - the high degree of leverage of financial institutions
 - the central role of the household sector

International impact of the global crisis

- In advanced economies, the crisis has undermined consumer and business confidence, curtailed access to credit, and eroded household net assets, triggering a sharp decline in domestic demand
- Through financial and trade channels this is being transmitted globally with:
 - Reversal of private capital flows; dry-up of finance; banking sector problems
 - Asset price declines
 - Commodity price declines
 - Trade and growth slowdown

World Real GDP Growth

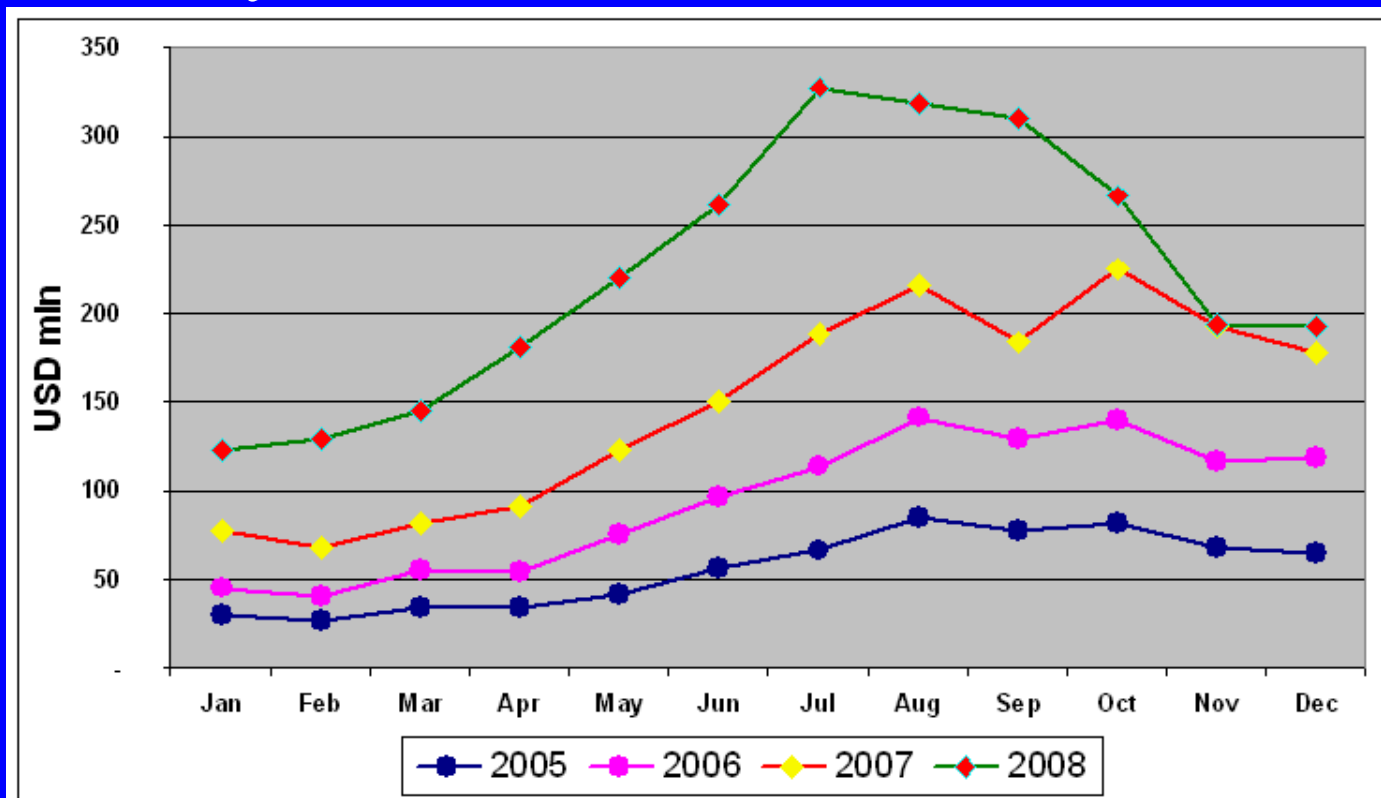
(Annual percent change)



The financial turmoil has led to a fast deteriorating global growth outlook. Compared to Spring WEO, world growth is projected to be lower by 1.6 percent in 2009, with advanced economies registering negative growth

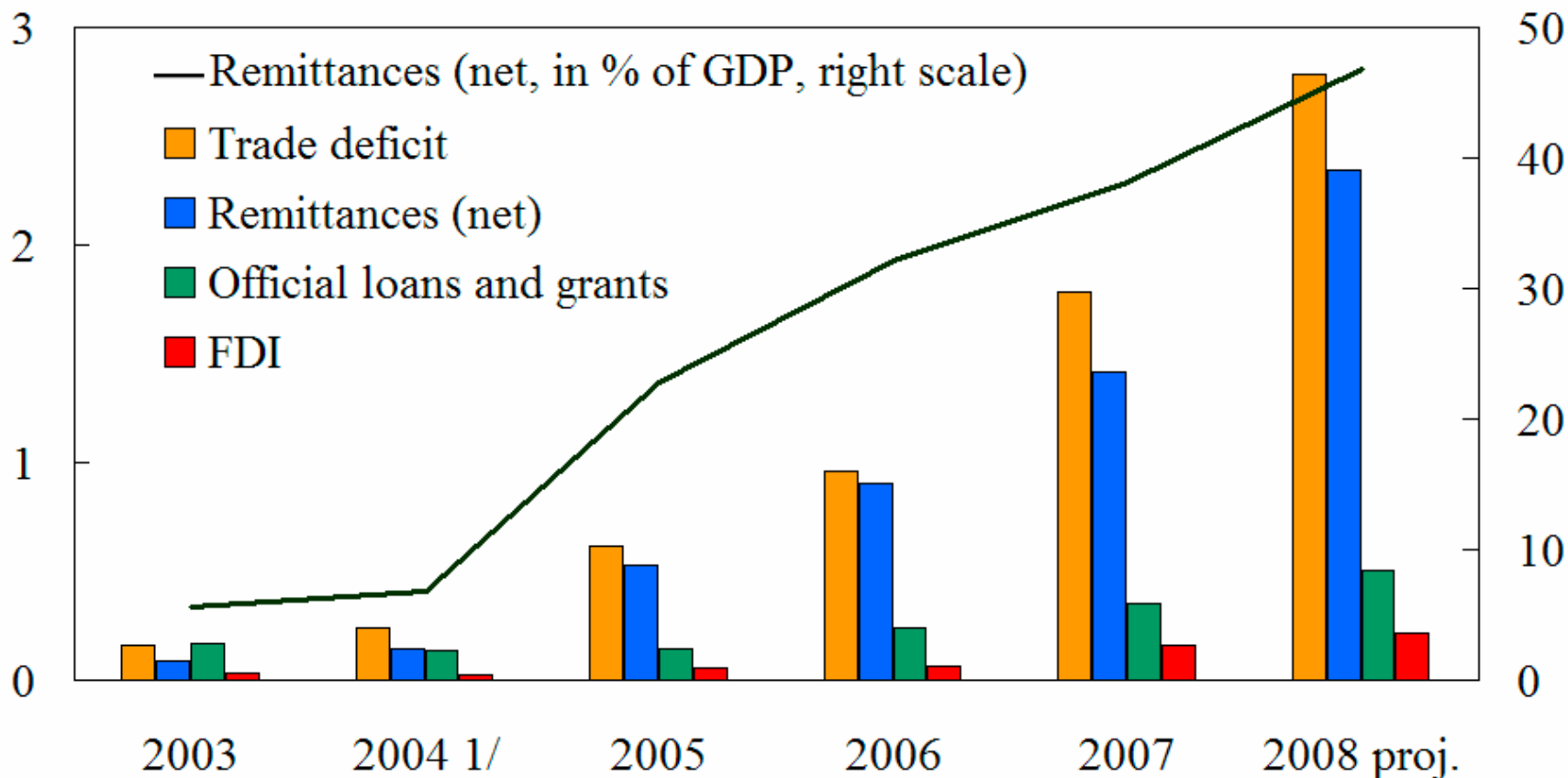
Macroeconomic impact on Tajikistan: Remittances inflow

- Roughly 90% Russia; 6% US; 2% Germany; 1% Kazakhstan; 1% other



Remittances are really crucial

Figure 2. Remittances and Trade Deficit, 2003-2008
(in billions of US dollars, unless otherwise indicated)



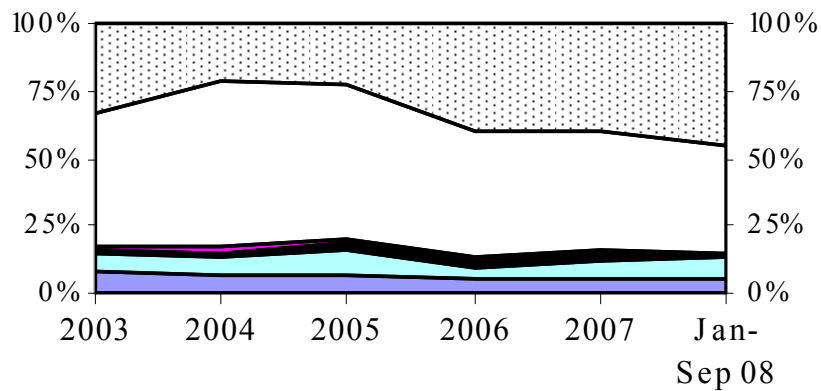
Sources: National authorities; and staff estimates.

1/ Data net of \$250 mln. of debt-equity swap with Russia.

Macroeconomic impact on Tajikistan: Trade

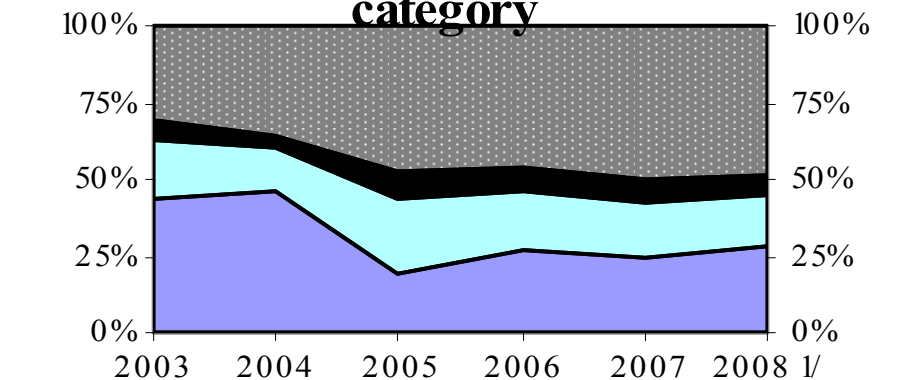
- Export: Bulk to non-CIS; Aluminum (tolling fee since 2005) is main export, followed by cotton and electricity

Export of goods by countries



Uzbekistan
 Russia
 Kazakhstan
 Other CIS
 Europe
 Asia

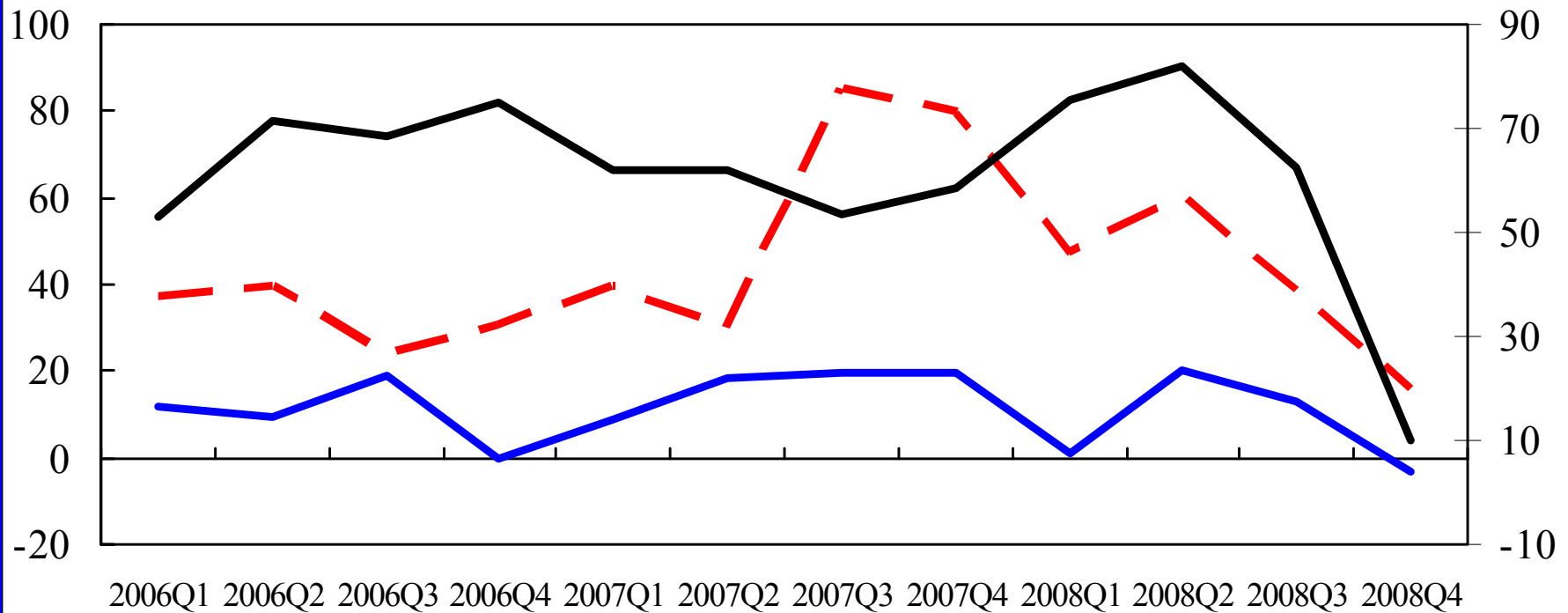
Export of goods and services by category



aluminum
 cotton
 electricity
 other

2008Q4 really was different

Export; Import; Remittances (year-on-year growth in %)



— Exports of goods and services — Imports of goods and services — Remittances inflow

Some relevant commodity trade prices

	Units	2007 Q2	2007 Q3	2007 Q4	2008 Q1	2008 Q2	2008 Q3	2008 Q4
Wheat	\$/MT	206	275	342	411	347	318	228
Cotton	\$/lb	57.7	67.5	69	76.2	75.5	76.3	58
Alu	\$/MT	2768	2549	2445	2751	2948	2785	1828
Oil	\$/bbl	66.1	73.6	88.0	95.5	121.1	115.5	56.0

Macroeconomic impact on Tajikistan: Financial sector

- Still small, no stock market, and no significant foreign financing, so limited direct impact unlike in more developed countries
- Still high capital-asset ratio (24% end-Sept), so solvency currently not an issue, but liquidity is, not because:
 - Short-term trade credits drying up, as only 1% of imports
 - Remittances, and their short-term pre-financing drying up, as usually leave the banking system quickly anyway; however, fee income from such remittances constitutes around one-third of the total banks' income, so will decrease profitability
- But because:
 - Aluminum price decline – Although tolling arrangement, at least part of off-shore money recycled in Tajik banking system
- And...

Intermezzo: Cotton financing

- New cotton financing scheme: budget lending to commercial banks at non-market terms for their on-lending to specific cotton farmers at slightly less non-market terms; credit risk with banks
- 2008: SM 140 mln from budget, SM 72.1 mln from banks in addition, repayment rate about 10% (NBT stated last week); 2009: SM 180 mln in budget
- The above total 2008 bank lending for cotton is almost 30% of banks' total capital (end-Sept)
- Thus, the fundamental flaws in the new cotton financing scheme, certainly in combination with the international cotton price decline, could rapidly decrease the capital-asset ratio, which could become a solvency issue if continued long enough

Macroeconomic impact on Tajikistan: Growth

- Drivers of growth negatively affected: remittances, exports, financial system
- This will feed through; in particular, in recent years remittances have been driving services and construction, which in turn have been driving growth
- Thus, certainly expecting lower growth in 2009, less than 5% (2008: 7.9%)
- In the longer term, less growth is less poverty reduction

Macroeconomic impact on Tajikistan: Inflation

- 2008 inflation was not a “monetary phenomenon”, but driven by international food and oil prices
- These drove inflation to a year-on-year peak of almost 27% in August, to come down thereafter, to 11.9% in December (average 2008: 20.5%)
- Under influence of the global crisis, such price moderation is expected to continue, quite possibly bringing inflation back to single digits in 2009

Macroeconomic policy implications

- Address liquidity strains in a forceful and timely manner
- Closely monitor key risk areas (housing, loan concentration, lending standards) and assess vulnerabilities of banking system
- Fiscal policy can give some stimulus in as far as there is room
- Exchange rate will need to adjust
- However, supply-side remains crucial:
 - Stimulate private sector investment/development
 - Cotton/agricultural reform, including true “freedom to farm”, cotton debt resolution, and revision of the new financing scheme

Conclusion

- 2009 will not be an easy year
- Although the global crisis has not had much direct impact on Tajikistan, the indirect impact has started, and could become substantial
- The reform agenda has not changed much, but its implementation has become even more urgent
- The global crisis may actually be increasing the constituency for crucial reforms, and donors should seize this as an opportunity to push while assist

Thank you for your attention

Questions/discussion