

Tajikistan—Overcoming the Effects of the Global Crisis

by Axel Schimmelpfennig, International Monetary Fund Mission Chief for Tajikistan

After a strong economic performance last year, the global crisis is now hitting Tajikistan hard. Remittance inflows are expected to shrink by 30 percent, contributing to a decline in GDP growth to 2 percent in 2009. Last year, an estimated 1 million migrants—employed mostly in Russia—sent home \$2.4 billion, close to 50 percent of Tajikistan's GDP, providing a basic income for many households. With remittances declining and growth stagnating, per capita income could fall by around 6 percent in U.S. dollar terms this year. This in a country where about half of the population already lived below the poverty line and one sixth lived in extreme poverty, according to World Bank estimates for 2007.

Faced with these challenges, Tajikistan turned to the IMF and other donors for support of their economic program. On April 21, the IMF's Board of Directors approved a \$120 million loan in support of the authorities' program. \$40 million has already been disbursed.

The authorities' immediate objective is to maintain macroeconomic stability. In the short-term, this means reducing Tajikistan's large external current account deficit and building foreign exchange reserves. In addition, the authorities' program gives high priority to maintaining social stability and providing adequate support for the poor. Looking ahead, their strategy also seeks to lay the foundation for sustained high growth.

A main challenge for the authorities is to provide resources through the budget to help the poor and support demand, while avoiding an excessive fiscal expansion that would be destabilizing and unsustainable. Additional budget resources have been allocated for income support to households. In addition, government spending on health and education is being increased, including to provide training and medical care to returning migrant workers. At the same time, with sluggish activity, government revenues are projected to fall relative to GDP. To make ends meet, the government has, therefore, delayed lower-priority investment projects until new concessional sources of financing are available.

Donors have already stepped in with announcements of new budget support to help the government maintain key social expenditures. Together, the Asian Development Bank, the European Union, and the World Bank have announced budget support, in the form of grants, of around \$80 million in 2009. Increased donor financing will also help to ease balance of payments pressures while the authorities' policies to reduce the current account deficit are taking effect. In recent months, the authorities have adopted a more flexible exchange rate regime, and the somoni has depreciated by around 10 percent against the dollar since the beginning of the year. This will contain imports and counter the loss in remittances inflows.

The authorities' intention to further strengthen the governance at the National Bank of Tajikistan is welcome. The recent publication of the executive summary of the report on the

special audit of the National Bank of Tajikistan was an important step in this regard. The report includes specific recommendations to address the deep-rooted governance problems that contributed to the misreporting to the IMF that was revealed in 2007, and the Fund will monitor implementation of these recommendations under the PRGF program. For example, parliament will be asked to consider a set of legal amendments prepared by the government that would strengthen governance at the National Bank of Tajikistan and seek to prevent future conflicts of interest.

Looking a little further ahead, the government needs to tackle difficult structural reform areas to raise Tajikistan's growth potential. In the agriculture sector, resolving the cotton debt overhang and strengthening market mechanisms are key to raising the sector's growth potential. In the energy sector, reform of the loss-making power utility needs to go hand-in-hand with steps to strengthen the transmission infrastructure and raise generation capacity. Private sector and donor involvement will be needed to prevent a renewed build-up of government debt. There is also a pressing need to enhance governance in the large state-owned enterprises as well as the central bank.

The IMF believes that the authorities' program provides a promising way forward. A key success factor will be strong implementation of the program's main policies. The financing from the IMF will help ease the adjustment burden and also provide a strong signal of support to the international community. Other international financial institutions and bilateral donors have already committed considerable support to Tajikistan. Notwithstanding this, additional financing would help to further alleviate the impact of the economic crisis on the population.