



# Recent Developments and Outlook 2010-13



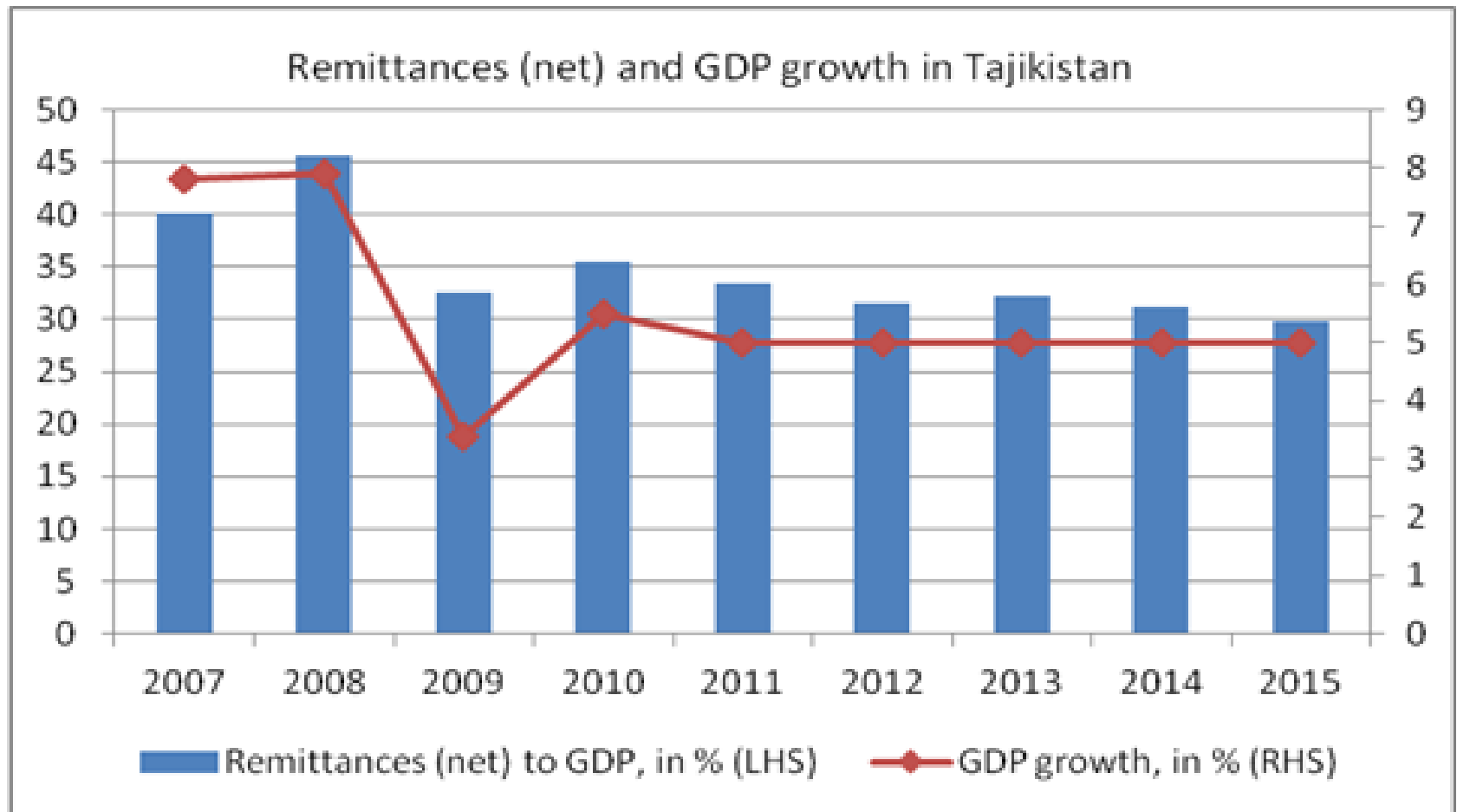
**DCC Presentation**  
**Chiara Bronchi, WB & Ari Aisen, IMF**  
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Check against delivery

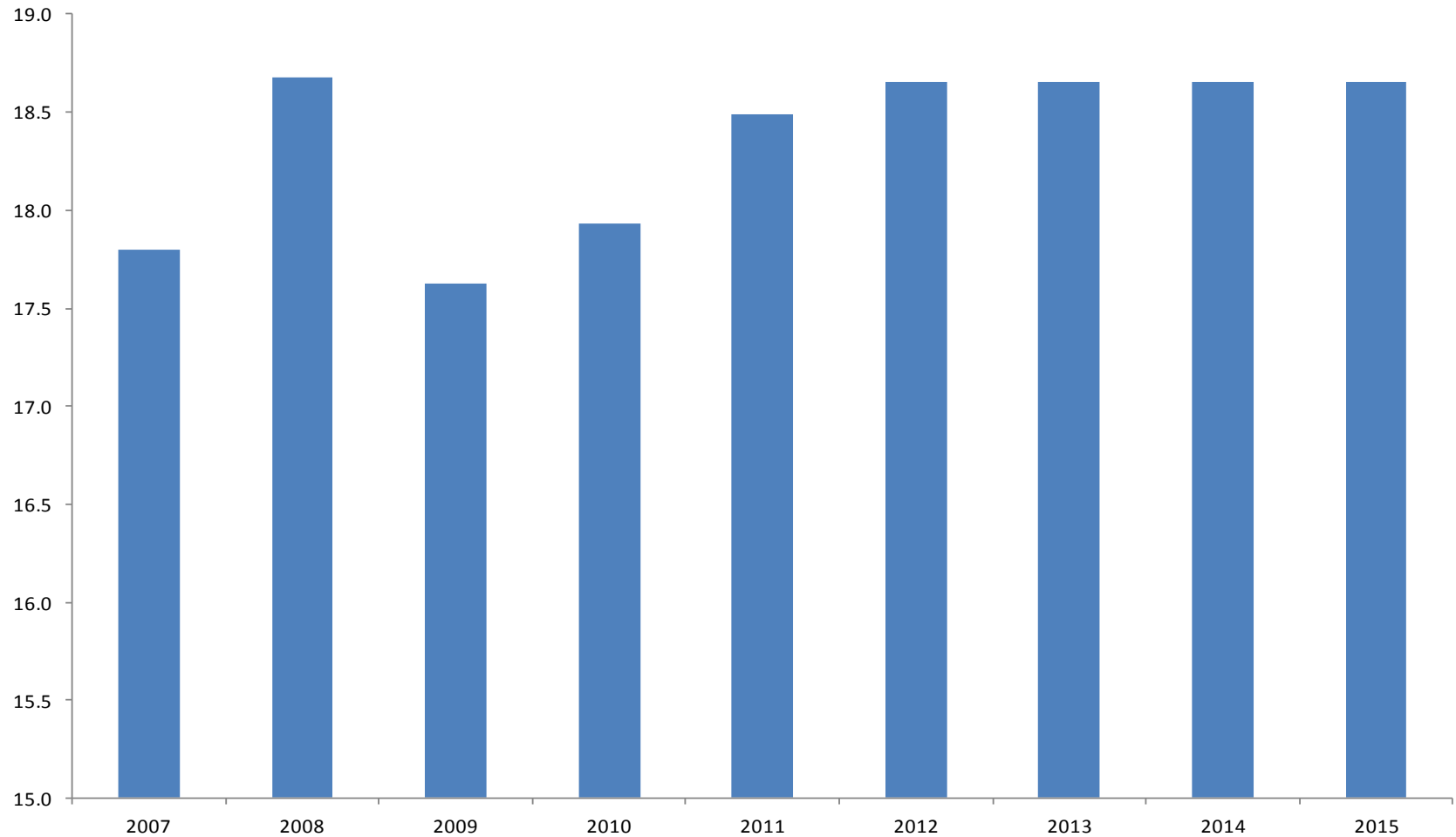
# Macroeconomic framework 2011-15

- Real GDP growth to stay at 5 percent.
- Inflation to gradually decline and stay at 5 percent.
- After a sharp decline in 2009, tax revenue to gradually recover to around 18-19 percent of GDP; this assumes measures are taken to improve tax administration.
- Budget support foreign grants have been playing important role in maintaining fiscal stability; not assumed to continue at same levels.

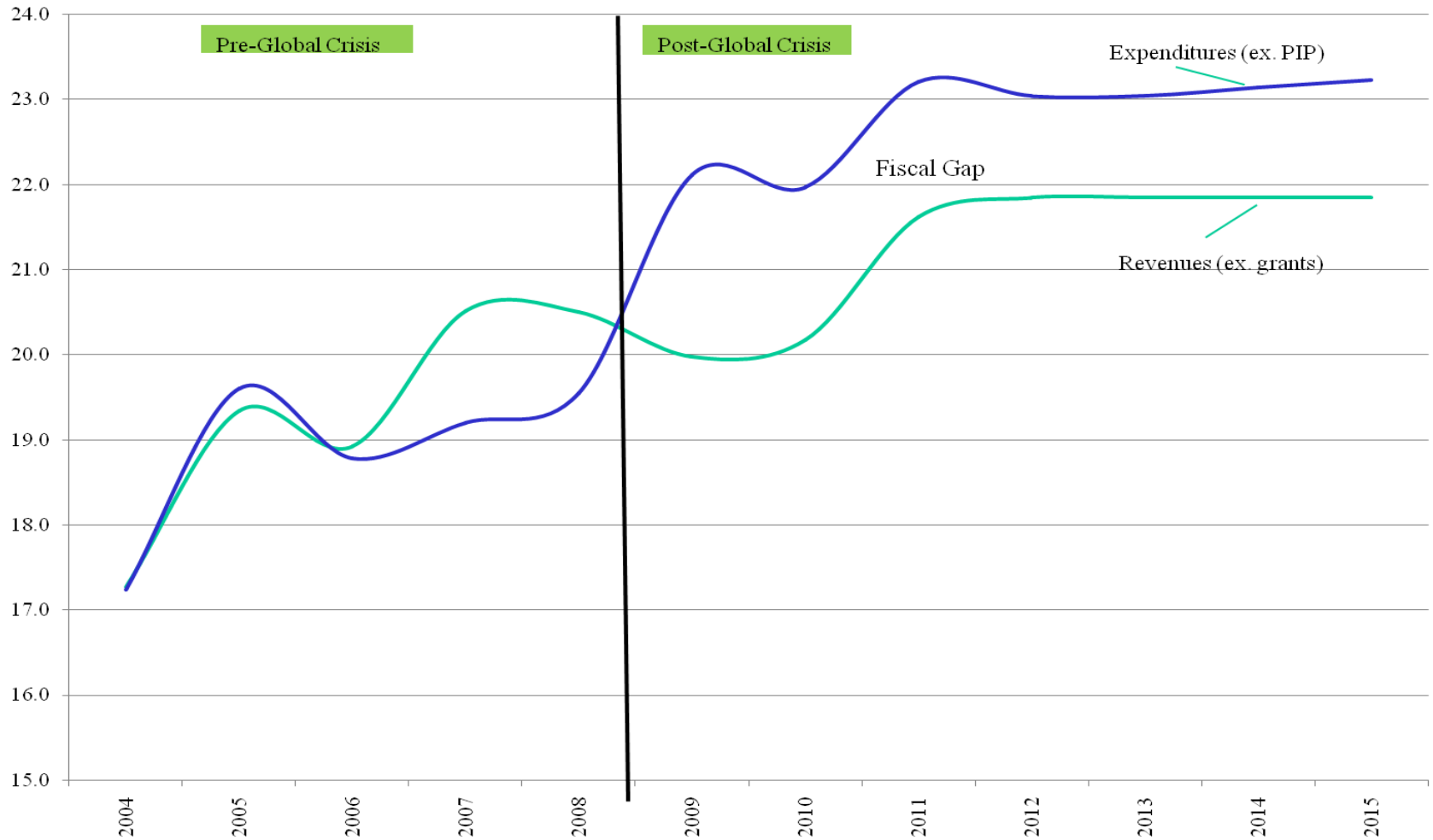
# Remittances and GDP growth



# Tajikistan: Tax Revenue (in percent of GDP)



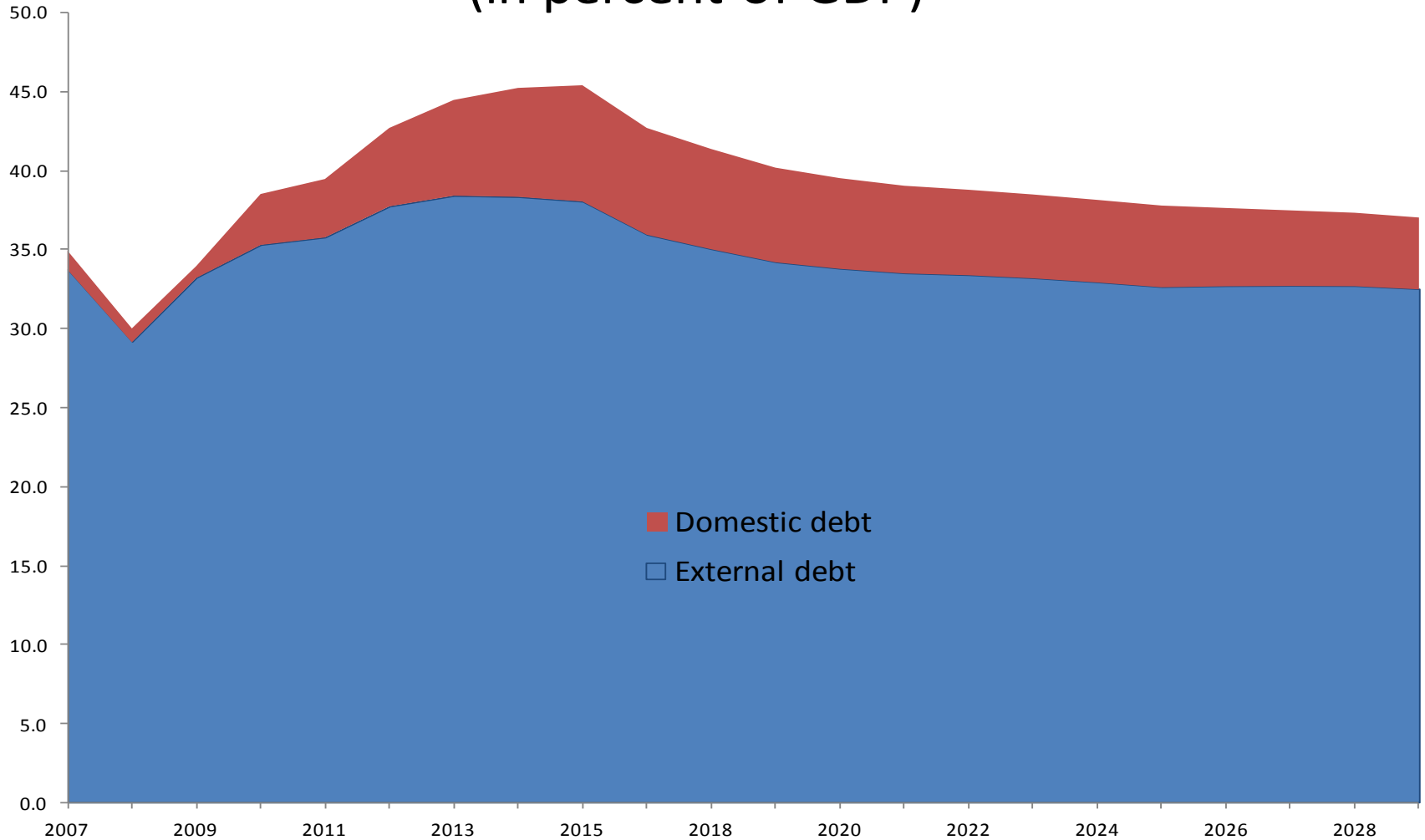
# Fiscal gap



# Medium-term outlook – key risks

- Macroeconomic stability in Tajikistan a relatively recent phenomenon; important to safeguard gains achieved while addressing problems of the past.
- Tajikistan remains subject to external shocks – remittances, exchange rate, inflation.
- Tajikistan also remains at a high level of debt distress under the IMF-World Bank debt sustainability framework. Overall level of public debt approaching the limit of what is generally advisable for low income countries with limited capacity.
- Future budgets will also have to absorb the costs of past mistakes – in particular the cotton debt issue and recapitalization of the NBT and commercial banks.
- Growing risks in the banking sector and arrears of the SOEs could significantly raise the fiscal costs of the potential banking crisis resolution and SOEs' contingent liabilities.

# Tajikistan: Public Debt (in percent of GDP)



# Key messages for macroeconomic stability

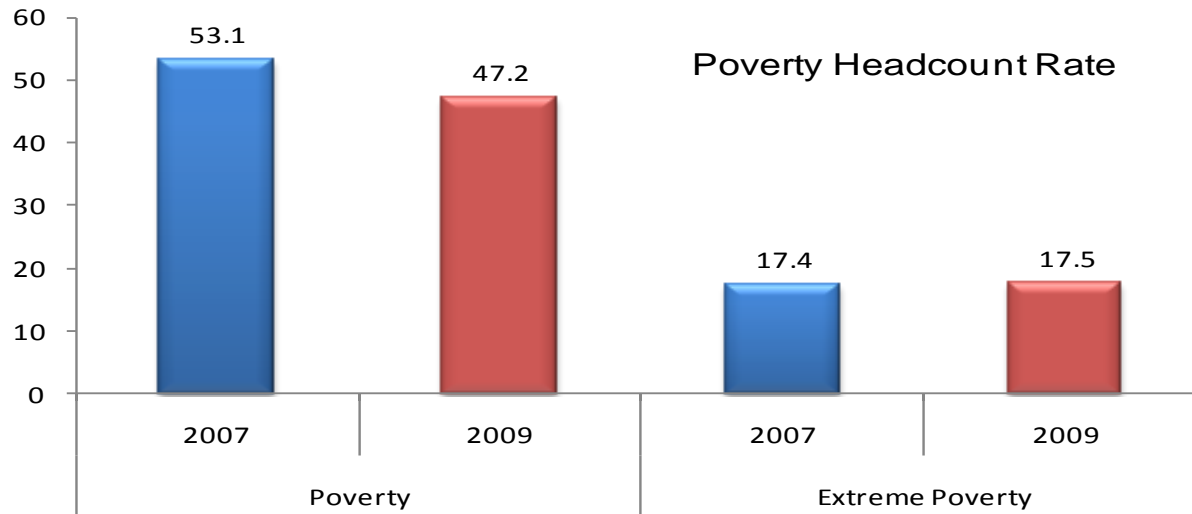
- The room for additional spending (including on key infrastructure and social priorities), continues to be limited by a tight financing constraint (small debt market, limited deposits and an independent central bank that does not monetize the budget or subsidize direct lending). In this context, it is critical to:
  - Prioritize capital expenditures
  - Contain current expenditures while respecting social spending floors
  - Subject SOEs and banks to financial discipline, combined with removing government influence from financial decisions
  - Increase tax effort by the authorities, including proper revamp of domestic tax regime, efforts to resolve and collect back taxes from SOEs and proper taxation of aluminum production
  - Maintain concessional resources from donors, including a sufficiently high level of concessionality in loans



# Recommendations under ECF agreement

- Elimination of tax exemptions
- Expanding coverage of taxpayers under Large Taxpayer Inspectorate (LTI)
- Reform of the Tax Regime (with IMF Technical Assistance)
- Fiscal Risk Assessment of SOEs as part of the 2012 budget
- SOE monitoring and publication of audits
- Implementation (with IMF and World Bank Technical Assistance) of the treasury single account as part of the Public Financial Management agenda

# Recent trends in poverty 2007-09



Source: World Bank staff estimates based on 2007 and 2009 Tajikistan Living Standards Survey (TLSS)

- Poverty declining, but not extreme poverty
- Poverty headcount highest in GBAO (62), Khatlon (54); lowest in RRS (39), Dushanbe (34 percent)
- Rural growth concentrated among the richest half; urban growth more broad-based
- Larger households with less educated heads did not benefit from growth; are particularly vulnerable
- High degree of vulnerability: many non-poor became poor during this period, and vice versa

\* For more details, please see Tajikistan Poverty Update 2007-2009, World Bank–Europe and Central Asia Region, September 2010.

# Recent trends in poverty and social development

- Strong growth over the past decade has contributed to impressive progress on poverty reduction
- So have remittances
- Poverty headcount declined from 64 percent in 2003 to 47 percent in 2009, while extreme poverty fell from 42 to 17 percent over this period (though not between 2007 and 2009).
- According to the UNDP Human Development Index, Tajikistan has progressed over the years and in 2010 ranks 112/169 and figures among the Medium HD countries;
- Notwithstanding these impressive gains, poverty in Tajikistan remains a serious problem especially in rural areas where the rural poor account for 75 percent of all poor and 72 percent of the extreme poor.

# Poverty and social development, continued

- Some social indicators have improved: school enrollment, infant mortality, and child mortality;
- However, it is unlikely that Tajikistan will achieve its Millennium Development Goals (MDGs) by 2015.
- Despite efforts to improve its social sector (40% of the state budget to social sectors), the quality of education and health services remains below Soviet-era levels.
- A large portion of the population still has only limited access to basic services. The social safety net system that was established to protect the vulnerable, including the unemployed, is rudimentary. The poor continue to be the most disadvantaged in terms of access to social services.

# PRS-3 sets ambitious target for rapid increase in GDP

- Tajikistan has weathered the global economic crisis quite well and has the potential to grow at more than 5.5 percent a year as it has done in the recent past, but it is not going to be easy, i.e. gains from post-conflict recovery/capacity utilization now exhausted.
- External environment is now less favorable than it was in the 2000s and some of the drivers of past growth are unlikely to be sustained.
- Nevertheless, concerted efforts by the government to create better conditions for higher private investment, exports and employment, as well as strong support from Tajik business community and development partners, could make this target a reality in the medium term.

# Government's recent reforms

- Improved private investment climate
- Increased access to the country, including air transportation
- Increased farmers' access to land and rationalization of the cotton sector operations
- Strengthened governance in selected areas, e.g. NBT, large SOEs, and public expenditure management

# Tajikistan's unfinished reform agenda

- Comparative advantage and export diversification
- Private sector development
- Energy and infrastructure development
- Agriculture
- Transparency and accountability of public finance

# Comparative advantage and export diversification

- Future of Tajik economy will be shaped by its comparative advantage in world markets, in particular in energy, agriculture and migrant workers
- Develop country's long-term hydropower potential through public-private partnerships
- Enhance regional cooperation on trade and transport facilitation with Kazakhstan, Kyrgyz Republic and China



# Comparative advantage and export diversification, continued

- Accelerate the implementation of the aviation strategy, and improve access by international airlines
- Take steps to maximize benefits of migration and remittances to families and to the nation
  - Continue efforts to seek better treatment of Tajik migrants in host countries
  - Provide access to information for migrants and their families
  - Implement policies that encourage the financial sector to provide better services to migrants and their families
  - Invest in human capital development and training (including specialized skills and languages)

# Private sector development is key to future growth

- Complete implementation of the One Stop Shop
- Modernize and simplify the Tax Administration to make it taxpayer friendly
- Continue the Doing Business agenda, including the adoption and implementation of the Law on Permits
- Enhance public awareness of regulations and procedures – to reduce opportunities for rent seeking
- Establish formal apprenticeship scheme linking job seekers to employment opportunities and help with skill development
- Proceed with the single window for trade
- Establish Tajikistan's two leading cities, Dushanbe and Khujand, as growth poles to foster internal trade
- Improve and maintaining the existing road network in the country to foster domestic trade and rural growth

# Energy

- Addressing challenges and realizing country's hydropower potential involves several actions:
  - Reorganization of Barqi Tojik to transform it into a modern, well-managed and profitable company
  - Efficient use of energy
  - Focus on increasing domestic energy supply, while developing export capacity
  - Undertake techno-economic, environmental and social assessments for each new investment project
  - Update techno-economic, environmental and social safeguards assessments for the Rogun project
  - Seek private sector investment in hydropower through public-private partnerships

# Agriculture

- Sustain commitment and maintain momentum of ongoing agricultural reforms, especially implementation of “freedom to farm”, issuance of land-use certificates, amendments to land legislation, farmland restructuring, etc.
- Reform local (regional and district) government administration to gain local authorities’ support to agriculture reform and implementation
- Adapt, reform agricultural support services system - input supply, marketing/processing, advisory/training services, veterinary services - to needs of new, smallholder-dominated agriculture
- Continue strengthening disaster preparedness and management capacity
- Make sector more climate resilient

# Agriculture, continued

- Improve environment for promotion and development of rural entrepreneurship and business
- Reform irrigation system and water management arrangements to improve efficiency and effectiveness
- Support seed sub-sector development
- Strengthen capacity building activities and technical and vocational education and training in rural areas, with specific focus on needs of agriculture
- Introduce technologies that make use of land and water more climate resilient

# Transparency and accountability

- Tajikistan's future development depends significantly on more effective use of resources – requiring improved transparency and public accountability.
- Government effectiveness needs to be increased at all levels and across all sectors.
- Work already well underway to strengthen public financial management (PFM) and public sector performance, but
- PFM system needs further strengthening – including improved transparency and accountability – to ensure public funds are allocated to national priorities and spent efficiently and effectively.

# Conclusion

- Tajikistan can grow over the medium term only if it addresses key binding constraints to growth and utilizes its full potential, including hydropower:
  - improve investment climate, continue land reform and protect property rights to attract investment
  - diversify agriculture away from cotton to food crops and fodder for livestock through removal of restrictions on “freedom to farm”
  - alleviate key bottlenecks such as unreliable power supply through institutional and governance reforms to improve generation, transmission, and distribution systems, and increasing tariffs to cost recovery levels



End of presentation

**Thank you for your attention.**