

DCC Presentation

Macroeconomic Developments and Fiscal Sustainability

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September 19, 2012



Outline

- Macroeconomic Developments
- Fiscal Sustainability



Macroeconomic Developments

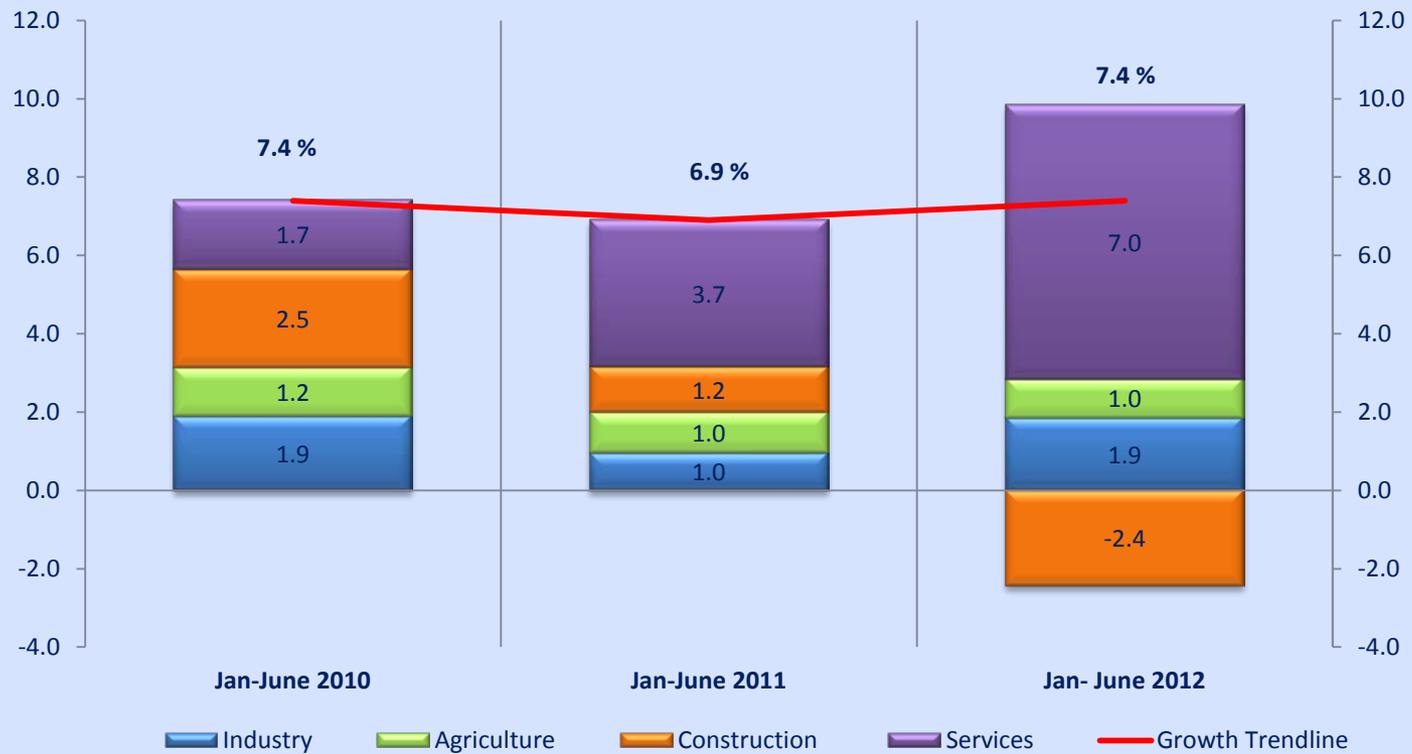
Growth of the Economy

- Annual real GDP growth through June 2012 at 7.4%
 - Spurred by high growth in services.
 - More limited contributions from industry and agriculture.
 - Negative growth in construction (high base effect from anniversary celebrations)
- GDP growth rate for 2012 is forecasted conservatively at 6%
 - Downside risks: Economic growth in Russia and other trading partners.

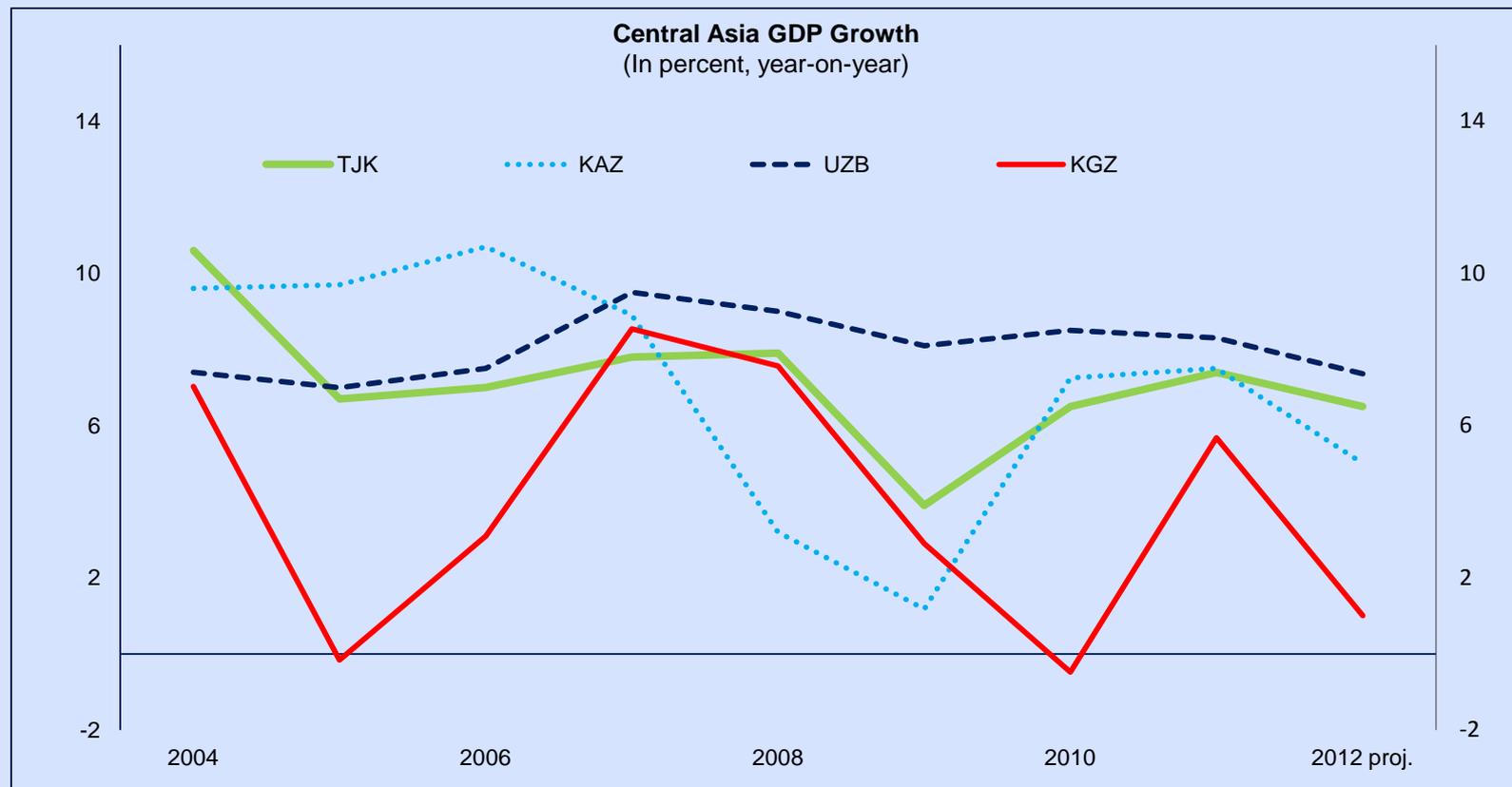


Macroeconomic Developments

Sector Contributions to GDP growth (%)



Macroeconomic Developments



Macroeconomic Developments

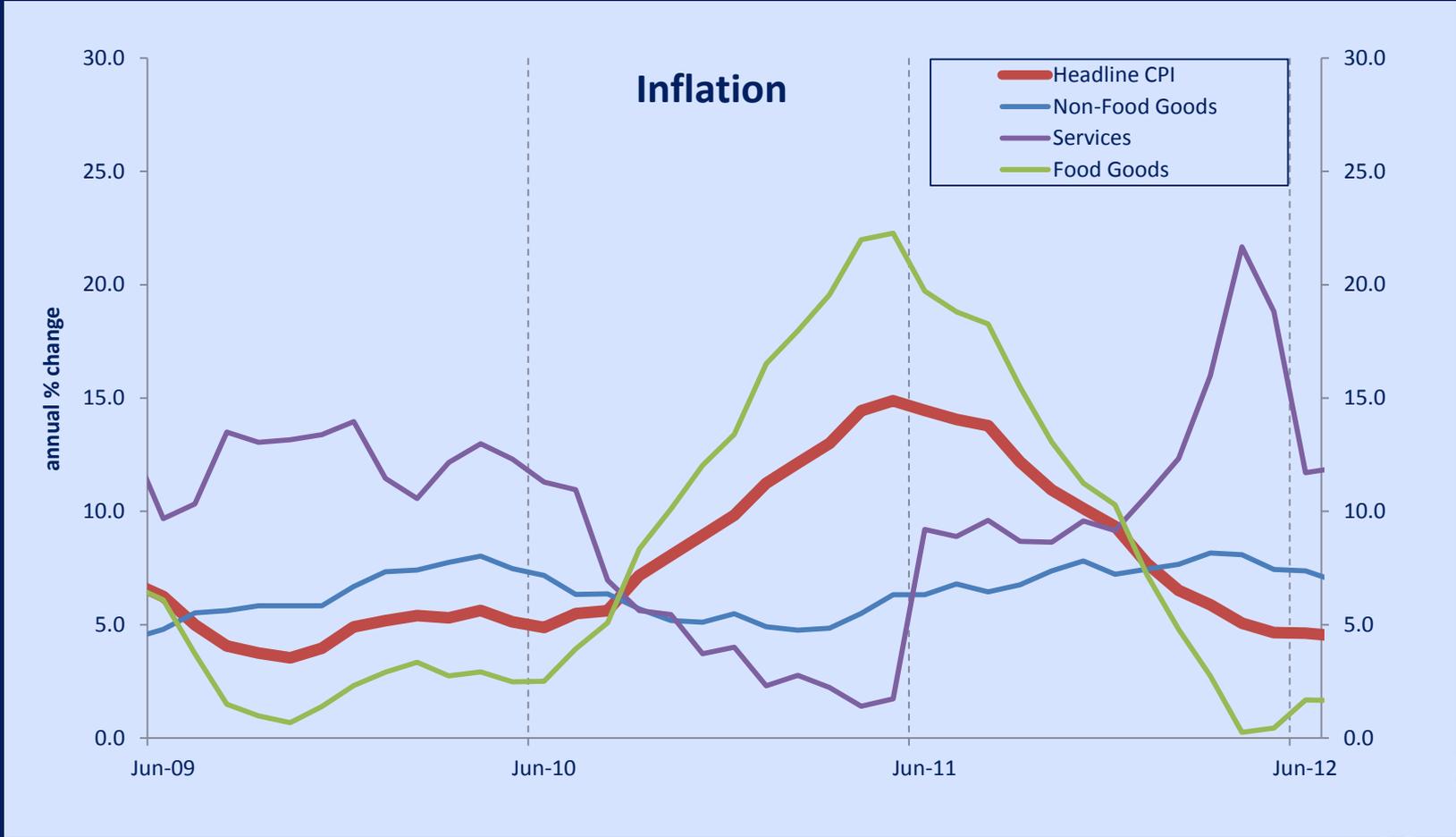
Inflation

- Annual headline CPI Inflation in June stood at 4.6%
- Higher prices in services and non-food products which are up by 11.7% and 7.4%
- Inflation in food products significantly low at 1.7% but expected to rise per supply shock in wheat, corn and other grain products

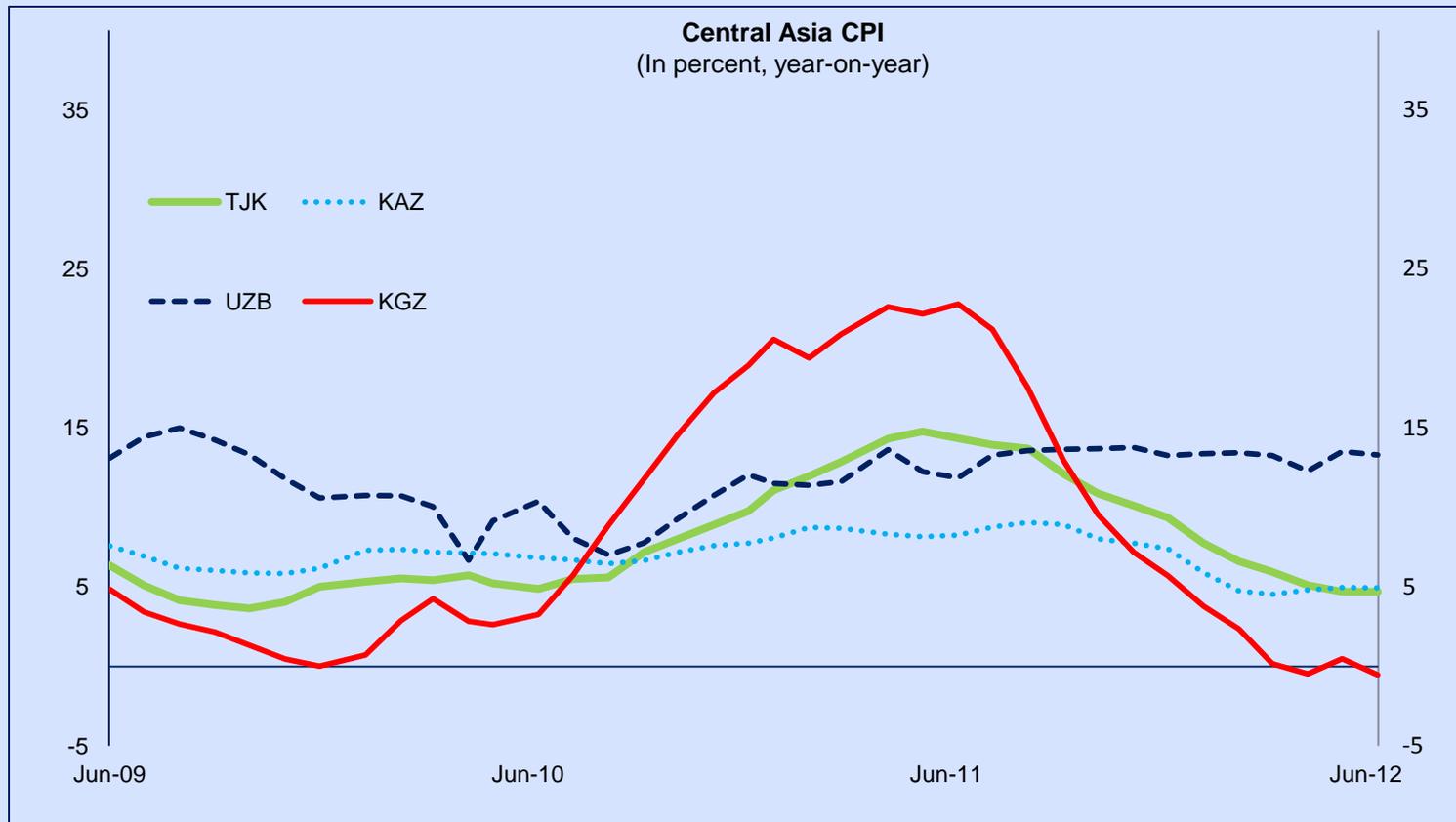
- Projections for 2012 at 9%
- Upside risks related to severe drought in major cereal exporters
- Downside risks related to global slowdown and lower fuel prices



Macroeconomic Developments



Macroeconomic Developments



Macroeconomic Developments

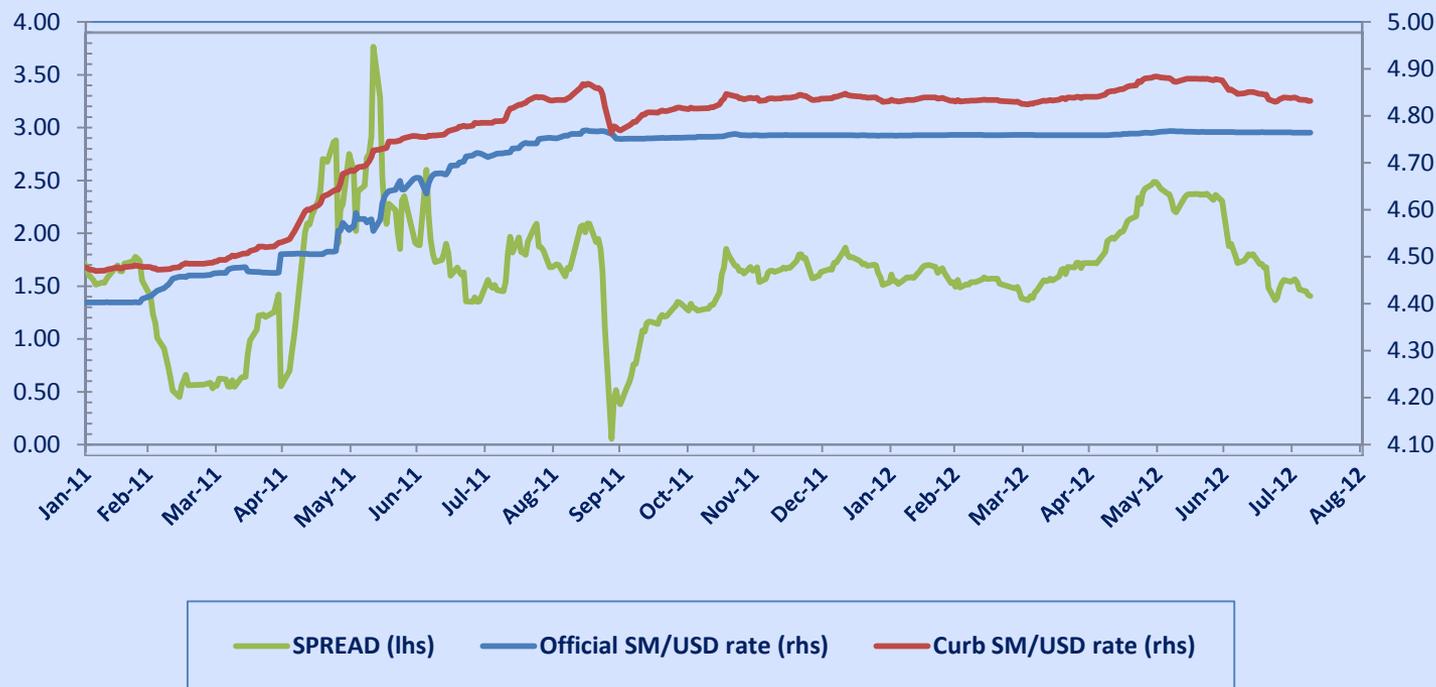
Monetary Developments

- Reserve Money growing at 24.8% year-on-year.
- In July NBT refinancing rate was reduced to 6.8% and further to 6.5% in August.
- Average CD rates at 2%-4%
- NBT decreased rates on required reserves to 5% and 8%, respectively for SM and FX deposits.
- Average lending rates in the banking sector around 25-30%
- Exchange rates very stable (also indicating to strong inflow of remittances)



Macroeconomic Developments

Tajikistan: Exchange Rate Developments (2011-2012)



Macroeconomic Developments

Fiscal Developments

- Revenues over-performing at 3-4%
- Higher income and profit taxes reflecting robust economic growth.
- Collections from custom duties growing per increasing imports, especially in vehicles, wheat and other food related commodities.
- Lower than projected current and capital spending.
- Social and poverty related expenditures slightly below projections (due to vacancies).
- Overall Balance for Jan-June 2012 is positive at 1.1% of GDP.



Macroeconomic Developments

External Sector Developments

- Preliminary data on trade indicate that imports through Jan-June were up by over 15% and exports down by 2.5%.
- Higher imports are mainly reflecting vehicles and substantial volumes of wheat and flour purchases.
- Lower level of exports is majorly related to declining international prices in aluminum and cotton. In contrast electricity exports have outstandingly increased.

Macroeconomic Developments

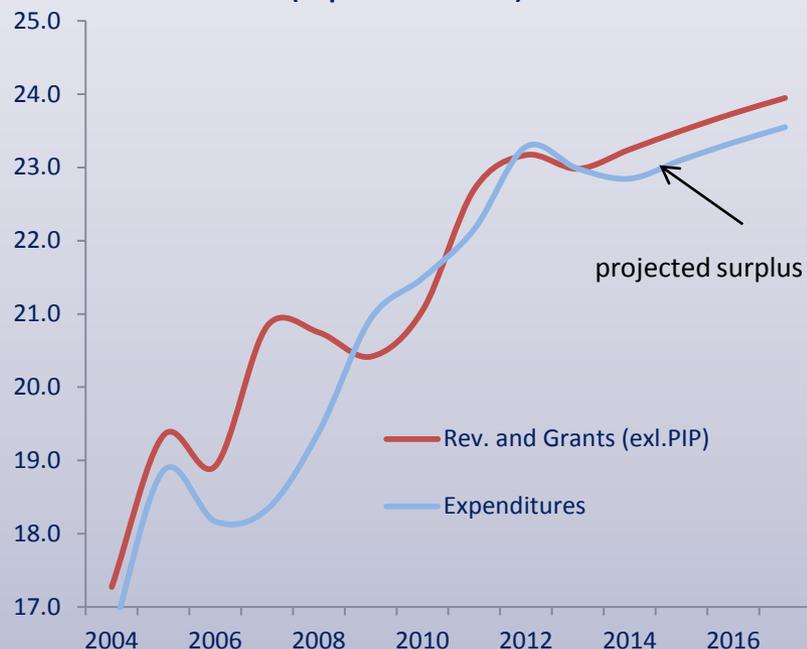
Financial Sector

- Banking system profitability slightly improved but still remain at low levels: ROE: 7.1% and ROA: 1.5%
- System CAR is high at 27.3%
- 30+ day NPLs increased to almost 10% from 7.2% at end 2011.
- SM deposits declining but savings in FX are growing at over 30 %
- Directed lending and moral hazard in the financial system continues to be a major concern. Systemically important banks require close monitoring by supervision authorities.



Fiscal Sustainability Analysis

Potential fiscal balance under baseline scenario
(in percent of GDP)



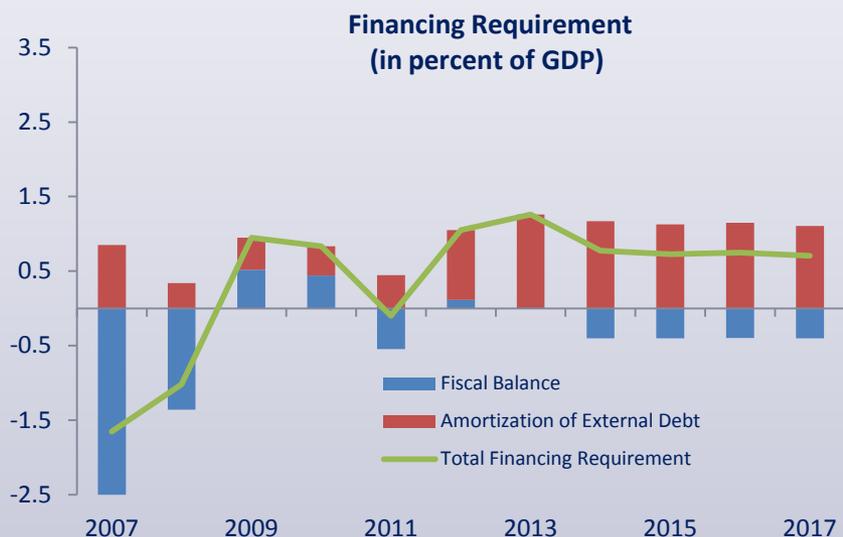
Medium Term FSA (2013-2017)

Key Assumption for baseline scenario:

- Tax revenues projected to slightly decline in 2013 but then start to pick up at 0.2%-0.3% of GDP annually.
- Expenditures increase conservatively at the same rate as revenues do. (Less spending on Roghun HPP and total bill of recent salary increases already incorporated: 0.7% of GDP in 2012 and 1.7% in 2013).
- Balanced budget in 2013 and fiscal surplus at 0.4% onwards.



Fiscal Sustainability Analysis



- Medium Term amortization needs at 1.1-1.3% of GDP annually.
- Despite budget surplus, financing gap remains at 1.3% of GDP in 2013 and at 0.7-0.8% onwards.

Fiscal Risks

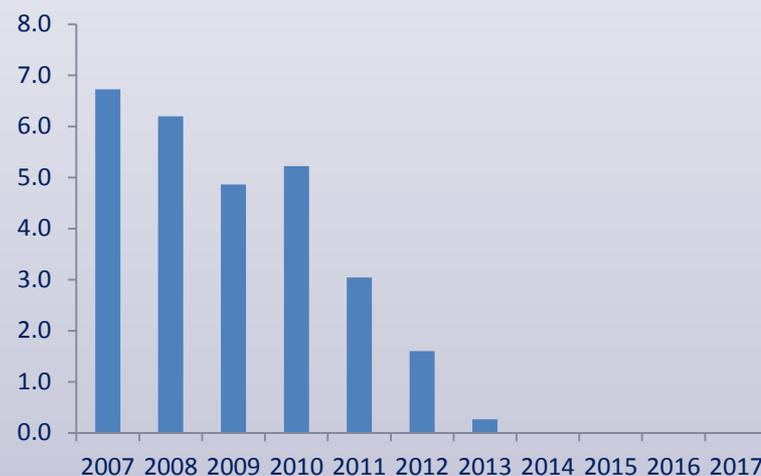
- Lower remittances – imports – tax revenues, rail blockade, higher wages and transfers to poor as a result of inflation
- Explicit debt guarantees and contingent liabilities
- SOE arrears (e.g. tax arrears as of March 2012 at SM 215 million)
- Banking sector support
- Natural disaster mitigation



Fiscal Sustainability Analysis

- Financing Difficulties
 - Limited scope for domestic financing (government deposits in banks declining rapidly, privatization proceeds very limited, domestic debt market at embryonic stages (domestic debt issuance at 0.06% and 0.08% of GDP in the last two years) and monetization of deficit would jeopardize macroeconomic stability)
 - Limited space for external borrowing (global crisis and limited access to credit, public debt almost at its critical upper threshold)

Government Deposits
(in percent of GDP)



Fiscal Sustainability Analysis

Recommendations

- Contain expenditures while maintaining social spending floors.
- Increase tax efforts by the authorities, including efforts to resolve and collect tax arrears from SOEs and implement proper taxation of aluminum production.
- Subject SOEs and banks to financial discipline, combined with removing government influence from financial decisions. Profitable SOEs should pay dividends to the budget.
- Maintain grants and concessional resources from donors, including a sufficiently high level of concessionality in loans.
- Promote the development of government securities markets and other debt financing alternatives through capital markets.

Prospects for a New Program

- Authorities officially requested a new arrangement.
- IMF mission is expected in November 2012.
- Discussions likely to be focused on preserving macroeconomic stability, financial sector stability, public financial management and medium term fiscal sustainability.



Thank you for your attention

.....Questions and Comments.....

For additional information please visit our IMF Resident Representative website at:

<http://www.imf.org/external/country/tjk/rr/index.htm>

