

73716

Tajikistan:

From Recovery to a Sustainable Growth



THE WORLD BANK

Tajikistan Economic Update No.2
October 2012

Tajikistan:

From Recovery to a Sustainable Growth

Tajikistan Economic Update No.2

October 2012



THE WORLD BANK

This page is intentionally blank.

Contents

Summary	vi
1. Recent Economic Developments	1
Steady recovery was pushed by services and industrial production	1
Higher food prices pose significant challenges—what will be the effects on poverty and inequality?	1
2. Poverty Developments	4
External accounts deteriorated as prices of key export commodities fall	5
Monetary policy was eased in light of low inflation, but concerns remain in the financial sector	5
Good progress has been made toward fiscal recovery	6
3. Special Focus—WTO Accession is a Work-in-Progress	8
4. Macroeconomic Outlook and Risks	10

List of Figures

Figure 1. Main drivers of GDP growth	1
Figure 2. Tajikistan: Consumer Price Inflation, 2001–2012	2
Figure 3. International and Local Weekly Wheat Flour Prices in Five Main Urban Centers, 2002–2012	2
Figure 4. Changes in the Consumer Price Index, January–August 2012	2
Figure 5. Estimated distributional impact of a 20 percent increase in wheat prices	3
Figure 6. Robust growth contributed to good progress with poverty reduction	4
Figure 7. Poverty rate projections, 2009–2015	4
Figure 8. Non-performing loans, 2008–2012	5
Figure 9. Fiscal balance, 2002–2011	6

List of Tables

Table 1. Domestic availability of wheat and wheat flour, 2010–2012	3
Table 2. Selected macroeconomic indicators, 2007–2012	6
Table 3. WTO status of the Baltics and Commonwealth Independent States	9
Table 4. Medium-term macroeconomic outlook, 2011–2015	11

Summary

Tajikistan has successfully emerged from the global economic crisis. Economic activity was strong, driven by growth in industrial production and services. Inward remittances remain a key factor in stimulating domestic consumption. Although inflation returned to single digits, it continues to be susceptible to higher global prices of key imports. The country remains vulnerable to a range of external shocks, and economic outcomes depend critically on regional trade, transport, and investment policies. Concerns remain with respect to weaknesses in the financial sector. Structural reforms continue, and transparency has increased. The outlook is generally positive, but chronic risks remain.

Acknowledgements

This Tajikistan Economic Report was prepared by Zuhro Qurbonova (ETC, ECSP1) and Salman Zaidi (Lead Economist, ECSP1), with inputs on implication of price increases on poverty from Victor Sulla and Alisher Radjabov. The report benefited from comments from Francisco Carneiro (Lead Economist and Country Sector Coordinator, ECSP1), and was prepared under the general supervision of Ivailo Izvorski, Sector Manager ECSP1.

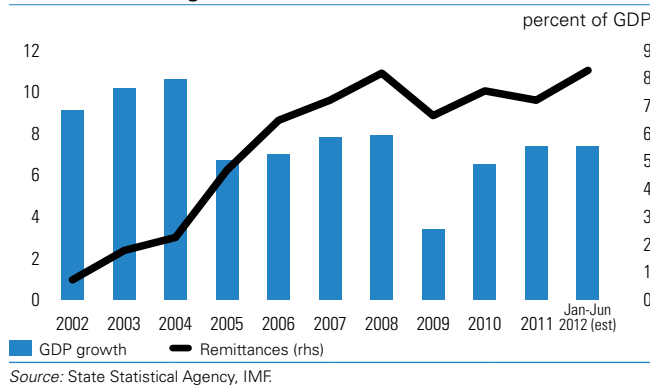
1. Recent Economic Developments

Steady recovery was pushed by services and industrial production

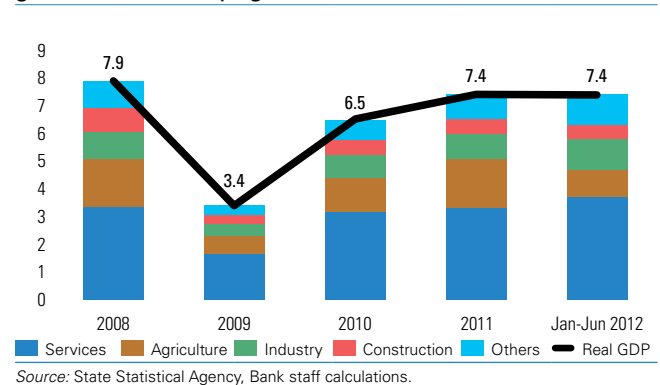
Tajikistan's economy continued its steady recovery following the 2009 slowdown. Following growth of 6.5 percent in 2010 and 7.4 percent in 2011, the economy grew by 7.5 percent during January–September 2012 compared to the same period last year. Economic growth this year has been spurred by higher growth in services (up 13 percent) and in industry (up 10.4 percent). Key industries (textile production, food processing, and chemical production) contributed to industrial growth, which accounted for more than two-thirds of industrial production in the third quarter of 2012. Despite a harsh winter, the agricultural sector has also performed well, and grew by 9.8 percent (y-o-y) by expanding gross output of crop production. Rebounding inflows of remittances have also contributed to economic growth during the post-crisis period, reflecting a higher outflow of migrants following the economic recovery in Russia. They have continued to grow steadily and reached \$1.36 billion during the first half of 2012 (up 17 percent compared to the same period last year). This in turn has led to strong growth in the services sector, which accounted for more than one-third of the growth in the third quarter of 2012. Tajikistan's economy thus continued its steady recovery following the 2009 slowdown when the economy was adversely affected by the global economic crisis through a fall in remittances and decline in exports of cotton and aluminum.

Figure 1. Main drivers of GDP growth

Remittances rebounded in 2010 and 2011, contributing to faster economic growth



The services sub-sector was the largest contributor to growth, followed by agriculture

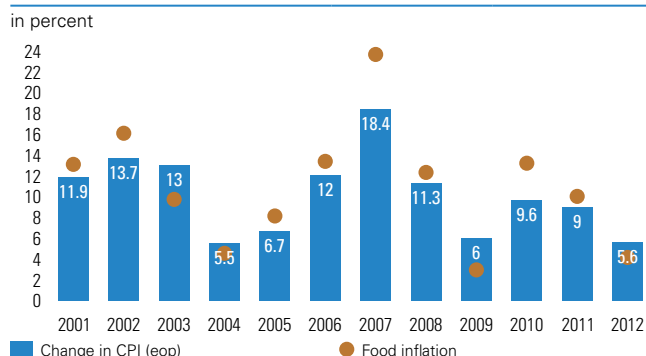


Higher food prices pose significant challenges—what will be the effects on poverty and inequality?

Inflation has picked up recently after having abated during the first half of 2012. During January–September 2012, the consumer price index rose by 5.6 percent year-on-year, with an increase in food prices at 4.1 percent (Figure 2). The largest increase in inflation was recorded in the last two months. In August food prices rose by 1.9 percent, mainly reflecting the usual price pressure during the month of Ramadan. In an attempt to prevent further increases during the Ramadan period, the authorities imposed price-control measures, limited the sale

of flour per person, and released stocks from state reserves to try and moderate the impact. However, this appears to have had only a modest effect because prices increased sharply after the measures were reversed. This resulted in an official inflation rate of 1.3 percent (m-o-m) in August 2012.

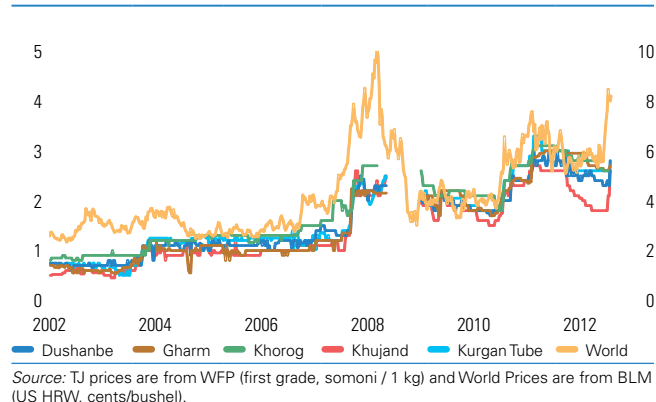
Figure 2. Tajikistan: Consumer Price Inflation, 2001–2012



Source: State Statistical Committee, Tajikistan.

Note: Data for 2012 is for Jan–Sept; CPI (e.o.p.) denotes end-of-period rate of inflation.

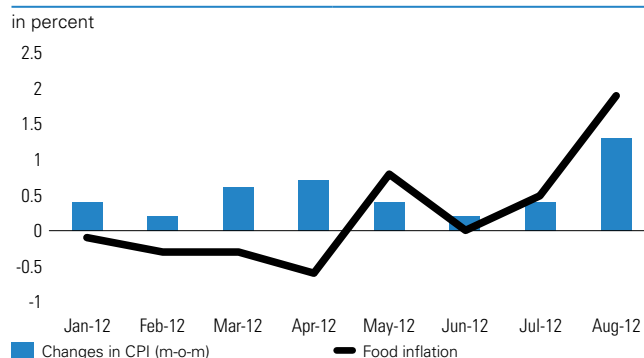
Figure 3. International and Local Weekly Wheat Flour Prices in Five Main Urban Centers, 2002–2012



Source: TJ prices are from WFP (first grade, somoni / 1 kg) and World Prices are from BLM (US HRW, cents/bushel).

While prices on wheat flour were almost stable during the first two weeks following the end of Ramadan, they continued to increase in the middle of September, reflecting the recent rise in international prices. The recent droughts in the US Midwest and in Central Asia, rains in Europe, and poor monsoon rains in India have pushed international spot wheat and maize prices up significantly. These developments have important implications for Tajikistan—analysis of the correlation between international and domestic wheat prices in five main urban centers reveals a high pass-through to local prices (Figure 3). The current drought in Kazakhstan, which supplies more than one-half of its wheat consumption requirements, has pushed export wheat prices up significantly that led to 11 percent price increases in wheat flour and an upward adjustment in the price of bread in Tajikistan in September. This resulted in an official inflation rate of 1.3 percent (m-o-m) in September 2012, with an increase in food prices at 2.1 percent (m-o-m) in Tajikistan.

Figure 4. Changes in the Consumer Price Index, January–August 2012



Source: State Statistical Committee, Tajikistan.

Note: CPI (m-o-m) denotes monthly rate of inflation.

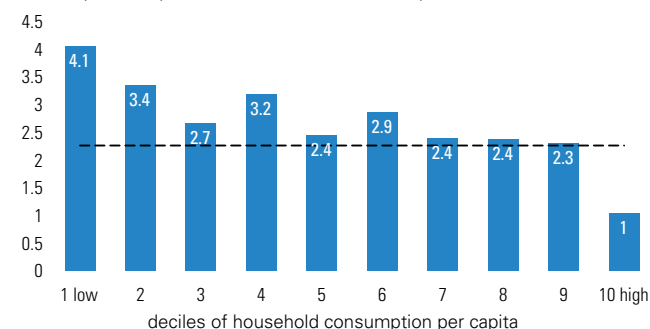
Simulations indicate that an increase in wheat prices would have significant adverse effects on the welfare of the population. The hike in wheat prices has direct and strong effects on poverty because wheat flour is an important component of household consumption in Tajikistan, comprising close to 13 percent of total consumption. Simulations based on household survey data show that an increase of 20 percent in wheat prices would lead to about a 2.3 percent loss in household consumption per capita, and an approximate 1.3 percentage point increase in the national poverty rate (Figure 5). The price increase would have a much greater effect on poor people because their consumption basket has a higher share of wheat. Thus, households in the poorest one-tenth of the income distribution would have an estimated loss of 4.1 percent of their consumption in real terms, but by contrast, the richest one-tenth would have only a 1 percent loss in their total household

consumption. Similarly, the effect of the hike in wheat prices varies considerably by geographic region—the highest increase in poverty would likely be in the GBAO region and rural areas, which are particularly vulnerable to increased wheat prices due to initial high poverty rates and a high proportion of wheat consumption by households. Other vulnerable population groups include the elderly and retired people, large families, and families with a low level of education (Figure 5).

Figure 5. Estimated distributional impact of a 20 percent increase in wheat prices

Loss of household consumption in percent due to increase in wheat prices, by deciles

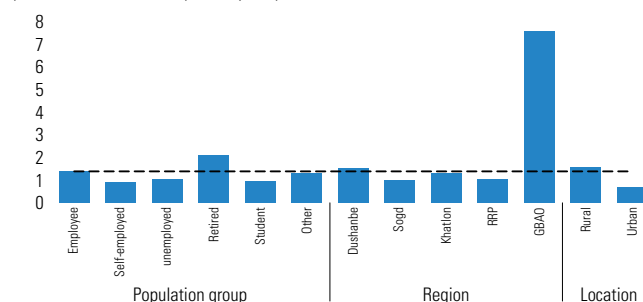
monetary loss as percent in households' consumption



Source: World Bank staff calculations.

Increase in poverty due to increase in wheat prices by 20%

potential increase in poverty, in percent



Source: World Bank staff calculations.

Table 1. Domestic availability of wheat and wheat flour, 2010–2012

Year	Domestic wheat production			Imports ('000 tons)		
	Area planted (ha)	Production ('000 tons)	Ave. yield (tons/ha)	Wheat	Wheat flour	Total
2010	342,566	857.5	2.50	454.4	389.5	843.9
2011	311,179	726.9	2.34	441.5	345.5	787
2012*	308,012	757.7	2.46	343.9	190.3	534.2

Source: Government of Tajikistan.

Note: *Production data are forecasts for 2012; Import data are for January–June, 2012

Wheat production outlook and imports to date compare favorably to 2011. Unseasonably high rainfall last winter was favorable for cultivation, so domestic wheat production in 2012 is forecast to be about 4 percent higher than in 2011 (Table 1). In addition, wheat and wheat flour imports during the first half of 2012 have been considerably higher than during the same period last year (344 and 190 thousand metric tonnes, respectively, in 2012 vs. 169 and 46 thousand metric tonnes, respectively, in 2011) because traders took advantage of the temporary drop in world prices to boost stocks. Total imported wheat and wheat flour during the first half of this year are already about 66 percent of the average annual wheat and flour imports during the past two years. In addition, following the recent spike in international food prices, the government has signed contracts with suppliers in Kazakhstan to build up its strategic food reserves. Additionally, to avoid risk created by over dependence on grain imports from Kazakhstan, Tajikistan is currently negotiating a deal to import wheat, rice, and other food commodities from Pakistan to not only meet its domestic needs, but also to diversify its export trade. Pakistan has agreed to export 30,000 metric tonnes of sugar to Tajikistan at a price differential of \$20 per metric tonne from the international market.

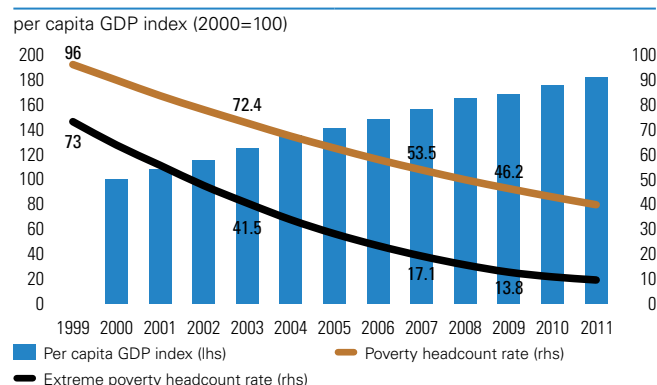
The total cost of wheat and wheat flour imports to Tajikistan in 2010 and 2011 was \$191 million and \$253 million, respectively. During the first half of 2012, total cost of imports for these two food items was about \$143 million, and average cost per tonne of both items to date has been lower than in 2011. Looking

ahead, if wheat and wheat flour prices were to rise by 20 percent during the second half of the year and total import levels were the same as in 2011, the country's total import bill during the remainder of 2012 would increase by about \$15 million (0.2 percent of projected 2012 GDP) compared to what it would have been if prices remained the same as the first half of the year.

2. Poverty Developments

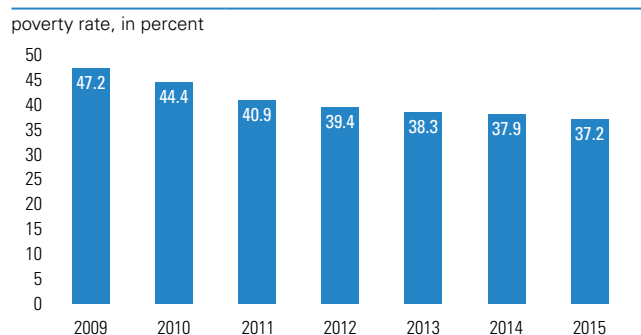
Both economic growth and remittance inflows over the past decade have helped to reduce poverty. The average GDP growth of 7.6 percent during 2003-2009 and increased remittances from Tajik workers have been the main factors that reduced poverty in recent years.¹ The value of remittances has been unprecedented in their impact because they have become the main source of income for many low-income families to meet their basic needs. The 2009 Tajikistan Livings Standards Survey (TLSS) records that families with a migrant experience a large decrease in poverty and the returned migrants very seldom represent the poorest social strata—only 1.7 percent of returnee families have difficulty feeding themselves. The data indicate that such families have a higher welfare level than the average of the country's population. In households receiving remittances, children usually enjoy better education and all family members tend to have access to better healthcare and other personal services, such as investment in home repairs and purchasing cars and furniture. According to official poverty estimates based on the 2009 TLSS, the poverty headcount rate has declined steadily from 72 percent in 2003 to 47 percent in 2009 (Figure 6). Several key non-income dimensions of living conditions have also improved. Tajikistan is approaching universal enrollment in primary and lower secondary education, with gender parity. Enrollment for 14-year-olds increased from 88 percent in 2007 to 95 percent in 2009. The under-5 mortality rate fell from 93 per 1,000 children in 2000 to 65 in 2009. Some preliminary basic analysis of updated poverty figures suggests that poverty in Tajikistan may have fallen to around 39 percent in 2012.²

Figure 6. Robust growth contributed to good progress with poverty reduction



Source: World Bank Staff calculations.

Figure 7. Poverty rate projections, 2009–2015



Source: World Bank Staff calculations.

- 1 Republic of Tajikistan: Poverty Reduction and Strategy Paper- Joint Staff Advisory Note, IMF Country Report No. 09/83 (March 2009).
- 2 The latest Tajikistan's poverty estimates refer to 2009, which were acquired under the 2009 Tajikistan Livings Standards Survey. The work on updating poverty estimates is currently in progress. The new poverty figures are expected to be released in the near future.

External accounts deteriorated as prices of key export commodities fall

A decline in world prices of cotton and aluminum contributed to the deterioration of the trade deficit. Tajikistan's economy is highly vulnerable to external shocks because of its reliance on a few commodity exports and high dependency on imports. Shipments abroad of cotton and aluminum continue to generate about 70 percent of total exports. Due to falling world prices of both resources export value declined by 3 percent in the first half of 2012. In addition, a stoppage of Uzbek gas supplies also hit aluminum output during this period that led to a decrease in the export volume of aluminum. All these factors result in declining cotton and aluminum exports during the first half of 2012. An increase in imports by 15 percent contributed to a deterioration of the trade balance as well. As a result, Tajikistan recorded a trade deficit of 37.5 percent of GDP in the second quarter of 2012. While balance of payments data are not available for the first half of 2012 so far, a trade balance analysis suggests that the current account will be pushed into negative territory.

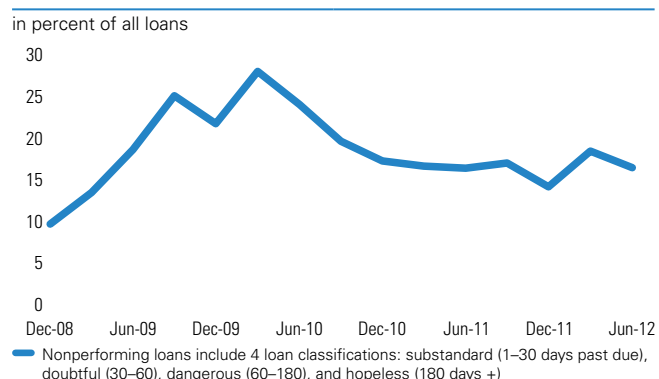
Monetary policy was eased in light of low inflation, but concerns remain in the financial sector

The financial sector remains vulnerable, highlighting the need for monetary authorities to tighten supervision and lending policy. The required capital adequacy ratio of the eight largest banks has been increased from 12 to 15 percent. Non-performing loans (NPLs) grew rapidly in 2009 and 2010, reaching a peak of 28 percent before falling to 14.1 percent at the end of 2011 before rising to 16.4 percent by June 2012. The continued practice of government-directed lending has resulted in the deterioration of the balance sheet of one large bank, which struggled to meet the minimum capital adequacy ratio. All these challenges highlight the need for monetary authorities to tighten supervision and lending policies and develop action plans to reverse growth in NPLs.

Declining inflation rate enabled the Central Bank to cut its policy rate. The easing of international food prices during the first half of 2012, coupled with sufficient domestic supplies of major food commodities, resulted in lower inflation (2.5 percent, end-of-period) during the first half of 2012, which has allowed the National Bank of Tajikistan to gradually lower the refinance rate from around 10 percent at the end of 2011 to 6.5 percent in August 2012. The national currency has been stable vis-à-vis the U.S. dollar since the end of 2011, and international reserves accumulated by the National Bank have been in line with IMF program targets. At end-Sept, the somoni traded at 4.76 somoni per dollar vs. 4.75 TJS/USD at end-2011.

Monetary authorities have acted to improve transparency and accountability. Monetary authorities continue to take measures to enhance transparency in response to the revelations that the National Bank misreported data to the IMF in 2007. Annual external audits of the National Bank's financial statements were

Figure 8. Non-performing loans, 2008–2012



Source: National Bank of Tajikistan, IMF.

done by international auditors in 2009, 2010, and 2011 and were published on the bank website. It should be noted that the audit results of the financial statements for 2011 were unqualified compared to a modified opinion issued on the financial statements for the 2009 and 2010 fiscal years. Additionally, a Medium-Term Banking Sector Strategy up to 2015 was developed in 2010 to implement measures for improving financial sector developments. With support from the World Bank, a Deposit Insurance Law was prepared by the National Bank and approved by Parliament in 2011.

Good progress has been made toward fiscal recovery

The fiscal deficit has declined on the back of higher revenues and tightening of fiscal policy. During the past four years, the government has maintained generally good fiscal discipline due to tightening fiscal policy, with the overall fiscal deficit (i.e., including the Public Investment Program, PIP) declining steadily from 6.1 percent of GDP in 2007 to 2.5 percent in 2011 (Table 2). The preliminary budget outcome for the third quarter of 2012 indicate that budget execution was satisfactory and the budget authorities made substantial efforts to meet the targets, especially those related to revenue collection. While shortfall occurred in non-tax revenues, tax revenue collection recorded over-performance on the back of growth in all key sectors

Figure 9. Fiscal balance, 2002–2011

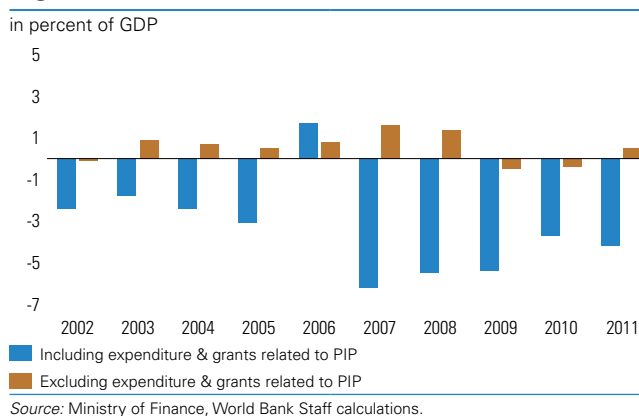


Table 2. Selected macroeconomic indicators, 2007–2012

in percent of GDP unless otherwise indicated

Indicators	Actual					Projected
	2007	2008	2009	2010	2011	2012
Real sector						
Real GDP growth	7.8	7.9	3.9	6.5	7.4	6.5
Investment	22.9	20.4	18.8	17.9	20.5	20.1
Gross national savings	14.3	12.8	12.8	17.6	21.1	21.2
Public sector balance						
Revenue and grants	22.5	22.1	23.4	23.2	24.9	26
Expenditure and net lending	28.6	27.6	28.9	26.9	27.3	29.3
Balance (including PIP, adjusted for s.d.)	-6.1	-5.5	-5.4	-3.7	-2.5	-3.3
Balance (excluding PIP, adjusted for s.d.)	1.6	1.4	-0.5	-0.4	0.5	-0.5
Total public and publicly guaranteed debt	33.3	30.1	34.7	36.1	34.3	34.9
External accounts						
Current account balance	-8.6	-7.6	-5.9	2.1	-2.3	-3.6
Net transfers (millions of US dollars)	1,555	2,499	1,735	2,167	2,885	3,057
of which: net migrants' remittances	1,487	2,343	1,622	2,040	2,798	2,969
Prices						
CPI inflation (end-of-period)	19.8	11.9	5.0	9.8	9.3	9.0

Source: Tajik authorities and World Bank and IMF estimates.

Note: s.d.: statistical discrepancy

of the economy and increase in imports. Revenue collection was about 24.8 percent of GDP during January–September, 2012 or increased by 23 percent compared to the same period last year. The Value Added Tax (VAT) continued to be the main contributor (39.4 percent of total revenue). Total government expenditures (excluding the PIP) were contained to 22.4 percent of GDP, and the fiscal accounts (excluding the PIP), due to a tightening fiscal policy, recorded a surplus of 2.4 percent of GDP during January–September, 2012. Available data indicate that social sectors (education, health, and social protection) remained priority recipients of budgetary funds, and total public spending on these key sub-sectors was broadly in line with earlier projections.

External debt has been kept in check. According to the 2012 Debt Sustainability Analysis (DSA) update by the World Bank, Tajikistan's external debt to GDP ratio stands at 32.6 percent as of end-2011. External debt is largely concessional, held in broadly equal parts between multilateral and bilateral creditors, with China's share at 43 percent; domestic debt represents only 2 percent of GDP. Under the baseline scenario, external debt burden indicators remain below their respective thresholds except the debt-to-exports ratio, which is significantly above the threshold, but none of the debt-flow indicators breach their thresholds. The debt service-to-exports ratio (9 percent in 2012) and debt service-to-revenue ratio (7 percent in 2012) remain well within their respective thresholds of 15 and 25 percent under the baseline, as well as under nearly all the bounds tests and various alternative scenarios considered.

The government has taken steps to improve public debt management. In 2011, the government conducted a comprehensive assessment of Tajikistan's debt management policy, functions, objectives, and legal and institutional arrangements with World Bank support using the Debt Management Performance Assessment Tool. The Ministry of Finance has also prepared a draft Public Debt Management Strategy for 2012–14, reaffirming its commitment to keep government debt below 40 percent of GDP, take on new loans only if they have a minimum 35 percent grant element, and carry out a careful cost-benefit assessment of large-scale investment projects.

Several structural reforms remain on track. The Medium-Term Expenditure Framework (MTEF) has fully become an integral part of the annual budget cycle. Since 2011 additional sectors were brought into the MTEF after the pilot phase in social sectors had been completed. The introduction of the administrative budget classification in 2010 at the republic level and its extension at the local budget level in 2012 reflects the major efforts of budget authorities to align its fiscal management toward transparency and accountability. Besides of these reforms, a Single Treasury Account was introduced at the republic level in April 2011 to strengthen public financial management, and expansion to sub-national units is planned during 2013–2014. A fiscal risk assessment related to the condition of state-owned enterprises was completed and published on the Ministry of Finance website. The government submitted a new law on Public Private Partnerships to Parliament in August 2012 and the revised tax code was approved by the President in September 2012. The authorities are working on developing the Medium-Term Development Strategy for 2013–2015. Other recent noteworthy achievements include establishing an external audit institution, the adoption by government of the 2011–2016 Treasury Modernization Program, the 2011–2018 Public Accounting Reform Strategy, introducing the Unified Chart of Accounts, and new budget classifications which are aligned with GFS 2001 standards.

The government concluded the Extended Credit Facility arrangement with the IMF. Most economic outcomes under the program met or exceeded projections. The government successfully implemented its reform program in May, supported by the IMF's Extended Credit Facility, and met or over-performed on all at end-Dec 2011 performance criteria and indicative targets. Economic outcomes during 2009–2011 were strong—real GDP growth rates generally exceeded earlier projections, inflation was below forecast, external

debt was kept in check, and gross reserve accumulation exceeded targets set under the original program. Investment spending remained strong while the government managed to increase social sector spending and introduce much-needed public sector salary increases. Progress was also achieved in increasing transparency at the National Bank of Tajikistan and in the financial operations of state-owned enterprises. The government is presently considering and discussing the possibility of implementing a new program with the IMF.

3. Special Focus—WTO Accession is a Work-in-Progress

The authorities are pursuing accession to the World Trade Organization (WTO). Tajikistan officially applied to be a full member of the WTO in May 2001. A WTO Working Party was established in July 2001 to look at Tajikistan abilities to be a WTO member according to their predetermined procedure. Tajikistan submitted a memorandum on the foreign trade regime, made an initial offer on goods and services in February 2003, and initiated bilateral negotiations on access of goods and services. According to authorities, Tajikistan has concluded all bilateral agreements. Although since 2004 nine meetings have been held with WTO Working Party members, Tajikistan's negotiations are already advanced because currently the country is in the decision stage of the negotiations and is expected to become the newest member of the WTO in the near future. As evidence, Tajikistan has been recently nominated by the WTO Secretariat as one of the five countries to be accepted to the WTO in the near future. Much earlier it was given a proposal by the head of the Working Party to the WTO Secretariat to start developing relevant components of a definitive final report, which is usually considered as a short step to the adoption of an accession protocol that can be formally ratified.³ Tajikistan is one of the less-developed countries and a small player in the international arena, so there will likely be less rigorous demands on the country from key members of the WTO Working Party, and relatively fewer commitments are to be imposed compared to those for developed countries—the time periods for implementation are longer, assuming more time to be prepared for entry into the WTO.

Accession to the WTO has several potential advantages for Tajikistan's trade activity. First, WTO membership will likely strengthen export possibilities for Tajikistan because neither compensation nor anti-dumping duties and quantitative restrictions can be introduced and applied against Tajikistan's commodities and services exported into WTO countries. Second, after entry into the WTO, Tajikistan's goods should be able to use the most favorable national regime under which the import of goods and services originating from Tajikistan should be treated no less favorably than imports from any other WTO member country. Third, membership in the WTO will provide Tajikistan with free transit of goods through territories of all WTO countries. Thus, according to the WTO rules on transit (Article V GATT), WTO member countries should give open, fair, and equal access to all types of transport to other WTO member countries. Moreover, all duties on transit should be levied within reasonable limits and should reflect the cost of services provided. This is likely to be important to such a landlocked country as Tajikistan, which depends heavily on commodity transportation and relationships with neighboring countries. Because China and Kyrgyzstan, the closest neighboring countries are WTO member

3 In an interview with Larisa Kyslyakova, Ministry of Economic Development and Trade to Asia. In addition: <http://www.centrasia.ru/news.php?st=1275893400>

countries, Tajikistan can take full advantage of a free transit regime through their territory. In addition, a country would also likely benefit from free transit of goods through neighboring Uzbekistan whose WTO accession is in progress as well.

WTO membership will likely contribute to increased investments because the WTO framework will provide the necessary guarantees for investors. The adoption of laws according to WTO rules will lead to the legal and regulatory frameworks for external economic activities of Tajikistan being in compliance with international rules of trade and business. Improved protection of intellectual property rights, better regulation of telecommunications, the banking sector, and sanitary and phytosanitary measures would contribute not only to improving the local business environment, but also to the country's attractiveness to foreign investors. However, it's expected that a short-term effect will be reduced political and economic risks for investors, but not an immediate increase in investments.

Table 3. WTO status of the Baltics and Commonwealth Independent States

States	WTO Status
Kyrgyzstan	Joined WTO 1998
Latvia	Joined WTO 1999
Estonia	Joined WTO 1999
Georgia	Joined WTO 2000
Lithuania	Joined WTO 2001
Moldova	Joined WTO 2001
Armenia	Joined WTO 2003
Ukraine	Joined WTO 2008
Russian Federation	Joined WTO 2012
Belarus	Applied 1993
Uzbekistan	Applied 1994
Kazakhstan	Applied 1996
Azerbaijan	Applied 1997
Tajikistan	Applied 2001

Source: WTO website <www.wto.org>

Membership in the WTO will likely reduce the cost of production in the industrial sector and may lead to a possible increase in exports of hydropower. A reduction of customs duties on imported goods will likely allow the relatively cheaper production of goods with a proportion of foreign components in Tajikistan. According to Eco-Accord Center for Environment and Sustainable Development, one potential advantage for Tajikistan of joining the WTO could be an increase in exported hydropower, with revenue rising to world tariffs. Energy exports based on a tariff increase from the current 2 cents/KWh to the average world tariff rate of 5 cents/KWh would allow Tajikistan to increase its revenue substantially.⁴

Experience of other CIS countries shows WTO accession provides no immediate benefits. The main source of false expectations is an expected immediate improvement in market access. Tajikistan should not expect immediate advantages from WTO membership. Experience of some CIS countries that are already WTO members shows that WTO membership does not provide a universal recipe for economic growth.⁵ In particular, experience of neighboring Kyrgyzstan, which was the first of the successor countries of CIS to join WTO in 1998, shows that since 2004 trade turnover has declined with WTO member countries and increased steadily with EurAsEC member countries in comparison to trade with WTO members.⁶ The other example is the Ukraine, which became a WTO member in 2008, but is still ranked at 152 in ease of doing business global rankings. Additionally, "zero" import tariffs on 12,000 types of imported goods that have been introduced under the WTO membership did not lead to lower prices in the country. The agriculture sector, especially pig breeding, has suffered because import of pork increased by a factor of 2.3.

⁴ "WTO accession and sustainable development: Post-Soviet Countries Assess Perspectives," prepared under the project of the Earth Council, Eco-Accord, and IISD "Broadening Participation in the Emerging Global Economy" with support of the Ford Foundation.

⁵ Outcomes of the Seminar on "International trade, WTO and sustainable development" (Tashkent, November 20-21, 2009).

⁶ A. Budaichieva, K.Akmoldoev, J. Junushbaeva, "Developing Country Concerns on Multinational Trade: Problems of Kyrgyzstan's Trade development"

Lack of WTO internal legal expertise or resources to hire external lawyers suggests that Tajikistan will be unlikely participate in dispute settlement. While the WTO offers participation in the dispute resolution mechanism, the poorest countries in the WTO system are almost completely disengaged from the enforcement of market access rights through formal dispute settlement litigation because it is expensive.⁷ Litigation costs can reach US\$ 500,000, while legal fees can be much greater, with reports of fees for parties in panel proceedings in excess of US\$ 10 million.⁸ Such costs would be expensive and burdensome, especially for small poor countries with limited financial capacity like Tajikistan, whose budget is only US\$ 1.7 billion, and the country lacks internal legal expertise. It has also been observed that developing countries may be unwilling to initiate WTO dispute settlement proceedings against developed countries due to their particular vulnerability to ‘retaliation’ in other areas such as development and economic assistance.

Costs and risks related to entry into the WTO need to be considered at the national level in economic and legal areas. Tajikistan needs to minimize the negative and maximize the positive factors related to entry into the WTO. This needs to be considered at the national level in economic and legal areas, as well as at the external level when negotiating with the WTO Working Party in order to permit fair terms for entry while at the same time protecting the national interests and specific characteristics of Tajikistan. The low competitiveness of domestic Tajik goods and the rapid opening of the home market may lead to a sharp expansion of foreign goods instead of investments. Due to the low competitiveness of its industrial products, Tajikistan will not avoid considerable losses after opening the home market to foreign goods. Over time, foreign businessmen (in particular the Chinese) may expand their activity and local production will decline in less competitive sectors, which could increase unemployment. Stagnation in small- and medium-sized businesses may occur because it will be difficult to compete with imported goods and services. Additionally, because the financial sector is undeveloped, domestic banks may lose competitiveness that would adversely affect the reliability of the domestic banking system. While the legal and regulatory framework for external economic activities is assumed to be in compliance with international legal systems, rushed approval of defective laws may have resulted in continual revision of these laws. In the energy sector, property rights of energy system facilities are threatened so the high profitability of Tajik’s energy system will definitely arouse interest from developed countries. Given the reforms aimed at shareholding, privatization, and attracting foreign investments, there is a threat of the sale or transfer of power facilities⁹.

4. Macroeconomic Outlook and Risks

While Tajikistan’s economy has performed well, it remains vulnerable to external factors. Recent intermittent interruptions in transit trade through Uzbekistan and higher transportation charges have also had adverse economic and fiscal effects. Tajikistan is highly dependent on imports of fuel and food, and on

⁷ Hunter Nottage, “Developing Countries in the WTO Dispute Settlement System,” GEG Working paper 2009/47.

⁸ Hunter Nottage, “Developing Countries in the WTO Dispute Settlement System,” GEG Working paper 2009/47.

⁹ “WTO accession and sustainable development: Post-Soviet Countries Assess Perspectives,” prepared under the project of the Earth Council, Eco-Accord, and IISD “Broadening Participation in the Emerging Global Economy” with support of the Ford Foundation.

remittances. With the external economic environment continuing to be uncertain, the main risks for Tajikistan of a global slowdown are through declining remittances and exports. A recession in Russia—where more than 90 percent of Tajik migrants are employed—would lower domestic demand and growth and would adversely affect government revenue, leading to an increase in the projected fiscal deficit compared to the baseline scenario. In 2010 and 2011, frequent disruption of transit cargo adversely affected both government revenue as well as the rest of the economy. VAT receipts constitute a large share of total tax revenue, and in turn are heavily dependent on taxes levied on imports. Disruption of imports also adversely affected other sectors—e.g., agriculture (supply of fertilizers and other inputs), industrial production (supply of critical inputs for aluminum production), and services (working capital of firms tied-up in transit goods).

These external risks highlight the importance of prudent macroeconomic management, as well as building fiscal buffers and international reserves. Tajikistan's 2012 state budget envisions total expenditures of 10.3 billion somoni (excluding the PIP) vs. total revenues of 10.1 billion somoni, leading to a projected budget deficit of 180 million somoni (0.5 percent of GDP) and unidentified financing needs of 560 million somoni (\$112 million). The government has projected that additional expenditures of 170 million somoni may be needed in 2012 to implement social protection measures related to possible rising food and fuel prices. Absent additional revenue or other identified external financing sources, a sharper fiscal consolidation of 1 to 2 percent of GDP may be needed beyond the government's baseline projections of a 0.5 percent deficit (excluding PIP) for 2012. Any revenue over-performance in excess of current targets should be saved to help rebuild fiscal buffers drawn down during the 2009 economic slowdown.

As households in Tajikistan build their stocks for the winter in October–November, staple food prices are expected to increase seasonally in the fourth quarter of 2012. Most Tajik households build their stocks for the winter, so staple food prices will continue to increase in line with seasonal trends in the fourth quarter of 2012. This will put further upward pressure on inflation—the estimated CPI by the end of 2012 is 9 percent.

Table 4. Medium-term macroeconomic outlook, 2011–2015

in percent of GDP unless otherwise indicated

	2011	2012	Projected		
			2013	2014	2015
Nominal GDP (USD million)	6,523	7,178	7,675	8,234	8,975
Real GDP growth, percent	7.4	6.5	6.0	6.0	6.0
CPI inflation (end-of-period), percent	9.3	9.0	7.3	7.0	7.0
Exports of goods and services (USD, percent change)	7.0	0.0	8.5	7.6	7.8
Imports of goods and services (USD, percent change)	36.6	7.0	9.0	6.7	8.4
Net transfers (USD millions)	2,885	3,057	3,239	3,453	3,720
of which: net migrants' remittances	2,798	2,969	3,177	3,399	3,674
Current account balance	-2.3	-3.6	-5.0	-4.9	-5.2
Overall revenues and grants	24.9	26.0	24.8	24.6	25.3
of which: tax revenue	19.4	20.1	20.0	20.2	20.5
Total expenditures and net lending	27.3	29.3	26.1	25.3	26.8
of which: current	15.1	17.7	17.6	17.6	17.8
of which: capital	12.5	11.6	8.5	7.7	9.0
Fiscal balance (including externally funded PIP)	-2.5	-3.3	-1.3	-0.7	-1.4
Fiscal balance (excluding externally funded PIP)	0.5	-0.5	0.6	0.6	0.6
Total public and publicly guaranteed external debt	34.3	34.9	35.9	36.4	36.6

Source: Tajik authorities and World Bank and IMF estimates.

Over the medium term, real GDP is projected to grow at around 6 percent a year. The outlook for 2012 and beyond is generally positive (Table 4). Most of the projected 6 percent per annum growth over the medium term is expected to come from construction, trade, and other services initially, and with time, exports of non-cotton agriculture, power, and mining are expected to make an increasing contribution. Cotton and aluminum are unlikely to be as important as in the past. Starting from a high base, remittances are expected to grow more slowly compared to the last 5 or 6 years. Nonetheless, they could be a bigger contributor to future growth if a larger share is directed into private investment. The expected sales of the summer surplus of electricity to Afghanistan will also be important for future growth, once Tajikistan has resumed earning much-needed foreign exchange through electricity exports, which stopped in 2010 due to the withdrawal of Uzbekistan from the Central Asia Unified Electricity grid. The growth rate will also depend on how the relationship with Uzbekistan develops; Tajik rail freight was blocked on several occasions in 2010 and 2011.

Tajikistan: From Recovery to a Sustainable Growth

Tajikistan Economic Update No.2, October 2012



THE WORLD BANK