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Tajikistan Business Enabling Environment- SME Policy Project Press Review - Issue #63

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IFC PRESS REVIEW

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IMF REO HIGHLIGHTS NEED TO TACKLE RISING INFLATION IN THE CAUCASUS AND CENTRAL ASIA

DUSHANBE, November 9, Asia-Plus - On Wednesday November 7, Mr. David Owen, Senior Advisor in the International Monetary Fund's (IMF) Middle East and Central Asia Department, presented main findings of IMF's October 2007 Regional Economic Outlook: Middle East and Central Asia (REO), in Tbilisi, Georgia.

The report sees continued strong growth in the Caucasus and Central Asia, but highlights the need to tackle rising inflation.

The report in particular, said the Caucasus and Central Asia is one of the fastest growing regions in the world, with real GDP set to rise by an average of 13 percent this year. Both oil and gas exporters (Azerbaijan, Kazakhstan, and Turkmenistan) and non-oil exporters (Armenia, Georgia, Kyrgyz Republic, Tajikistan, and Uzbekistan) are doing well.

The region's strong performance reflects improved macroeconomic policies, reforms to improve the business environment, booming commodity exports, and large inflows of foreign direct investment and remittances.

However, strong foreign exchange inflows combined with the recent surge in international food prices have resulted in a sharp uptick in inflation in recent months, except in Armenia. Average annual inflation in the region increased to over 12 percent in September and is set to go higher before the end of the year. Even before the shock from higher food prices, inflation was rising steadily, as most central banks boosted domestic liquidity by purchasing foreign currency inflows, so as to limit the appreciation of their currencies.

Policy makers in the region could not have prevented the inflationary shock from higher food prices. But they should respond quickly to prevent this shock from passing through into other prices more generally.

In most countries there is room to tighten monetary policies, by raising interest rates and reducing foreign exchange market intervention to allow more exchange rate appreciation.

Plans in several countries to loosen fiscal policies by raising government spending should be put on hold. Fiscal restraint needs to be maintained, to reduce demand pressures and keep public debt on a downward path.

Moderate policy tightening to dampen inflationary pressures should allow the boom in the region to continue. While average growth in the region is likely to slow from this year's rapid pace, it is projected to remain in double digits in 2008—high enough to keep the region on a path of rising income per head and declining poverty.”

IMF: AT THE END OF THE YEAR THE INFLATION RATE CAN BE 20%

DUSHANBE, November 8, Asia Plus' - How do international finance organizations assess the inflation rate in Tajikistan? What is forecast to the end of the year and how to prevent the inflation rate increasing in Tajikistan? Luc Moers, International Monetary Fund (IMF) Resident Representative in Tajikistan gave a response to 'AP' questions.

- Compared to the end-2006 inflation rate of 12.5 percent, inflation decreased during the first half of the year. However, since July the inflation rate has sharply increased, largely caused by a strong rise in international food prices, particularly wheat flour, under the influence of bad harvests in countries that dominate world supply, including Tajikistan's main supplier Kazakhstan. As wheat flour constitutes a particularly large share of the Tajik Consumer Price Index (about 15 percent), the effect on Tajik inflation has been large as well, which has been hard on the Tajik people. The latest inflation figure, for September, was particularly high. The September figures that I have seen mentioned in the media so far were the monthly rate of 6.3 percent. For January-September rate of 12.4 percent (compared to December 2006), but note that the September 2007 rate compared to September 2006 was actually 16.0 percent, which is more indicative of the trend. Several special factors may have led to an extra high inflation rate in September. Reportedly, Kazakhstan has introduced export-licensing for wheat, and Russia will introduce a 10 percent tax on wheat exports for November 2007 - April 2008. Also, the Ramadan-period always leads to relatively strong price increases for food because of extra demand. Last but not least, the administrative price caps introduced at end-August probably only served to aggravate shortages, and thus ultimately contributed to more rather than less price increases. It is a familiar historical pattern (not least from the times of centrally-planned economies) that administrative limits on prices make production less profitable, which discourages increased supply, and in the end only makes shortages worse. Note also that farmers suffer from administrative price caps on food products, which is a perverse effect in countries with high rural poverty, such as Tajikistan.

- *How do you assess NBT's activity in this regard? Are there any proposals or recommendations from the IMF to reduce the inflation rate in Tajikistan? Some experts think that this issue cannot be resolved by tight monetary policy only, what is your opinion?*

Clearly, the NBT cannot be held responsible for international food price movements. Regretfully, there is little the NBT could have done to prevent the inflationary shock coming from higher international food prices. However, the NBT should prevent this shock from passing through into other prices more generally and becoming entrenched, using its monetary policy instrumentarium, in particular commercial banks' reserve requirements, as it is currently its most effective instrument. Also, this is clearly not the time to loosen fiscal policy as contemplated in the draft 2008 budget, which would further increase demand pressures on inflation. The good fiscal policies of recent years have been a key factor in maintaining macroeconomic stability in Tajikistan, and it would be regrettable if this pillar of stability were lost. Beyond monetary and fiscal policies (and the NBT and Ministry of Finance), which are core areas of the IMF's mandate, more generally a more diversified production base would help keeping prices lower in Tajikistan. For this, a better business environment is needed, so that the private sector can develop. Food prices specifically could have been lower if Tajikistan produced more food itself, but generally farmers are still not free to choose what they produce, even though there seems to be great potential for producing more of agricultural products other than cotton. Why do I still read proud announcements in the newspapers that so-and-so-much of the cotton target has been achieved, whereas these cotton targets continue to prevent agricultural diversification?

- *Finally, what projection or analysis of the end-year inflation can the IMF give?*

To be fair, before this international food price shock, like the NBT, I thought that its 9-percent target for the end of this year would be achievable. Projections are always absent major exogenous shocks, which are impossible to predict by their nature. However, with the September year-on-year rate at 16 percent, it is clear that the 9-percent target is out of reach. If the price for wheat flour in Tajikistan stays where it is now, and assuming similar price movements as last year for November and December, the resulting end-2007 inflation could be in the range of 18-20 percent. With a subsiding of the international food price shock, and appropriate macroeconomic policies, inflation should subsequently come down in 2008.

2008 BUDGET CREATES CONDITIONS FOR ESTABLISHMENT OF STABILIZING FUND, SAYS MP

DUSHANBE, November 8, Asia-Plus - The national budget for 2008 stipulates conditions for establishing stabilizing fund and opportunely servicing the national debt, Ismoil Talbakov, member of the Majlisi Namoyandgon (Tajikistan's lower chamber of parliament) Committee on Budget, Economy, Finance and Taxes, said in an interview with Asia-Plus.

According to him, all foreign countries and international organizations have made sure that Tajikistan is able to repay its external debts. "Due to investment projects and foreign loans the revenue part of the 2008 budget stands at 1.3 billion somonis, which is 30 percent more than in 2007," MP said, noting that the 2008 budget earmarks 152 million somonis (equivalent to \$44 million) for repaying the country's external debts.

We will recall that according to Deputy Finance Minister Sherali Safarov, Tajikistan's external debt increased from \$829.8 million to \$1.07 billion over the first nine months of 2007, amounting to 30.5 percent of the country's gross domestic product (GDP).

Talbakov added that the budget for 2008 also stipulates control over all arrivals. "Besides tax and non-tax receipts, grants to support the national budget, investment projects being implemented by international financial institutions, as well as national loans for implementing projects in the energy and transport sectors will also be taken into account," Tajik MP said, adding that the budget also envisage strict control over use of funds of investment projects and national projects.

He also noted that no amendments will be made to the RT Law "On the National Budget for 2008" during the next year.

As it had been reported earlier, the 4.5 billion-somonis (\$1.3 billion) budget for 2008 is some 36 percent larger than the 2007 state budget and includes about \$500 million in planned social spending, with increases of 44 and 41 percent on healthcare and education, respectively. The budget also earmarks 732 million somonis (\$212 million) for the energy sector, an increase of roughly 16.5 percent, to be largely spent on expanding hydroelectricity production.

TAJIKISTAN HAS HIGHEST INFLATION RATE IN CIS

DUSHANBE, November 8, Asia-Plus - Tajikistan had the highest inflation rate among the CIS states for January-September 2007, the CIS interstate committee for statistics said.

In Tajikistan, prices of consumer goods rose on average 12.3 percent in the year to October 1, 2007, the committee said.

High inflation rates for the report period have been reported also in Azerbaijan and Kazakhstan. In Azerbaijan, inflation for January-September stood at 11 percent, and in Kazakhstan, inflation for the same nine-month period stood at 10.3 percent.

Armenia is the only state within the CIS area, where prices have come down by 0.2 percent over the first nine months of this year.

TAJIKISTAN IN 5TH POSITION AMONG CIS STATES IN INDUSTRIAL PRODUCTION GROWTH

DUSHANBE, November 7, Asia-Plus - Tajikistan is in fifth position among the CIS states in terms of industrial production growth for January-September 2007, the CIS interstate committee for statistics said.

For the report period, the industrial production growth in Tajikistan stood at 7.7 percent.

Azerbaijan tops the overall ranking in report with a 27 percent industrial production growth rate. Uzbekistan (11.9 percent) is in second position followed by Ukraine (10.7 percent), and Belarus (8.2 percent).

In Kyrgyzstan, the industrial production growth for January-September 2007 stood at 6.5 percent, in Kazakhstan -- 4.7 percent, Armenia 2.1 percent and Moldova -- 0.6 percent.

In the CIS area as a whole, the industrial production growth rate for the same nine-month period averaged 7 percent.

REPRESENTATIVES FROM ECONOMY MINISTRY AND 12 NGOS MEET TO DISCUSS POVERTY REDUCTION ISSUES

KHUJAND, October 7, Asia-Plus - On Monday November 5, senior representatives from the Ministry of Economic Development and Trade (MoEDT) met with top managers of 12 international and local NGOs in Khujand, the capital of the Sughd province, to discuss a progress of implementation of the Poverty Reduction Strategy in Tajikistan.

Zaynab Kenjayeva, representative from a MoEDT, told Asia-Plus that the meeting participants represented public associations from different regions of the country that had incorporated into the Group for monitoring a progress of implementation of the Poverty Reduction Strategy in Tajikistan.

"As participation of various sectors of civil society in implementation of the Strategy is obligatory, our ministry is interested in close cooperation with the mentioned group," said Kenjayeva, "Moreover, we plan to elaborate a memorandum of understanding (MoU) on mutual cooperation and prepare a plan of joint actions as well as determine mechanism of holding regular meetings."

She added that the MoEDT does not intend to dictate its demands and priorities of activities to the Group, and therefore, the Group should determine its opportunities itself and make specific suggestions on its participation in implementation of the Poverty Reduction Strategy.

TAJIKISTAN IN 117TH POSITION IN THE GLOBAL COMPETITIVENESS REPORT 2007-2008

DUSHANBE, November 5, Asia-Plus - Tajikistan with a score of 3.37 has been ranked 117th in the Global Competitiveness Report 2007-2008 released by the World Economic Forum.

Russia (4.19) is in 58th position, Kazakhstan (4.14) has been ranked 61st followed by Uzbekistan by a score of 4.13. Kyrgyzstan with the score of 3.34 is in 19th position.

The United States tops the overall ranking in report. Switzerland is in second position followed by Denmark, Sweden, Germany, Finland and Singapore, respectively.

The rankings are calculated from both publicly available data and the Executive Opinion Survey, a comprehensive annual survey conducted by the World Economic Forum together with its network of Partner Institutes (leading research institutes and business organizations) in the countries covered by the Report. This year, over 11,000 business leaders were polled in a record 131 countries.

Through its reports and activities the Global Competitiveness Network of the World Economic Forum identifies impediments to growth and thereby helps stimulate the development of relevant strategies to achieve sustained economic progress. The GCN team works with leading academics worldwide to ensure latest thinking and research on global competitiveness are incorporated into its reports.

The Global Competitiveness Report includes the World Economic Forum's Competitiveness Index, the Business Competitiveness Index, as well as detailed profiles for each of the 131 economies covered and data tables displaying relative rankings for more than 100 variables.

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TAJIKISTAN TOPS CENTRAL ASIAN STATES IN DRAWING WB CREDIT FUNDS

DUSHANBE, November 5, Asia-Plus - Issues related to state and prospects of further expansion of cooperation between Tajikistan and the World Bank were major topic of a meeting of President with visiting World Bank Vice-President for Europe and Central Asia Region Mr. Shigeo Katsu in Dushanbe on November 2, presidential press service said.

In the course of the talks the two exchanged views on prospects of construction of hydropower plants in Tajikistan, development of the regional energy market, Tajik electricity supplies to Afghanistan and Pakistan, as well as creation of international consortium to complete construction of the Roghun hydroelectricity station on the Vakhsh River.

Rahmon and Katsu also discussed a progress of implementation of socioeconomic development support projects in Tajikistan, which are sponsored by the World Bank.

During the meeting it was noted that Tajikistan tops the Central Asian states in terms of drawing the World Bank credit funds.



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With best wishes,
Tajikistan SME Public Relations/Communication Department