ECONOMIC REFORMS AND MONETARY POLICY OF TAJIKISTAN

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Abstract
Using statistic methods this paper analyses the effects of economic reforms, monetary policy and results of implementation the new medium-term economic adjustments in Tajikistan. Restrictions are imposed and the contemporaneous and long-run restrictions model are used to identify the dynamic response of inflation and output to the monetary and exchange rate innovation.

Keywords: GDP; inflation; economic reforms; monetary policy

1. Introduction

The Central Asia republics constituted the poorest area of the USSR, and Tajikistan was the poorest of them all. During the years under the central planning system, Tajikistan had a closed economy and after the fall of the USSR in 1991, economy of Tajikistan went through several high inflation phases, caused by the country’s economical and political instability, civil war and enormous budget deficit.

2. Economic reform in Tajikistan

After declaration of independence by Tajikistan in 1991, significant reduction of production and national income took place in the national economy. Like many postcolonial state, Tajikistan gained independence without a clear national identity, a viable economic and fiscal base for state power, or genuine national security forces. The consecutive military-
political calamities inflicted enormous damage to the national economy, having aggravated the present difficult transition to market relations.

Besides, the unique situation formed in Tajikistan by that moment was that country was using the cash currency of another country – Russia, and the old Soviet Rubles for bank operations. The huge difference between them had resulted in great damage to the financial system of the state. Tajikistan was the last former USSR republic that operating with the Russian ruble as a national currency, until May 1995. This brought about high level of fluctuation in key macroeconomic variables, in particular prices and real output. As a result there was a large expansion in the total credit value in the economy, mostly in the industrial and agricultural sectors that led significantly to persistence of high levels of inflation. As a result, the government of Tajikistan made a decision to introduce the national currency – the Tajik Ruble (Diagram 1.)

**Diagram 1: Inflation rate variation in Tajikistan 1996-2006**

![Diagram 1: Inflation rate variation in Tajikistan 1996-2006](image)

*Source: State statistical committee of Tajikistan.*

The country’s civil war, fast depreciation of the domestic currency, a decrease in output and employment, monetarisation of budget deficit and balance payment errors were the major causes of high inflation and economic crisis. Since March 1996 a liberalisation and stabilisation program with International Monetary Fund and World Bank assistance was intriduced. The main targets of the program were the reduction of the inflation rate, increased growth of GDP and price liberalisation. (Diagram 2.)
Diagram 2: Growth of GDP in Tajikistan 1991-2005

Source: State statistical committee of Tajikistan.

During years of independence from 1991 to nowadays Tajikistan has taken significant steps towards deepening economic reforms, restructuring the national economy, developing international relations and integrating into the world economy. In the first years after its independence, Tajikistan’s real GDP dropped to 30 per cent and inflation rate rose above 1000 per cent annually.

The new Tajik currency “somoni” which replaces the tajik Ruble was introduced on October 30, 2000. This currency was assessed as positive as:

1) it was the first currency reform that did not cause losses to the country population;

2) the introduction of the new currency was based on historical traditions (Government of Tajikistan, 2000, and National bank of Tajikistan 2000).

In commenting on Tajikistan’s currency reform, Eduardo Aninat, IMF Deputy Managing Director, said: “currency reform is an important element of Tajikistan’s economic program, which calls for prudent monetary policy by the central bank, continued fiscal consolidation, and accelerated structural reforms, to improve the investment environment in the country” (IMF News Brief, 2000)
2.1 Monetary policy: inflation, budget deficit

Sustainable economic growth has stabilized inflation in Tajikistan in 2004 the annual inflation rate decreased to 5.7%. Gradually, with the help of the WB and IMF, monetary and budgetary regulation has been restored and domestic prices have stabilized compared to previous periods. Open market operations have become one of the policy instruments since their introduction by the joint efforts of the National bank of Tajikistan and Ministry of Finance in 1998. The macroeconomic stabilization program introduced inflation targeting in the monetary policy of Tajikistan. As a result of the stabilization program inflation declined more 159% during 1997 to 2.7% in 1998 (NBT: 1998-99; IMF: 2000). The main reasons for the significant decline in inflation were the high interest rates and lower real wages that brought domestic demand under control.

However, in 2006 an almost twofold increase in the price of natural gas imported from Uzbekistan and imbalance in the internal market caused inflation rates to 12.5%. The government is planning to reduce inflation rates to 7% by 2007 by implementing hard monetary policy. Furthermore, the government plans to reduce future inflation by implementing the national currency. In 2005 an increase in household income and improvement an tax collection is stated to have caused a budget surplus of 0.5%.

Table 1: Macroeconomic indicators

<table>
<thead>
<tr>
<th>Title</th>
<th>unit</th>
<th>2003</th>
<th>2004</th>
<th>2005</th>
<th>2006</th>
<th>2007 (exp.)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Real GDP</td>
<td>%</td>
<td>10.2</td>
<td>10.6</td>
<td>6.7</td>
<td>7.0</td>
<td>7.0</td>
</tr>
<tr>
<td>Inflation</td>
<td>%</td>
<td>13.7</td>
<td>5.7</td>
<td>7.1</td>
<td>12.6</td>
<td>9.0</td>
</tr>
<tr>
<td>GDP per capita</td>
<td>US dollars</td>
<td>239.1</td>
<td>312.2</td>
<td>333.9</td>
<td>386.6</td>
<td>400.0</td>
</tr>
<tr>
<td>Unemployment</td>
<td>%</td>
<td>2.3</td>
<td>2.0</td>
<td>2.1</td>
<td>2.3</td>
<td>2.2</td>
</tr>
<tr>
<td>Average wages</td>
<td>somoni</td>
<td>63.5</td>
<td>81.4</td>
<td>107.3</td>
<td>162.56</td>
<td>200.0</td>
</tr>
</tbody>
</table>

Source: [www.nbt.tj](http://www.nbt.tj), [www.stat.tj](http://www.stat.tj)
3. Conclusion

Tajikistan has experienced an enormous increase in its inflation rate and decline in real output growth over the last decades. However, as a result of the successful implementation of monetary and exchange rate policies aimed at achieving low inflation and strengthening the balance of payments in the 1990s and till now real GDP growth is risen significantly. Tajikistan is often considered a country with unexplored opportunities. Unique bioclimatic condition, rich mineral resources, large hydroelectric potential and labour resources all have the ability to become main factors in the production of competitive products that the aid in the integration of the country’s economy into the world economy.

References

[8] Tajikistan Development Gateway