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Statement by the Hon. **YAKHYO N. AZIMOV**,
Governor of the Bank for the **REPUBLIC OF TAJIKISTAN**,
at the Joint Annual Discussion

Presentation by the World Bank Governor from the Republic of Tajikistan

Yahyo Azimov

Mr. Chairman,

Ladies and gentlemen,

It is a great pleasure and a great honor for me to have the opportunity to make for the first time a presentation on behalf of the Republic of Tajikistan at this memorable meeting.

I would like to thank the Chairman of the meeting for the opportunity to speak today and thank the Government of China, authorities of Hong Kong for hospitality and cordial welcome.

Following the collapse of the former Soviet Union Tajikistan became an independent republic on September 9th, 1991. For the most part our country was unprepared for this new political reality, and the disintegration of the former central planning system aggravated the deepening economic crisis. Moreover, a number of adverse political factors resulted in a civil war, which broke out in 1992 and peaked from mid to end 1992. With varying degrees of intensity, the armed conflict lasted for four years.

The civil war and the massive economic decline as a result of the transition from a centrally planned economy to a market economy combined with a lack of significant economic adjustment (until the mid 90s) have had a serious negative impact on the physical infrastructure, economic assets, and human resources of Tajikistan.

All the above, resulted in a sharp economic decline, increased unemployment, and abject poverty. At the end of 1996 the estimated GDP was only about 40 per cent of its 1991 level. Many industries are operating at less than a quarter of their previous capacity.

In the agricultural sector the production of cotton — the main agricultural staple, and the main source of foreign exchange and fiscal revenues — plummeted threefold in comparison with the late 1980s. Recently there has been an increase in the production of wheat due to the liberalization of wheat prices, implemented at the end of 1995 and the beginning of 1996.

Unemployment in Tajikistan, which according to World Bank estimates is 40 per cent, is the highest among the CIS countries. Per capita income in Tajikistan is \$ 330. About 80 per cent of the population of Tajikistan lives in abject poverty, defined as the lack of the basic necessities, making it one of the 20 poorest countries in the world. However, Tajikistan has not even been granted the status of least developed country but is fully IDA eligible.

In the face of the deepening economic crisis the Government of Tajikistan introduced, in May 1995, the national currency, which enabled to promote an independent monetary policy. At the end of 1995 the Government of Tajikistan approved an economic reform program, which defined 4 top priorities: macroeconomic stabilization, structural reforms in the agricultural sector, privatization of state owned enterprises, and continued provision of a minimal level of social protection to the population.

All this brought about positive results in the field of trade and price liberalization, regulation of exports and foreign exchange transactions, and the establishment of a regulatory framework, aimed at accelerating privatization and attracting foreign investments into the country.

In 1996, with assistance from the IMF and the World Bank, Tajikistan improved its macroeconomic policy. Tightened controls over credit expansion, the liberalization of the foreign exchange market, and measures to improve the budgetary situation by broadening the tax base and reducing subsidies, decreased inflation from 2000 per cent in 1995 to 40 per cent in 1996. The exchange rate was also stable throughout the year following a sharp decline in the second half of 1995. Tajikistan reached agreement with its foreign creditors on debt restructuring, the debt having been accumulated over a short period of time, and reaching \$ 850 million at the end of 1996.

However, by the beginning of 1997 the positive results achieved during 1996 had been lost. The implementation of the economic reform program was effected times by the worsening of the political situation which led to the suspension of programs supported by international organizations..

Also one of the reasons for the worsening of the economic indicators in 1997, notwithstanding GDP growth, was the slackening of budgetary discipline and control over credit expansion at the end of 1996 and during the first half of 1997. This resulted in a decline in the exchange rate, an increase in inflation and arrears of expenditure from the state budget.

On October 31, 1996, at the request of the Government of the Republic of Tajikistan, the first Consultative Group Meeting was held, during which \$ 185 million was pledged for balance of payments support, technical assistance and investments for 1997. However, the better part of this assistance has not been disbursed due to fluctuations in the monetary policy that coincided with the deterioration of the economic situation at the beginning of 1997 and suspension of the implementation of a number of programs supported by international organizations.

This situation only confirms the fact that maintaining and strengthening the progress achieved in the difficult search for ways to ensure peace and national accord, through peace negotiations conducted under the aegis of the UN and ended on June 27, 1997, resulted in signing of the General Agreement on Peace and National Accord in Tajikistan is essential for successful and swift implementation of reforms in the country

aimed at overcoming the economic crisis, and ensuring the development of Tajikistan as a democratic, secular state under the rule of law, with a strong economy.

The urgency of the task of restoring macroeconomic stability in the short term is obvious. The high inflation rates, large budget deficit, sizable trade distortions, high foreign debt, and the reduction of the role of the banking system in the provision of financial intermediation services are hindering the growth of private investment, and distorting market incentives. It is our intention to accelerate the implementation of land reform, and the privatization of state owned property.

However, it is becoming increasingly obvious that the successful implementation of measures of macroeconomic stabilization and structural adjustment is impossible without international support for the Tajikistan's leadership efforts to implement the General Agreement on Peace and National Accord in Tajikistan. The National Reconciliation Commission, which includes representatives both of the Government and the former United Tajik opposition, is presently operational in Dushanbe.

Today Tajikistan is in urgent need of international support and financial assistance for economic rehabilitation and development, which would form the basis for ensuring stability not only in the Republic of Tajikistan, but also in the vast Central Asian region.

I would therefore like to urge the IMF and the World Bank, as well as the other international organizations and the donor countries, to consider the possibility of extending additional financial support to the Republic of Tajikistan .

The Government of the Republic of Tajikistan estimates that the implementation of the General Agreement on Peace would require an additional \$ 80 million during 1997-1998.

At the same time, the stabilization of the economic situation, the acceleration of privatization and market-based adjustment in agriculture would provide a sounder basis for improving social conditions, tackling poverty issues more efficiently, and renewing the flow of private investments into the economy. Strengthening the peace process and accelerating economic adjustment constitute two interconnected and interdependent processes.

The Republic of Tajikistan is rich in mineral, water, and energy resources, and has a considerable potential in labor resources. A legal and regulatory framework conducive to foreign investment has been established. The utilization of this potential with the assistance of the IMF and the World Bank, the donor countries and foreign investors, could to a large extent solve the socio-economic problems both of Tajikistan and its neighboring countries, as well as the water and energy problems not only of all the Central Asian countries, but also, in part, those of Pakistan, China, Afghanistan, and Iran, as well as those of the Aral Sea.

At the same time I would like to express the enormous gratitude of my people and of the Government of the Republic of Tajikistan to Mr. Camdessus and Mr. Wolfensohn, to the donor countries, and to the other international organizations for the assistance and support provided so far. I would like to assure you that the Government of the Republic of Tajikistan is firmly committed to securing peace and national accord, and to implementing market adjustments in the economy at an accelerated pace. I am convinced that, in order to ensure these transformations, the Republic of Tajikistan will receive all the support and assistance it needs.

Thank you for your attention.