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Macroeconomic Review of the Republic of Tajikistan



January-June, 2013

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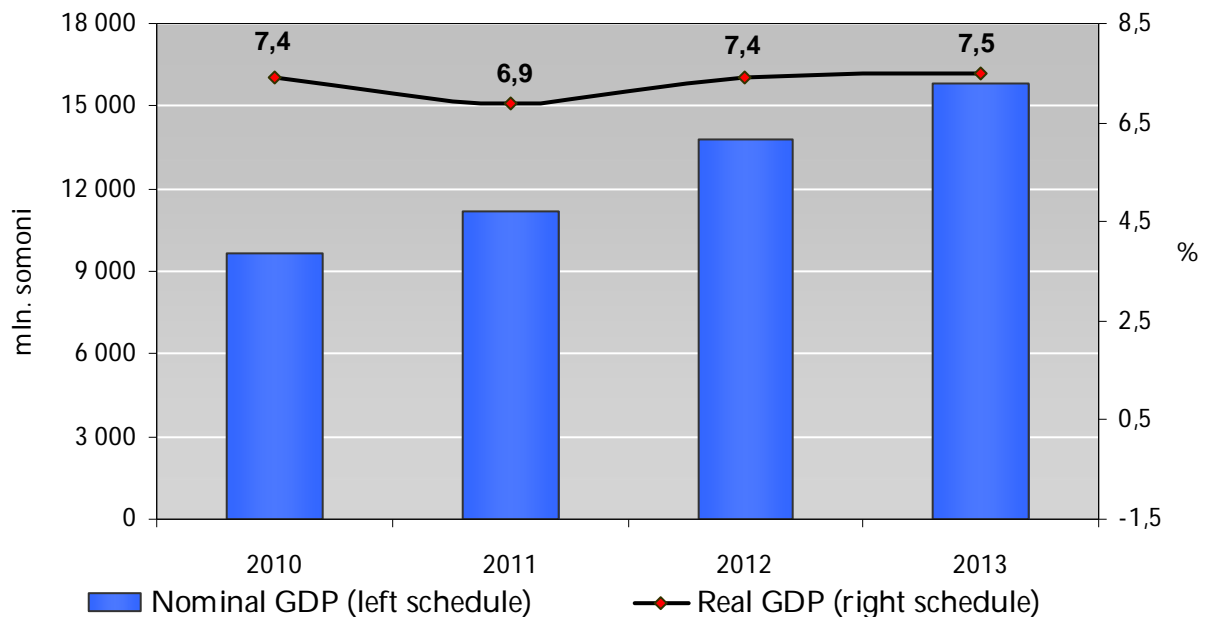
I. Macroeconomic situation in the country

During the first half of 2013 there are observed a stable growth of country's economy and banking system indicators as the reduction of inflationary pressure and decrease of external factors influences.

1.1. Gross Domestic Product (GDP) and real sector of economy

The volume of the GDP for the first half of 2013 has reached TJS 15,9 billion and its real growth has made 7,5 percentage points.

Chart 1. Dynamics of GDP growth (half year of 2010-2013)



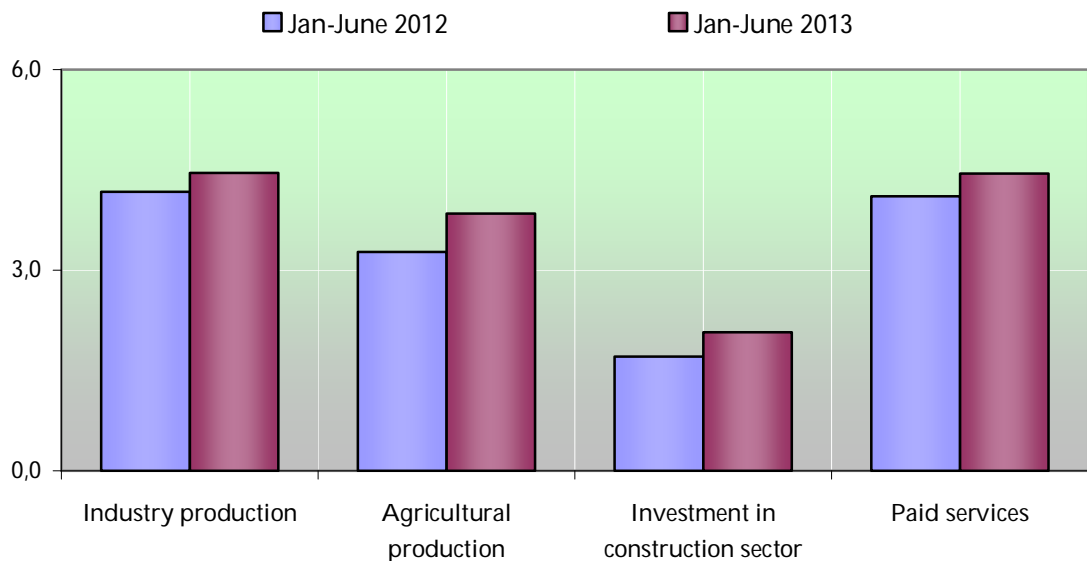
The stable growth was observed in the main sectors of national economy for this period. Especially growth was observed in spheres of retail goods turnover by 13,2%, agricultural production by 12,1%, investments by 9,3%, services by 8,4% and industrial products by 6,6%.

The volume of industrial products which is one of the main indicator of national economy growth for the first half of 2013 has made TJS 4,5 billion having increased on 6,6% concerning with the same period of previous year. Particularly, its growth occurred at the expense of mining industry by 1,8 times (energy 4,8% and non-energy production 36,1%), manufacturing industry (manufacture of food products and soft drinks

6,0%, electrical facility 0,3%, chemical production 16,0%) and electricity generation by 5,6%.

The total volume of agricultural production has made TJS 3,8 billion that is more on 12,1% relatively with the same period of previous year. The crop production makes 51,8% and livestock sector makes 48,2% of total volume of agricultural production which in comparison to the same period of previous year more on 18,3% and 6,2% accordingly.

*Chart 2. Indicators of the main sectors of economy
(billion TJS on current basis)*



At the same time, for the reporting period investments to fixed capital at the expense of all sources of financing have been implemented for TJS 2,1 billion that relatively with previous year is more on 9,3%. Generally, increase occurred at the expense of growth of the government, private, joint and foreign investments.

The total amount of paid services which is rendered to the population has made TJS 4,4 billion, from this 85,6% falls to enterprises of non-government sector and 14,4% to government sector. The greatest share of services belong to domestic services on 40,1%, passenger transportation on 23,3%, communication services on 11,6%, education on 8,3%, medical services on 3,3%, public services on 0,5% and other services on 12,9%.

The share of the GDP per capita for the end of reporting period has made TJS 4,8 thousand against same period of last year is more on 14,5%.

1.2. Employment rate, wages and incomes of population

According to the data of Statistic Agency under the President of the Republic of Tajikistan, the total number of officially registered unemployed for January-June 2013 have reached 56,8 thousand people and has made 2,5% of economically active population.

The total number of economically active population for the end of reporting period has made 2,3 million persons. The majority of them involved in agricultural sectors 47,0%, education 18,4%, health and human services 8,5%, and manufacturing industry 5,7%.

The average monthly wage for this period have made TJS 686,7 that in comparison with the same period of previous year is more on 30,6%. The minimum amount of a salary has made TJS 200. The monthly average salary in real sector has made TJS 555,8 and in sector of services TJS 751,1.

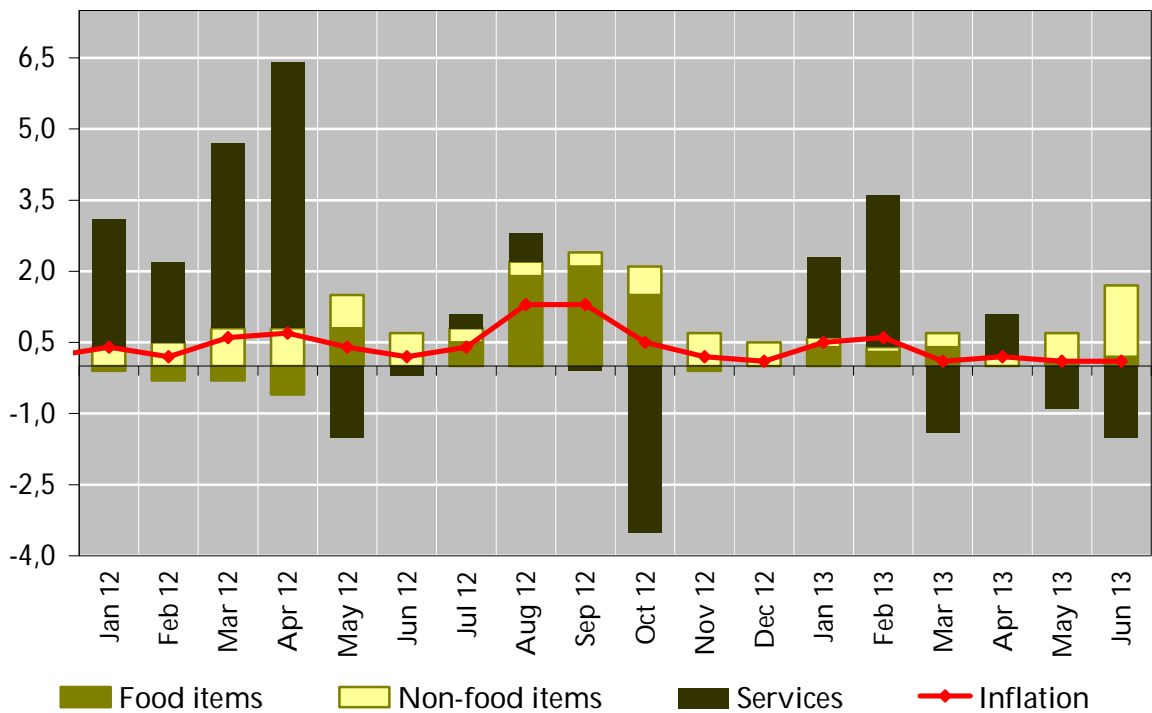
Population income for the first half of the year has made TJS 10,9 billion, that is more on 17,6% in comparison with the similar period of previous year.

1.3. Inflation rate and change in prices

In the first half of 2013 the rate of inflation has made 1,6% that in comparison with the similar period of previous year is less on 0,9 percentage points. The occurred inflation mainly has been caused by a rise in prices for non-foodstuffs on 2,8%, services on 2,0% and foodstuffs on 1,1%.

At the same time, the level of annual inflation (for the last 12 months) has made 5,5% that is more on 0,9 percentage points concerning to the same period of previous year.

Chart 3. Change of inflation (% monthly)

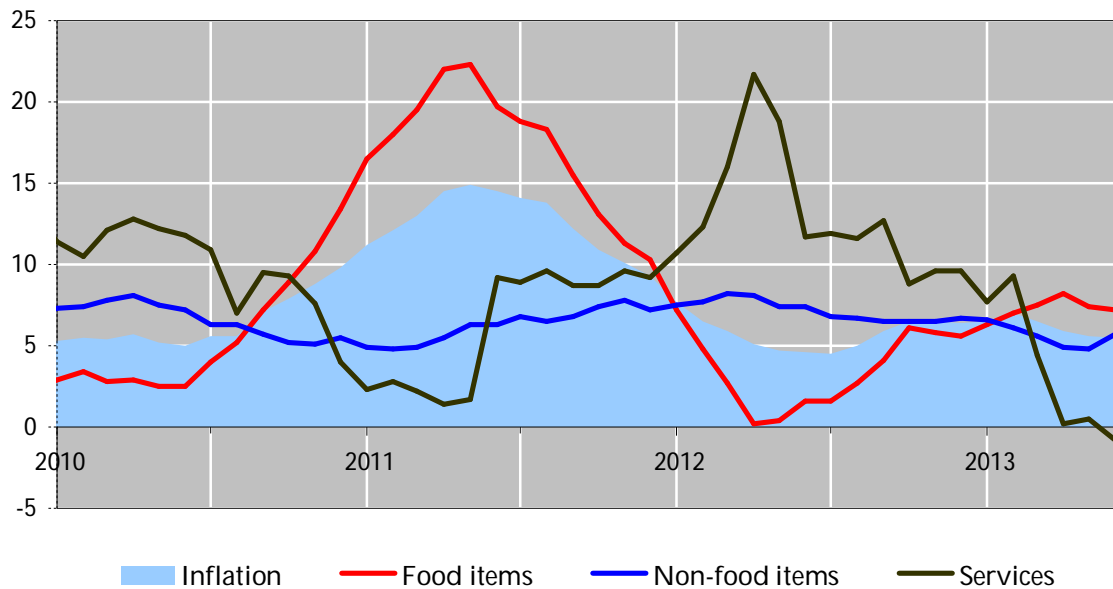


For the reporting period amongst food items is observed the rise in prices for vegetable products by 16,5% and fruits by 15,6%, pasta by 7,6%, vegetable oil by 5,1%, rice by 1,8%, dairy products by 1,5% and meat by 0,8%. At the same time, the prices were reduced for flour on 9,3%, egg on 8,8% and potato on 4,0%.

From non-food products the basic influence on inflation have rendered rise in prices for construction materials by 6,6%, textiles by 3,5%, medicaments by 0,9%, shoes by 0,8% and price reduction for petroleum on 5,9%.

Growth of tariffs for paid services was promoted increase in cost of health resort services by 25,1%, passenger transport services by 5,2% and communication services by 0,1%.

Chart 4. Change of annual inflation (for last 12 months in %)

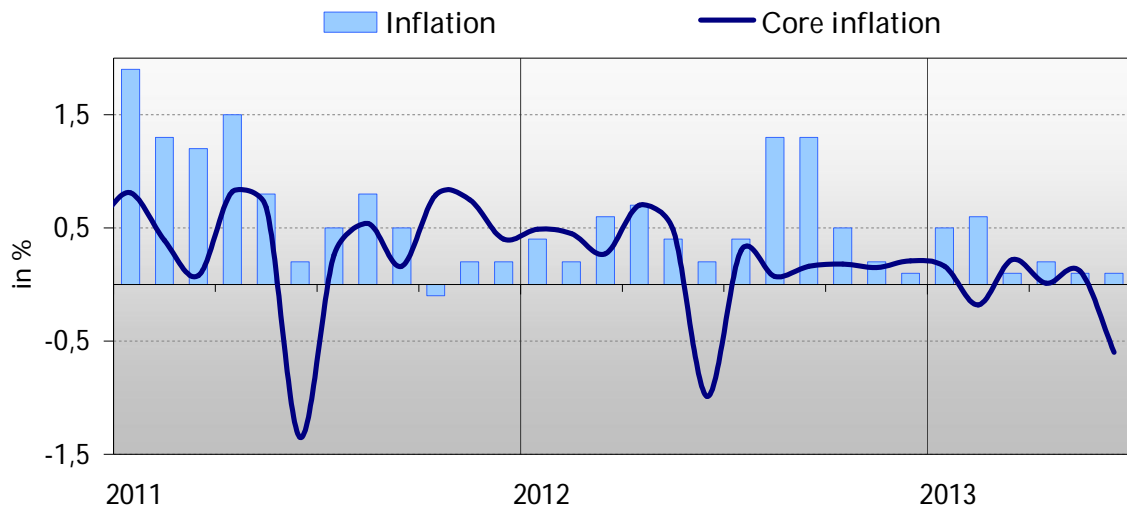


The prices of industrial products for the reporting period have increased by 1,9%. In particular, the rise in prices for mining industry production has made 2,6% (substantially on account of procurement of fuel and energy resources on 23,4%) and manufacturing activity 7,9% (manufacture of food products, including soft drinks 13,0%, textiles and wearing apparel 8,4%), production and distribution of electricity, gas and water on 2,0%.

In the meantime, the level of core inflation for January-June developed negatively and has made 0,3% that in comparison with the same period of previous year is less on 1,7 percentage points. Annual core inflation in this period has reached 0,8% which is less on 3,6 % compared with the same period of previous year.

Principally, change of inflation rate has been caused by the volume of demand and supply in domestic markets and change in prices for imported goods.

Chart 5. Inflation and core inflation
(monthly)



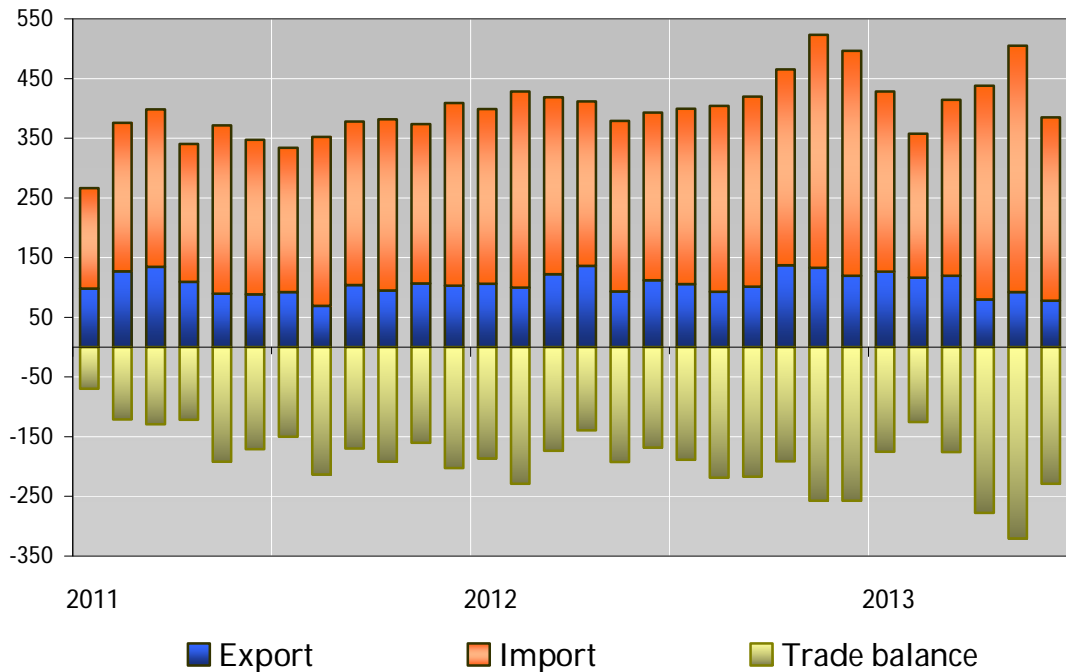
II. Development of external sector

2.1. Foreign trade turnover

The foreign trade turnover of the Republic of Tajikistan in the first half of the year has made USD 2,5 billion, having increased in comparison with the same period of previous year on 4,0%. In particular, the foreign trade turnover with the near abroad countries has decreased by 5,0%, with the far abroad countries increased on 10,8%.

The balance of trade for this period has developed negatively and its deficit has made USD 1,3 billion, which is more on 19,6% in comparison with the same period of last year. Generally, this change has occurred by the decrease in export operations and growth in import volume concerning same period of previous year.

Chart 6. Foreign trade turnover (million USD)

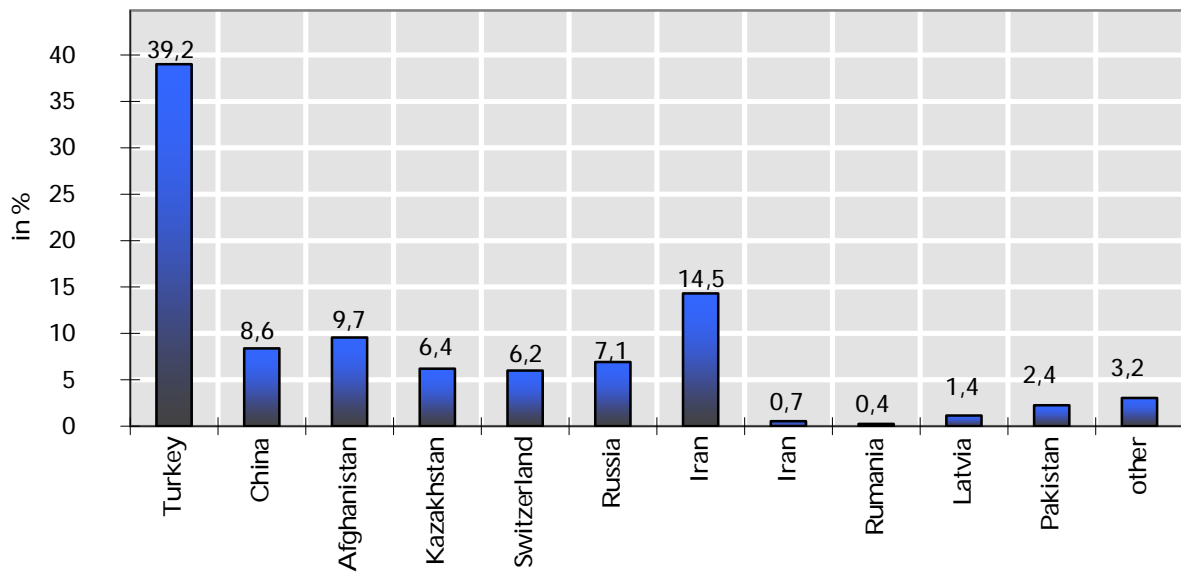


2.2. Export of goods

The export of goods for the reporting period has made USD 612,3 million, having decreased in comparison with the same period of previous year on 8,6%. Basically, the given decrease had occurred as a result of export earnings reduction of aluminum and fiber cotton which their price had been decreased in the world markets.

For this period, export of transportation has increased on 2,2 times, equipments on 2,2 times, electricity on 1,9 times, vegetal production on 28,0% and chemical production on 18,7%.

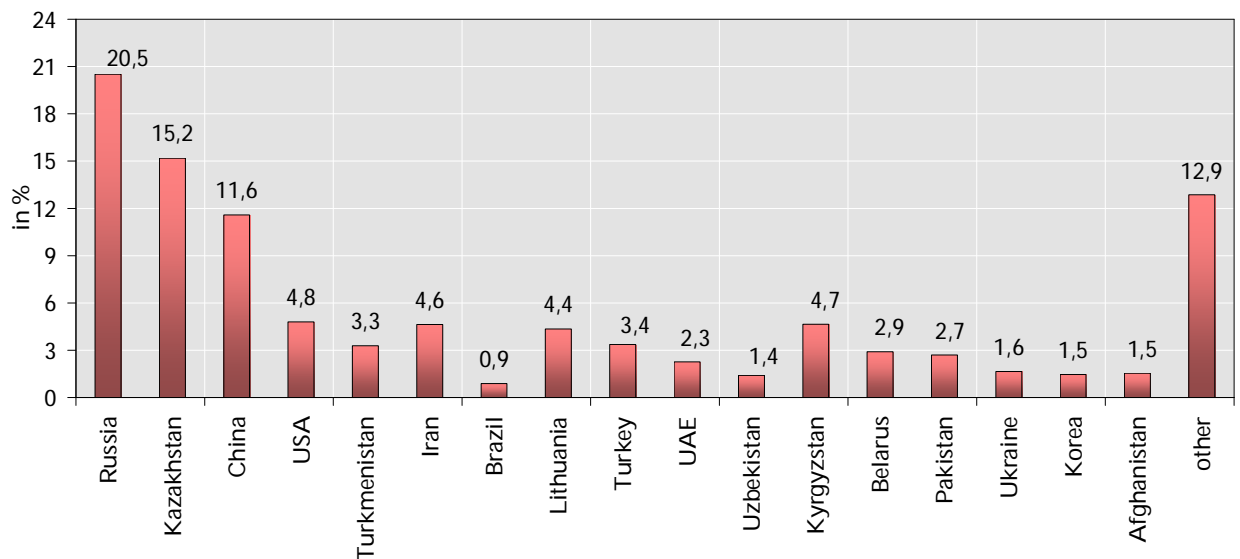
Cart 7. Geographical structure of export (January-June, 2013)



2.3. Improt of goods

Import of goods for January-June has made USD 1,9 billion which is more on 8,7% concerning same period of previous year. Basically, given growth has occurred apprcimately in all imported goods such metals by 49,3%, wheat by 47,7%, transportation by 36,3%, polymeric material by 34,0%, textiles by 20,8% and finished commodity by 6,7%.

Chart 8. Geographical structure of import (January-June, 2013)



III. Financial and banking sector

3.1. Monetary policy

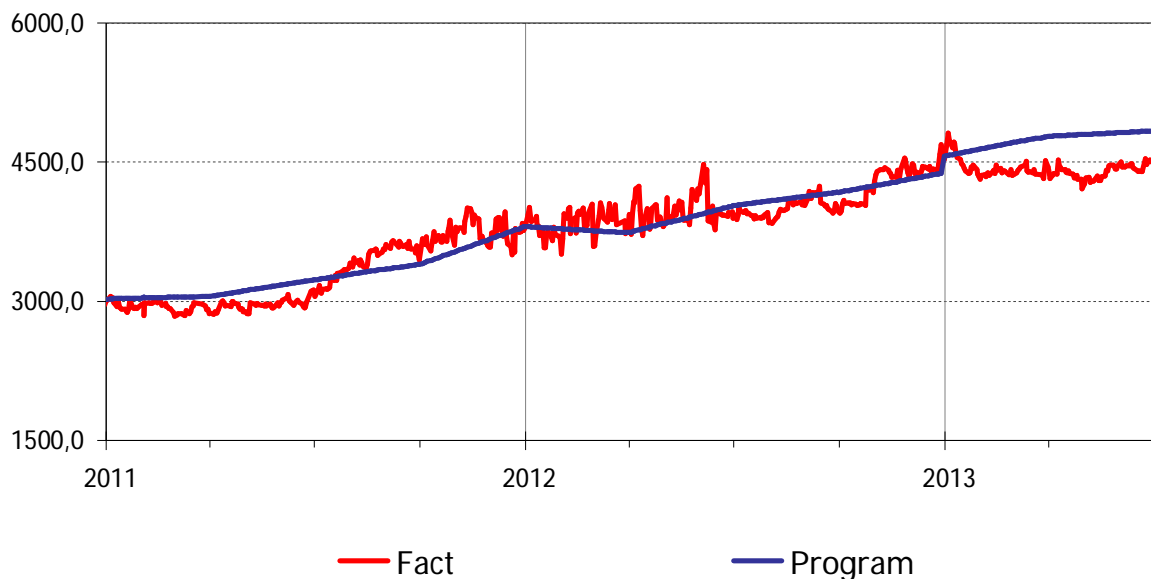
The National Bank of Tajikistan in the first half of the year for the purpose of encouragement of economy growth and price stability has implemented balanced monetary policy with a view of deduction of stable level of prices and growth of economy in order to perform program level of reserve money, maintenance of stable level of money supply in circulation and liquidity of banking system.

At the same time, in January-June the refinancing rate remained unchanged (6,5%) and the interest rate on loans which are issued by the National Bank for maintenance liquidity of the credit institutions has been changed.

Also, for maintenance of stability of banking system of the country and ensuring liquidity, in this period the National Bank of Tajikistan provided TJS 572,9 million short-term loans for domestic banks.

For the reporting period the monetary program has been directed on maintenance of stable growth of reserve money for the purpose of implementation of the main macroeconomic indicators. The volume of reserve money, which is the main indicator of the monetary policy as of June 30, 2013 has made TJS 4,5 billion, and its growth in comparison with the similar period of previous year on 15,1%.

Chart 9. Change of volume of reserve money



For the reporting period due to a steady economic growth and effective provision of money turnover and attraction of time deposits, an increase in volumes of cash (M0) and money supply M3 (M0, demand deposits, time deposits and deposit's certificates) as compared to the same period of previous year has made 28,0% and 24,5% respectively. At the same time, it is observed considerable change of a broad money (M4) which increased concerning to the similar period of previous year by 19,6%.

During January-June, 2013 for arrangement and efficient maintenance of a money turnover, proceeding from requirements of national economy it was issued TJS 647,1 million in cash that in comparison with the same period of previous year is more on TJS 212,9 million or 49,0%. At the same time, for regulation of quality of banknotes it was withdrawn from circulation TJS 556,1 million of worn banknotes, TJS 414,5 million of useable banknotes and TJS 141,5 million of coins.

Open market operations. The National Bank of Tajikistan taking into account the macroeconomic situation and financial system of country for this period has held 77 securities auctions which in compare with the same period of previous year is more on 13 securities auction. The volume of sales of deposit certificates of the NBT has made TJS 108,9 million, terms of their issue has made from 7 to 56 days. The annual weighted average rate of return has made 1,73% that in comparison with the similar period of previous year is less on 2,29 percentage points.

Additionally, for this period 2 auctions were held on government treasury bills of the Ministry of Finance for TJS 39,8 million, the term of their issue were made 91 days and it's weighted average rate of return is 1,75% and compared to the same period of 2012 is less on 3,51 percentage points.

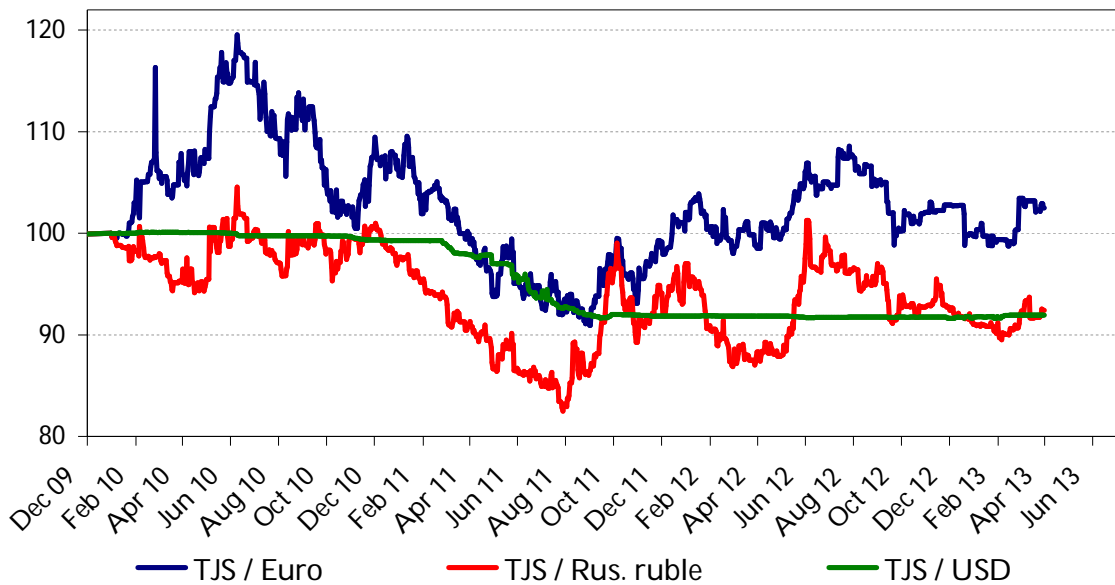
Rate of national currency. With the view of maintenance of the rate stability, purchasing power of the national currency, domestic foreign exchange market regulation for this period the National Bank of Tajikistan carried out exchange transactions and has continued development of legislative acts and regulations on foreign exchange regulation and foreign exchange control in accordance with international rules.

In this regard, during January-June, 2013 the NBT implemented its exchange rate policy on the basis of «floating rate without definition and notification of price limit», and it has been provided relatively stable rate of national currency by using monetary and foreign exchange instruments effectively.

For the first half of the year the official exchange rate in relation to USD as the most used currency in foreign trade transactions has changed from TJS 4,7639 at the beginning of the period to TJS 4,7655 at the end of the reporting period or by 0,3% (for the same period of previous year this change has made 0,1%). However, the official exchange rate of the national currency in relation to Euro and Russian ruble has strengthened by 1,9% and 4,5% respectively.

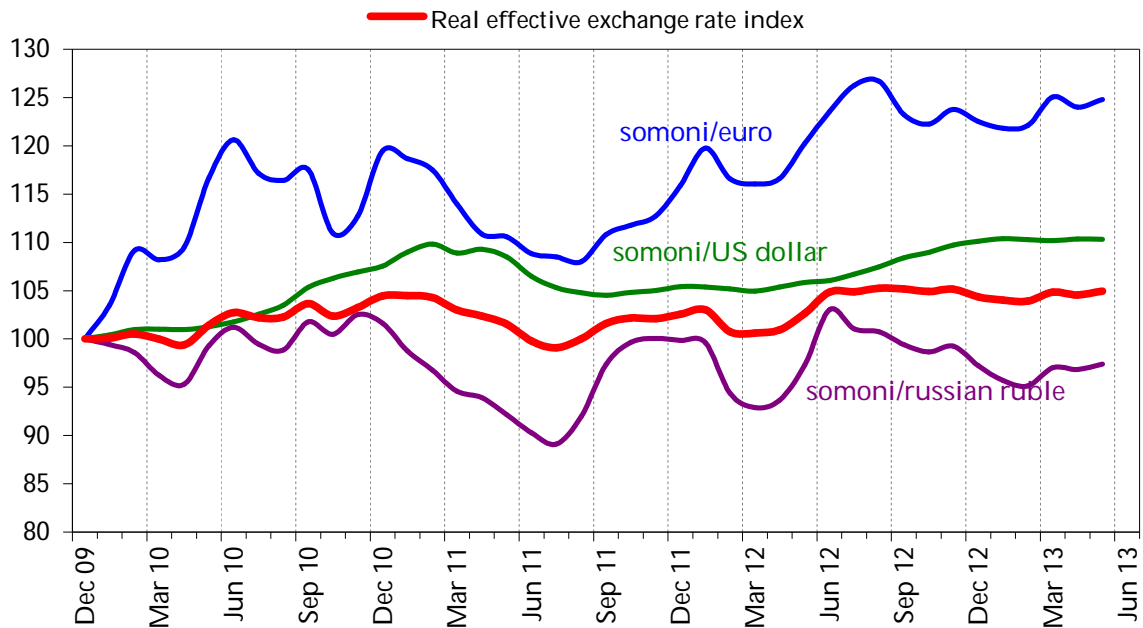
The stable condition of the domestic foreign exchange market plays considerable role in achievement of stability of countries' financial system. Taking this into account, the National Bank of Tajikistan had been took appropriate steps on maintenance of its on-going and effective activity. Especially, it was carried out operations on sale and purchase of foreign currency through unified system of electronic trading in the interbank currency market, particularly USD 4 881,9 million, EUR 2 359,5 million, RUR 83 076,9 million, CAD 0,5 million, CHF 1,0 million and the spread between their demand and supply was balanced.

Chart 10. Index of Tajik Somoni in relation to foreign currencies



The National Bank of Tajikistan estimates real effective rate of Somoni taking into account CPI and rate of foreign exchange in trading partners' countries, and also on the regular base analyses and observes over its change with the view of determination of trade balance condition and implementation of monetary policy effectively.

Chart 11. Index of real effective rate of Tajik Somoni



For the first half of 2013 the real effective rate of Somoni tended to increase, having changed by 1,3 percentage points. At the same time, for the reporting period the real rate of Somoni in relation to US dollar remained unchanged, to Euro has increased by 1,2% and to Russian ruble has decreased by 2,4 % (Chart 18).

Accordingly, in the process of change of nominal rate of Somoni in relation to the Russian ruble and Euro, the real rate of Tajik Somoni will change to these currencies.

3.2. Banking system

There are 16 banks, 127 micro-financial institutions and 316 branches operating in the territory of the republic as of June 30, 2013. The number of banks branches has increased for 17 units, micro-financial institutions for 2 units but non-bank credit institutions has decreased for 1 unit in comparison with the same period of previous year.

Table 1. Banking System of the Republic of Tajikistan (quantity)

| Name of credit institutions | 31.06.2012 | 31.06.2013 |
|--------------------------------------|------------|------------|
| 1. Banks | 16 | 16 |
| 2. Micro-credit deposit institutions | 35 | 37 |
| 3. Micro-lending institutions | 45 | 44 |
| 4. Micro-lending funds | 46 | 46 |
| Total: | 142 | 143 |

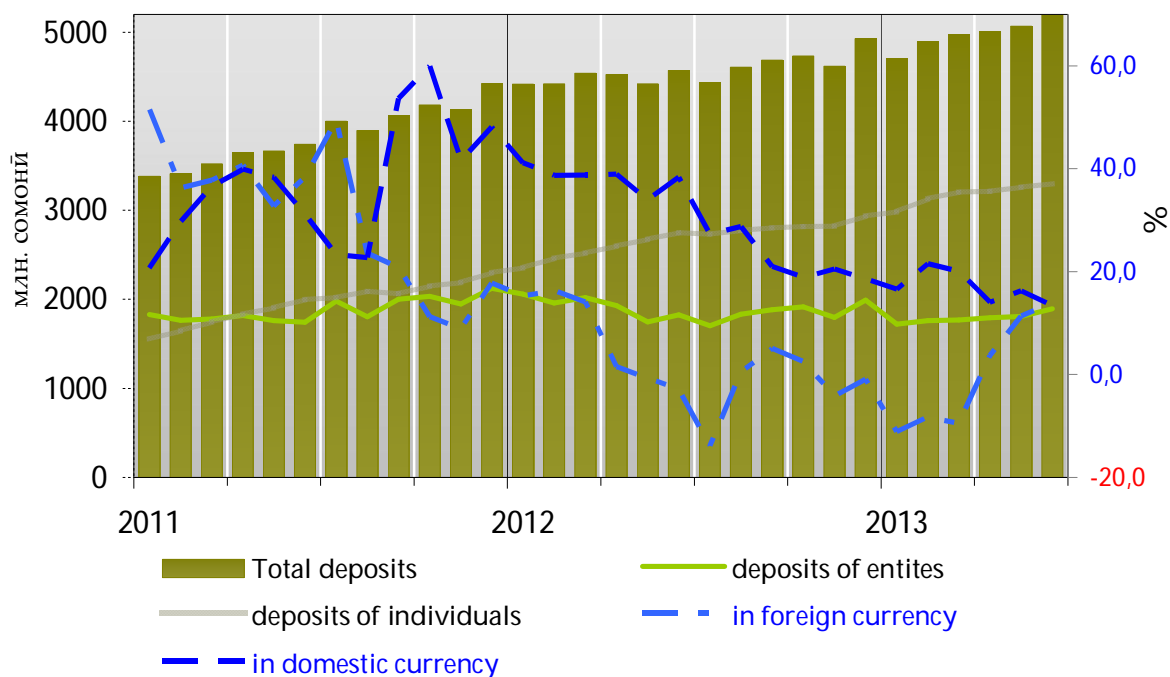
In the first half of 2013, the amount of total assets of credit institutions have made TJS 11,9 billion which is more on 24,7% concerning to the same period of previous year. The amount of total liabilities of credit institutions have made TJS 9,4 billion, having increased in comparison with the same period of previous year by 29,0%. Balance capital of credit institutions has increased by 10,6%, having reached TJS 2,5 billion.

Deposits. In January - June, 2013 the tendency of population deposits attraction by the banking system of country stably developed. The total balance of deposits as of June 30, 2013 has reached TJS 5,2 billion, having increased relatively with the beginning of the year by 5,4% and with the similar date of last year by 13,6%. This growth has occurred at the expense of an increase of deposits volume in foreign currency which testifies trust of population to foreign currency.

The share of deposits in national currency and foreign currency from the total balance of deposits have made 31,2% and 68,8% accordingly. Basically, balance of deposits concerning to beginning of the year has increased in national currency and foreign currency by 0,7% and 7,7% but in compare with the same period of previous year is less on 13,9% and more on 13,4% respectively.

The volume of deposits of individuals and legal entities have increased in comparison with the same period of previous year by 20,1% and 3,8% accordingly.

Chart 12. Dynamics change of total deposits
(balance, end of period)



* changes in the same period of previous year

Lending. Lending to national economy in the first half of 2013 has stably increased. The total volume of outstanding loans as of June 30 of current year has made TJS 6,5 billion, having increased in concerning with the similar date of previous year by 42,7%. The positive tendency of lending is promoted mainly by increase of loans in foreign currency by 46,6% and national currency by 36,6% which share makes 61,8% and 38,2% from the total volume of outstanding loans in foreign and national currencies.

The volume of issued loans for this period to economy sectors has made TJS 4,2 billion, having increased in comparison with same period of previous year on 43,8%. The volume of repaid loans has reached TJS 3,1 billion that makes 74,2% from the total volume of issued loans for this period.

From the total volume of loans issued to foreign trade 28,0%, industry 18,9%, consumer sector 14,4%, construction 11,3%, agriculture sector 10,1%, transport sector 3,6%, financial intermediation 0,8% and other sectors 12,9%. At the same time, lending for business development in the country considered as the main and priority objective of the monetary policy. From total amount of the issued credits by the banking system, 48,7% falls on employer of the sphere of production.

The average weighted interest rate of loans for the reporting period in national currency has made 24,8%, in foreign currency 21,7% which in compare with the same period of previous year in national currency is more on 4,7 percentage points and in foreign currency is less on 2,5 percentage points.

Micro-lending. Micro-lending development in all territory of the country especially in the remote mountain regions remains one of the important directions, to which implementation banking system of the country directs all its possibilities.

For the reporting period the total volume of issued micro-loans has made TJS 2,2 billion, having increased relatively to the previous year by 49,8%. In the remote mountain regions of the country was issued micro-credits for the amount of TJS 444,8 million that in comparison with the same period of last year is more on 43,9%. From the total volume of the issued micro credits for consumer sector 26,3%, agriculture 22,6%, foreign trade 17,7%, industry 10,3%, service sector 8,3%, construction 5,0%, and other spheres 9,8%.

Table 2. Issued micro-credits by regions (thousand TJS)

| Regions | 30.06.2012 | 30.06.2013 | Increase in % |
|----------------|--------------|--------------|---------------|
| Total | 1 485 618,74 | 2 225 796,29 | 49,8 |
| BMAR | 47 977,0 | 73 782,9 | 53,8 |
| RSD | 232 282,0 | 369 870,56 | 59,3 |
| Khatlon Region | 320 064,71 | 499 557,80 | 56,1 |
| Soghd Region | 591 437,98 | 805 092,14 | 36,2 |

3.3. Payments system

In the first half of 2013 the total quantity of transferred payments in the territory of the Republic of Tajikistan has made more than 14,7 million units in concerning to same period of previous year is more on 36,4%. It was

transferred more than 386,0 thousand payment documents through the agencies of the National Bank of Tajikistan for the amount of TJS 28,1 billion that in compare with the same period of previous year the quantity of payments has increased by 24,8%, and the average amount of one payment decreased by 42,7%.

As of June 30, 2013 the total quantity of payment cards issued by banking system has reached 617,0 thousand units that is more on 33,2% in comparison with similar date of previous year. The quantity of owners of payment cards for the end of period has reached to 596,7 thousand person, having increased by 29,7%.

The total volume of operations with users of payment cards for this period has made TJS 1,6 billion, in concerning with the same period of previous year is more on 20,2% or TJS 273,3 million.

Table 3. Structure of banking services network with use of payment cards (units)

| Indicators | 30.06.2012 | 31.06.2013 | Increase | % |
|----------------------|------------|------------|----------|------|
| ATM | 390 | 507 | 117 | 30,0 |
| Cash Issuing Offices | 461 | 585 | 124 | 26,9 |
| Points-of-Sale | 217 | 292 | 75 | 34,6 |