

REPORT ON MONITORING EARLY WARNING INDICATORS TAJIKISTAN, APRIL 2009

Below is an update on “Early Warning Indicators” for Tajikistan covering:

- I. Remittances, the exchange rate, and external economic trends
- II. Consumer and Food Prices
- III. Precipitation and water
- IV. Energy: electricity and gas
- V. Agriculture

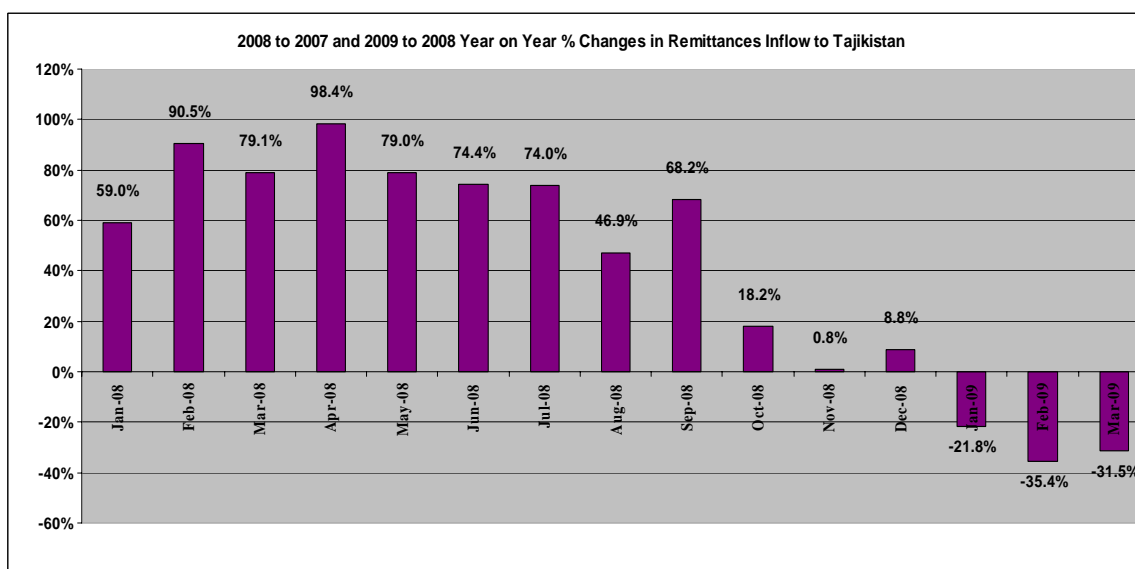
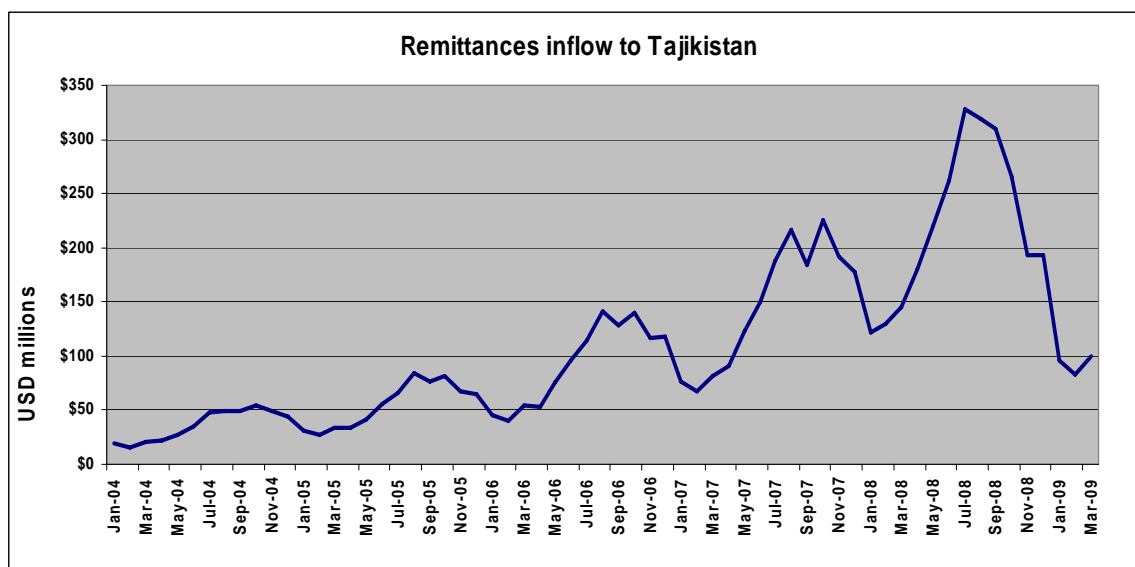


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I. Remittances, the exchange rate, and external economic trends

Remittance inflows during the first quarter of 2009 are some 30% below the same period of 2008. This sharp drop-off implies significant reductions in real incomes, and commensurate increases in food insecurity, for many vulnerable households. It also raises the specter of further depreciation in the nominal exchange rate, which could further worsen problems of food security, inflation, and macroeconomic stability.

See the graph below on remittances inflow



However, it is important to note that this sharp decline in remittances is occurring from a high base; remittances in the first quarter of 2008 increased by 76% compared to the same period of 2007.¹ Likewise, the 21 April approval by the International Monetary Fund's Executive Board of a three-year \$116 million credit line under the IMF's Poverty Reduction and Growth Facility should help take some of the pressure off of Tajikistan's external position.

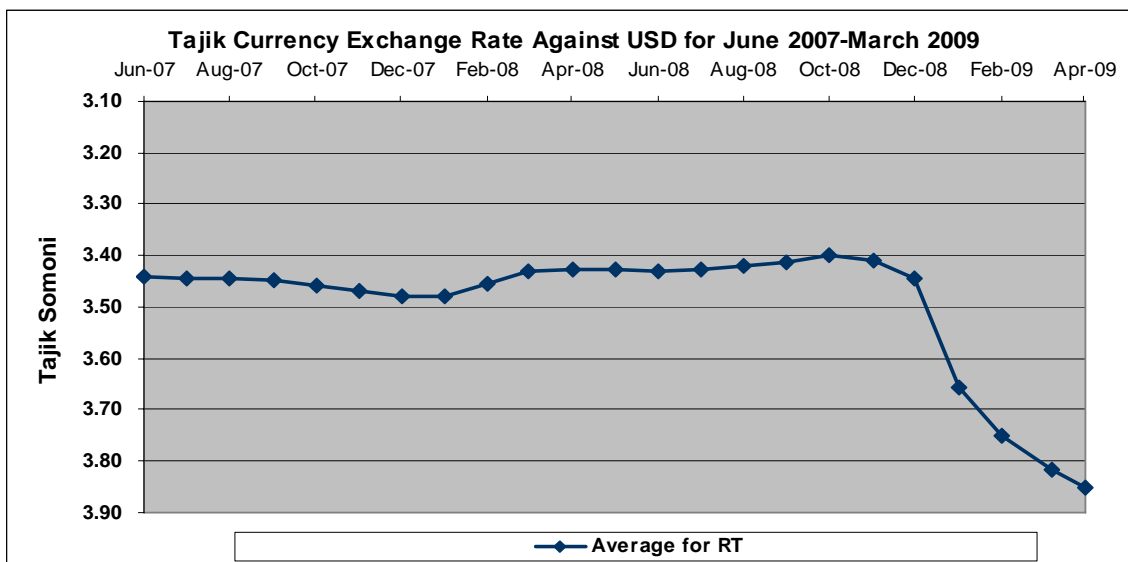
The WFP food security survey tracks remittances and agricultural output as key indicators of food insecurity in Tajikistan. Data collected in January indicate that remittances comprised more than 50% of the total income for 55% of the households receiving money transfers. And for 41% of them, remittances comprised more than two thirds of total income. Moreover, households noted a decline in remittances

¹ Comment from IMF Resident Representative in Tajikistan, Lucas Mores

received: 50% of households with migrants reported not receiving any remittances in the past three months; and among remittances recipients, 60% reported receiving smaller amounts than previously. Perhaps not surprisingly, 43% of surveyed households assessed their economic situation as worse than last year; only 1% found it better.

Tajikistan's trade deficit is exploding amid the global financial crisis. Tajikistan exported just \$174.3 million in goods during the first three months of 2009 (a 48% decline over year earlier levels), compared to \$626 million in imports during the same period (a 10% decline). The average price of wheat (one of Tajikistan's largest imports) during the first three months of 2009 was about 8% above year earlier prices—suggesting further increases in food prices to come.

As the below table shows, the somoni has continued to depreciate against the US dollar, dropping by some 13% between late 2008 and end March. This decline is relatively small, compared to the drops recorded since late 2008 for the Russian rouble, the Kazakh tenge, and other CIS currencies. However, press reports² indicate that the somoni's relatively small depreciation was due in part to active intervention by the National Bank of Tajikistan (NBT) on the foreign exchange market. Combined with the falling export and remittance revenues, this intervention would further reduce the NBT's foreign exchange reserves, thereby raising the risk of larger depreciations in the future—with further increases in inflation and food insecurity, via reductions in real household incomes. See the graph³ below:

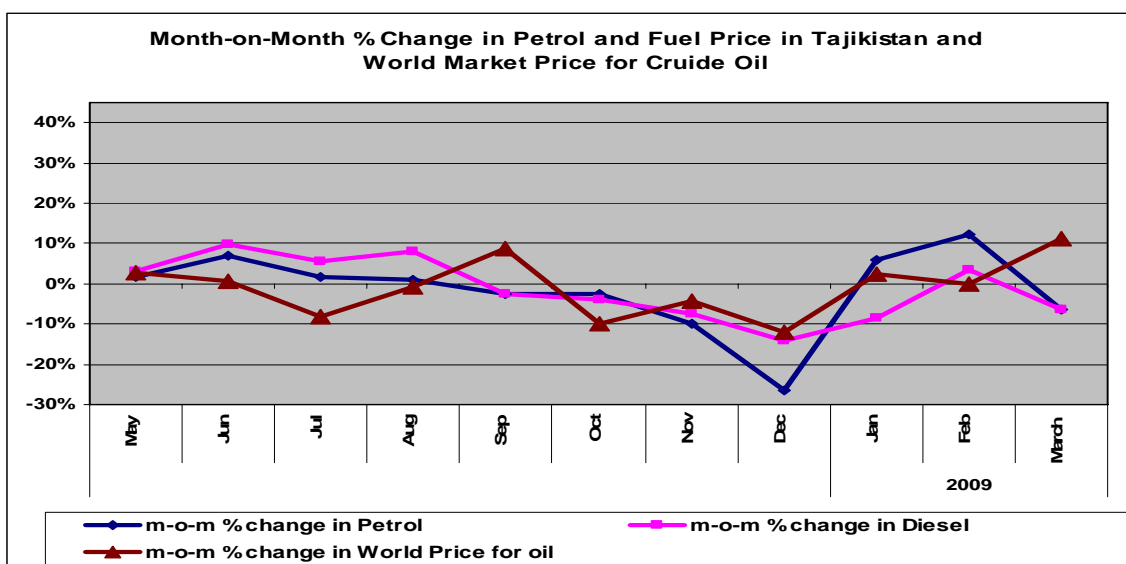


Despite the downward pressures on the exchange rate, WFP monitoring has declines in fuel prices in March 2009, following increases for petrol (12%) and diesel (4%) in February 2009. Petrol and diesel prices in March dropped by 7% and 6% respectively, reflecting global fuel price declines.⁴

² Source: AsiaPlus: <http://www2.asiaplus.tj/news/29/46455.html>

³ Data from National Bank of Tajikistan: <http://www.nbt.tj/en/>

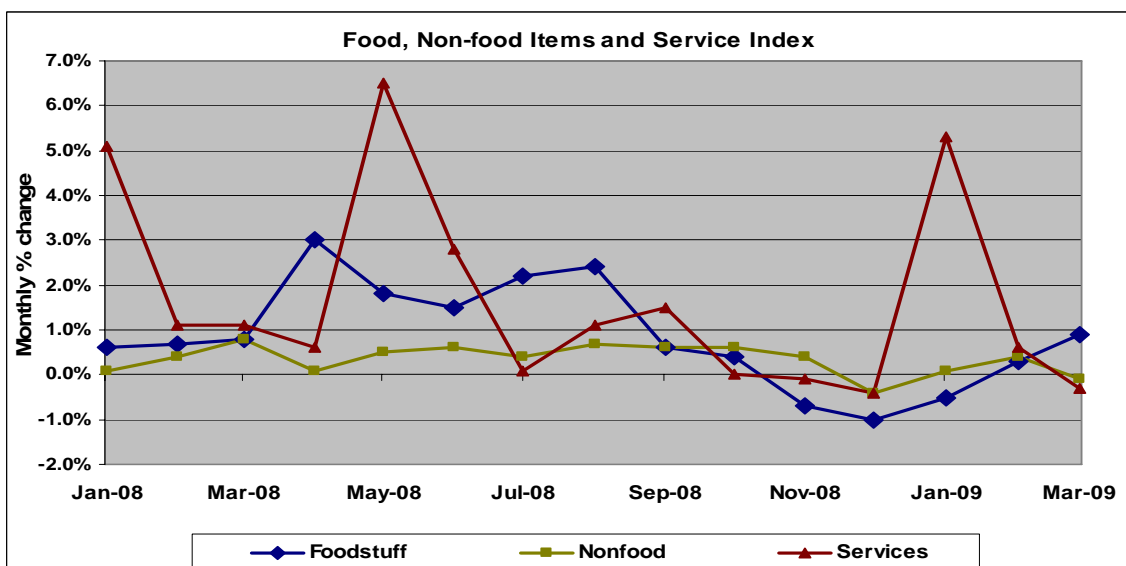
⁴ WFP Food Security Weekly Market Monitoring, Tajikistan



III. Consumer Price Inflation

According to the data on consumer price inflation provided by National Bank of Tajikistan, consumer prices on the whole rose by 0.5% in March 2009, compared to February. Food prices rose by 0.9%, while prices for non-food items and services fell by -0.1% and -0.3% respectively.⁵ As explained by the NBT, the financial crisis has reduced demand for non-food items.

See the graph below: Services index



However, the food price inflation is not much reflected on the price for key food items under WFP monitoring. On the contrary, price declines were observed for flour (in Dushanbe and Khujand by 9%, in Garm and Kurgan Tyube by 5% and in Khorog by 12%).

In part because of the Tajik somoni's depreciation, the declines in annual rates of consumer and food price inflation that began in mid-2008 seem to have stopped; since late 2008 these rates have remained stuck at 10-12%. There is a risk that inflation rates could rise again in 2009, particularly if the state budget balance deteriorates under the impact of the economic crisis. Despite the passage of measures in the first quarter of 2009 to reduce annual budget spending by some 8%, the estimate of the state budget deficit for 2009 has risen from 103 to 553 million TJS. Without increased external financing or more privatization revenues, this shortfall would have to be financed via monetization, which would push

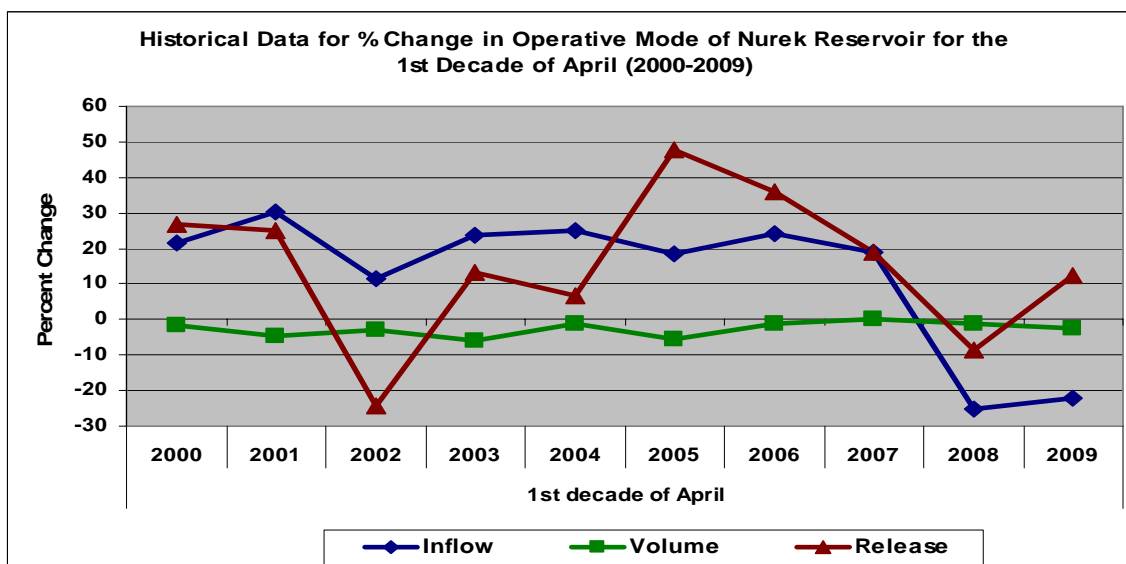
⁵ Data received from National Bank of Tajikistan

inflation higher. In the meanwhile, press reports indicate that social benefits for poor households with children under 18 (paid twice a year) will be cut from 60 TJS (\$16) to 20 TJS (\$5.3). Growing pension arrears are likewise being reported in the Gorno Badakhshan and Sughd regions. In addition to rising inflation rates and falling social benefits, there is the risk that higher tariffs could further reduce access to imports, possibly leading to social unrest.

III. Precipitation and water issues

In the first decade of April, 2009 water volumes at the Nurek hydropower station remained at dead levels (which is typical for late winter/early spring). Whereas water inflows were 22% less than anticipated, water releases were 12% more than planned. Water volumes at the Kayrrakum reservoir in Sughd also remain well below historical averages. WFP monitoring indicates that households and communities are experiencing water shortages for both agriculture and consumption, in both rural and urban areas. Outbreaks of water-related diseases continue to present a risk, such as happened in the Rudaki district (some six kilometers east of Dushanbe) in late March. Reportedly 106 people (out of a total population of 1,844) were diagnosed with typhoid within a week. The local epidemiological center reported that the outbreak was caused by poor quality drinking water which does not meet sanitary requirements and which comes from irrigation ditches.

On the other hand, at the end of March the water content of the snow in Tajikistan's river basins was 10-15% above normal. The overall quantity of precipitations for the period from October 2008 till March 2009 was some 50% above the 40 year average. This bodes very well for improving water security this year. *(See the graph below)*



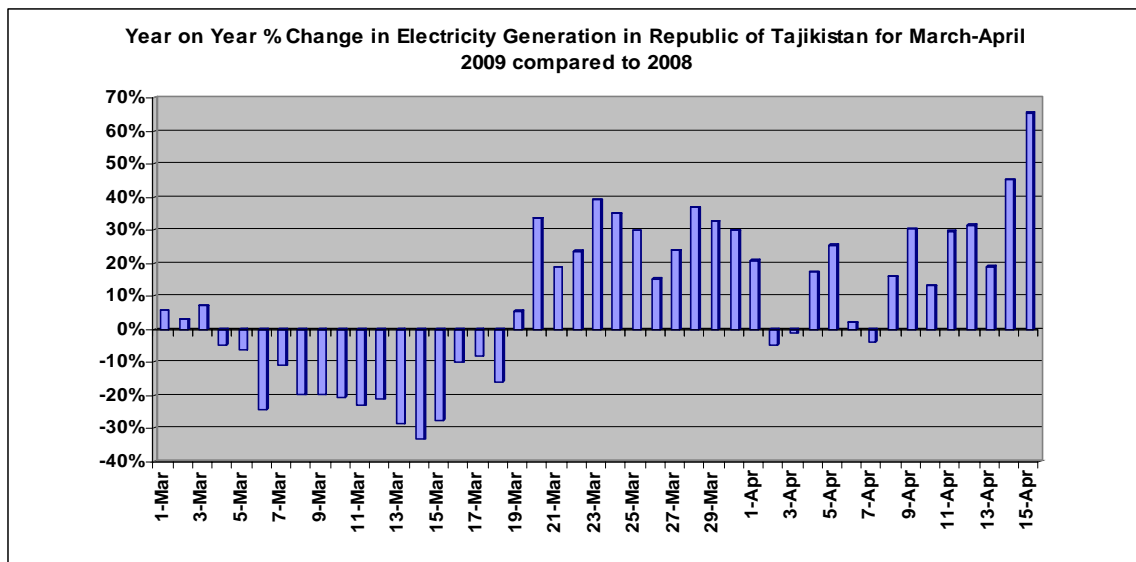
IV. Energy: Electricity & Gas

Electricity

The energy situation in Tajikistan has gotten much better with the renewal of imports of Uzbek and Turkmen electricity in March. Restrictions on electricity supply in all districts and regions of Tajikistan were abandoned completely as of 06 April, 2009.

According to the data received from Barqi Tojik, from 01 January to 22 April, 2009 Tajikistan HEPS generated 3.4 billion KWH and import of electricity from Turkmenistan and Uzbekistan all together made up for 0.7 billion KWH for the same period of time.

Compared to 2008, electricity generation at Nurek has slightly improved thanks to better precipitation and water inflow to the rivers feeding the reservoirs. *(See the graphs below)*



If precipitation levels remain high, inflows to the rivers feeding the hydropower reservoir may increase further, further increasing hydroelectricity generation. On the other hand, water levels at Nurek did hit their dead levels in early April, and volumes at the Kayrakkum reservoir still remain well below historical averages. This suggests considerable water insecurities and tensions could remain in store for 2009.

Gas situation

Tojigaz currently receives 24 thousand cubic meters of Uzbek natural gas per hour—roughly half of what Tajikistan needs this year. Due to unpaid debts, Uzbekistan has reduced deliveries of natural gas to Tajikistan by one quarter. Tojigaz reportedly now owes some \$16 million to Uzbek gas companies. \$13 million out of it is reportedly owed to Tojigaz by Tajikistan's largest state companies, including TajikCement, Talco (the Tajik Aluminum Company), TajikAzot, and main electricity supplier Barqi Tojik. The rest is owed by residential consumers.

V. Agriculture

On March 26, 2009 a new locust infestation was reported in 14 districts of the southern Khatlon province. Locusts hit 72,000 hectares of land; only 2,000 hectares of land have been disinfected. The government has allocated some 5 million TJS for combating the pests. However, as reported by the first deputy governor in Khatlon, government and FAO resources are not enough to disinfect the whole contaminated area. Reportedly, the disinfection needs to be done within 1-1.5 months; as the weather gets hotter, locust may germinate and spread faster to other territories.

Last year's locust infestation hit some 115,000 hectares of land in the country, including 84,000 hectares in Khatlon. This meant significant losses of agricultural output. As the affected lands are mostly planted with grain, vegetables and fruit trees, this infestation may produce significant crop losses (and increase food insecurity) for the second year in a row.