RISK MONITORING AND WARNING REPORT
TAJIKISTAN, July 2009

The report covers the following sectors:

I. PRECIPITATION/NATURAL DISASTERS/EMERGENCIES
II. WATER VOLUMES IN THE RESERVOIRS
III. ENERGY
IV. MACROECONOMIC TRENDS
V. FOOD & FUEL PRICES
VI. AGRICULTURE
VII. MIGRATION

Data and information in this report have been provided by different sources and compiled by the UNDP Disaster Risk Management Programme in Tajikistan. Interpretation of data is provided with the help of governmental institutions, UN Agencies, international financial institutions and individual specialists.

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I. PRECIPITATION / NATURAL DISASTERS / EMERGENCIES[1]

Precipitation and water levels have been over the multiyear norm throughout the months of May and June. According to hydro- meteorological data, precipitation in June 2009 was 250-600% above the norm. In comparison with 2008 when precipitation in June was 0 and when most of the country suffered from drought conditions, meteorological conditions in 2009 are much more favorable for both the agriculture and energy sector.

Precipitation in June				
Main regional cities	**2009**	**2008**	**Norm**	**% change in 2009 compared with norm**
Dushanbe	58	0	10	**480**
Kurgan-Tyube	10.5	0	3	**250**
Khujand	63	0	9	**600**
Khorog	14.8	0	4	**270**

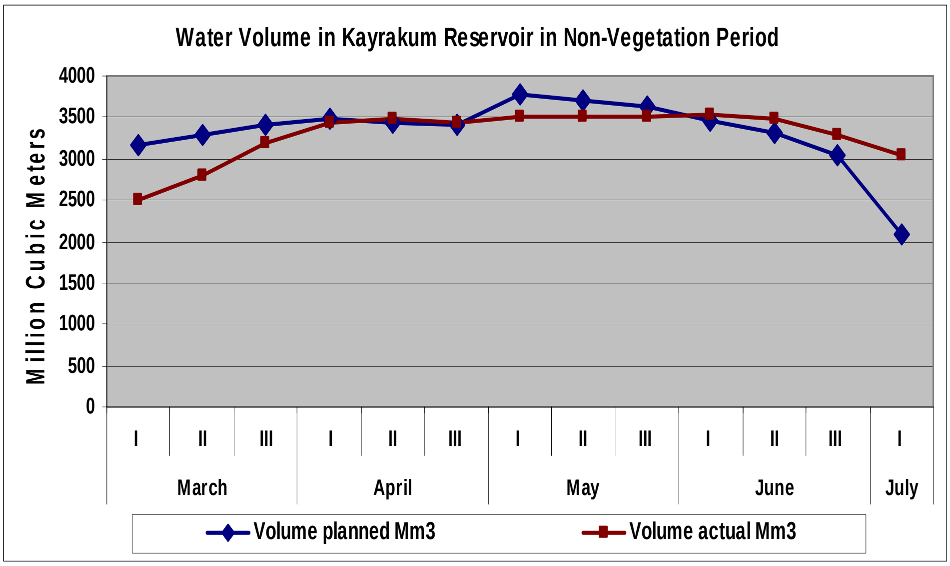
The Committee for Emergency Situations (CoEs) reported 26 fatalities, furthermore more than 2,000 houses were damaged or destroyed by mudflows and 680 head of livestock have been lost. The Government of Tajikistan estimated the total economic loss to be over 100 million US dollars. This, in a period of economic hardship and global financial crisis, leads to considerable hardship for the affected communities as well as for the already strained state budget.

A positive development is that no further weather-related emergencies were reported since the beginning of June.

II. WATER VOLUMES IN THE RESERVOIRS

Thanks to abundant precipitation, water volumes in the main hydropower reservoirs such as Nurek and Kayrakum are currently well above the usual norm. Data posted on the CAREWIB website (Central Asia Regional Water Information Base, http://www.cawater-info.net/index_e.htm) indicates that, for the first 10 days of July 2009, water volumes exceeded the norm by 22% in Nurek reservoir and 47% in Kayrakum.

[1] Data and information are from Hydro Meteorological Agency of Republic of Tajikistan

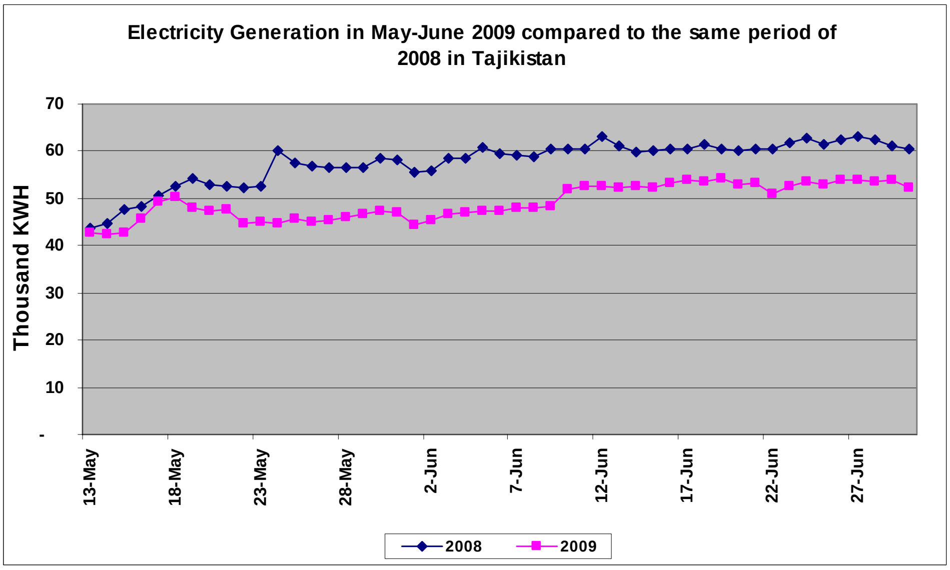


These trends bode well for Tajikistan's water, energy and food security prospects in 2009, as well as for relations with neighboring countries, which rely on water released from Nurek and Kayrakkum for downstream irrigation.

III. ENERGY[2]

Increased water volume in the Nurek reservoir also increased the generation capacity of the Nurek hydro-electric power station (HEPS). This allowed the Tajik government to "repay" the government of Kazakhstan for electricity imports earlier this year, as well as schedule the export of 450 million kWh of electricity to Uzbekistan during the summer season. Over the reported period, Tajikistan has exported about 130 million kWh of electricity to Uzbekistan (6.5 million kWh on a daily basis). Data posted on the State Statistical Committee web site indicates that electricity consumption during April-May was 10% above year-earlier levels. This was a sharp turnaround from the 7% decline reported during the first quarter of 2009 (relative to the first quarter of 2008).

[2] Data and information on generation capacity and electricity availability is from OSHC "Barqi Tojik" (Major energy delivery company in Tajikistan), except where otherwise noted.



However, as shown in the table above, despite high water levels in the reservoirs, for the first 6 months of 2009 Tajikistan has produced 6,668,000 kWh of electricity, which is 14% less than during the same period of 2008. On a daily basis, Nurek HEPS produced an average of 51,000 kWh, compared to 61,000 kWh on average in June 2008.

The lower than normal electricity generation is related to lover levels of energy exports. Over the reported period, Tajikistan has exported only about 130 million kWh of electricity to Uzbekistan (6.5 million kWh on a daily basis). This lower level of export is not only related to a lack of demand for electricity from Uzbekistan[3] but also to the fact that Uzbekistan refuses the transit for electricity exports to other potential clients referring to technical problems. Such practice hampers the potential for energy exports from Tajikistan and as a consequence water from Nurek reservoir has been released on free flow and hence decreased the generation capacity of the hydro-power station.

Gas import[4]

Following negotiations between Tajikistan and Uzbekistan, beginning from 22 June 2009 gas supply to the country has increased to 20-21 thousand m^3 per day (3 times increase). During previous couple months, this amount was only 6,000 m^3, which was hardly enough to supply just TALCO aluminum smelter. Since this increase, Tajiktransgas is in a position to provide Tajikcement and other State enterprises with gas. (Note: The full domestic demand for gas in Tajikistan is 100,000 m^3 per hour).

It must be mentioned that in the previous months, due to some 17 million USD of arrears from Tojiktransgas to Uzbekistan, the volume of gas imports remained low and gas supplies were inadequate. Many industrial enterprises

[3] According to a long-standing agreement between Uzbekistan and Tajikistan concerning the exchange of energy throughout the year, Tajikistan should export 450 million kWh of electricity to Uzbekistan during the summer season (whereas Uzbekistan should export to Tajikistan 600 million kWH in winter).

[4] Data and information are from the State Unitary Company (SUE) “Tojiktransgas”.

continue to refuse to pay Tajiktransgas for gas already consumed; the main debtors are “Bargi Tojik”, with $9.6 million and “Tajikcement” with $2.3 million.[5]

It is also important to note that due to expensive price and irregularity in supply, demand for gas from household has declined over the past years. For the present time, only 15% of gas is supplied to population and the rest amount is for industrial enterprises and service providing companies.

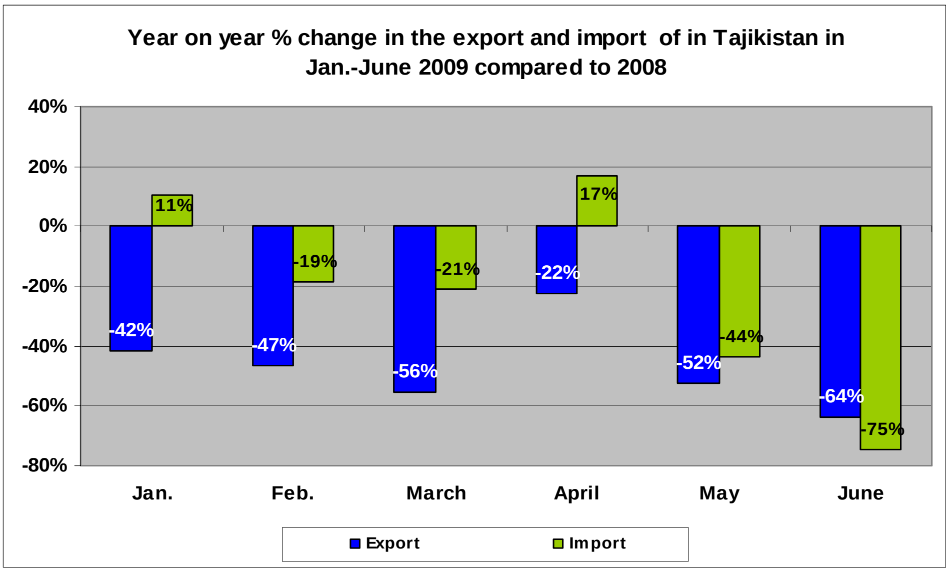
Tariffs for gas

As Tajiktransgas announced recently, as of 01 July 2009, prices for natural gas imported from Uzbekistan rose by 15% for all users, due to the depreciation of the national currency against the US dollar. According to Tajiktransgas residential customers now pay 1,330 TJS (303 USD) per 1000 m^3 of gas, 166 TJS (38 USD) more than in previous months. Due to the on-going depreciation of the Tajik Somoni, Tajiktransgas may review these rates again.

IV. MACROECONOMIC TRENDS

The Tajik economy has been negatively affected by the global economic downturn in 2009. The Government had to revise the planned revenue and expenditure parts of the 2009 budget downward, by about 14% and 10% respectively.[6]

Tajik foreign trade during the first half of 2009 has fallen by almost 715 million USD (31%) compared to the same period of 2008.[7] Reportedly, exports have decreased by 380 million USD (64%) and imports by 335 million USD (75%) compared to the first half of 2008. For the same period, revenues from foreign trade to the state budget reached only 152 million USD, 12% less than the anticipated 171 million USD.[8]



5 Comments from Mr. Shawkat Shoimov, Deputy Director of the “TojikGas” SUE, 01 July 2009
6 Report on Macroeconomic Update, 08 July 2009, ADB, Tajikistan.
7 First Deputy Head of Customers Service of Republic of Tajikistan, Ne’mat Rakhmatov in a press-conference on 13 July 2009.
8 Data from state Committee for Statistics, Tajikistan.

The export slowdown is mainly attributable to the decline in global demand and prices for Tajikistan's primary export commodity, aluminum. This, together with continued problems in the electricity sector, caused the state–owned aluminum smelter and many other important industrial enterprises to cut or fully terminate their production process.[9] Reportedly, during the first 6 months of 2009, 36% of all industrial enterprises in Tajikistan (282 enterprises) reported at least partial production stoppages, reducing total industrial output by 13% compared to the same period of 2008.

The data from State Committee for Statistics of Tajikistan show cotton export revenues during January – May fell by 40% and industrial outputs fell by 7% relative to the first 5 months of 2008.

As industrial products (along with cotton) comprise the bulk of Tajikistan's exports, the decline in industrial production and export prices has a significant impact on the country's external position.[10]

According to the report of the Economist Intelligence Unit, in the first quarter of 2009 real GDP growth was 3.5%, largely thanks to the agricultural services sectors. On the other hand, a 12% decline in industrial production was reported[11] due in part to the constraints on the manufacturing sector imposed by the sharp energy shortages during the first quarter. The GDP growth is projected to be 2-3% in 2009. With improving weather conditions, the agricultural output is expected to grow, and construction can post a robust growth. With view of the decline in trade, agriculture and construction, which are the main factors of growth, the Tajik economy is projected to grow by about 3% in 2009.[12]

However, according to the International Monetary Fund (IMF) projection, the 30-50% decline in the volume of remittances in 2009 and falling world prices for cotton (which are expected to drop by 23% this year) and aluminum (50%) may push economic growth in Tajikistan at best only by 2 % in 2009.[13] More generally, since agriculture generates only about a quarter of Tajikistan's GDP, and since activity in other important sectors—industry, transport (State Statistical Committee data show freight transport tonnage dropping 5% during January-May), trade—are either declining, or are very vulnerable to the effects of the global economic crisis, Tajikistan's growth prospects in 2009 look uncertain at best.

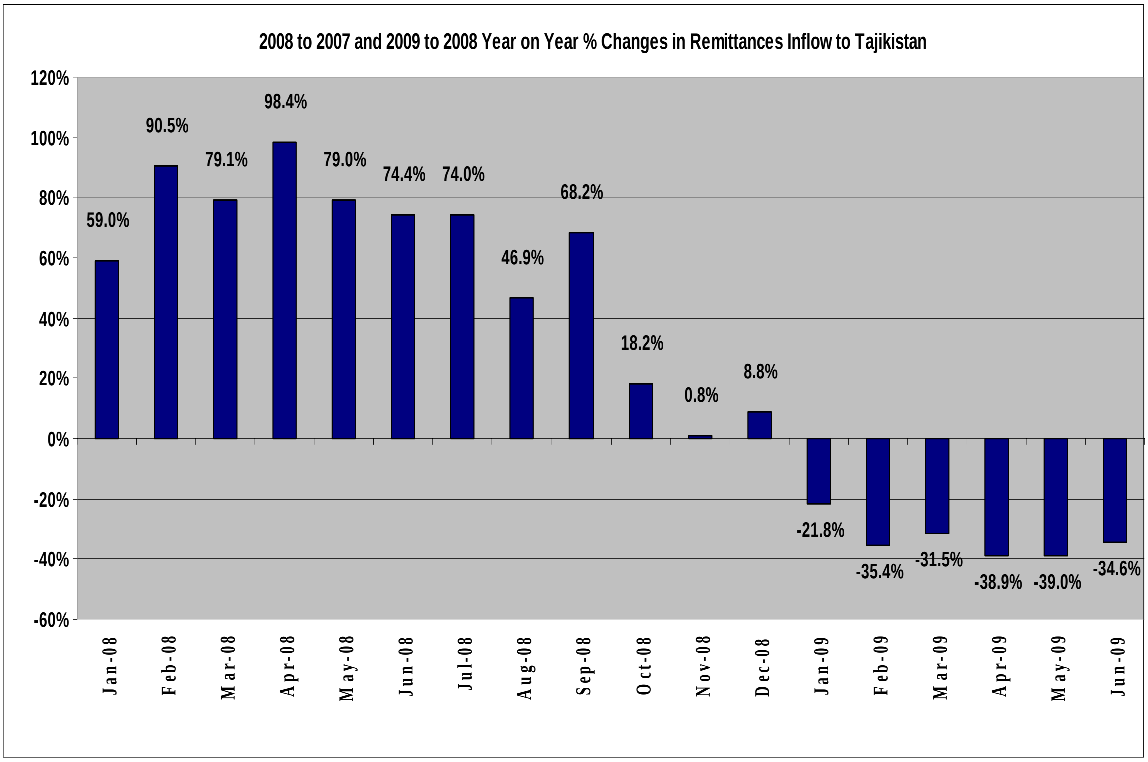
Perhaps more importantly, collapsing remittances and continuing inflation—especially for foodstuffs—continue to raise concerns about household incomes and food security.

Remittances

The volume of remittances to Tajikistan over the first 6 months of 2009 dropped by 34.4% compared to the same period of 2008, further aggravating Tajikistan's external vulnerability. In June 2009, Tajikistan received slightly over

[9] Report on Macroeconomic Updates, 08 July 2009, ADB, Tajikistan.
[10] Source: Tajik major media outlet on line: http://www2.asiaplus.tj/en/news/34/53287.html.
11 See http://www.nbt.tj/?c=44&id=44&a=405.
12 EIU report form June 2009, page 12.
13 IMF Country Report No. 09/147, June 2009.

171 million USD in remittances[14], a 27% increase compared to April 2009 and 35% drop in year-on-year terms.



Partially because of the drop in remittances, the Tajik Somoni (TJS) depreciated by a cumulative 29% against the US dollar in the first 6 months of 2009. The decline in remittances has also reduced imports.

The sharp drop in remittances also seems to have tightened credit conditions: many Tajik banks have already started to raise deposit rates and limit credit growth. Banks are growing more cautious about their investing policies, including vis-à-vis the cotton sector of Tajikistan.

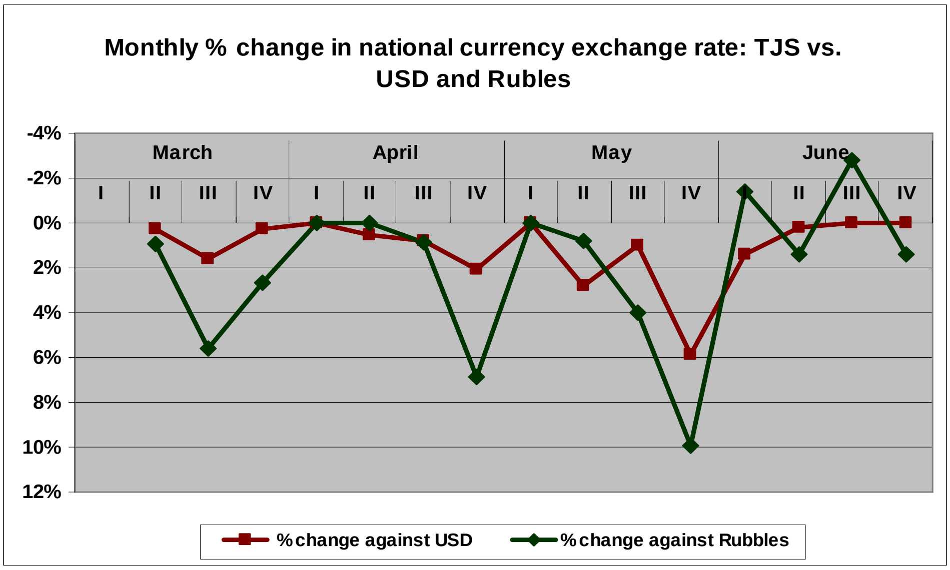
The economic slowdown may further reduce the banks' asset quality, while the Tajik Somoni's depreciation could further add to the problems of the banking sector. Improving prospects for macroeconomic stability and economic growth require pushing forward with agricultural reform, and enhancing state enterprise transparency and accountability.

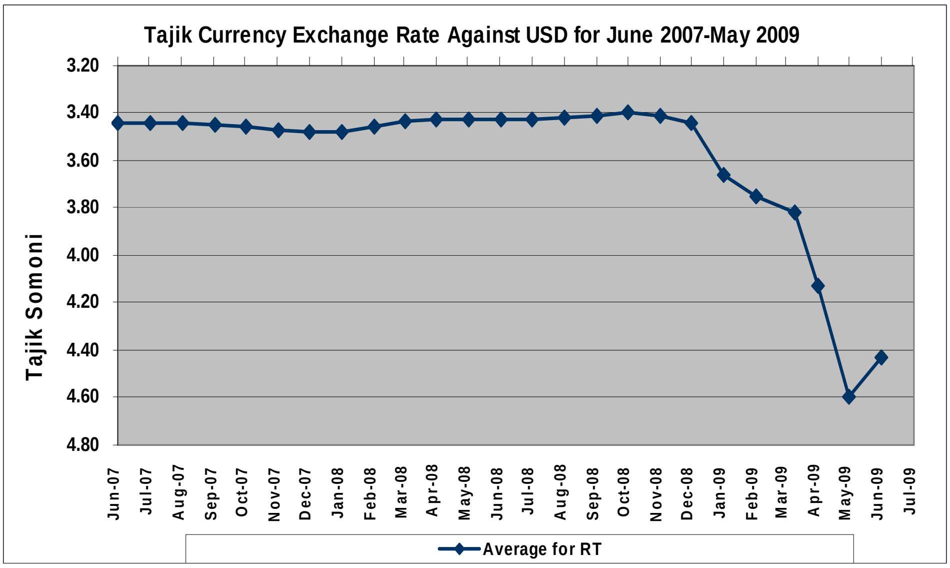
Exchange rate trends

In June 2009 the Tajik Somoni (TJS) stabilized and even slightly appreciated vis-à-vis both the US dollar (by 4%) and the Russian ruble (by 1.4%).[15] A number of possible explanations for this have been advanced, including intervention by the National Bank of Tajikistan, unexpected growth in dollar inflows into retail foreign exchange markets as well as a growing

14 Data from Mr. Luc Moers, IMF Resident Representative in Tajikistan.
15 NBT data: www.nbt.tj

preference for yuan over dollars by Chinese traders. Should this trend continue, it could help stabilize Tajikistan's external position.





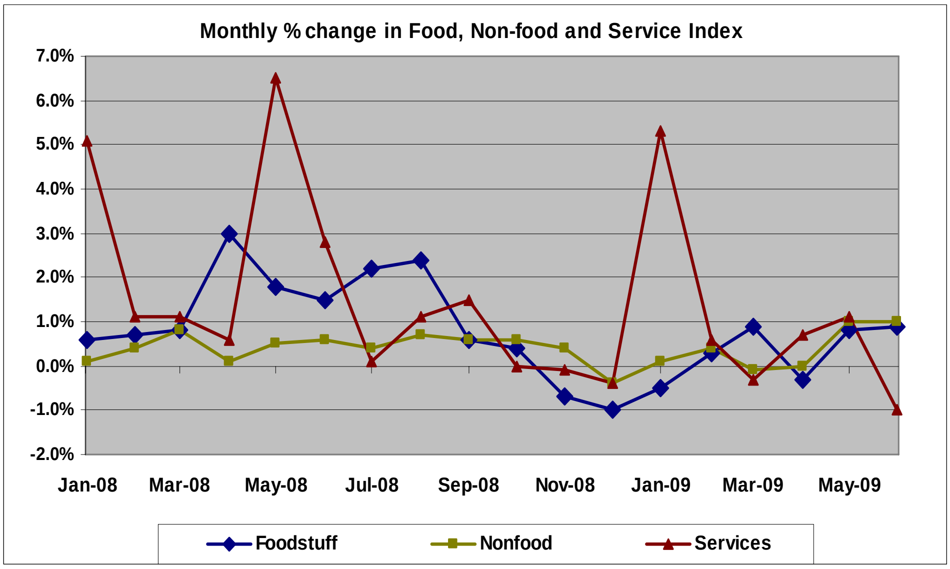
Still, from the beginning of the year, the Tajik Somoni has depreciated by some 27% (in nominal terms) against the dollar. This depreciation coupled with rising global oil prices have exerted upward pressures on the consumer price index (CPI), reduced even in the face of global deflationary pressures and sharp declines in the prices of Tajikistan's exports. Consumer prices during the first five months of 2009 rose 10% relative to January-May 2008 levels; inflation is projected to hover around 12-13% in 2009.[16]

According to the head of the National Bank of Tajikistan (NBT), Sharif Rahimzoda, the payment balance (correlation between import and export) is slowly stabilizing, preventing a sharp depreciation of the Tajik Somoni against the US dollar.

[16] Report on Macroeconomic Updates, 08 July 2009, ADB, Tajikistan

Consumer Price Indexes[17]

Despite strong global deflationary pressure, inflation remains high. From the beginning of the year, the consumer price index in Tajikistan has risen by 2.8%. This includes foodstuff – 2.1%, non-food – 2.4% and services - 6.5%. In June 2009 the overall consumer price index increased by 0.8% compared to May 2009. The foodstuff index has increased by 0.9%, non-food by 1%. However, service prices have decreased by 1%, against 1.1% of increase in May 2009.[18] Monthly inflation has averaged 0.5% for the first half of 2009, compared to 1.4% for the same period of 2008. Still national statistics show that consumer prices as a whole, and food prices in particular, rose by nearly 10% in the first half of 2009 (relative to the first six months of 2008).



According to the State Committee for Statistics, the actual price for a consumer food basket was 97.22 TJS (22 USD) per individual at the end of May 2009, while the average should be 189.07 TJS (43 USD).

V. FOOD & FUEL PRICES

Food prices[19]

The Tajik Somoni's depreciation continues to push food prices up in general.[20] However, prices for some major food items fell in some regions in June 2009. As the table below shows, in most regions of the country market prices have decreased for wheat flour (4.5-6.8%), vegetable oil (7-10%), cotton oil (7-11%) and rice (7-25%). Meanwhile, prices have increased in most regions

[17] A consumer price index (CPI) is a measure of the average price of consumer goods and services purchased by households.
[18] Data from State Committee for Statistics, Republic of Tajikistan
[19] WFP Food Security Weekly Market Monitoring, Tajikistan.
[20] Ibid.

of Tajikistan for potatoes (2-16%) and pulses (14-20%). Prices for other foodstuffs remained generally unchanged.

Month-on-month percent change in food prices in June 2009					
Commodity	**Dushanbe**	**Gharm**	**Khorog**	**Khujand**	**Kurgan-Tyube**
Rice	1.7	-25.0	0.0	-7.1	-7.1
Wheat flour 1st quality	-6.8	0.0	0.0	0.0	-4.5
Vegetable oil	1.7	-7.1	0.0	-9.5	0.0
Cotton oil	0.0	-10.8	-10.0	-7.1	0.0
Beef meat	-1.4	-2.9	0.0	0.0	0.0
Potatoes	2.5	190.0	0.0	-36.4	16.7
Pulses	0.0	0.0	20.0	18.4	14.3
Milk	0.0	-20.0	20.0	0.0	0.0
Eggs	0.0	0.0	0.0	0.0	0.0

Month-on-month food price trends, June 2009					
Commodity	**Dushanbe**	**Gharm**	**Khorog**	**Khujand**	**Kurgan-Tyube**
Rice	▲	▼	▶	▼	▼
Wheat flour 1st quality	▼	▶	▶	▶	▼
Vegetable oil	▲	▼	▶	▼	▶
Cotton oil	▶	▼	▼	▼	▶
Beef meat	▼	▼	▶	▶	▶
Potatoes	▲	▲	▶	▼	▲
Pulses	▶	▶	▲	▲	▲
Milk	▶	▼	▲	▶	▶
Eggs	▶	▶	▶	▶	▶

According to WFP analysis, prices for potatoes and pulses have increased due to stock building by farmers. Prices for wheat flour decreased thanks to the slightly appreciated national currency rate, low import prices and the start of the harvest season. According to the data received from the State Statistical committee of Tajikistan, in May 2009, the price for imported wheat has decreased by 23% compared to May 2008; for the first 5 months of 2009 the importing price for wheat has fallen by 14%.[21] Inflation could accelerate from the rate posted in June as the lagged effects of the Tajik Somoni's depreciation pass through to prices.

On the positive note, forecasts for Kazakhstan's wheat production are positive. The US Department of Agriculture estimates that Kazakh wheat production should increase by 16% from last year. However final yield will depend largely on precipitation during July and August. A positive wheat harvest in Kazakhstan should help maintaining lower prices for imported wheat flour.[22]

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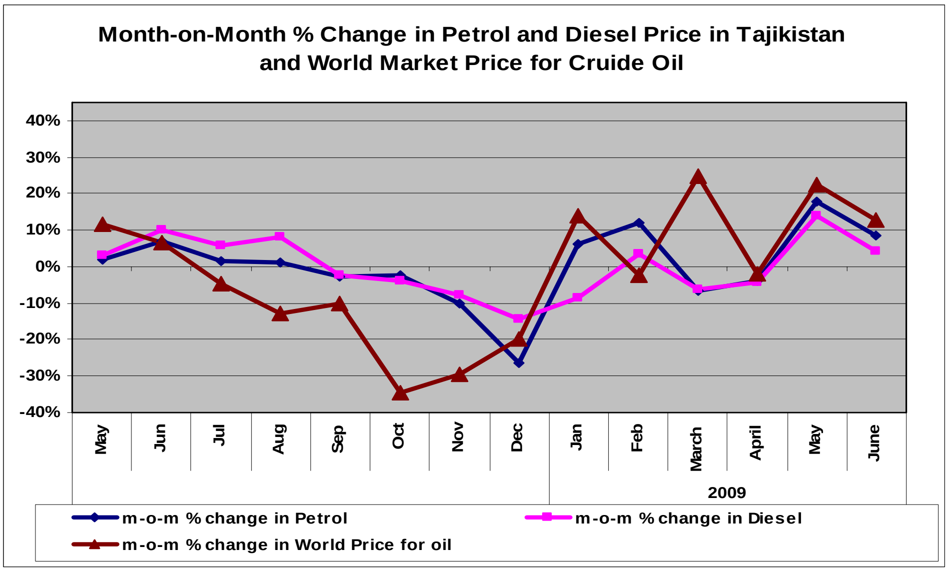
[21] Data from WFP Food Security and Monitoring Survey
[22] Kazakhstan: Higher Sown Area Boosts Wheat Forecast for 2009/10", Office of Global Analysis Production Briefs, 07/10/2009, http://www.pecad.fas.usda.gov/cropexplorer

Fuel prices

Towards the end of June, oil prices in Tajikistan increased in line with the world market price, which increased 13% compared to May 2009 (and 93% compared to the beginning of the year[23]). On the Tajik market, from the beginning of the year the price for petrol has increased by 29% and for diesel by 10%, putting further upward pressures on the CPI of Tajikistan.



VI. AGRICULTURE

A second round of sowing for this year has started. According to the Ministry of Agriculture, this year Tajikistan is re-sowing on 200,000 ha of lands, which are 100,000 ha more than was planted in 2008. From this, 64,000 ha were planted with potato, 4000 ha with vegetables, 27,000 ha with corn, 18,000 ha with rice and 2000 ha with watermelons and other products. Grain farming units from the beginning of 2009 produced some 111,000 tons of wheat, 18% (16,700 tons) more than was collected during the same period of last year. For food security purposes, the Sughd region authorities are creating flour reserves in order to regulate food market prices in the region. As prices for basic food products such as wheat flour and sugar rose by up to 30% during April-May 2009 in Sughd, due to significant reductions in supply, the government has committed to sell wheat flour at prices 10 percent below market levels.

Following international experts' recommendations about developing the agricultural sector amid the global financial crisis and declining demand for Tajikistan's industrial output, the Tajikistan Saving Bank Amonatbonk is receiving 5 million USD from China, 4 million of which will be lent on to Tajik food processing enterprises.[24] The Chinese Government in this way responded to the appeal for crediting some 1 billion USD in projects developed jointly by Amonatbonk with the State Property and Investments Committee. The appeal

[23] Data from: http://tonto.eia.doe.gov/dnav/pet/pet_pri_wco_k_w.htm

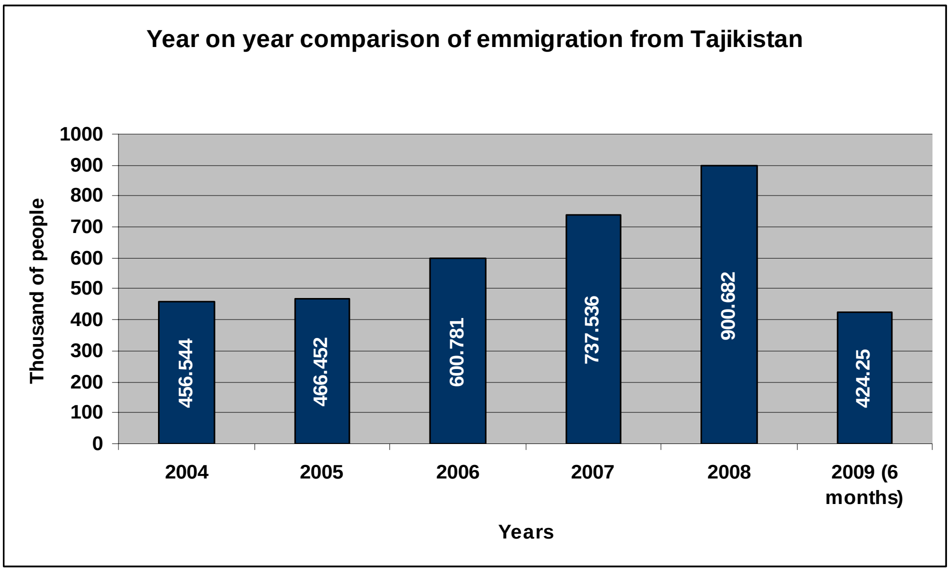
[24] Mahmadamin Mahmadaminov, Head of the Board of Amonatbonk (Tajikistan's savings bank) in a press-conference on July 8, 2009

was submitted for consideration to the Inter-bank Council of the Shanghai Cooperation Organization (SCO).

The Government of Tajikistan has also allocated 24 million TJS (6 million USD) in farm credits through Amonatbonk. By the end of the year, farmers are expected to receive in total 35 million TJS (8 million USD) of credits, which is 13% less than in 2008. One of the reasons for decreasing the credit line to farmers was that out of 40 million TJS invested last year, farmers to date have only been able to repay 59%, due primarily to the decline in international prices and demand for cotton and other agricultural products. In response, a recent presidential decree has written off farmers' debts accumulated until 2008-09. While this latest solution to Tajikistan's "cotton debt" problems may improve the sector's short-run growth prospects, the fiscal implications could be quite large: the cost of the write-off is estimated to be in excess of $500 million.[25]

VII. MIGRATION

Data from the Ministry of Interior's Migration Department suggest that that the scale of returning migrants is relatively small. During January-June 2009 more than 424,000 people emigrated from Tajikistan, while 191,000 (45%) returned home. According to data, most of the people migrating from Tajikistan come from the Directly Ruled Districts (DRD) and Sughd region; these regions also account for most of the returnees.



The graph above suggests that despite the uncertainties in regard with employment in Russian Federation and other CIS countries, number of emigration seem not declining. Although data on returning migrants to Tajikistan over the past years is not available, it is unofficially observed that at the end of 2008 and the first couple months of 2009 the number of returning migrants is bigger than ever.

As less workers leave Tajikistan and as the country economy is not able to absorb this excess of workforce, the existing problem of widespread under- and unemployment will be aggravated for the next 6 to 12 months.

[25] Macroeconomic update from 08 July 2009, ADB