

REGIONAL ECONOMIES

**THE WORLD FINANCIAL AND
ECONOMIC CRISIS AND
ITS IMPACT ON TAJIKISTAN****Munim HASANOV**

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Introduction

The financial crisis that started in U.S. real estate markets in late 2007 has now developed into a financial and economic crisis, spreading to most countries of the world.

The signs of a financial crisis include a decline in bank liquidity, which means a loss of potential customers; rising interest rates on loans, the demand for which decreases; the bankruptcy of a certain part of credit institutions and a financial market slump.

An economic crisis is characterized by a slowdown in GDP growth and a decline in GDP per capita. The supply of goods and services decreases due to a drop in their production, while demand increases accordingly; prices go up, unemployment rises and social tensions increase.

The current crisis is the deepest one in the history of capitalism since the Great Depression of the 1930s, and its consequences will probably be felt in the medium term as well.

1. The Main Causes of the Crisis

A review and analysis of numerous sources show that the crisis erupted for the following reasons:

- **Massive provision of mortgage loans to subprime borrowers with low income or a blemished credit history.** The mechanism of this phenomenon was described in detail by M.A. Niezov, Ph.D. (Econ.).¹
- **Imbalances between the real and financial sectors of the economy, and also between GDP growth and the increase in financial fixed assets.**² “For example, world GDP in 2006 was \$48.4 trillion, while financial fixed assets (shares, bonds and commercial bank assets in the aggregate) were estimated at \$194.5 trillion, i.e., an amount more than 4 times larger than GDP. For comparison...: in 1980, the ratio of financial fixed assets to world GDP was 109%. The excess of assets over real production is particularly large in developed countries: 4.3 times in the U.S. and almost 5.5 times in the EU, whereas in developing European countries ... the ratio was 1 to 14” (italics mine).³ “According to estimates, for every dollar circulating in the real sector of the world economy there is an average of about 50 dollars in the financial sector (italics mine).”⁴ As can be seen from Fig. 1, in 50 years (from 1947 to 1997) the share of profits earned by U.S. corporations (which account for almost a third of world GDP) from the largely speculative financial sector increased 3.5 times, while the share of profits from the real sector of the national economy (which is largely responsible for meeting effective demand and for the people’s quality of life) decreased 1.5 times.
- **Increase in public and private debt.** Compared to 1982, the total debt of the U.S. federal government and the population increased by \$2 trillion (40%) in 1985, \$9 trillion (2.8 times) in 1991, \$11 trillion (3.2 times) in 1994, \$14 trillion (3.8 times) in 1997, \$20 trillion (5.0 times) in 2000, \$26 trillion (6.2 times) in 2003, and \$36 trillion (7.2 times) in 2006. U.S. public debt in 2006 was \$5.8 trillion (40.8% of GDP); by the end of fiscal year 2009-2010, it is expected to reach \$9 trillion (62.0% of GDP). The limiting (critical) value of the debt-to-GDP ratio, which characterizes a country’s financial and economic security, is 50.0%.⁵ Moreover, in the past period there was a change in the ratio of U.S. household debt to household income. As Fig. 2 shows, in 40 years (1959-1999) the ratio of private household debt to income increased 1.8 times; in 2003, more than 2.1 times, and in 2007, more than 2.5 times.

¹ See: “Professional’naia beseda,” *Paem IPKGS RT* (IIQCS Bulletin), No. 2, 2009, pp. 58-64.

² Here and below we use data from a report by L.H. Saidmuradov, “Mirovoi finansovyi krizis i mery po iego preodoleniu na global’nom urovne,” in: *Mirovoi finansovyi krizis i Tadzhikistan*, Workshop on the World Financial Crisis and Tajikistan, Workshop Materials, NDPT, Dushanbe, 2009, p. 117.

³ *Gosudarstvennaia sluzhba*, No. 3, 2009, p. 17.

⁴ V.I. Kushlin, “Innovatsionnye faktory ekonomicheskogo razvitiia v sovremennykh usloviakh,” *Gosudarstvennoie regulirovanie ekonomiki i povyshenie effektivnosti deiatel’nosti subiektov khoziaistvovaniia*, Fifth International Workshop on State Regulation of the Economy and Improvements in Economic Efficiency, Collected Reports, Part I, Academy of Management under the President of the Republic of Belarus, Minsk, 2009, p. 379.

⁵ See: M.M. Hasanov, H.D. Saidhojaev, *Vneshni dolg: mirovye tendentsii i ikh prilozhenie k ekonomike Tadzhikistana*, 3rd edition (revised and enlarged), NPITsentr, Dushanbe, 2004, p. 67.

Figure 1

Changes in the Structure of U.S. Corporate Profits from 1947 to 2007

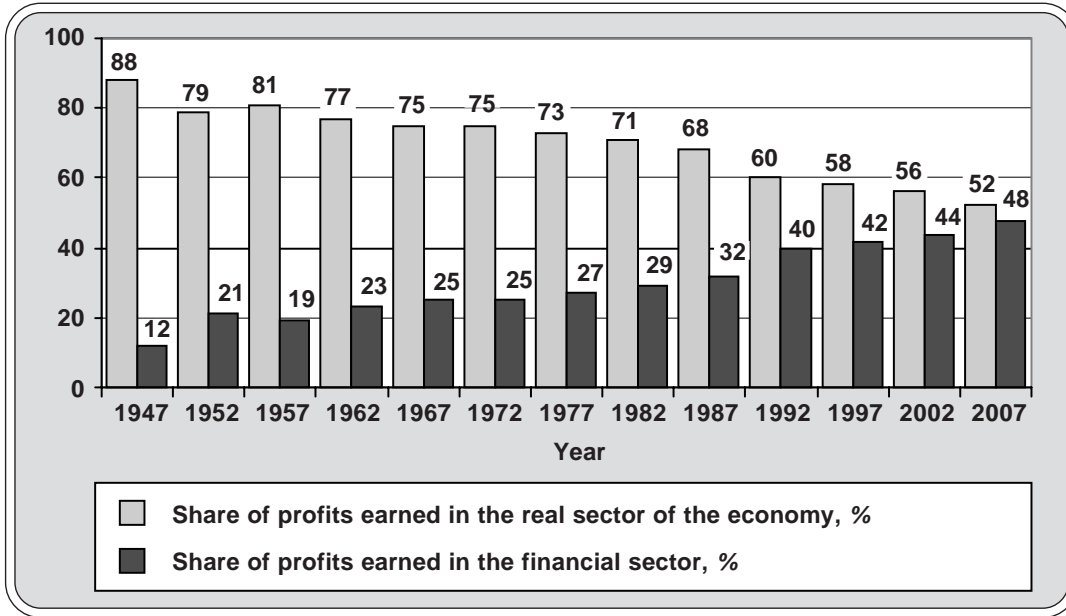
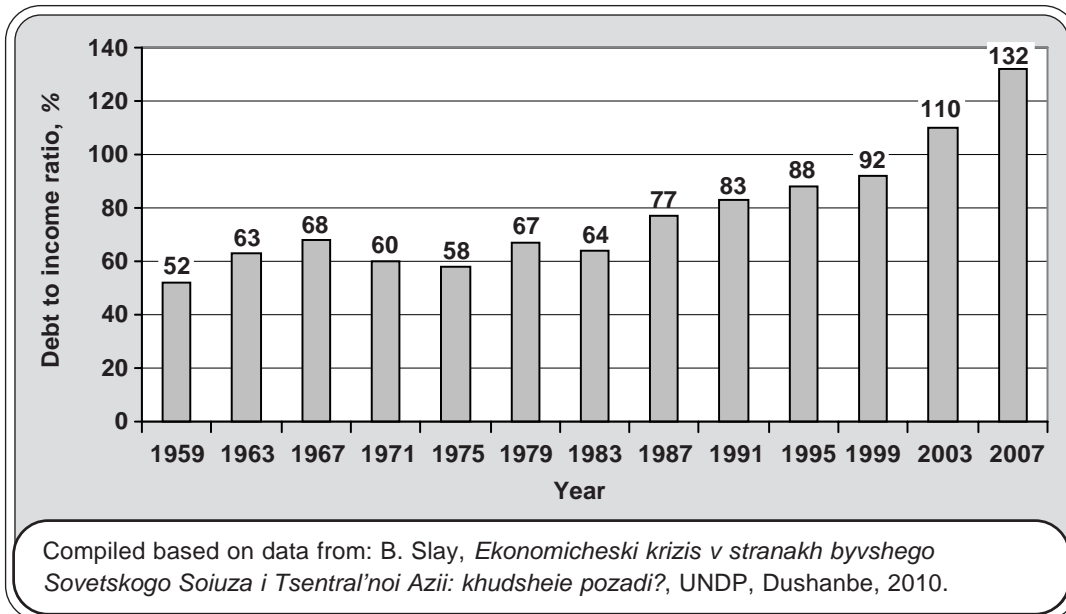


Figure 2

Changes in Household Debt to Income Ratio



- **Rising world hydrocarbon prices.**
- **Rising world food prices, especially the price of grain (due to its wide use for the production of motor fuel in the U.S. and a number of other countries).** Table 1 shows that average prices for basic foods have increased (compared to January 2007): by 14% in the world market and 2% in Tajikistan in June 2007; by 23% and 4%, respectively, in August; by 32% and 18% in October; by 41% and 25% in December; by 61% and 28% in March 2008, by 63% and 36% in June, and by 50% and 42% in August. Although food prices in Tajikistan have risen slower than world prices, in 21 months (January 2007-September 2008) they nevertheless increased by 43% (by an average of just over 2% a month).

Table 1

Food Price Index at World Level and in Tajikistan for 2007-2009, %

Months and years	World	Tajikistan	Months and years	World	Tajikistan
1/2007	100	100	7/2008	159	139
2/2007	102	101	8/2008	150	142
3/2007	103	101	9/2008	141	143
4/2007	105	102	10/2008	125	144
5/2007	107	103	11/2008	115	143
6/2007	114	102	12/2008	109	141
7/2007	118	103	1/2009	110	141
8/2007	123	104	2/2009	106	141
9/2007	130	115	3/2009	107	142
10/2007	132	118	4/2009	109	143
11/2007	137	123	5/2009	116	144
12/2007	141	125	6/2009	115	145
1/2008	147	126	7/2009	112	145
2/2008	159	127	8/2009	116	145
3/2008	161	128	9/2009	117	145
4/2008	159	132	10/2009	120	146
5/2008	163	134	11/2009	129	146
6/2008	163	136	12/2009	131	145

Compiled based on data from: B. Slay, op. cit.

At the same time, from September 2008 to December 2009 world food prices tended to decline, whereas food prices in Tajikistan remained relatively stable.

The negative effect of the crisis is compounded by factors such as globalization, high capital mobility and significant openness of national economies.

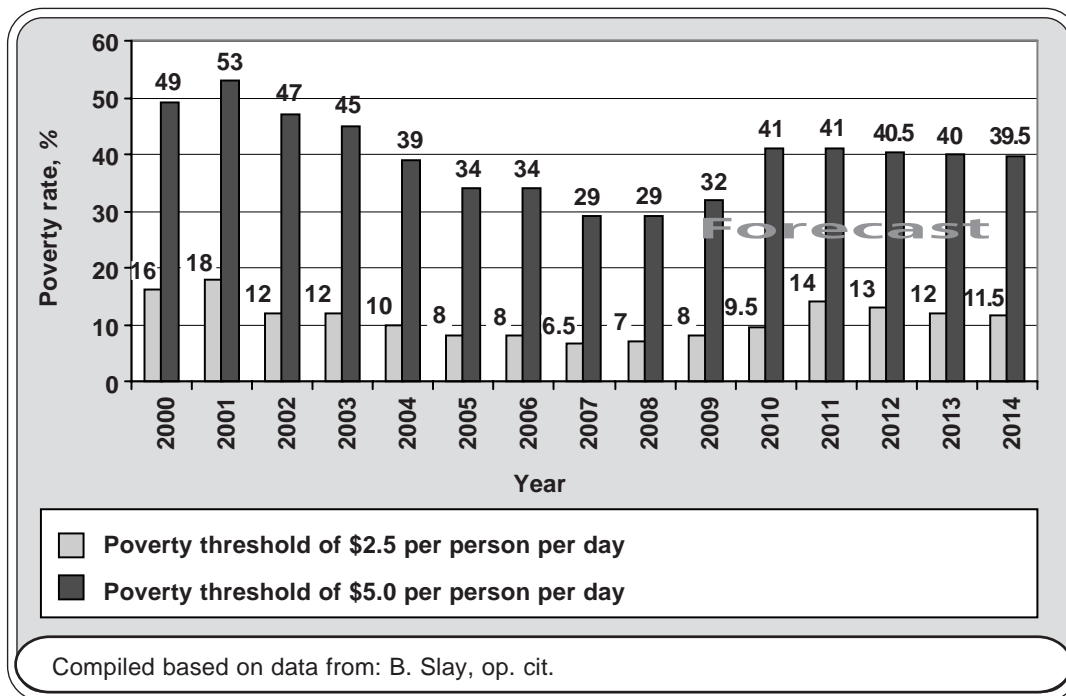
2. The Global Consequences of the Crisis

To a first approximation, the global (worldwide) consequences of the crisis are as follows:

- (1) **Economic slowdown.** In 2009, GDP fell (compared to 2008) by 15.0% in Ukraine, 14.0% in Armenia, 8.0% in Russia, 7.0% in Moldova, 6.7% on average in the countries of the former Soviet Union, 6.0% in Turkey and Turkmenistan (in the latter, the drop in GDP was episodic due to a gas pipeline accident), and 2.5% in the countries of Latin America (as a whole). For the sake of objectivity, it should be noted that in the period under review some countries have achieved high GDP growth rates: 9% in Azerbaijan and China, 8% in Uzbekistan, and 5% in Asian countries.⁶
- (2) **Decline in external financing of transition countries.**
- (3) **Rising poverty rate.** In 2007, the number of people in the world obliged to live on an income of \$2.15 or less per day increased by 53 million to 1.5 billion; the number of people with incomes of \$1.25 or less increased by 46 million. As evident from Fig. 3, in 2009 the poverty rate in the countries of Central Asia (CA) on average increased (compared to 2008).

Figure 3

Poverty Dynamics in CA Countries for 2000-2014



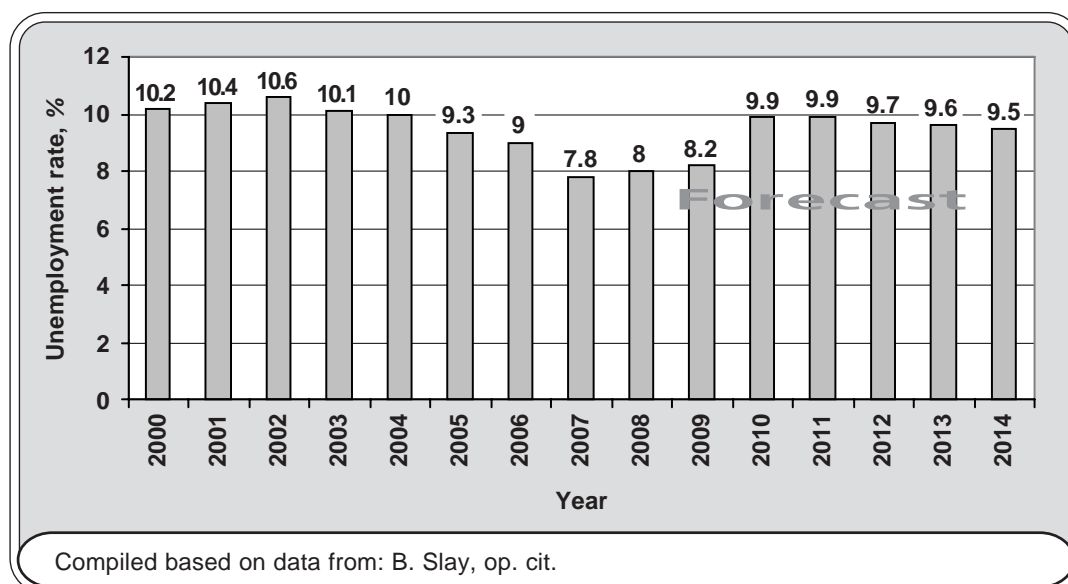
⁶ Data taken from: B. Slay, op. cit.

With a poverty threshold of \$2.5 per person per day, the poverty rate increased by 1%, and with an income of \$5.0, by 3%.⁷

- (4) **Rising unemployment and possible global recession.** In 2009, for example, the unemployment rate rose (relative to 2008) by 50% in Moldova, 35% in Turkey and Ukraine, and 35% in Russia⁸; in CA countries, this trend will be sustained (see Fig. 4).

Figure 4

Unemployment Dynamics in CA Countries for 2000-2014



3. The Impact of the Crisis on Tajikistan

Since the *third quarter of 2008*, Tajikistan “has felt the impact of the world crisis in the form of solvency problems in the banking system, a reduction in migrant remittances, demands for repayment of external loans before maturity, and a decline in foreign investment.”⁹

The situation that has arisen in Tajikistan as a result of the crisis can be characterized as follows:

- (1) **slowdown in GDP growth.** In 2009, the GDP growth rate in Tajikistan was only 3.4%, whereas in 2008 it was 8% (according to the State Statistical Committee, now reorganized into the Statistical Agency under the President of Tajikistan);
- (2) **decline in production in the real sector of the economy.** In 2009, industrial production fell by 7.4% compared to the previous year¹⁰;

⁷ Ibidem.

⁸ Ibidem.

⁹ Roundtable on the Impact of the Global Financial Crisis on Labor Migration from Tajikistan, *Vliyanie mirovogo finansovogo krizisa na trudovuiu migratsiu iz Tadzhikistana*, IOM, Dushanbe, 2009, p. 110.

¹⁰ See: *Asia-Plus*, No. 1 (520), 2010.

- (3) **decline in export earnings and, accordingly, in foreign trade turnover.** In the first eight months of 2009, export earnings fell by \$450.3 million (55.1%),¹¹ particularly due to the slump in external demand and the drop in world prices for primary aluminum, which accounted for 72% of 2008 export earnings.¹² In the first eight months of 2009, Tajikistan's total foreign trade fell by \$936 million (69%),¹³ including due to a drop in primary aluminum exports by 45.2 thousand tons or \$421.6 million.¹⁴

Admittedly, Tajikistan's exports for the most part consist of low value added commodities (mainly cotton fiber and primary aluminum), which does not serve the republic's national interests; this is particularly pronounced during the crisis. For example, from 2003 to 2008 raw and other materials accounted for almost 85% of total export earnings; machinery and equipment contributed just under 2%, while the "lion's share" (72%), as noted above, came from primary aluminum.¹⁵

In 2009, Tajikistan produced 360 thousand tons of primary aluminum, or almost 40 thousand tons (9%) less than in 2008; its exports in 2009 (348.7 thousand tons amounting to \$589.5 million) fell by 50.7 thousand tons or \$423.5 million (compared to 399.4 thousand tons or \$1,013 million in 2008).¹⁶

Thus, 96.9% of primary aluminum produced in Tajikistan in 2009 was exported, and only 3.1% was used within the country. It should be noted that high value added products (high-quality rolled aluminum, foil, presswork, etc.) sell in the world market at 2-4 times the price of primary aluminum.¹⁷ In other words, a ton of "primary aluminum that is not exported but is used to manufacture rolled aluminum increases value added by \$600 (italics mine). Exports of aluminum finished products multiply the republic's foreign exchange earnings, making it possible to solve the employment problem and create new jobs, which is a significant factor in today's Tajikistan."¹⁸

As for cotton, "the difference between the price of cotton fiber and cotton fabrics made from it (per kilogram of fiber) is 10-12 times. If 40% of the cotton fiber produced is processed into yarn and fabric, sales revenue will increase about 2.1 times."¹⁹

Whereas in 2008 the average price of a ton of primary aluminum in the world market was \$2,575, in 2009 it was \$1,691, dropping by \$884 (34.3%) in one year. The situation with cotton fiber is very similar: in 2009, the average world price was \$1,150 per ton, whereas in 2008 it was \$1,264,²⁰ dropping by \$114 (almost 10%) in one year.

This is exactly why in January-April 2009 export earnings from primary aluminum and cotton fiber decreased by \$224 million.²¹

In the fall of 2009, averages prices for these commodities began to rise; their year-end prices in the world market were 7% to 12% higher than at the beginning of the year.²²

In the second half of 2009 and from the beginning of 2010, the price of a ton of primary aluminum rose from \$1,600 to \$2,400, and that of cotton fiber, from \$800 to

¹¹ See: *Asia-Plus*, No. 36 (503), 2009.

¹² See: *Asia-Plus*, No. 22 (489), 2009.

¹³ See: *Asia-Plus*, No. 36 (503), 2009.

¹⁴ See: *Ibidem*.

¹⁵ See: *Vneshneekonomicheskaya deiatel'nost RT*, Statistical Handbook, State Statistical Committee, Dushanbe, 2009, p. 528.

¹⁶ See: *Asia-Plus*, No. 5 (524), 2010.

¹⁷ See: *Vremia—dengi*, No. 24 (024), 2010; *Ekonomika stroitelstva*, No. 12, 1999.

¹⁸ *Biznes i politika*, No. 16 (484), 2002.

¹⁹ *Biznes i politika*, Nos 1, 2 (510, 511), 2002.

²⁰ See: *Asia-Plus*, No. 5 (524), 2010.

²¹ See: *Asia-Plus*, No. 22 (489), 2009.

²² See: *Asia-Plus*, No. 1 (520), 2010.

\$1,600²³; in December 2009, export earnings increased by 18.7% compared to November 2009.²⁴

In order to overcome the disturbing trends described above, the government is working to implement its programs for complete processing of products made in Tajikistan. In the area of cotton fiber production, these programs are to be implemented by 2015, and in the production and processing of primary aluminum, from 2007 to 2015;

(4) **decline in remittances from migrants working outside the country (migrant workers).** In 2009, remittances fell by \$836 million to \$1,833 million (from \$2,669 million in 2008).²⁵

Overall, in 2009 the inflow of funds from migrant workers to Tajikistan and Moldova decreased by 32% compared to 2008, and to Kyrgyzstan by 26%, and the outflow of such funds from the main countries receiving CIS migrant workers decreased accordingly: by 32% from Russia and 18% from Kazakhstan.²⁶ “The decline in remittances has led to solvency problems in the banking system, financial instability and a fall in effective demand, seriously affecting household income and increasing the poverty rate, which is a cause for serious concern.”²⁷

Let us note that in 2008 migrant worker remittances made up almost 50% of the republic’s GDP.²⁸

At the end of 2009, remittances to Tajikistan gradually began to recover; whereas in June 2009 they fell by 35%, in September the decline in remittances was only 27%, and in the last three months of the year (October-December) they increased by 8%.²⁹

It should be borne in mind that migrant remittances are a very important and tangible source of improvements in living standards and quality of life in Tajikistan; “if labor migration is regarded as exports, remittances constitute almost a third of total exports, ranking second behind aluminum.”³⁰

It should be noted that in 2002-2008 the amount of remittances to Tajikistan tended to increase. In 2002, it was \$78.4 million, rising to \$600.0 million (by 521.6 million or almost 7.7 times) in 2005,³¹ and then, as noted above, to almost \$2.7 billion in 2008, which means an increase of \$2.591 billion or 34 times (sic!) compared to 2002.

Thus, in six years (from 2002 to 2008) the growth rate of remittances multiplied 5.7 times; in 2008 they increased 4.4 times compared to 2005 (by almost \$2.1 billion).

“Relative to state budget expenditures, they (remittances.—*M.H.*) amounted to 40.4% in 2002, 136.5% in 2005, 238.7% in 2006, 159.3% in 2007, and 165.9% in 2008 (italics mine).

“If we compare the official amounts of migrant remittances with GDP, we will get the following data: 41.7% in 2006, 43.3% in 2007, and 48.7% in 2008 (italics mine).

“Expert assessments show that migrant remittances through informal channels make up about 40% (italics mine).

“Taking into account the overall estimate, the ratio of remittances from Tajik migrant workers (to GDP.—*M.H.*) was 58.4% in 2006, 60.6% in 2007, and 64.2% in 2008 (italics mine);”³²

²³ See: *Asia-Plus*, No. 4 (523), 2010.

²⁴ See: *Asia-Plus*, No. 5 (524), 2010.

²⁵ See: *Asia-Plus*, No. 9 (528), 2010.

²⁶ Data taken from: B. Slay, op. cit.

²⁷ Roundtable *Vliyanie mirovogo finansovogo krizisa na trudovuiu migratsiu iz Tadzhikistana*, p. 110.

²⁸ See: *Ibid.*, p. 171.

²⁹ See: *Asia-Plus*, No. 1 (520), 2010.

³⁰ Roundtable *Vliyanie mirovogo finansovogo krizisa na trudovuiu migratsiu iz Tadzhikistana*, p. 108.

³¹ See: *Ibid.*, p. 171.

³² *Ibid.*, p. 118.

As has been established, a 5% reduction in remittances leads to an increase in budget losses by 1%.³³

At the same time, migrant remittances are beneficial not only to the country exporting migrant workers (say, Tajikistan) but also to their importer (Russia); it has been established that for every ruble remitted by migrant workers to their home country there are five rubles of wages left by them in the host countries.³⁴

But “today 70% of the amount of remittances is used to acquire imported goods,”³⁵ while 30% is used for the purchase of domestic products and for personal savings. This situation is very worrying, and government bodies in Tajikistan should take urgent measures to overcome it.

In 2008, about 800 thousand Tajik citizens worked outside the country, including just over 90% of them in Russia³⁶; their numbers tend to increase (see Table 2 and Fig. 5).

Table 2

**Changes in the Number of Tajik Migrant Workers
in Russia**

Years	Number of Migrant Workers, thousands*	Index (2003 = 100)**	Percentage Change from Previous Year
1	2	3	4
2003	224	100.0	—
2004	254	113.4	13.4
2005	466	208.0	83.5
2006	562	250.9	20.6
2007	727	324.6	29.4
2008	800	357.1	10.0

* Data from: Roundtable *Vliianie mirovogo finansovogo krizisa na trudovuiu migratsiu iz Tadzhikistana*, p. 171.
** Calculated by the author using data from Column 2 of this Table.

In 2003, the number of migrant workers was 224 thousand, rising to 254 thousand (by 30 thousand or 13.4%) in 2004, 466 thousand (by 242 thousand or almost 2.1 times) in 2005, 562 thousand (by 338 thousand or 2.5 times) in 2006, 727 thousand (by 503 thousand or more than 3.2 times) in 2007, and 800 thousand in 2008.

Overall, from 2003 to 2008 the number of migrant workers increased by 576 thousand or almost 3.6 times.

³³ See: *Asia-Plus*, No. 1 (520), 2010.

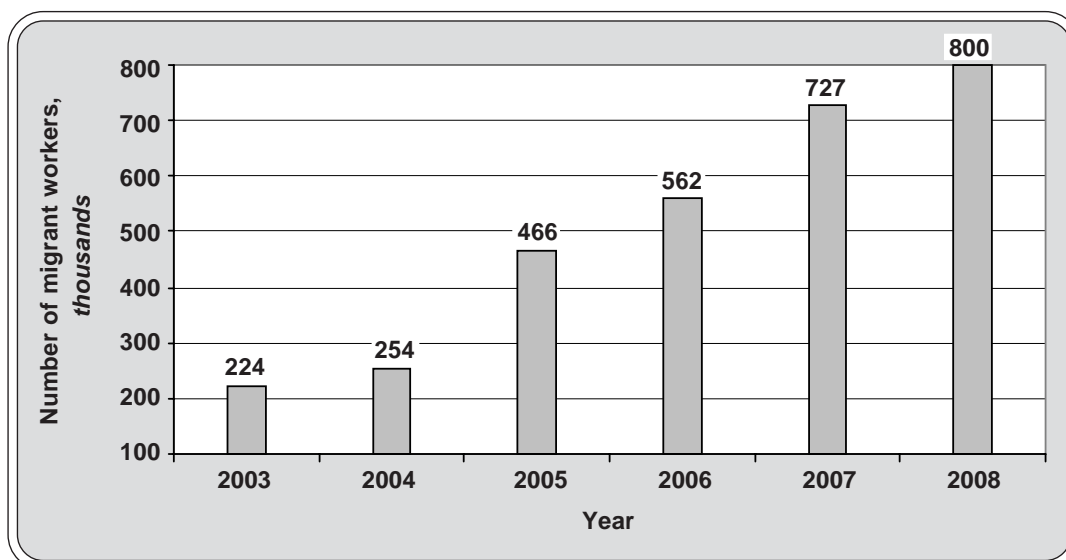
³⁴ See: *Asia-Plus*, No. 9 (528), 2010.

³⁵ Roundtable *Vliianie mirovogo finansovogo krizisa na trudovuiu migratsiu iz Tadzhikistana*, p. 111.

³⁶ See: *Ibid.*, p. 171.

Figure 5

**Changes in the Number of Tajik Migrant Workers
in Russia**



A point to note is that the average age of migrant workers from Tajikistan tends to decline: whereas in 2003 the share of migrants aged 18 to 29 years was 44%, in 2008 it was 67%,³⁷ i.e., in five years the share of migrant workers with the highest labor potential increased by 23%.

If the labor productivity index for workers aged 30 to 35 years is taken as 100.0, its values for other age groups will be as follows: 78.0-87.0 for migrant workers aged under 19 years; 82.0-93.0 for the ages of 20 to 24 years, 94.0-99.0 for 25 to 29 years; 99.2-99.6 for 35 to 39 years, 88.0-96.0 for 40 to 44 years, 78.0-95.0 for 45 to 49 years, and 78.0-87.0 for 50 years and over.³⁸

“Out of the total number of migrant workers in 2008, 89% were men and 11% women, which shows an increase in female labor migration compared, say, to 2003, when the figures were 94% and 6%, respectively.”³⁹

In 2008, 19% of migrant workers from Tajikistan had a higher or incomplete higher professional education, and 28%, a secondary professional education.⁴⁰

(5) **decline in foreign investment inflows;**

- (6) **decline in state budget revenues**, recorded for the first time in the last eight years; this will have a negative impact on the country’s social sphere, defense capability and foreign policy effectiveness, and also on the performance of Tajikistan’s debt service obligations.

³⁷ See: Ibidem.

³⁸ See: A.J. Khaidarov, “Osobennosti perekhodnoi ekonomiki v Tadjikistane v kontekste demograficheskikh izmeneni,” in: *Perekhod ot teorii i praktiki pooshchrenia ekonomicheskogo rosta k kontseptsii chelovecheskogo razvitiia*, Workshop on the Transition from the Theory and Practice of Promoting Economic Growth to the Concept of Human Development, Workshop Materials, IIQCS, Dushanbe, 2008, p. 118.

³⁹ Roundtable *Vliyaniye mirovogo finansovogo krizisa na trudovuiu migratsiu iz Tadjikistana*, p. 113.

⁴⁰ See: Ibid., p. 171.

For example, in the first quarter of 2009 actual budget revenues were less than projected (86.6% of the target); the revenue shortfall was 153 million somoni or \$44.3 million,⁴¹ while tax collection fell by 26%.⁴²

Conclusion

The government of Tajikistan has taken a number of measures to mitigate the impact of the world crisis on the national economy.

At present, the government is implementing a priority action plan developed by its Anti-Crisis Commission. In 2009, it planned to raise almost \$80 million (about 280 million somoni) of grant funds from international financial institutions to support the state budget. Negotiations are also underway on additional sources of funding.

In order to support the republic's balance of payments and monetary system, the IMF is to provide 300 million somoni or almost \$87 million.⁴³

Tajikistan's small national economy is loosely linked to the world financial market. To overcome the crisis phenomena, at least initially, it is necessary to:

- (1) ensure growth and maintain efficiency in the real sector of the economy;
- (2) develop human potential, which will make it possible to implement a preventive systemic policy (macroeconomic, financial, social and demographic) serving the country's national interests.

⁴¹ See: *Asia-Plus*, No. 22 (489), 2009.

⁴² See: *Asia-Plus*, No. 1 (520), 2010.

⁴³ See: *President Emomali Rakhmon's Address to the Oliy Majlis*, Sharki Ozod, Dushanbe, 2009.