Refinancing Rate Kept Unchanged at 16% per annum

26 May 2017

The Monetary Policy Committee of the National Bank of Tajikistan (hereinafter called "Committee"), through its analysis of macroeconomic indicators, the inflation projection, and the impact of potential risks to the economy, to ensure the effectiveness of monetary policy and maintain a stable inflation rate, has considered the following issues.

According to statistical data, inflation from the beginning of 2017 through April has reached 4.4%, 1.9 percentage points above the same period last year. The annual (12 month) inflation rate rose by 2.8 percentage points to 8.1%. The acceleration reflected price increases of 10.3% for food, 4.7% for other goods, and 6.3% for services.

The main factors underlying these increases were a decline in output and inadequate supplies of the main agricultural products, along with seasonal factors and the exchange rate. It should also be noted that a rise in the money supply as a result of changes in the foreign exchange market and the recapitalization of problem banks has added pressures to the exchange rate, promoting inflation.

The official exchange rate of the somoni against the U.S. dollar depreciated by 7.9% from the start of 2017 through the end of April: 0.3% during January, 1.1% in February, 3.1% during March, and 3.4% in April. This compares to a 10.8% depreciation during the same period of 2016.

According to statistical and monetary data reserve money reached 11.6 billion TJS, and cash in circulation reached 8.8 billion TJS, 55.5% and 52.6% above the respective levels of a year ago.

For the reporting period the refinancing rate was set at 16.0%, to effectively manage liquidity and reduce exchange rate risks. In view of this point and the financial situation, 60 auctions of securities were held, with the sale totaling 2,664.1 TJS, about 1.5 times the 1,584.7 million in sales more during the same period last year.

It has been noted that the rise in the refinancing rate was simply the way to consolidate operations in the free market, affect interest rates, stimulate and attract stakeholders by having the real interest rate approach the market rate, and effectively manage the liquidity of the banking system while implementing a consistent monetary policy.

Thus, for a comprehensive analysis of the interbank credit market and the determination of the demand and supply of the national currency, along with the size and structure of operations performed by credit unions in the interbank market, a calculation of the average benchmark interest rate ("benchmark rate") was adopted. Data has shown that the average interest rate on short-term interbank credits was 18.0%, while the long-term rate was 22.0%.

At the same time, changing the refinancing rate helped save the monetary indicators, while the maintenance of monetary indicators within the targeted range supported the limited impact of monetary factors on macroeconomic indicators.

Analysis indicates that, during the second quarter of this year, the inflation rate remained volatile, and pressures from some food prices, particularly major imported commodities in the short term, may affect the inflation rate.

Analysis shows that, with relatively high inflation in February and April of the current year, because of insufficient supplies of vegetables and exchange rate pressures, inflation could reach 8.0% by the end of this year.

Therefore, to maintain the inflation rate and reduce the risk of its acceleration, the Bank has decided to continue implementing tight monetary policy and the effective regulation of liquidity, while also increasing the effectiveness of monetary policy instruments. To reduce the inflation risk, the Committee has decided:

1. To maintain the refinancing rate at 16.0% per annum.

2. To establish a new monetary instrument for overnight deposit operations, beginning in June of this year, with the interest rate equal to the refinancing rate less 10 percentage point.

3. With a view to ensure short-term liquidity in the national currency and improve monetary and exchange mechanisms, short-term SWOP operations for 7 and 14 days have been introduced.

4. In order to maintain acceptable level of international reserves to provide financial sustainably and assist in attracting foreign investment, the goal achieving Gross international reserves at 3.5 months of import at the end of 2017 is established.

The next meeting of the Committee will be held in accordance the Committee's or schedule, and the next amendments will be announced on the official website of the National Bank of Tajikistan.

Monetary Policy, Research, and Development Department