

TAJIKISTAN

Country Economic Update
Fall 2019

Heightening Fiscal Risks in Tajikistan



WORLD BANK GROUP

Macroeconomics, Trade
& Investment
Global Practice

TAJIKISTAN | **Country Economic Update** **Fall 2019**

Heightening Fiscal Risks in Tajikistan

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Cover photo credit: Aga Khan Development Network, Tajikistan.

Pre-press: alexpublishers.ru

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FOREWORD

This edition of the Tajikistan Country Economic Update (CEU) is part of a semiannual series designed to monitor socioeconomic developments in Tajikistan. It presents an analysis of economic and social developments, as well as progress on and challenges to the implementation of structural reforms. The CEU also includes a special section highlighting the impact of natural disasters in Tajikistan.

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ABBREVIATIONS AND ACRONYMS

Government Fiscal Year:	January 1–December 31
Currency Unit:	Tajikistan Somoni (TJS)
Currency Equivalents:	Official Exchange Rate Effective as of October 30, 2019 US\$1 = TJS 9.7385
Weights and Measures:	Metric System

CAR	Capital adequacy ratio
CASA	Central-Asia South Asia Power Project
CEU	Country Economic Update
CPI	Consumer Price Index
DRS	Districts of Republican Subordination
EBF	Extra-budgetary funds
EGRA	Early Grades Reading Assessment
EMIS	Education Management Information System
FDI	Foreign direct investment
FSAP	Financial Sector Assessment Program
GBAO	Gorno-Badakhshan Autonomous Oblast
GDP	Gross domestic product
HCI	Human Capital Index
HPP	Hydropower plant
IMF	International Monetary Fund
NBT	National Bank of Tajikistan
NPL	Nonperforming loans
PCF	Per capita financing
PIP	Public investment program
PPP	Purchasing power parity
ROA	Return on assets
ROE	Return on equity
SCO	Shanghai Cooperation Organization
SOE	State-owned enterprise
TajStat	Tajik Statistical Agency
TIMSS	Trends in International Mathematics and Science Study
TSA	Targeted Social Assistance
UN	United Nations
VAT	Value added tax

Strong GDP growth continued in 2019

Tajikistan's reported real GDP growth rate remained robust at 7.2 percent year on year in the first three quarters of 2019, similar to the growth rates of 7.1–7.3 percent recorded in 2017–18. Industry and services were the main drivers of growth on the supply side. On the demand side, buoyant domestic demand supported growth. The current account deficit narrowed from to 7 percent of GDP in the first half of the current year from 11 percent of GDP a year earlier due to the increased income transfers and a reduction of the trade deficit. The latter mainly reflected falling import spending on machinery and equipment. However, falling international prices for aluminum and cotton negatively affected Tajikistan's export earnings and together with the recovered imports widened the trade deficit to 29.1 percent of GDP during the first nine months of 2019. A projected pick up in the import bill in the fourth quarter of 2019 will keep the current account deficit at around 5 percent of GDP in full-year 2019, relatively unchanged to the 2018 deficit of 5.1 percent of GDP.

The fiscal stance was prudent through September, but increased spending likely to widen the 2019 fiscal deficit

Despite challenges in revenue collection, the Tajik authorities managed to limit the budget deficit to about 2.8 percent of GDP during January-September 2019. This outcome is consistent with the fiscal consolidation push launched in 2018 when the fiscal deficit fell to 2.7 percent of GDP (from 6.7 percent in 2017). However, with public investment execution at just 80 percent in the first nine months of 2019, spending pressures are expected to intensify in the final quarter of 2019. As a result, we project the fiscal deficit will rise to 3.5 percent of GDP in full-year 2019. The budget assumptions for Rogun Hydropower Plant (HPP) financing suggest a decline in government debt in nominal terms in 2019. However, planned external borrowing for Rogun and other large infrastructure projects, including publicly-guaranteed State-owned enterprise (SOE) debt, will put the debt on an upward trajectory in the medium-term.

Inflation picked-up after one-off effects subsided

After subsiding to 5.4 percent in 2018, reflecting one-off effects from the introduction of low-priced Uzbek imports, 12-month inflation accelerated to 8.1 percent by September 2019 as food prices rose strongly in April and May. Inflation is expected to remain above the National Bank of Tajikistan's (NBT) annual target, reflecting the pass-through of exchange rate depreciation, an increase in electricity and heating tariffs in effect since September, and a rise in the price of imported wheat.

Currency devalued in line with Russian ruble

As a small open economy, Tajikistan's currency, the somoni, is vulnerable to both external and domestic developments. Following the depreciation of the Russian ruble in July-August, the NBT devalued the somoni by 2.75 percent against the U.S. dollar to TJS 9.7, one of the largest one-day adjustments in two years. The exchange rate devaluation closed the spread between the official and the curb market rates.

Financial sector gradually recovers

The financial sector saw a further reduction in nonperforming loans and considerable growth in earnings despite the pending resolution of two problem banks.

Outlook suggests weaker growth and widening deficits

Real GDP growth will slow from 7.3 percent in 2018 to 6.2 percent in 2019 and further to 5.5–5.0 percent over 2020–21 reflecting weaker growth in the Russian Federation and lower international commodity prices. Remittance inflows will remain

sluggish over the medium-term. Mining, manufacturing, and construction will support economic activity. Several investment projects scheduled for completion by 2021—when Tajikistan celebrates 30 years of independence—will also support growth. Risks are on the downside, however, unless the authorities implement the necessary reforms to reinvigorate private sector development and fully restore fiscal sustainability.

Rising pressure for additional public spending will complicate the fiscal outlook. In addition to large, ongoing infrastructure projects—which will require securing additional financial resources—the country's electoral cycle assumes some increases in public sector wages, social transfers, and commitments to invest in projects dedicated to the independence celebrations in 2021.

The current account deficit is projected to narrow only modestly, from 5 percent of GDP in 2019 to around 4 percent of GDP toward the end of 2021–22, owing to increased electricity exports following the reconnection of Tajikistan's electricity system to the Central Asian Power System.

Natural disasters pose major economic threat

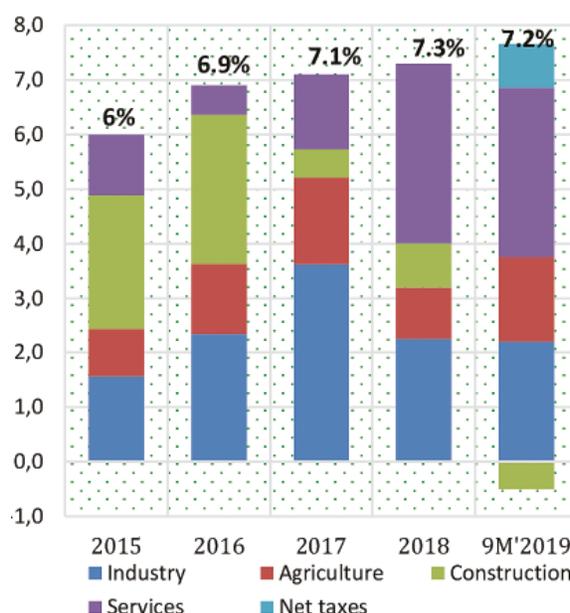
The special focus section of this report elaborates on the fiscal and economic risks associated with natural disasters in Tajikistan. More than 60 percent of the country's 9 million inhabitants live in areas of high seismic risk. As such, natural disasters pose a major threat to economic and fiscal stability. According to United Nations Development Programme (UNDP) estimates, floods and mudflows alone caused economic damages of \$100 million in Tajikistan in 2015. The population's exposure to hazard risks represents explicit contingent liabilities for the government. While the government has created a number of funds (the Contingent Fund, local reserve funds, material reserves, compensation payments from the budget), these have not been allocated with sufficient resources to meet the country's needs in post-disaster expenditures. Recently, the government produced the Disaster Risk Finance Strategy to guide disaster preparedness and response. However, to ensure adequate implementation, further steps are required, including an accruing contingency fund earmarked for natural disasters, the introduction of improved insurance mechanisms, and the systematic collection of information on disaster-related expenditures.

Economic Growth and Inflation

GDP grew steadily in first nine months of 2019

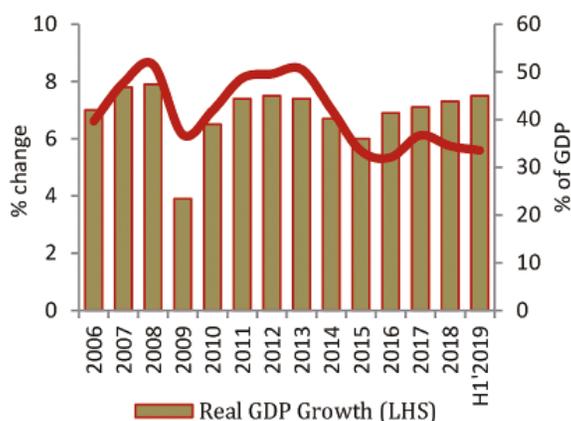
Real GDP growth expanded by 7.2 percent during the first three quarters of 2019 supported by expansions in industry (up 12.7 percent), wholesale and retail trade (up 9.6 percent), and agriculture (up 7.1 percent). On the supply side, industrial production was supported by broad-based growth across its main sub-sectors, including industrial processing, mining, and electricity and steam output.

Figure 1: Sector Contribution to Real GDP Growth.
Annual change (%)

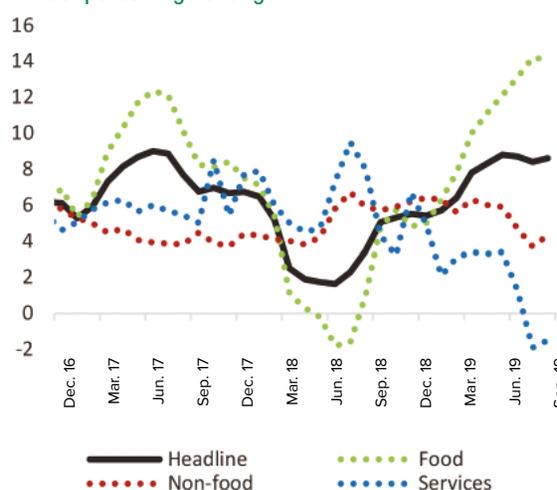


Sources: TajStat; World Bank staff calculations.

Note: World Bank staff calculations for 2015–18; TajStat data for 9M'2019 using new methodology.

Figure 2. Real GDP Growth and Remittance Inflows

Sources: NBT; Central Bank of Russia; World Bank staff calculations.

Figure 3. Consumer Price Inflation
Annual percentage change

Sources: TajStat; World Bank staff estimates.

Food and beverage processing and nonmetallic minerals were the main drivers of growth in the processing industry. Electricity production also rose sharply (by 10.8 percent year on year). Wholesale and retail trade benefitted from increased trade with Uzbekistan, reflecting the introduction in the second quarter of 2018 of visa-free travel for up to one month. Improved bilateral relations contributed to a 37 percent year-on-year increase in imports from Uzbekistan during January-August 2019.

Table 1. Contribution to Real GDP Growth, 2016–19
Percentage points

	2016	2017	2018	Q3' 2019
Real GDP growth	6.9	7.1	7.3	7.2
Agriculture	1.3	1.6	0.9	1.6
Construction	2.7	0.5	0.8	-0.5
Industry	2.3	3.6	2.2	2.2
Services	0.5	1.4	3.3	3.1
Net Taxes				0.8

Sources: TajStat; World Bank staff calculations.

Note: World Bank staff calculations for 2015–18; TajStat data for Q3' 2019 using new methodology.

Inflation is above target range

After easing to 5.4 percent in 2018, inflationary pressures intensified in 2019, spurred by sharp food-price increases. Twelve-month inflation rose to 8.1 percent in September 2019, with food prices up by 11.5 percent compared with September 2018. The largest increase in inflation was recorded in April and May (the period of Ramadan) when monthly food prices rose by 2 percent and 1.8 percent, respectively. To prevent further price increases, the government imposed price controls on beef, released stocks from the state reserves, and granted tax exemptions to beef importers. However, these administrative measures had only a modest effect, as food price inflation continued its upward trend and businesses took advantage of increased demand for basic grocery items.

Trade and Foreign Direct Investment

Current account deficit narrowed

The current account deficit narrowed to 7 percent of GDP in the first half of 2019 from 11.6 percent a year earlier. Improvement of the trade balance deficit from 32.7 percent of GDP in the first half of 2018 to 29.6 percent of GDP in the first half of 2019, reflecting higher electricity export and export of the precious metals contributed largely to this decline. In addition, foreign income transfers grew by 1.3 percent of GDP compared with the previous year, due to increased external aid and investment grants, which also helped to mitigate the current account deficit to some extent.

However, the trade deficit widened slightly to 29.1 percent of GDP in the nine months of 2019 (from 28.8 percent of GDP a year earlier), reflecting lower export earnings from minerals, textile production, and cotton. The latter, which accounts for about 9 percent of Tajikistan's total exports, declined by almost 40 percent in value during January- September 2019 owing to lower international prices. Similarly, according to the most recent available data, lower commodity prices reduced the value of aluminum exports by 11 percent in the first half of 2019 from a year earlier. However, exports of precious metals and electricity registered year-on-year growth, rising by 94.8 times and 17.7 percent, respectively, during January- September 2019. As a result, the contribution of these two commodities reached around 27.4 percent of total export values. Currently, electricity exports from Tajikistan account

Table 2. Balance of Payments, 2015–19
(US\$, millions)

	2015	2016	2017	2018	H1-2019
Current account balance (US\$, millions)	-472	-362	151	-378	-231
Current account balance (% of GDP)	-6	-5	2	-5	-7
Merchandise trade	-2,254	-1,886	-1,517	-1,888	-865
Exports f.o.b.	572	668	873	874	482
Imports f.o.b.	2,826	2,554	2,390	2,762	1,347
Services	-241	-138	-122	-216	-115
Primary income	1,526	1,089	1,207	1,226	474
Secondary income	497	572	582	500	275
Capital and financial account balance	637	423	496	381	177
Capital account	144	144	135	176	65
Foreign direct investment, net	426	234	63	249	221
Portfolio investment	0	0	500	0	73
Other capital flows	67	45	-123	-44	-123
Errors and omissions	-146	-14	-115	-266	-76
Overall balance	19	46	531	-264	28
<i>Memorandum items:</i>					
NBT official reserves (months of imports)	1.7	2.7	5.4	4.9	5.1
Nominal GDP (US\$, millions)	7,853	6,952	7,162	7,406	3,313

Source: NBT.

for about 11 percent of the country's total merchandise exports and will continue to expand as the country benefits from reconnection to the Central Asian Power System.

The full-year 2019 current account deficit will total around 5 percent of GDP, similar to the 5.1 percent of GDP deficit recorded in 2018. Since the beginning of the year, international reserves increased by \$56 million to around \$1.3 billion at end-June, the equivalent of 5.1 months of import cover.

FDI inflows have eased

Net inflows of foreign direct investment (FDI) declined from 8.8 percent of GDP in the first half of 2018 to 6.7 percent of GDP in the same period of 2019, reflecting lower non-residents' direct investments in equity shares. However, FDI rose substantially in 2018—to 3.4 percent of GDP from 0.9 percent of GDP in 2017—as a result of increased reinvested earnings and higher equity investment by nonresidents. The mining sector, which accounted for 61 percent of total FDI in 2018, continued to attract the bulk of foreign investment thanks to new concession agreements granted to the extractive industries. China remained Tajikistan's largest source of FDI, with a 75-percent share in total FDI, mainly in the country's gold mines.

Financial Sector

Banking sector profitability recovering

Except for two problem banks, the financial sector continued its path to recovery in the first half of 2019. Measures introduced by the NBT—including the periodic monitoring of loan recovery plan progress and recently-introduced preventive measures—facilitated an improvement in asset quality and rising banking sector profitability. Lending to the private sector rose marginally (1.3 percent year on year), but the ratio of nonperforming loans (NPLs) fell to 31.1 percent at end-2018 (from 36.5 percent a year earlier) and declined further to 25.5 percent by mid-2019. The measures with the most significant impact on the NPL ratio were limitations on issuing foreign currency loans to unhedged borrowers, legal empowerment of the regulator to access and verify information on financial and nonfinancial borrowers, and the upward revision of the risk weighting for foreign currency-denominated loans (from 100 to 150 percent). Bank earnings improved markedly, nearly returning to pre-crisis levels. Return on assets rose from 1.9 percent in 2018 to 2.5 percent in the first half of 2019 (compared to 2.2 percent in 2013) and return on equity increased from 7 percent in 2018 to 9.2 percent in the first half of 2019 (just below the pre-crisis level of 10.7 in 2013).

Deposits on downward trend since early-2019

Banking system deposits declined by 7.3 percent in local-currency terms in August 2019 compared to the end of 2018, reflecting declines in deposits of both individuals and legal entities, both in local and foreign currency. This decline could also reflect to some extent sales of collateral in exchange for frozen customer deposits in the two insolvent banks. The gradual decline in the average weighted interest rate for foreign currency time deposits (from 6.7 percent in 2017 to 5.2 percent in 2018 and further to 4.7 percent in June 2019) contributed to this trend, as did regulatory changes to individual deposit insurance. As part of de-dollarization efforts, the maximum insurance coverage for local currency deposits was raised to TJS 25,000 (about \$2,500). In contrast, the amount remained unchanged at TJS 17,500 (about \$1,750) for foreign currency deposits. Such a dual coverage rate is not in line with international good practice.

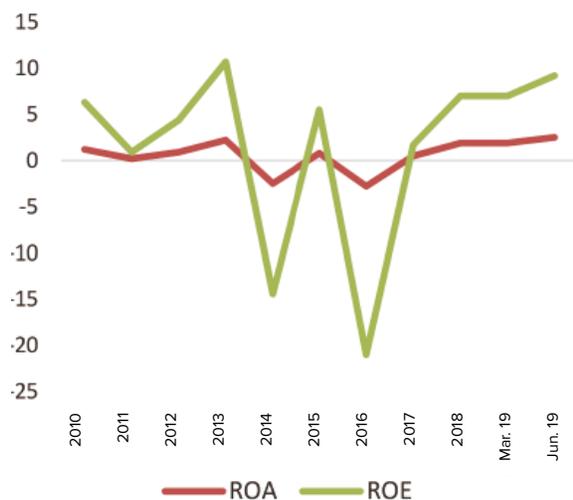
Financial sector reforms continue

Tajikistan is the first country in the former Soviet Union to introduce in practice a functional approach to secured transactions, establishing a comprehensive regime for the harmonization, publicity, and enforcement of security rights based on United Nations Commission on International Trade Law (UNCITRAL) principles. The overall lending framework will also benefit from a new online collateral registry which became operational in February 2019. The registry is in the public domain and allows financial institutions to register moveable property such as inventories, machinery equipment, and vehicles.

Credit to private sector recovering

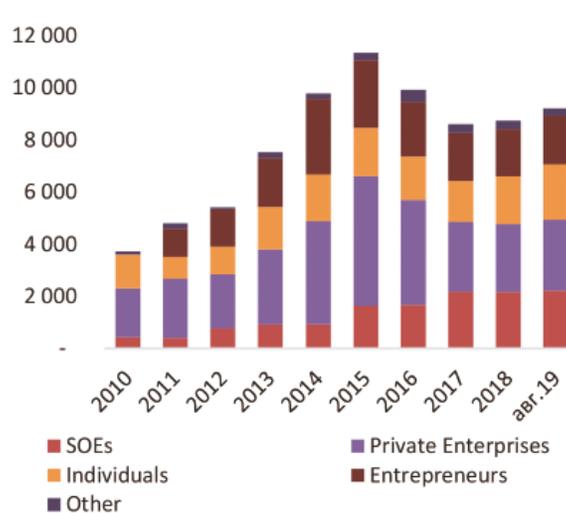
Following an expansion of 1.3 percent in 2018, lending to the private sector increased by 5.8 percent during the first eight months of 2019, reflecting a nascent recovery in microcredit and consumer loans. After collapsing in the previous two years, credit to private enterprises and individual entrepreneurs rose by 4.4 and 2.6 percent, respectively, between January and August 2019. The credit portfolio remains dominated by the (large) corporate private sector (29.6 percent of total lending) and SOEs (24.1 percent). Lending to individuals and entrepreneurs together account for 43.1 percent of the total credit portfolio. SME financing is expected to become easier to obtain, less risky, and less costly following reforms to Tajikistan’s secured transactions regime in early 2019.

Figure 4. Profitability Indicators, 2010–19
(Percentage)



Sources: NBT; World Bank staff calculations

Figure 5. Credit Portfolio Dynamics, 2010–19
(TJS million)



Sources: NBT; World Bank staff calculations.

A. MACROECONOMIC POLICIES AND STRUCTURAL REFORMS

Fiscal Policies and Public Debt

The fiscal deficit narrowed in 2018

Following a significant fiscal expansion in 2016–17—resulting in an average deficit of 8 percent of GDP—the government reduced the budget deficit to 2.7 percent of GDP in 2018. This improvement was a result of the authorities’ firm expenditure restraint policy in line with the Fiscal Strategy adopted in mid-2017. On the expenditure side, government spending was classified into primary expenditures needed to meet the State’s social obligations and those of a more provisional nature that were cut in response to revenue shortfalls, including repair and maintenance of government buildings, acquisition of inventories, and equipment. The expenditure restraint policy also required the postponement of new investment projects.

Fiscal stance remained prudent in first nine months of 2019

The fiscal deficit narrowed to 2.8 percent of GDP in January-September 2019 (from 4.3 percent a year earlier), mainly reflecting a decline in domestically-financed investment expenditures. Revenue collection, excluding grants, improved slightly to 28.5 percent of GDP in January-September from 28.2 percent a year earlier, due to increases in extrabudgetary revenues, which offset tax revenue shortfalls. The latter was affected by operational challenges in large telecom and mining companies, which led to a decline in tax revenue on natural resources, domestic value added tax (VAT), sales tax, and domestic excise taxes. However, revenues from corporate profit taxes, property taxes, VAT on imports, and excises on imported goods remained strong.

Total public spending declined to 31.3 percent of GDP in January-September 2019 (from 32.5 percent in the year-earlier period), mainly reflecting the under-execution of domestically-financed capital expenditures. The energy sector, which remains the government’s highest strategic priority, absorbed around 22 percent of total government spending in the first nine months of 2019.

Despite the improved fiscal outcome in the first three quarters of 2019, we expect that the annual tax revenue collection target will be missed. Furthermore, increased spending pressures in the fourth quarter of 2019 will drive an expansion of the full-year fiscal deficit to 3.5 percent of GDP, reversing the hard-earned macroeconomic benefits of fiscal consolidation in 2018 and early 2019.

List of monitored SOEs expanding

The authorities are adding more enterprises to the list of SOEs monitored by the Ministry of Finance (MOF). A draft resolution adding eight new SOEs—including OJSC Rogun, OJSC Sangtuda, and JV Zerafshan (the Tajik-Chinese JV, the biggest gold mining enterprise in Tajikistan)—was submitted to the government by the budget authorities in September 2019. The MOF currently lacks the appropriate supervisory and regulatory framework to monitor the financial operations of OJSC Rogun and Sangtuda. Although international auditing firms regularly audit Rogun’s financial statements, the company’s operations remain beyond the control of the MoF. The transparency of financial transactions will become more critical as electricity generation and capacity increase.

Targeted Social Assistance expansion delayed

Under the Targeted Social Assistance (TSA) program, each quarter the government pays a fixed amount for electricity and gas consumption to the poorest households to offset the impact of tariff increases. The TSA program was launched as a pilot in the Yovon and Istaravshan districts in 2011 to deliver a consolidated social assistance benefit to the poorest households with a primary focus on alleviating extreme poverty. The TSA program has been expanded since 2014 and currently covers around 100,000 households in 40 districts. Although Tajikistan's remaining 28 districts are slated for inclusion in 2019, the draft resolution to do so remains under government consideration. The government intends for the program to increase the number of beneficiary households to 200,000 (about 15 percent of all households nationally). The budget allocation for the TSA program rose from TJS 21.5 million in 2016 (0.04% of GDP) to TJS 38.6 million (0.06% of GDP) in 2018. This figure was projected to rise further, to TJS 86.3 million (0.11% of GDP) in 2019, but, because the government has not yet approved the TSA expansion, only around one-quarter (TJS 22.6 million) of this amount was allocated to TSA in the first nine months of 2019.

Space for new borrowing is limited

Tajikistan's public external debt amounted to \$2.9 billion (40 percent of GDP) at the end of 2018, up from 24 percent of GDP in 2014. According to the latest Debt Sustainability Analysis,¹ the country remains at a high risk of debt distress. The increased debt burden primarily reflects the depreciation of the currency—which inflates the value of foreign-currency-denominated debt measured in somoni—and the 2017

Table 3. Consolidated Fiscal Accounts, 2015–19
(In percent of GDP)

	2015	2016	2017	2018	2019 Proj.
Revenue and grants	29.9	28.8	29.6	29.1	29.3
Tax revenues	22	20.6	21.5	21.2	21.7
Income and profit taxes	4.8	4.4	5.0	5.0	5.0
Payroll taxes	2.8	2.5	2.6	2.6	2.6
Property taxes	1.2	1.2	1.3	1.3	1.3
Taxes on goods and services	12	11.3	11.5	11.4	11.7
International trade and ops taxes	1.1	1.2	1.2	1.1	1.1
Nontax revenues	5.0	5.2	5.6	4.9	5.0
of which: extra budgetary funds	2.1	2.5	3.5	2.2	3.0
Grant	3.0	3.0	2.4	2.9	2.6
of which: public investment program (PIP)	2.1	3.0	2.1	2.7	2.2
Expenditure and net lending	31.8	38.5	36.3	31.8	32.8
Current expenses	18.1	17.6	18.1	18.3	18.6
Capital outlays and net lending	13.7	21.0	18.2	13.5	14.2
Overall fiscal balance (incl. externally-financed PIP)	-1.9	-9.8	-6.7	-2.7	-3.5
Overall fiscal balance (excl. externally-financed PIP)	1.2	-6.6	-1.8	-0.3	0.5
Memoranda items:					
Public debt	35	42	50	48	46
Nominal GDP (TJS million)	48,402	54,471	61,094	68,844	76,474

Sources: Ministry of Finance; NBT; World Bank staff estimates.

¹ The upcoming Debt Sustainability Analysis jointly produced by IMF and World Bank staff will be submitted to the Board of Directors of both institutions in January 2020.

Eurobond issuance. Public external debt eased from \$2.92 billion at end-2018 to \$2.89 billion at end-June 2019. The decline was the result of principal repayments (\$75.9 million) exceeding new disbursements (\$33.9 million). The Export-Import Bank of China remains Tajikistan’s largest creditor, accounting for about 41 percent of the total public external debt. The country’s Eurobonds account for 17.3 percent of external debt and the World Bank for 11 percent. Domestic public debt increased from 3.7 percent of GDP in 2014 to 8 percent in 2018, reflecting the TJS 3.3 billion recapitalizations of two problem banks in 2016 and the issuance of TJS 530 million in government bonds to support the energy sector. Any new borrowing should weigh fiscal risks carefully.

Monetary and Exchange Rate Policies

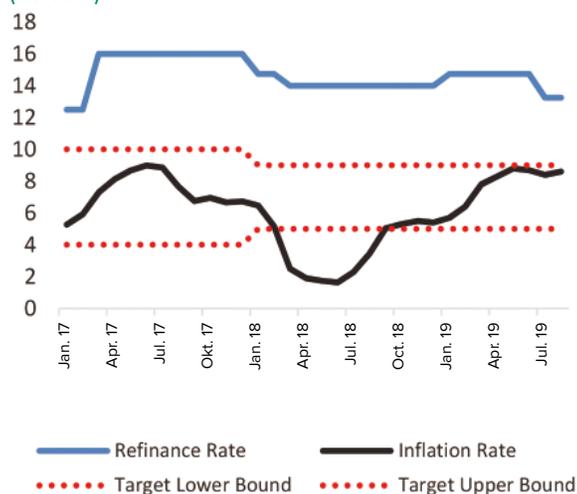
Rates cut at mid-year as inflation subsided

With inflationary pressures intensifying, in February the monetary authorities raised the refinancing rate from 14 percent to 14.75 percent. In the first quarter of 2019, the NBT withdrew TJS 4.3 billion from the economy by increasing issuances of deposit certificates. The NBT also issued its first one-year bills in 2019 in the context of developing a yield curve with longer maturities. With inflationary pressures easing in June, the authorities reversed course, cutting the policy rate from 14.75 percent to 13.25 percent. The central bank carried out its first inflation expectations survey in the spring of 2019 to improve the accuracy of the NBT’s models and forecasts. The high volatility of prices and the weak transmission mechanism of the policy rate suggest that the NBT needs to strengthen its capacity to navigate inflation trends further. Tajikistan’s weak banking sector and shallow financial intermediation also hinder transmission mechanisms; these will require broader structural economic reforms.

Currency was devalued in August 2019

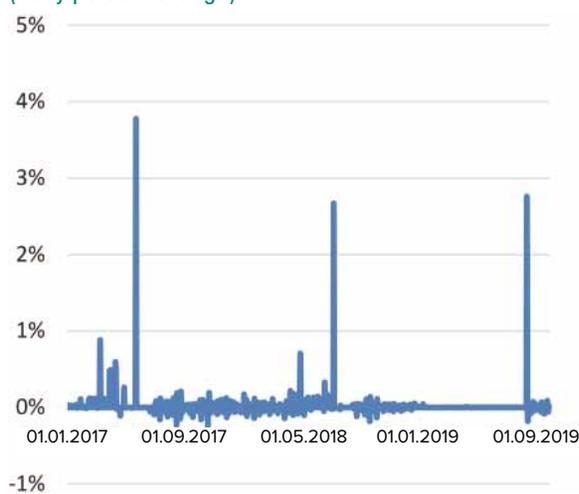
While the exchange rate was broadly stable during the first half of 2019, on August 20 the NBT devalued the somoni by 2.75 percent to TJS 9.7 to the U.S. dollar, one of the largest one-day adjustments in two years. The devaluation occurred in the context of Russian ruble depreciation in line with weakening oil prices. During the first three weeks of August, the Russian ruble lost around 5 percent of its value. The

Figure 6. Inflation and Policy Interest Rate (Percent)



Sources: NBT; World Bank staff calculations.

Figure 7. Nominal Exchange Rate (TJS to US\$) (Daily percent change)



Sources: NBT; World Bank staff calculations.

NBT argued that the devaluation of the somoni would also allow the narrowing of the spread between the official and “black market” rates. Subsequently, this spread declined sharply, from 5.3 percent in July to 0.5 percent in early October.

Structural Reforms

Tajikistan among 10 top reformers worldwide

Tajikistan is among the top ten business climate reformers worldwide in the World Bank Group’s Doing Business 2020 ranking. Tajikistan places 106 of 190 economies globally (compared with 126 in Doing Business 2019) with a score of 61.3 out of 100. The main areas of reform in 2018/19 included: (i) streamlining the process of issuing social and tax identification numbers at the time of company registration; (ii) strengthening access to credit by launching a unified and notice-based collateral registry; introducing a functional secured transactions system; broadening the scope of assets that can be used as collateral; allowing the general description of debts and obligations; granting secured creditors absolute priority; and providing a time limit and clear grounds for relief from automatic stays during reorganization procedures; and (iii) facilitating the export of perishable goods by streamlining customs clearance processes. Despite substantial progress, Tajikistan continues to underperform in the areas of getting electricity (ranked 163 of 190), resolving insolvency (153), paying taxes (139), and dealing with construction permits (137).

Reforms continue, results still to come

The government is committed to implementing further reforms to improve Tajikistan’s business environment. Despite efforts in the right direction, however, past reforms have yet to create the desired effect of notable growth in small and medium enterprises and the country’s export base.

The authorities adopted a comprehensive action plan called “300 Days of Reforms” to foster entrepreneurship, strengthen the investment climate, and create favorable conditions for businesses in the country. The plan includes steps to improve the effectiveness of regulatory procedures through the introduction of an inspections management system, the further streamlining of inspection functions, and a reduction in the number of required licenses and permits. The government is enhancing the legal framework governing investment by amending the Investment Law and defining, among other things, the types of state support provided to investors. The government is reviewing those fiscal and investment incentives that failed to generate expected outcomes in recent years.

The authorities are also trying to increase the competitiveness of the tourism sector and attract investors—through a new law on craftsmanship, amendments to the tourism law, and the preparation of tourism investment fora—and is working on establishing six business incubators throughout the country to support young entrepreneurs.

Healthcare reforms advanced

The quality of healthcare is low in Tajikistan. Although a review of the National Health Strategy for 2010–20 shows progress, myriad challenges remain. The Ministry of Health and Social Protection of the Population (MHSPP) is responsible for improving the quality of healthcare. Currently, more than 30 normative and legal documents (based on the Health Code) are at the approval stage, and additional policies, initiatives, and programs are in development or implementation. However, these efforts must identify and address priority challenges based on evidence and be built into future strategic planning to have a lasting impact. In 2018, with the support of development partners, the MHSPP started a review of the National Health Strategy for 2010–20, as well as discussions on developing a new National Health Strategy for 2020–30. These efforts culminated in the 8th Joint Annual Review of

the Health Sector. The development of primary health care (PHC) remains the focus of the health sector. In response, regulatory policies and training have been introduced, including mentorship and business planning.

Healthcare-related initiatives and programs introduced in 2018 included: (i) signing of a Joint Order between the MHSPP and the Ministry of Education and Science to implement the Program on the Development of Teenagers and their Social Participation; (ii) development of five clinical guidelines for neonatal care, including “kangaroo care;” (iii) development of Guidelines for the Treatment of Children with Severe and Moderate Malnutrition and guidelines-related training; (iv) development and approval of an Essential Drugs List; (v) development of the draft of a national law on the provision of fortified food products to the population by the MHSPP, which was sent for the government’s review and approval; (vi) development of the draft Multi-Sectoral Nutrition Plan, initiated under the National Coordination Council on Scaling Up Nutrition, which will be finalized in 2019; (vii) signing of a Joint Order of the MHSPP and Ministry of Finance on Approval of Transition of PHC Facilities to Per Capita Funding for 2018–19 at the level of cities and districts in Tajikistan; and (viii) approval of procedures for the allocation of budgetary funds for per capita financing for PHCs. According to MHSPP, in 2018 77 PHC facilities were funded through per capita financing.

**Progress made
in energy sector
restructuring**

In April 2018, the government adopted a decree to restructure the power utility into three companies—transmission, distribution, and the joint-stock Holding Company “Barqi Tojik” (to include generation). The ongoing restructuring will also optimize the structure of Barqi Tojik by reducing and merging its various wholly-owned subsidiaries and other companies and divesting non-core business-related assets (kindergartens and guest houses, for example). Barqi Tojik was functionally unbundled into generation, transmission, and distribution by the end of 2018; the legal separation of those entities into three companies is expected to be completed by end-2019. The new companies are expected to have corporate governance structures consistent with good international practice, including the creation of a board of directors for each of them that includes independent members with significant experience in the power sector.

Building on the efforts to unbundle Barqi Tojik, on April 15, 2019, the authorities approved the Government Program for Financial Recovery of the Power Utility—OJSHC “Barqi Tojik” to improve its operational efficiency and financial standing through the implementation of cost-recovery tariff methodology. The program also aims to restructure Barqi Tojik’s debts, write-off fines and penalties for overdue debt service, improve the collection rate for billed electricity, and reduce technical and commercial electricity losses. Significant progress has already been made, including the reform of the electricity tariff structure, regular tariff increases consistent with the government’s commitment, and the implementation of the listed priority measures to improve the company’s operational and financial performance.

B. ECONOMIC OUTLOOK AND RISKS

Tajikistan's Baseline Scenario

Growth is projected to slow

The medium-term outlook for Tajikistan's economy reflects a less favorable external environment, including an economic deceleration in Russia and weaker international prices for Tajikistan's major export commodities. Annual GDP growth will slow to 5.0–5.5 percent over the medium term, with broad-based declines in growth rates across most sectors of the economy. Construction will remain resilient, supported by large-scale investment projects commemorating 30 years of independence in 2021. Remittance inflows will continue to rise, supporting private consumption, but at a slower pace than in recent years on account of a high base of comparison.

Inflation will likely exceed the NBT's target, reflecting currency depreciation pass-through, higher electricity and heating tariffs (in effect from September 2019), and higher prices for imported wheat. Drought in Kazakhstan, Tajikistan's main source of imported wheat, has driven flour and bread prices higher in recent months.

The authorities will face significant challenges as they pursue fiscal consolidation and attempt to reduce the overall budget deficit from an estimated 3.5 percent of GDP in 2019. The deficit is likely to remain at about 3.5–3.8 percent over the medium term owing to mounting pressures to increase public sector wages, social transfers, and investment in large-scale projects.

Tajikistan's poverty rate is projected to fall to 10 percent by 2021, based on the international definition for lower-middle-income economies. This projection assumes an increase in the budget allocation for the rollout of the Targeted Social Assistance program.

Table 4. Baseline Scenario: Selected Macro-Fiscal Indicators, 2018–21
(In percent, unless otherwise indicated)

	2018e	2019f	2020f	2021f
Real GDP growth	7.3	6.2	5.5	5.0
Private consumption	7.2	6.6	5.3	4.8
Government consumption	3.8	3.7	3.9	3.9
Gross fixed investment	8.9	10.8	11.2	11.5
Exports, goods and services	2.2	2.7	2.7	3.2
Imports, goods and services	3.5	3.7	4.2	4.0
Consumer price inflation, end of period	5.4	8.0	6.8	6.0
Current account balance (percent of GDP)	-5.1	-5.0	-4.1	-4.0
Overall fiscal balance (percent of GDP)	-2.7	-3.5	-3.8	-3.5

Sources: Tajik authorities; World Bank staff estimates and projections.

The long-awaited resolution of problem banks, once completed, should help restore trust in the banking system and lead to a gradual acceleration in private credit and investment.

External accounts to remain in deficit

The current account deficit is projected to remain sizeable in the medium term as remittance inflows slow and demand for capital-intensive imports remains strong. Expanding gold production and regional electricity sales will support export earnings. FDI inflows will remain constrained by the weakness of the general business climate and slowing economic growth in China.

Risks and Challenges

Economic risks are broad-based

Governance challenges in the public enterprises—particularly in the energy and transport sectors—present high quasi-fiscal risks and threaten the sustainability of the public finances. Delays in much-needed structural reforms to improve the business environment will further dampen private sector development. An escalation of global trade tensions, or economic slowdown in the region's larger economies, would negatively impact inflows of FDI and remittances and, as a result, domestic economic growth.

The construction of the Rogun HPP could present a risk to debt sustainability and crowd out social spending if the authorities are unable to secure alternative financing for the project from private sources or improve revenue collection while sufficiently reducing spending inefficiencies.

As discussed in the focus section, natural disasters pose substantial risks to households and companies. The economic losses from disasters totaled \$1.8 billion between 1992 and 2016, a considerable amount for Tajikistan. Depleted policy buffers leave the authorities with limited options in the event of shocks.

C. FOCUS SECTION: NATURAL DISASTERS IN TAJIKISTAN AND THEIR FISCAL AND ECONOMIC IMPACT

Natural disasters pose a major threat

Natural disasters threaten Tajikistan's economic development and development efforts in poverty reduction in particular. Disasters also represent a significant challenge both to citizen livelihoods and fiscal performance. Since 1992, major disasters in Tajikistan have impacted more than 7 million people and caused economic losses exceeding \$1.8 billion.² The biggest economic loss since 1992 was caused by a cold wave, which struck Tajikistan in winter 2008 and affected more than 2 million people. The event had severe consequences, such as power and food shortages, business shutdowns, limited access to water, poor sanitation and hygiene conditions, damage to crops and seeds, and mortality of livestock, among many other impacts³. The government reports that, on average, natural disasters occur every two days and cause one fatality each week.⁴

Tajikistan is exposed to adverse natural events, including earthquakes, floods, mudflows, landslides, droughts, and extreme temperatures. The frequency and intensity of weather-related events are expected to increase owing to climate change, while population growth, environmental degradation, and deteriorating infrastructure are increasing susceptibility and vulnerability.

Table 5. Internationally Reported Disasters, Tajikistan

Disaster Type	Year	Total damage (US\$, millions)	As % of GDP
Extreme temperature	2008	840	16.3
Flood	1992	300	-
Flood	2010	204	3.6
Landslide	1993	149	-
Flood	1998	66	-
Drought	2000	57	6.6
Flood	2005	50	2.2
Landslide	2003	41	2.6
Landslide	1992	24.1	-
Earthquake	2006	22	08

Sources: EM-DAT: The Emergency Events Database, Université Catholique de Louvain (UCL)–CREED, D. Guha-Sapir, Brussels, Belgium, www.emdat.be.

Note: EM-DAT's "total damage" value includes the value of all damages and economic losses directly or indirectly related to the disaster.

² EM-DAT: The Emergency Events Database, Université Catholique de Louvain (UCL)–CREED, D. Guha-Sapir, Brussels, Belgium, www.emdat.be.

³ IFRS 2008.

⁴ "National Disaster Risk Reduction Strategy of the Republic of Tajikistan for 2019-2030".

Natural disasters have significant economic impact

Natural disasters have caused significant economic damage in Tajikistan. In 2015, for example, an earthquake destroyed transport infrastructure and public assets, causing an estimated \$5 million (0.06 percent of GDP) in damage.⁵ Floods and mudflows often disrupt major transport routes. In 2015, several parts of the international M41 trading route that connects Tajikistan with China were destroyed. That year, floods and mudflows caused economic damage totaling \$100 million.⁶ Droughts regularly affect the agricultural sector. A drought in 2000–01, for example, reduced crop yields by 30–40 percent and affected 4.8 percent of GDP.⁷

Nearly two-thirds of Tajikistan's population resides in an area of high seismicity.⁸ Earthquakes can cause considerable damage to critical infrastructure and induce secondary events such as landslides and fires. Between 1990 and 2018, earthquakes affected 48,662 people and caused economic losses in excess of \$28.5 million.⁹

Floods and mudflows are the most frequent disasters affecting large shares of the population and causing substantial economic damages. Data from the Emergency Events Database (EM-DAT) indicate that from 1990 to 2018 floods affected 806,238 people and caused more than \$600 million in damage,¹⁰ stretching the state budget and, in some cases, forcing the government to appeal for external assistance.

Over half of the crops grown in Tajikistan depend on precipitation and irrigation seasons; thus, droughts have a devastating impact, specifically affecting marginal farmers who rely on natural resources for their livelihoods. At \$5.4 million, drought represents the second highest source of financial losses (principally because of the 2000–01 drought).¹¹ Extreme temperatures erode the resilience of poor communities and pose major economic challenges. A cold wave in the winter of 2008, for example, caused damages estimated at \$840 million (16.3 percent of GDP).¹²

Financial capacity to respond to natural disasters limited

The government's financial capacity to deal with these impacts is limited. To provide access to immediate resources following disasters, the government maintains several reserve funds at the national and local levels. Allocations to these funds are annual and do not exceed 0.5 percent of budget revenues (in 2016, for example, the national reserve fund totaled about \$8.5 million). Moreover, both the Contingent Fund and the local reserve funds, for example, are designed to finance activities in addition to disaster response. Budget allocation for social protection (which includes both support to the affected population and other social protection support) also competes with other transfers, such as pensions, subsidies, and other social payments. Hence, post-disaster needs compete with other urgent priorities throughout the year for funding. The World Bank estimates that in 2016, the government had approximately \$11.5 million available in ex-ante instruments to finance contingencies.

⁵ Data are from the United States National Oceanic and Atmospheric Administration (NOAA), Significant Earthquake Database, <https://www.ngdc.noaa.gov/>.

⁶ GDP data are from World Bank data, "Tajikistan." <http://data.worldbank.org/country/tajikistan>.

⁷ World Bank. 2005. "Drought. Management and Mitigation Assessment for Central Asia and the Caucasus." Washington, D.C: World Bank. Available from <https://openknowledge.worldbank.org/bitstream/handle/10986/8724/319980ENGLISH01verOp08014801PUBLIC1.pdf>

⁸ Thurman, Michael. 2011. "Natural Disaster Risks in Central Asia: A Synthesis." United Nations Development Programme. Available from <http://www.undp.org/content/dam/rbec/docs/Natural-disaster-risks-in-Central-Asia-A-synthesis.pdf>.

⁹ EM-DAT: The Emergency Events Database, Université Catholique de Louvain (UCL)–CREd, D. Guha-Sapir, Brussels, Belgium, www.emdat.be.

¹⁰ EM-DAT: The Emergency Events Database, Université Catholique de Louvain (UCL)–CREd, D. Guha-Sapir, Brussels, Belgium, www.emdat.be.

¹¹ Data are from "National Disaster Risk Reduction Strategy of the Republic of Tajikistan for 2019–2030".

¹² EM-DAT: The Emergency Events Database, Université Catholique de Louvain (UCL)–CREd, D. Guha-Sapir, Brussels, Belgium, www.emdat.be.

The national or local governments mostly finance recovery and rehabilitation after disasters through budget reallocations and borrowing, private sector help, and homeowner's retention. Disaster insurance is also present, but its uptake is practically nonexistent for private property.

While donors play an important role in assisting Tajikistan after natural disasters, they typically offset only a fraction of the financial burden. After a cold wave in 2008, for example, donors provided roughly \$30 million, which covered less than 5 percent of the estimated damage. Similarly, in response to the 2000–01 drought, the International Federation of Red Cross and Red Crescent Societies (IFRC) is reported to have received just \$6.2 million of its \$14.5 million initial request.¹³

Government taking steps to address disaster risks

The government recognizes the gravity of the potential human and economic consequences caused by natural disasters and actively defines and promotes policy measures at various levels to reduce disaster risk.

With the aim of building a resilient nation, the government adopted the National Development Strategy 2016–30 (“NDS 2030”). The strategy includes, among others, the following priorities: (i) establishing a Disaster Risk Management (DRM) system; (ii) building national institutional capacity to mitigate risks; and (iii) developing and implementing of mechanisms to reduce social vulnerabilities due to natural disasters.¹⁴

The National Disaster Risk Reduction Strategy (NDRRS) for 2019–30 presents a sector-specific dedicated framework focused on reducing existing and preventing new disaster risks by strengthening national capacity in disaster risk management.¹⁵ Improving mechanisms for post-disaster recovery and assessment and mainstreaming disaster risk reduction into the national economic sector governance system are actions envisioned under the Strategy; these can also reduce the government's disaster-related contingent liabilities and facilitate faster recovery from the negative impact of residual risks.

To improve natural disaster preparation, the Committee of Emergency Situations and Civil Defense (CoESCD) prepared the “Development Program of the Committee of Emergency Situations and Civil Defense” for 2018–22. The Program identifies goals, principles, priorities, and measures to restructure and develop the state bodies responsible for emergency management in Tajikistan. It also includes professional and technical capacity building at CoESCD, as well as improvement of coordination among emergency prevention and response structures. National crisis management centers under CoESCD are being modernized to enhance warning systems and strengthen response mechanisms.

Natural disaster financial buffers also being strengthened

The government is also taking steps to improve its financial preparedness for natural disasters. It is preparing a Disaster Risk Finance Strategy, which includes the following tentative priorities: (i) strengthening disaster risk financing capacity; (ii) establishing an accruing contingency fund earmarked for natural disasters; (iii) improving information on disaster-related expenditures; (iv) improving insurance mechanisms; and (v) incentivizing risk reduction. This strategy is an important step to acknowledge financial resilience as a priority for the government.

¹³ Agrawala, Shardul, Mathew Barlow, Heidi Cullen, and Bradfield Lyon. 2001. “The Drought and Humanitarian Crisis in Central and Southwest Asia: A Climate Perspective.” IRI Special Report No. 01-11. November. Available at http://www.droughtmanagement.info/literature/IRI_drought_humanitarian_crisis_central_southwest_asia_2001.pdf.

¹⁴ National Development Strategy 2016–2030 (“NDS 2030”).

¹⁵ National Disaster Risk Reduction Strategy of the Republic of Tajikistan for 2019–2030.

**Further efforts
required**

Further efforts will be required to mitigate disaster impacts on development in Tajikistan. These include (i) improving understanding and quantification of disaster risks to make informed decisions on infrastructure investments and financial management of disasters risks; (ii) mainstreaming disaster risk management across all development sectors; (iii) ensuring financing availability for immediate response and further recovery of infrastructure and public assets including through implementation of the Disaster Risk Finance Strategy; and, (iv) strengthening support to affected population with a focus on the poor and vulnerable through either risk transfer mechanisms or social protection programs to ensure rapid recovery.

ANNEX 1. SELECTED MACROECONOMIC AND SOCIAL INDICATORS, 2016–21

	2016	2017	2018	2019	2020	2021
	Actual	Actual	Estimate	Projections		
(Percent, unless otherwise indicated)						
National Income and Prices						
Real GDP growth	6.9	7.1	7.3	6.2	5.5	5.0
Private consumption growth	6.4	0.0	7.2	6.6	5.3	4.8
Government consumption	3.9	2.5	3.8	3.7	3.9	3.9
Consumer price inflation, end of period	6.0	6.7	5.4	8.0	6.8	6.0
Average exchange rate (TJS per USD)	7.8	8.5	9.3	...	...	...
(Percent of GDP, unless otherwise indicated)						
External Accounts						
Exports of goods and services	12.9	15.6	15.2	15.7	16.0	16.5
Imports of goods and services	42.1	38.8	43.5	43.5	42.7	43.2
Current account balance	-5.2	2.1	-5.1	-5.0	-4.1	-4.0
Capital and financial account	6.1	6.9	5.1	4.1	4.0	3.9
Foreign direct investment, net	3.4	0.9	3.4	2.3	2.3	2.3
(Percent of GDP, unless otherwise indicated)						
Consolidated Fiscal Accounts						
Revenues	29.9	29.6	29.1	29.3	30.8	32.0
Expenditures	39.7	36.2	31.8	32.2	33.3	34.1
Overall fiscal balance	-9.8	-6.7	-2.7	-3.5	-3.8	-3.5
Total public debt	42	50	48	46	48	46
(Percent, unless otherwise indicated)						
Monetary Accounts						
Broad money growth	37.1	21.8	5.1	...	...	...
Reserve money growth	71.1	21.0	7.0	...	...	...
Private sector credit growth	-4.9	-20.2	1.3	...	...	...
Refinance rate, end of period	11.0	16.0	14.0	...	...	...
Social Indicators						
Population, total (millions)	8.7	8.9	9.0	...	...	...
Population growth (percent)	2.2	2.1	2.0	...	...	...
Unemployment rate (officially registered)	2.4	2.2	2.0	...	...	...
International poverty rate (\$1.9 in 2011 PPP)	4.2	3.4	2.8	2.5	2.3	2.0
Lower middle-income poverty rate (\$3.2 in 2011 PPP)	18	15.6	14.1	12.6	11.4	9.9
Inequality – Gini coefficient	...	34.0	...	...	...	...
Life expectancy (years)	71.1	71.2	...	...	...	...

Sources: Tajik authorities; World Bank staff estimates and projections.

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