

TAJIKISTAN

Recent developments

Table 1 **2018**

Population, million	9.1
GDP, current US\$ billion	7.5
GDP per capita, current US\$	822
International poverty rate (\$ 1.9) ^a	4.8
Lower middle-income poverty rate (\$ 3.2) ^a	20.3
Upper middle-income poverty rate (\$ 5.5) ^a	54.2
Gini index ^a	34.0
School enrollment, primary (% gross) ^b	95.7
Life expectancy at birth, years ^b	71.1

Source: WDI, Macro Poverty Outlook, and official data.
Notes:

(a) Most recent value (2015), 2011 PPPs.

(b) Most recent WDI value (2016)

Tajikistan's economy registered strong growth in 2018 driven by private consumption and public investment in the energy sector. The poverty rate fell below 29 percent thanks to sustained remittance inflows. Growth is expected to remain at around 6 percent over the medium-term drawing on favorable commodity prices, substantial public investment, and a gradual recovery of domestic lending. Rising debt service obligations, heightened state-owned enterprise (SOE) contingent liabilities, and costly energy projects with uncertain revenue prospects pose significant downside risks.

Real GDP growth accelerated slightly to 7.3 percent in 2018 (from 7.1 percent in 2017). Robust private consumption and public investment in energy, which offset a decline in net exports, supported the expansion. Sustained remittance inflows propped up activity in the services sector, and new capacity in energy, food processing, and metallurgy bolstered industrial output. Migrant transfers and rising wages helped to reduce the national poverty rate from 34.3 percent in 2013 to 29.5 percent in 2017.

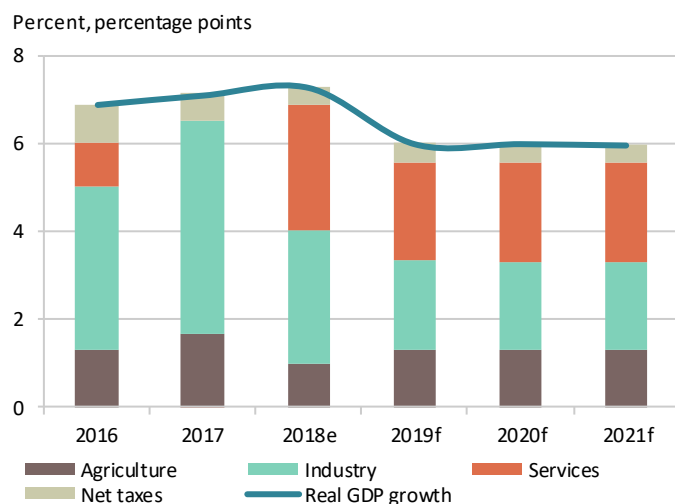
The external position deteriorated in 2018 as public investment in energy capacity boosted imports of machinery and construction materials. The current account posted a deficit of 5.6 percent of GDP in January-September 2018 (a reversal from the surplus of 2.5 percent of GDP recorded in the same period of 2017). Given the concentration of metallic minerals, particularly gold, in Tajikistan's export basket, the substantial fall in international prices for minerals severely affected export proceeds and could not be offset by the increased export of cotton and electricity. Although Chinese mining sector investments helped lift foreign direct investment (FDI) to 2.6 percent of GDP, the country's investment needs are such that FDI needs to rise further.

In light of the exhausted fiscal space and the need to improve the country's high risk of debt distress, Tajik authorities sought fiscal consolidation in 2018.

Preliminary estimates indicate that fiscal deficit narrowed to 5 percent of GDP in 2018 (from 6.9 percent in 2017) facilitated by cuts to capital spending. While public spending cuts and delays targeted non-priority capital expenditures, the government safeguarded energy sector investment and core social obligations and raised civil servant wages, pensions, and other social transfers on September 1, 2018. Investments into the Rogun Hydro-power Plant (HPP) accounted for 14 percent of total budget spending in 2018, only slightly less than total education spending at 16 percent. In 2018, the government received a budget support grant from the European Union in the amount of €9.4 million.

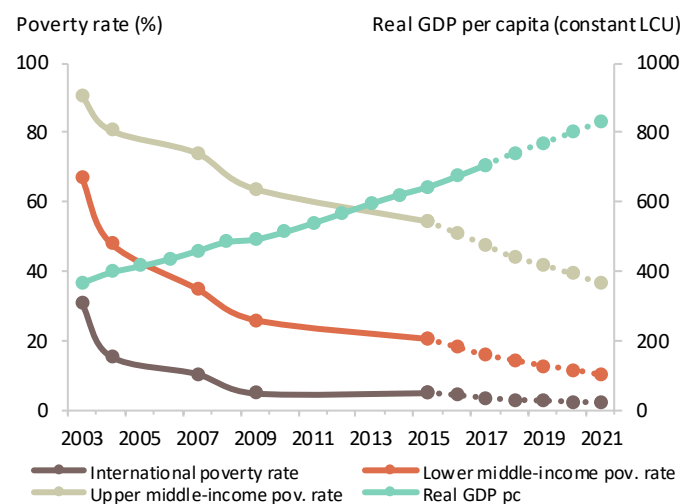
Subsidizing consumer price inflation in 2018 reflected prudent monetary policy and benign food-import prices, especially for agriculture products from Uzbekistan. At 5.2 percent, annual inflation fell within the central bank's medium-term target band of 5-9 percent. Despite increases in water and electricity tariffs, continued administrative measures and withdrawal of liquidity by the monetary authorities ensured limited exchange rate depreciation. Except for two problem banks, the financial sector was generally healthy in 2018. Adopted amendments in the legal framework in mid-2018 are expected to strengthen the regulator's supervisory powers. However, the banking system remains non-transparent, particularly regarding related-party lending; the overdue resolution of two toxic banks will require additional efforts by the authorities.

FIGURE 1 Tajikistan / GDP growth decomposition



Sources: TajStat; World Bank staff estimates.

FIGURE 2 Tajikistan / Actual and projected poverty rates and real GDP per capita



Source: World Bank. Notes: see table 2.

The decline in remittance inflows to households slowed the pace of poverty reduction between 2014 and the first half of 2016. The poverty rate returned to a downward trend in the second half of 2016 and accelerated throughout 2017. Poverty was relatively stagnant in urban areas during 2015 - 16 at 24 percent before falling to 22 percent in 2017. By contrast, rural poverty fell significantly from 36.1 percent in 2014 to 33.1 percent in 2017. The official unemployment rate stood at 2 percent in December 2018.

Outlook

Tajikistan's positive medium-term outlook assumes that external environment will remain favorable and publicly-driven investment programs will be sustained. Prospects of positive (albeit modest) growth in the Russian Federation, elevated prices for major export commodities (cotton and aluminum), and deepening regional cooperation should sustain high rates of GDP growth in Tajikistan. Remittance inflows will continue to support private consumption, while long-awaited resolution of problem banks, once completed, would restore trust in the banking system and lead to a gradual pickup in private credit and investment. The central

bank's expected move to an inflation targeting regime and the accompanying administrative measures will dampen inflationary and exchange rate pressures.

The country's current account is expected to remain in deficit owing to continued strong demand for capital-intensive imports for the construction of Rogun HPP and a remittance-propelled expansion of private consumption. FDI inflows are forecast to suffer from weaknesses in the general business climate and slowing growth in China.

Although the government is expected to pursue fiscal consolidation, in the medium term, Tajikistan will continue to face fiscal stress. The primary sources of this stress will be the tight schedule for Rogun HPP construction and high public debt service obligations. The targeted social assistance (TSA) program is expected to be rolled out nationwide in 2019.

Risks and challenges

Domestic and external risk factors weigh down Tajikistan's economic growth prospects. Governance challenges at public enterprises - particularly in the energy and transport sectors - present high quasi-fiscal risks and threaten sustainability of

public finances. Delays in much-needed structural reforms to improve the business environment will further dampen private sector development. Limited fiscal space and low policy buffers leave Tajikistan vulnerable to potential shocks. An escalation of global trade tensions, or economic slowdown in the region's large economies, would negatively impact inflows of FDI and remittances.

The construction of the Rogun HPP could present a serious 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.

A potential three-year program with the IMF suggests an upside risk if the government successfully meets the pre-program conditions. An IMF arrangement is expected to have a positive impact on Tajikistan's image in international capital market and the pricing of Eurobonds.

Although extreme poverty is expected to benefit from the national rollout of TSA program, the budget will need to be increased to adequately compensate for utility tariff increases, especially for electricity and water, in the coming years. The TSA methodology also needs to be revised to account for household size and the frequency of disbursements.

TABLE 2 Tajikistan / Macro poverty outlook indicators

(annual percent change unless indicated otherwise)

	2016	2017	2018 e	2019 f	2020 f	2021 f
Real GDP growth, at constant market prices	6.9	7.1	7.3	6.0	6.0	6.0
Private Consumption	6.4	0.0	3.2	3.5	4.0	4.2
Government Consumption	3.9	2.5	2.1	2.0	1.7	1.8
Gross Fixed Capital Investment	20.3	20.1	20.7	21.1	20.0	19.8
Exports, Goods and Services	0.0	0.0	2.5	2.9	3.2	3.2
Imports, Goods and Services	0.0	0.0	3.0	2.8	2.5	2.5
Real GDP growth, at constant factor prices	6.6	7.5	7.1	6.0	6.0	6.1
Agriculture	5.2	6.8	4.0	5.3	5.0	5.1
Industry	18.1	21.3	11.8	10.2	10.0	10.2
Services	2.2	0.7	6.0	3.7	3.9	3.7
Inflation (Consumer Price Index)	6.0	7.3	3.9	6.0	6.5	6.5
Current Account Balance (% of GDP)	-5.2	2.2	-5.1	-3.6	-3.0	-3.0
Net Foreign Direct Investment (% of GDP)	3.4	0.2	2.5	2.5	2.4	2.3
Fiscal Balance (% of GDP)	-9.8	-6.9	-5.0	-3.8	-3.0	-2.4
Debt (% of GDP)	42.0	52.3	49.3	46.5	51.7	49.9
Primary Balance (% of GDP)	-8.3	-6.4	-4.1	-2.4	-1.6	-1.0
International poverty rate (\$1.9 in 2011 PPP)^{a,b}	4.2	3.4	2.8	2.5	2.3	2.0
Lower middle-income poverty rate (\$3.2 in 2011 PPP)^{a,b}	18.0	15.6	14.1	12.6	11.4	9.9
Upper middle-income poverty rate (\$5.5 in 2011 PPP)^{a,b}	51.0	47.6	44.1	42.0	39.5	36.8

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices.

Notes: e = estimate, f = forecast.

(a) Calculations based on ECAPOV harmonization, using 2015-HSITAFIEN. Actual data: 2015. Nowcast: 2016-2018. Forecast are from 2019 to 2021.

(b) Projection using neutral distribution n (2015) with pass-through = 1 based on GDP per capita in constant LCU.