

TAJIKISTAN

Recent developments

Table 1 2019

Population, million	9.3
GDP, current US\$ billion	8.1
GDP per capita, current US\$	874
International poverty rate (\$19) ^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	100.9
Life expectancy at birth, years ^b	70.6

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

Notes:

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

(b) Most recent WDI value (2017).

The Tajik economy registered strong growth in 2019. However, the impact of the COVID-19 outbreak, including a deteriorated external environment, reduced demand abroad, and lower remittances, imply a much lower growth for 2020. The fiscal deficit will widen in 2020 for the same reasons and be limited by opportunities by the government to finance more spending. The poverty rate may well remain little changed in 2020 after falling from 29.5 percent in 2017 to 27.4 percent in 2018, when it reflected a recovery in remittances and rising wages.

According to official statistics, GDP growth remained strong in 2019 at 7.5 percent, supported by robust year-on-year growth in industry (14 percent), agriculture (7 percent), and retail trade (9 percent). On the demand side, consumption and net exports drove growth, while investment fell by 7 percent.

A jump in exports and a recovery in remittances helped narrow the current account deficit to an estimated 4.3 percent of GDP in 2019. Merchandise imports increased by 6.3 percent in U.S. dollar terms. Export earnings rose by 9.4 percent in 2019, supported by higher shipments abroad of precious metals and electricity. The fiscal stance remained cautious in 2019. The fiscal deficit of 2.7 percent of GDP was little unchanged from 2018. Cuts in non-energy capital spending accompanied with lower-than-projected revenue collection helped to contain the deficit. Meanwhile, delays in rolling out the Targeted Social Assistance (TSA) program to an additional 28 regions and slow progress in deciding to increase the TSA's budget by 10 percent put this important anti-poverty measure on hold. Spending on the Rogun Hydropower Plant (HPP) comprised the largest share of public investment in 2019, facilitating the launch of the second of six turbines in 2019.

After subsiding to 5.4 percent in 2018, 12-month consumer price inflation surged to 8 percent in 2019, close to the upper range of the NBT's target band of 5–9 percent.

The main drivers of consumer price inflation in 2019 were rising food prices, currency-depreciation pass-through effects, and the 15-percent electricity tariff increase.

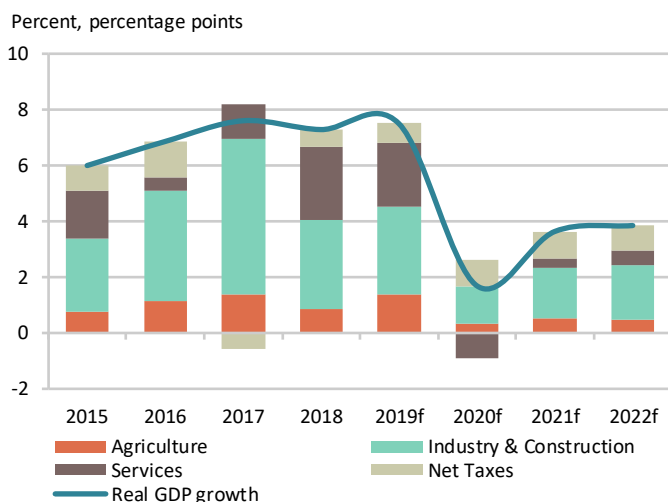
Except for two problem banks, the financial sector continued its recovery from the 2016 banking crisis, showing an improvement in the quality of the credit portfolio. The share of nonperforming loans (NPL) stood at 26 percent at the end of 2019 (down from 48 percent in 2016), and the capital adequacy ratio rose to 21.4 percent (from 17 percent in 2016). Banking sector profitability also continued to improve, and the level of dollarization declined to 53 percent at the end of 2019 (from a peak of 64 percent in 2015).

The poverty rate—using Tajikistan's official poverty line—fell to 27.4 percent in 2018, reflecting a recovery in remittance inflows. The rural poverty rate declined markedly from 36.1 percent in 2014 to 30.2 in 2018, reflecting rising household consumption. The rate of extreme poverty also fell steadily from 18 percent in 2013 to 12 percent in 2018.

Outlook

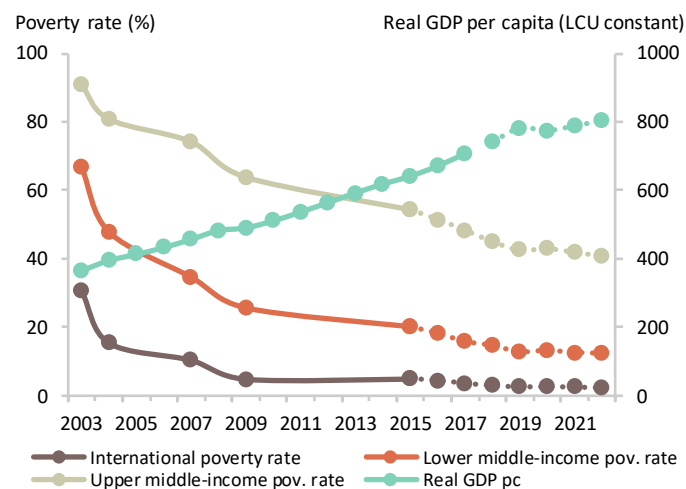
The outbreak of the COVID-19 disease and risks to growth in Russia – the main source of migrant remittances – has resulted in a substantially worse macro-fiscal framework. GDP growth is expected to fall to 1.7 percent in 2020 or lower, reflecting the implications of the COVID-19 outbreak and the slowdown in Russia and

FIGURE 1 Tajikistan / Real GDP growth and contributions to real GDP growth



Sources: TajStat; World Bank staff estimates.

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



World Bank.
Notes: see table 2.

China. These implications include the sharp decline of trade and lower commodity prices, a likely large drop in remittances, and worsened prospects for transport and tourism industries. Growth will likely remain weak at about 3.5 percent in 2021–22 supported by public investment ahead of Tajikistan’s commemoration of 30 years of independence in 2021.

The fiscal deficit is expected to widen to more than 5 percent of GDP in 2020 as a result of lower revenues and increased spending on health, social transfers. The revenue shortfall will mirror the high share of VAT and trade taxes in total tax revenue and Tajikistan’s greater reliance on imports originating from China. The expected increase in public spending in 2020 is likely to reflect social support to mitigate the loss of household incomes. After a one-off surge in the fiscal deficit in 2021, the deficit needs to be reduced in the subsequent years to ensure debt sustainability.

The current account balance is forecast to widen above 5 percent of 2020 of GDP due to the contraction in remittances and the larger trade deficit as a result of declining export of metallic minerals, the largest export commodity of Tajikistan. Inflow of foreign direct investment (FDI) is likely to decline. The current account is expected to remain elevated in 2021–22 as global trade

conditions are projected to remain depressed throughout the medium-term.

The banking sector is expected to experience a deterioration of the loan portfolio in 2020 and increase in the NPL ratio. The latter is expected to be affected by the balance-sheet mismatches as a result of Somoni depreciation. The NBT will need to enhance its regulatory role to restore the banking sector’s stability.

Poverty reduction prospects will be undermined by the increase in food prices and the fall in growth rate and remittances.

Should the COVID-19 outbreak extend beyond the six months now underpinning the baseline scenario outlined above, the outlook will be much more negative. Growth could slow to 0.5 percent in 2020 or even lower and the pressure on the current account and fiscal deficits will increase. Whether large deficits can be run will depend on available financing.

Risks and challenges

The COVID-19 outbreak and the closure of Tajikistan’s borders with all neighbors pose significant risks to the Tajik economy. An extended COVID-19 outbreak, an escalation of global trade tensions, or a deeper-than-

expected economic slowdown in the region’s large economies would negatively impact the Tajik economy through trade, FDI, and remittance channels.

Structural challenges in the Tajik economy also weigh on the country’s development prospects. Governance issues in the state-owned enterprises—including in key sectors of the economy—present high quasi-fiscal risks and threaten the sustainability of the public finances. Delays in implementing much-needed structural reforms to improve the business environment will continue to hinder private sector development.

The construction of the Rogun HPP from budget proceeds continues to present a serious risk to macro-fiscal sustainability and further crowd-out social spending.

The tax reform, power utility rehabilitation program, and financial sector reform program—if implemented successfully—could improve the country’s fiscal management and business environment over the medium term.

The government could accelerate progress in reducing extreme poverty by expanding the TSA to those regions currently not covered by the program, and by augmenting the TSA to compensate poor households for utility tariff increases.

TABLE 2 Tajikistan / Macro poverty outlook baseline scenario

(annual percent change unless indicated otherwise)

	2017	2018	2019 e	2020f	2021f	2022 f
Real GDP growth, at constant market prices	7.6	7.3	7.5	1.0	3.7	3.9
Private Consumption	0.0	7.2	7.1	-5.9	1.7	1.7
Government Consumption	2.5	3.8	3.5	2.4	3.1	3.0
Gross Fixed Capital Investment	20.3	7.9	-6.4	-4.0	7.5	12.4
Exports, Goods and Services	0.0	2.2	3.5	0.8	1.2	1.5
Imports, Goods and Services	0.0	3.3	2.2	-0.3	1.4	2.0
Real GDP growth, at constant factor prices	9.8	7.8	8.7	1.0	3.7	3.9
Agriculture	6.8	4.0	7.1	3.0	3.0	3.0
Industry	20.5	11.8	13.6	5.0	6.5	6.5
Services	2.9	6.3	4.9	-4.3	0.8	1.2
Inflation (Consumer Price Index)	7.3	3.9	8.0	10.0	8.0	8.0
Current Account Balance (% of GDP)	2.1	-5.0	-4.4	-5.5	-4.9	-4.7
Net Foreign Direct Investment (% of GDP)	-0.2	3.3	2.3	1.2	1.9	2.4
Fiscal Balance (% of GDP)	-6.0	-2.8	-2.7	-5.3	-4.7	-4.2
Debt (% of GDP)	50.4	47.9	45.2	50.6	53.0	54.7
Primary Balance (% of GDP)	-5.5	-1.6	-1.3	-3.9	-3.4	-2.2
International poverty rate (\$1.9 in 2011 PPP)^{a,b}	3.6	3.0	2.6	2.7	2.5	2.3
Lower middle-income poverty rate (\$3.2 in 2011 PPP)^{a,b}	15.8	14.6	12.7	13.1	12.6	12.3
Upper middle-income poverty rate (\$5.5 in 2011 PPP)^{a,b}	48.3	45.1	42.6	43.0	42.0	40.9

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: 2016–2019. Forecast are from 2020 to 2022.

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