

TAJIKISTAN

Key conditions and challenges

Table 1 2020

Population, million	9.5
GDP, current US\$ billion	8.0
GDP per capita, current US\$	838.6
International poverty rate (\$ 19) ^a	4.1
Lower middle-income poverty rate (\$3.2) ^a	17.8
Upper middle-income poverty rate (\$5.5) ^a	50.5
Gini index ^a	34.0
School enrollment, primary (% gross) ^b	100.9
Life expectancy at birth, years ^b	70.9

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

Notes:

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

(b) Most recent WDI value (2018).

COVID-19 suppressed aggregate supply and demand in 2020, slowing real GDP growth to 4.5 percent. Precious metal exports drove growth while remittance declined, unemployment rose, and households reduced food consumption. Poverty reduction paused for the first time in two decades, underscoring the pandemic's severity. The economy is projected to rebound in 2021–22, subject to a sustained vaccine rollout, improved global trade conditions, and opportunities for migrant workers to travel abroad. Poverty reduction is expected to resume in 2021. However, downside risks prevail.

Since the 1997 Peace Accord, the Tajik economy has grown steadily, averaging 7.6 percent annually between 1998–20. GNI per capita rose six-fold, to \$1,030 by 2019, and poverty fell to 26.3 percent from over 80 percent in the early 2000s. Tajikistan's strong performance reflects a favorable external environment (which drove migrant remittances), generous official donor assistance, and the launch of structural reforms. However, despite high annual growth rates, job creation rates have fallen short. Tajikistan remains highly dependent on migrant remittances and commodity exports to generate foreign exchange. As external financing declines, Tajikistan's other main driver of growth—public investment—also faces greater challenges.

The 2016 taxpayer bailout of domestic banks and commercial borrowing in 2017 for a large infrastructure project squeezed the fiscal space and pushed up the public debt to a level that presents a high risk of debt distress. In the context of large tax expenditures and inefficient state-owned enterprises ambiguous tax revenue mobilization efforts led to a deterioration of the competition required for robust private sector development.

With the credit to GDP ratio at 15.8 percent, Tajikistan's financial sector remains shallow, lacks effective intermediation, and faces difficulties gaining the public's trust.

Tajikistan is making progress in improving its business climate. The country was among the top 10 reformers in Doing Business 2020 while still ranking 106 out of 190 economies worldwide. The protection of property rights, the rule of law, and corruption remain significant challenges to businesses operating in Tajikistan.

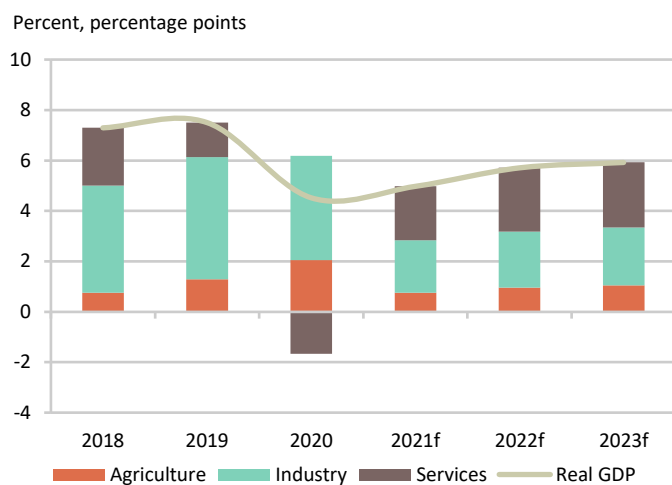
Poverty is largely a rural phenomenon in Tajikistan. Roughly 30 percent of the rural population lives in poverty compared to just 18 percent of the urban population. Labor earnings and remittances from abroad have been the two critical factors for poverty reduction in Tajikistan. In 2020, the loss of employment and reduced incomes, especially from remittances, exerted additional stress on poor households.

Recent developments

The impact of COVID-19 slowed real GDP growth to 4.5 percent in 2020 (from 7.5 percent in 2019). Precious metals exports supported growth in 2020. In contrast, domestic demand suffered from declining private consumption and investment as remittance inflows fell by 6.3 percent year on year. On the supply side, the pandemic mainly affected activities in the hospitality and construction sectors.

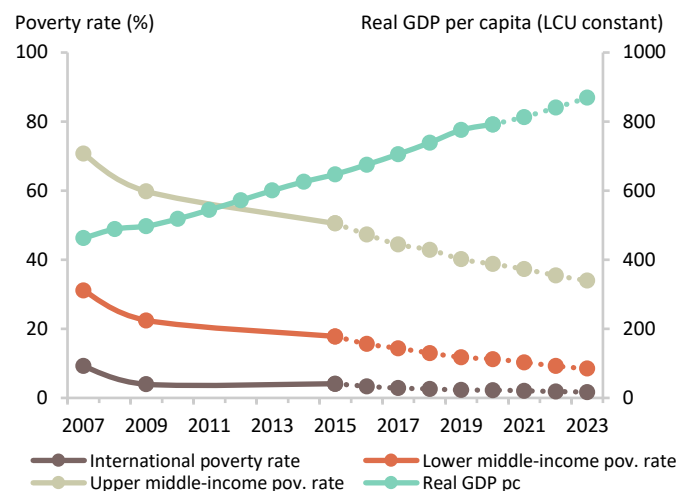
The current account recorded a surplus of 7.6 percent of GDP in the first nine months of 2020 as Tajikistan benefited from surging gold prices. Exports of precious metals rose threefold to \$690 million. In contrast,

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



Source: World Bank. Notes: see Table 2.

lower disposable incomes amid job and earning losses and a 7.7 percent currency depreciation dampened consumer goods imports. Preliminary data show a significant drop in precious metals exports in the fourth quarter of 2020, which likely re-balanced the current account for the full year. Foreign exchange reserves rose to 8.5 months of import cover at end-2020.

The authorities swiftly responded to the pandemic by allowing tax deferrals for companies. They also ramped up healthcare spending by 44 percent and social expenditures by 10 percent. As a result, the 2020 fiscal deficit widened to 3.3 percent of GDP. The outcome was lower than earlier projections, allowing the authorities to save some of the financial support from international financial institutions. Tajikistan also benefited from the Debt Service Suspension Initiative (DSSI), which suspended 2020 debt servicing equivalent to \$43.5 million, creating fiscal space to respond to the pandemic.

The central bank supported domestic demand by cutting the policy rate by 200 bps in 2020, to 10.75 percent. Supply chain disruptions, higher food prices, and currency depreciation pass-through hiked yearly inflation to 9.4 percent. The financial sector was resilient amidst the pandemic. The nonperforming loan ratio fell to 23.8 percent in 2020 (from 27 percent in 2019).

The crisis increased food insecurity in Tajikistan. In May 2020, 42 percent of households reported reducing their food consumption. Estimates suggest that poverty has remained little changed from 26.3 percent in 2019, marking the first time that poverty reduction paused in two decades. In July 2020, the government expanded the Targeted Social Assistance program from 40 districts to all 68 of the country's districts, increasing the number of beneficiaries from 1.3 million to 1.8 million people.

Outlook

Tajikistan's economy is forecast to rebound in 2021–22, assuming a vaccination rollout to 20 percent in 2021 and 50 percent by the end of 2022 for low- and middle-income countries. Real GDP growth is projected at 5 percent in 2021, subject to improved global trade and opportunities for migrants to return to the Russian Federation. Remittances and foreign investment are projected to rise, reflecting a better growth outlook in Russia and China. Rising fuel and food prices could stoke inflation.

The country's external deficit is expected to deteriorate as higher remittances spur

imports and export growth moderates, especially for precious metals.

The approved state budget for 2021 reflects the authorities' ambitious plans for fiscal consolidation. Our projections indicate a fiscal deficit of 2.6 percent of GDP supported by a moderate rebound in economic activity and a corresponding tax collection increase. The government is expected to use concessional external borrowing to close the financing gap.

The authorities are reforming the power utility company, Barqi Tojik, by unbundling it into three independent companies responsible for power generation, transmission, and distribution. Ongoing tax system reforms and the adoption of a new tax code are expected to improve the business climate over the medium term.

A resumption of the downward trend in the poverty rate is expected in 2021. However, downside risks prevail. A delayed vaccination rollout or renewed failure to contain the spread of COVID-19 could impede economic recovery. Meanwhile, a continuation of travel restrictions could suppress international trade and a recovery of remittances. Reduced household income may further exacerbate food insecurity and household well-being.

TABLE 2 Tajikistan / Macro poverty outlook indicators

(annual percent change unless indicated otherwise)

	2018	2019	2020 e	2021 f	2022 f	2023 f
Real GDP growth, at constant market prices	7.3	7.5	4.5	5.0	5.7	5.9
Private Consumption	7.2	7.1	-4.4	5.2	4.7	4.3
Government Consumption	3.8	3.5	0.4	2.1	3.0	3.1
Gross Fixed Capital Investment	7.9	-6.4	-6.6	8.6	8.4	8.8
Exports, Goods and Services	2.2	3.5	9.6	1.5	3.2	3.4
Imports, Goods and Services	3.3	2.2	-2.8	2.1	1.7	1.5
Real GDP growth, at constant factor prices	7.8	8.7	4.3	4.8	5.7	5.9
Agriculture	4.0	7.1	8.8	3.3	4.4	4.8
Industry	11.8	13.6	9.7	4.8	5.3	5.5
Services	6.3	4.9	-4.0	5.9	7.1	7.1
Inflation (Consumer Price Index)	3.9	8.0	8.6	7.8	7.0	6.5
Current Account Balance (% of GDP)	-5.0	-2.3	0.5	-1.3	-1.6	-2.4
Net Foreign Direct Investment (% of GDP)	3.3	2.3	1.4	1.9	2.5	2.9
Fiscal Balance (% of GDP)	-2.8	-2.7	-3.3	-2.6	-2.2	-1.9
Debt (% of GDP)	47.9	45.2	53.5	52.6	51.6	47.6
Primary Balance (% of GDP)	-1.6	-1.3	-2.3	-1.2	-0.6	-0.3
International poverty rate (\$1.9 in 2011 PPP)^{a,b}	2.6	2.3	2.3	2.1	1.8	1.7
Lower middle-income poverty rate (\$3.2 in 2011 PPP)^{a,b}	13.0	11.7	11.2	10.3	9.2	8.5
Upper middle-income poverty rate (\$5.5 in 2011 PPP)^{a,b}	42.9	40.2	38.8	37.3	35.5	34.0

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: 2016-2020. Forecast are from 2021 to 2023.

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