



TAJIKISTAN

Highlights

- **Growth is declining in 2015.** After increasing by 6.7 per cent in 2014, growth is expected to decline to 5.0 per cent, reflecting a sharp contraction in remittances from Russia. The negative effects can be expected to be mitigated somewhat by increased investment from China.
- **Declining remittances from Russia are hitting household consumption and savings severely.** Remittances from Russia dropped by 42 per cent in the first half of 2015 as a result of deep recession in Russia and a weakening rouble. Tighter migrant worker legislation introduced by Russia in January 2015 may further weigh on remittance inflows from Russia.
- **The banking sector faces increasing vulnerabilities.** Reflecting the challenging economic environment, levels of non-performing loans (NPLs) increased to around 24.0 per cent of total loans by the end of 2014 from 9.9 per cent at the end of 2013. Financial institutions also face increased risk in light of new regulatory measures, including exchange rate controls, which aim to manage exchange rate volatility.

Key priorities for 2016

- **Exchange rate policies and financial regulation need to be strengthened.** Among other measures, foreign exchange reserve management should be improved, exchange rate controls need to be gradually eliminated, and proper resolution of AgrolInvestBank, in line with good international practice, needs to be implemented.
- **Regional and intra-country connectivity needs to be improved,** including through enhancement of energy and transport infrastructure, logistics and ease of trading across borders. Efforts need to be made to implement such key regional projects as Central Asia-South Asia Electricity Transmission and Trade, otherwise known as CASA-1000.
- **Business environment challenges remain large.** Top priorities include accelerating energy sector reforms and developing energy infrastructure, as well as further improvements in tax administration and property rights protection.

Main macroeconomic indicators %

	2011	2012	2013	2014	2015 proj.
GDP growth	7.4	7.5	7.4	6.7	5.0
Inflation (average)	12.4	5.8	5.0	6.1	6.4
Government balance/GDP	-2.1	0.6	-0.8	0.0	-1.9
Current account balance/GDP	-4.8	-2.5	-2.9	-9.2	-7.5
Net FDI/GDP [neg. sign = inflows]	-1.0	-3.1	-1.2	-2.1	-2.8
External debt/GDP	48.3	46.3	43.2	41.0	n.a.
Gross reserves/GDP	7.7	8.6	5.6	5.5	n.a.
Credit to private sector/GDP	16.0	15.0	18.6	21.5	n.a.

Macroeconomic performance

Real GDP growth remained strong at 6.4 per cent in the first half of 2015 year-on-year, slightly lower than the 6.7 per cent growth recorded in 2014. There have been significant inflows of foreign direct investment (FDI), particularly from China, and aluminium exports have increased by 1.2 per cent in the first half of 2015 year-on-year. Remittances dropped by 26 per cent in the last quarter of 2014 and 42 per cent in the first half of 2015 as a result of the recession and the rouble collapse in Russia.

The somoni has weakened as a result of negative external factors. It has depreciated by around 18 per cent against the US dollar from January to September 2015, although it has stabilised since May 2015, partly supported by monetary and administrative measures employed by the National Bank of Tajikistan (NBT). In April 2015 the NBT suspended the currency activities of private exchange offices. However, the NBT has very limited scope for interventions in currency markets, as international reserves are extremely low at around US\$ 0.5 billion (around 1.1 months of imports as of the end of 2014). It will therefore be difficult for the NBT to manage further exchange rate pressures. The potential forthcoming foreign exchange reserves support, combined with the expected improvements in the monetary policy framework, would help the credibility of the national currency. A US\$ 500 million swap agreement was signed with the People's Bank of China in September 2015. Inflation reached 5.8 per cent in June 2015 year-on-year.

Tajikistan's fiscal and external positions remain weak due to the remittance-driven economy, narrow export base and high dependence on concessional financing. The country reported a balanced budget in 2014 as a result of improved revenue collection. Meanwhile, public and publicly guaranteed external debt decreased to 24.7 per cent of GDP in 2014 as a result of large debt repayments on Chinese, Asian Development Bank and Islamic Development Bank loans. The current account deficit was estimated at 9.2 per cent of GDP in 2014. The 2015 fiscal deficit, including the Public Investment Programme, is expected to reach 1.9 per cent of GDP. In the first half of 2015 imports contracted by 25 per cent year-on-year due to the weak domestic demand, while exports fell by 7.9 per cent in the same period as a result of weaker external demand.

Economic growth is expected to decelerate to 5.0 per cent in 2015. The weaker economic performance in 2015 reflects the negative external developments, particularly the slow-down in Russia which is affecting the country via workers' remittances and trade, as well as the slow-down among other trading partners, such as Kazakhstan. Vulnerabilities in the financial sector and increasing NPLs can be expected to continue to weigh on growth. However, increased economic ties with China through investments, particularly in the energy sector, are likely to positively contribute to growth. In September 2014 China unveiled its plans to invest around US\$ 6 billion in Tajikistan over the next three years, with the investment to be channelled to the energy, transport and industry sectors. The growth in 2016 is projected at 4.5 per cent.

Major structural reform developments

The business environment and investment climate remain weak, with slow progress in institutional reforms. Tajikistan ranks 132nd out of 189 countries in the World Bank's *Doing Business 2016* report, with getting electricity being one of the main challenges. This echoes the finding of the EBRD/World Bank Business Environment and Enterprise Performance Survey (BEEPS V), which also found electricity to be the top obstacle for firms in Tajikistan. Other key challenges include access to finance, competition from the informal sector, political instability and tax administration issues.

The restructuring process of the state-owned electricity company, Barki Tojik, is expected to accelerate. International financial institutions are playing a key role in supporting modernisation efforts of Barki Tojik. Moreover, progress with energy reforms is a precondition for receiving financing of US\$ 110 million from the EBRD for the construction of a power converter station and related infrastructure in Tajikistan, as part of the high-voltage transmission line project CASA-1000. As part of the reform agenda, Barki Tojik will be modernised, third-party access rules for the cross-border transmission line will be set out and an independent energy regulator will be established.

Progress with the Rogun hydropower plant remains slow. The Rogun plant, with expected production of 13.1 billion kilowatt hours of electricity, is to be built on the Vakhsh river in Tajikistan. This could be an important project for the region, but progress has been limited so far. Consultations are ongoing with Afghanistan, Kazakhstan, the Kyrgyz Republic, Tajikistan and Turkmenistan regarding dam safety, water management and operating flow, as well as the overall impact on these countries. According to a World Bank feasibility study published in September 2014, there are also concerns about the project financing and macroeconomic risks, as the cost of the project is very large (around 50 per cent of GDP). In this sense it is important to seek international financing sources. To attract investment it is crucial to accelerate structural reforms, in particular improve the transparency, financial soundness and management at Barki Tojik as well as increasing the transparency of public sector finances.

The government has developed an anti-crisis plan for 2015-16. The new plan, announced in January 2015, is aimed at preventing the country from sliding into economic stagnation. As part of this programme, Tajikistan's authorities will seek to pursue balanced monetary and fiscal policies, as well as cutting non-core spending. In particular, the Action Plan lays out a strategy to (i) ensure macroeconomic stability, (ii) promote public sector efficiency and transparency, (iii) promote social security and public employment, and (iv) improve the investment climate and develop entrepreneurship. The plan also envisages the creation of new jobs during 2015-16, helped by investments from China.

The banking sector faces increasing vulnerabilities. Levels of NPLs (more than 60 days overdue) increased to around 24 per cent of total loans by the end of 2014 from 9.9 per cent at the end of 2013, reflecting the decline in growth, depreciation of the local currency, and lower consumption and consumer confidence. Government interference and state-directed lending have also contributed to the deterioration of loan portfolio quality.