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# Tajikistan

Growth accelerated slightly to 7.5% in 2012 as remittances hit record highs, but slightly slower growth is forecast for 2013 and 2014. Domestic income and investment remain low. Reforms promised to permit Tajikistan's accession to the World Trade Organization will be important to improve the business climate, increase foreign investment, and reduce excessive reliance on remittances.

## Economic developments

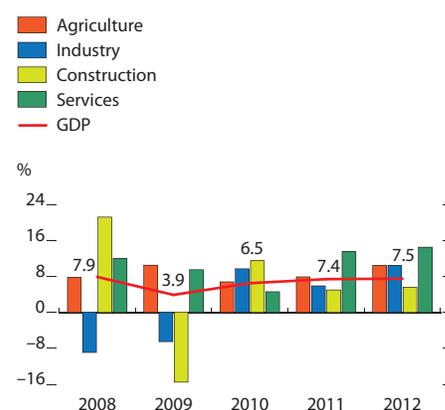
Tajikistan achieved robust growth of 7.5%, slightly above the 7.4% recorded in 2011 (Figure 3.6.1), mainly reflecting strong domestic demand from record-high remittances, which equal about half of GDP. Meanwhile, domestic income and investment remained critically low.

On the supply side, services remained the main driver of economic growth, expanding by 14.5% and led by retail trade, which grew by 17.1%. Construction, industry, and agriculture also grew, but at more modest rates. Industry expanded by 10.4%, backed by continued growth in mining and light processing. Textiles grew by 30%, as weak external demand and lower international prices for cotton prompted firms to focus on local processing. Aluminum production grew by a modest 0.7%, constrained by aging technology and a reduced supply of natural gas from Uzbekistan, and discouraged by lower international prices. Agriculture grew by 10.4%, largely because of strong growth in agricultural processing. However, cotton production grew by only 0.5%, as sharp fluctuations in cotton prices discouraged farmers from following through on initial expansions in planted area. Despite slow growth, aluminum and cotton still represented 58% of total output, down from 70% in 2008.

On the demand side, consumption was the main driver of growth. Higher spending for social services, human development, and social protection raised private consumption, while increased outlays for education and health care boosted public consumption. However, public investment including outlays by state enterprises declined as investment in energy, transport, and communication fell by 20.2%. Private investment grew by only 1.0%, and the share of private investment in GDP remained below 5%. Despite the government's continued efforts to improve the investment climate, serious impediments such as an inefficient tax system, the high cost of financing, and weak property rights have kept private investment and income low.

Inflation slowed to 5.8% from 12.5% in 2011 (Figure 3.6.2). Food prices rose by only 3.5%, despite a sharp jump in wheat and flour prices caused

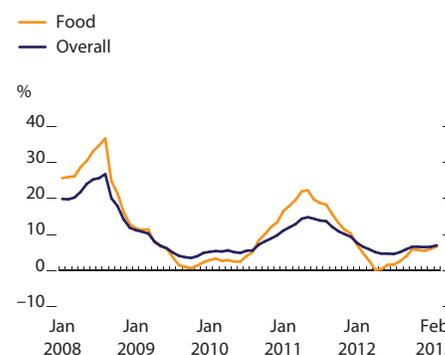
### 3.6.1 GDP growth by sector



Sources: International Monetary Fund; Tajikistan State Statistics Agency. <http://www.stat.tj> (accessed 15 March 2013).

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### 3.6.2 Monthly inflation



Source: Tajikistan State Statistics Agency. <http://www.stat.tj> (accessed 21 March 2013).

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by a drought in Kazakhstan and the Russian Federation. Inflationary pressures came mainly from services, where prices rose by 12.9%.

Fiscal policy tightened, leaving an overall budget surplus (including all investment spending) of 0.1% of GDP that reversed the 2.5% deficit in 2011 (Figure 3.6.3). The state budget surplus, which excludes foreign-financed investment, rose to 1.8% of GDP from 0.5% in 2011. Revenue performance was on track, reflecting a 22.6% rise in tax revenue and a more than 7.3% increase in nontax revenue as the restructuring of the government's tax committee and better tax administration improved collection. Total expenditure rose by 21.9%, reflecting a 21% increase in spending for social protection. Pensions increased by 30% and social sector wages by 30%–40%, reflecting the government's commitment to improve social services. However, infrastructure spending fell by 10.1% following the completion of projects commissioned to celebrate Tajikistan's 20 years of independence. Public and publicly guaranteed debt declined to 33.9% of GDP from 34.3% at the end of 2011.

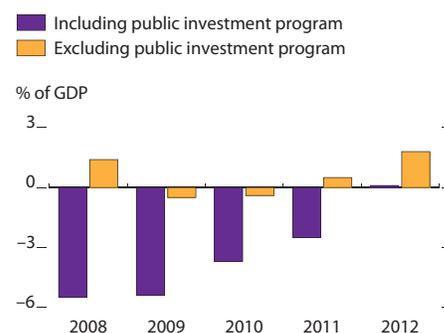
Lower inflationary pressures allowed the central bank to pursue a more accommodative monetary policy. The refinancing rate was reduced repeatedly in 2012, from 9.8% to 8.0% in March, 6.8% in July, and 6.5% in September. Bank credit expanded by 9.2%, mainly driven by a 14% increase in short-term credit. However, the share of long-term credit diminished slightly, by 0.5%, particularly for local currency lending.

Overall, the banking system remains prone to risks from low profitability and a significant percentage of nonperforming loans, as 9.5% are 30+ days overdue. Microfinance, on the other hand, continued to expand. In 2012, the average somoni exchange rate remained stable at TJS4.8 = \$1 (Figure 3.6.4), which helped moderate inflationary expectations through its impact on import prices.

The current account balance worsened, recording a deficit of 3.5% of GDP after the surplus of 2.3% in 2011, as the trade balance deteriorated. Exports rose by 8.2%, to an estimated \$1.4 billion, while high remittances helped boost imports by 18.6% to \$3.8 billion. Export growth reflected significant gains of 13.5% for cotton fiber and 11.6% for textiles. In addition, the expanding mining sector has made mineral exports increasingly important, with export earnings doubling in 2012. Electricity exports, though relatively small, grew nearly fourfold in 2012 as the supply of electricity to Afghanistan was sustained through the winter despite severe domestic electricity shortages, partly to keep the transmission system functional. Purchases of consumer goods were behind the 18.6% rise in imports. However, remittances, mainly from the Russian Federation and Kazakhstan, rose by more than 28% to a record of \$3.6 billion, or more than 47% of GDP.

Continued government borrowing for investment projects helped boost capital inflows. Foreign direct investment edged up to an estimated \$50 million in 2012 after hitting a trough in 2010 of less than \$10 million. However, foreign direct investment remains very low at only 0.5% of GDP. Official reserves rose to \$662 million at the end of 2012, equivalent to 2.2 months of imports, from \$572 million a year earlier. Public and publicly guaranteed external debt was 31.2% of GDP, little changed from the 32.1% a year earlier (Figure 3.6.5).

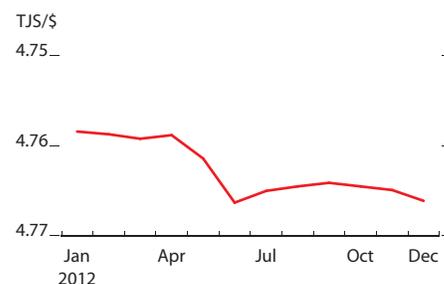
### 3.6.3 Fiscal balance



Sources: International Monetary Fund. 2011. *Country Report* No. 11/130. June; 2012. *Country Report* No. 12/110. May. <http://www.imf.org>

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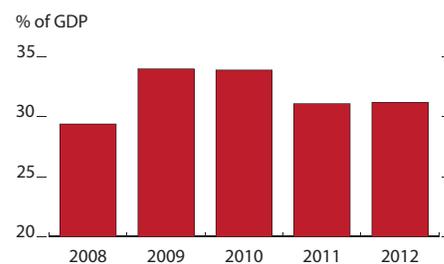
### 3.6.4 Nominal exchange rate



Source: National Bank of Tajikistan.

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### 3.6.5 External public and publicly guaranteed debt



Sources: International Monetary Fund. 2011. *Country Report* No. 11/130. June; 2012. *Country Report* No. 12/110. May. <http://www.imf.org>

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## Economic prospects

The economic outlook is cautiously optimistic, as healthy remittance inflows will continue to support Tajikistan's growth in 2013 and 2014, stimulating private consumption, imports, and budget revenues. More diversified industry and agriculture will result in more sustainable economic growth, which is forecast at 6.5% in 2013 and 6.0% in 2014 (Figure 3.6.6). However, the economy remains vulnerable because of heavy dependence on remittances.

Although continuing growth is expected, several factors heighten uncertainty or limit growth prospects. The aluminum industry is likely to slow further as production facilities continue to deteriorate and power problems and input restrictions persist. Moreover, the volume of cotton and aluminum exports will remain sensitive to international prices.

Growth will also depend on four factors: projected growth in the Russian Federation; stability in regional trade and cargo transit; the amount of precipitation, which is essential for agriculture and hydroelectric generation; and political and social stability.

In addition, Tajikistan suffers from a poor investment climate and a weak financial sector. Despite improvement in some areas, Tajikistan ranks among the bottom fourth of all countries worldwide in the World Bank's *Doing Business 2013*, with exceptionally low scores for dealing with construction permits, getting electricity and credit, ease of paying taxes, and trading across borders. When joining the World Trade Organization in March 2013, Tajikistan agreed to improve its trade regime and accelerate reforms to create a more transparent and predictable environment for trade and foreign investment. Implementing these reforms is essential to boost private investment.

Inflation is expected to stay relatively moderate in 2013 and 2014, in line with declining international food prices, though inflation could be higher if food and fuel prices exceed projections. The inflation rate is forecast to remain at 6.5% in 2013 and reach 7.0% in 2014 (Figure 3.6.7).

Tajikistan's fiscal stance will be somewhat more expansionary with planned higher expenditure, mainly for social spending and infrastructure. The budget deficit is expected to widen to 2.5% of GDP in 2013 and then narrow again to 2.0% in 2014, while the state budget deficit is projected at 0.5% of GDP in 2013 and 2014. Despite somewhat elevated public debt, the government is likely to continue borrowing externally for large infrastructure projects, mainly in energy and transport. The Public Debt Management Strategy for 2012–2014 reaffirms the government's commitment to keep public and publicly guaranteed debt below 40% of GDP, to ensure that new loans have a minimum grant element of 35%, and to undertake cost-benefit analyses of large investments.

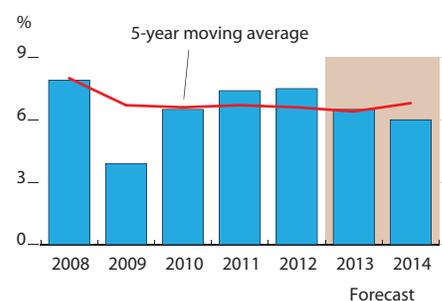
Monetary policy will need to strike a balance between supporting Tajikistan's economic recovery and ensuring price stability. The refinancing rate is expected to remain between 6.5% and 7.5% in 2013 and 2014. Money growth is projected to slow moderately, from 23.2% in 2012 to about 18% a year in 2013 and 2014. The exchange rate is forecast to remain relatively stable, supported by remittances, despite downward pressure from weak export performance. Continued exchange rate flexibility and close coordination with monetary and fiscal policies will be important to maintain competitiveness and avoid shocks.

### 3.6.1 Selected economic indicators (%)

	2013	2014
GDP growth	6.5	6.0
Inflation	6.5	7.0
Current account balance (share of GDP)	-5.0	-4.8

Source: ADB estimates.

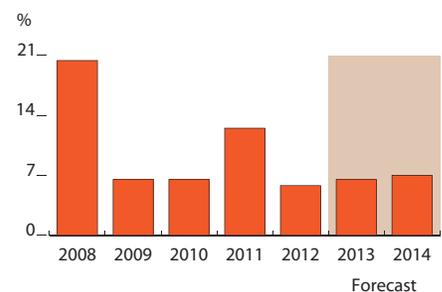
### 3.6.6 GDP growth



Sources: International Monetary Fund; Tajikistan State Statistics Agency. <http://www.stat.tj> (accessed 15 March 2013); ADB estimates.

[Click here for figure data](#)

### 3.6.7 Inflation



Sources: International Monetary Fund. 2011. World Economic Outlook database. September; Tajikistan State Statistics Agency. <http://www.stat.tj> (accessed 15 March 2013); ADB estimates.

[Click here for figure data](#)

The current account deficit is expected to widen to 5.0% in 2013 and then narrow slightly to 4.8% in 2014 (Figure 3.6.8). Despite declines in aluminum and cotton, total exports should rise because of gains in agricultural products, electricity, and textiles. Imports should also increase, because of rising remittances (Figure 3.6.9). Foreign direct investment inflows should continue to rise gradually, in line with ongoing reform. Most investments will likely involve several large infrastructure projects. External debt is forecast to reach 32.5% of GDP at the end of 2013 and 32.8% a year later. Reserves are expected to rise to \$762 million by the end of 2013 and \$862 million a year later, equivalent to less than 3 months of imports.

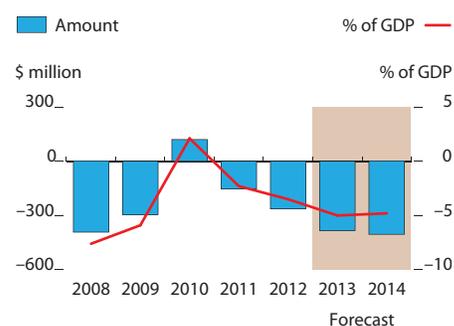
## Policy challenge—addressing severe winter energy shortages

Persistent shortages of electricity in winter, causing severe blackouts for 70% of the population and most firms outside the capital, are Tajikistan's biggest growth constraint. These shortages, estimated at a quarter of winter electricity demand, create economic losses equivalent to 3% of GDP and cause significant hardship, especially in rural areas. The problem results from Tajikistan's overwhelming dependence on hydropower and limited flows during the cold winter months. Deteriorating generation plants, high transmission and distribution system losses, and poor operational and financial management in the sector compound the problem.

Reliable power supply is critical to sustained growth. Current disruptions deter investment and job creation, keep hospitals and schools from functioning properly, and create health hazards from wood burned for heating and cooking; most regions get only 5–8 hours of electricity per day from November to March. Increasing demand for fuelwood has caused extensive deforestation and loss of biomass, creating soil erosion, landslides, and other forms of land degradation. Currently, electricity is the cheapest and sometimes the only source of power for heating. Thus, homes and businesses depend heavily on electricity for heat, as well as for lighting and industrial processes. Electricity powers the production of Tajikistan's two largest exports, aluminum and cotton.

Despite seasonal shortages and other problems, Tajikistan was a key summertime power supplier in Central Asia before the 1990s and could produce more electricity now, both for domestic needs and to export to new markets such as Afghanistan and Pakistan. Achieving energy security is thus important for both domestic and regional economic growth and development. Improving governance in the energy sector can substantially enhance sector efficiency, and comprehensive reform is needed for energy sustainability and independence. Priorities for the government and development partners should include reforming Barqi Tajik, the national electricity monopoly, to strengthen its commercial viability; implementing national programs to help households and large industrial consumers use electricity more efficiently; rehabilitating existing capacity and creating new capacity; promoting regional power trade initiatives and investment in necessary infrastructure; exploring renewable energy sources such as solar and wind power; and designing and implementing programs to improve public understanding and garner support for energy reform.

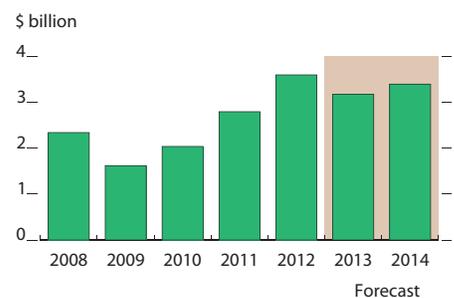
### 3.6.8 Current account balance



Sources: International Monetary Fund, 2011. *Country Report* No. 11/130. June; 2012. *Country Report* No. 12/110. May. <http://www.imf.org>; ADB estimates.

[Click here for figure data](#)

### 3.6.9 Net remittances



Sources: International Monetary Fund, 2011. *Country Report* No. 11/130. June; 2012. *Country Report* No. 12/110. May. <http://www.imf.org>

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