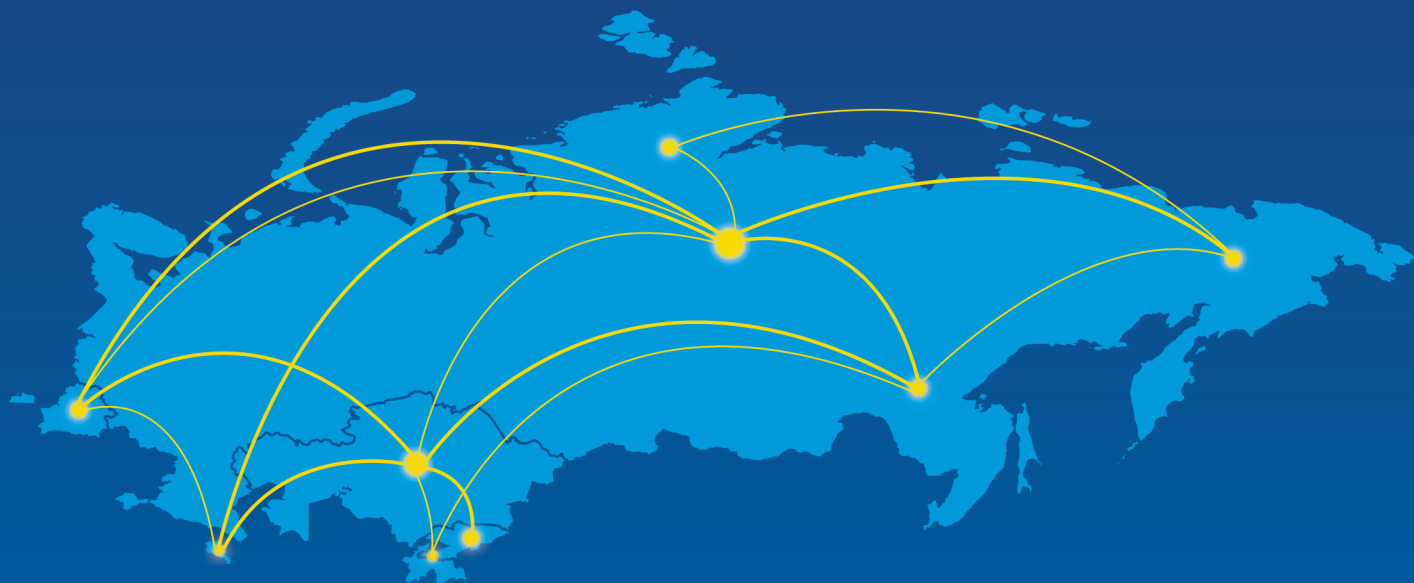


EDB MACRO REVIEW



10'2020

Republic of Tajikistan

CONTENTS

INFORMATION DISCLOSURE	2
LIST OF ABBREVIATIONS	3
SUMMARY	4
EXTERNAL CONDITIONS	5
Economic Activity	5
Inflation	7
Monetary and Fiscal Policy	8
Commodity Markets	10
Financial Markets	11
STATE OF THE ECONOMY OF THE REPUBLIC OF TAJIKISTAN	14
Economic Activity	14
The Labor Market	16
Inflation	17
The External Sector	19
The Fiscal Sector	21
Monetary Conditions	22
ECONOMIC OUTLOOK: REPUBLIC OF TAJIKISTAN	25
Background	25
Economic Activity	26
Inflation	27
Monetary Conditions	27

INFORMATION DISCLOSURE

This Review includes a detailed description of the current domestic and external macroeconomic setting and an agreed set of forecasts that takes into account the interrelationships between the economies of the EDB operating region and the external sector.

The forecasts of the main macroeconomic indicators were prepared by the EDB jointly with the EEC using an integrated system of models based on a multi-country structural dynamic macroeconomic general equilibrium model. More detailed information about the structure of the integrated system of models, its main components, and its use for analysis of the macroeconomic situation and forecasting is contained in a joint EDB and EEC report entitled “Forecasting System for the Eurasian Economic Union”.

This report is for information purposes only and cannot be regarded as a recommendation to buy or sell securities or any other financial instruments. Neither information contained in this research review nor any other information relating to its subject matter that may be disseminated in the future may be used as a basis for the recognition of any contract. The information contained in this review and the conclusions drawn therefrom were obtained from open sources that the EDB considers to be reliable, with the date of this publication as the cutoff date. For all the thorough preparation of this review, no EDB analyst, director, manager, employee, or counterparty gives any warranty or representation, express or implied, as to the reliability, accuracy or completeness of the information contained in this research review, and assumes no responsibility in this respect. The EDB expressly declines all responsibility and liability in connection with any information contained in this review. Any information contained in this review may change at any time without prior notice. No EDB employee undertakes to update, alter, or supplement this analytical review or notify its readers in any form, should any of the facts, opinions, calculations, forecasts or assessments mentioned in the review change or otherwise become irrelevant.

LIST OF ABBREVIATIONS

EDB — Eurasian Development Bank

EEC — Eurasian Economic Commission

EEU — Eurasian Economic Union

FDI — Foreign Direct Investment

GDP — Gross Domestic Product

IBL — Interbank Loans Market

NBT — National Bank of Tajikistan

pp — percentage point

RF — Russian Federation

RT — Republic of Tajikistan

U.S. or USA — United States of America

% YoY — Year-on-Year growth rate

SUMMARY

The coronavirus pandemic has exercised a considerable adverse effect on the Tajik economy. Its growth decelerated to 3.5% YoY in the first half of 2020 (after 7.5% in 2019). The consequences of the disease outbreak, namely direct restrictions on the operation of enterprises and a weakening of demand, mostly affected the non-productive sector and, particularly, trade and paid services (5.2% and 20.0% YoY declines, respectively). The productive sector was less affected, with industrial and agricultural output increasing by 9.2% and 5.5% YoY, respectively. The EDB expects the country's GDP growth to stay positive in 2020, at 3.2%. Stabilizing factors such as the resilience of the country's export revenues (largely on account of greater exports of metals) may help Tajikistan avoid a deeper decline in the figure. Fiscal and monetary policies will also be supportive of the economy. In 2021 and 2022, the improvement of the global economic situation will foster a recovery of national GDP growth to 8.6% and 7.7%, respectively.

Price growth in the first half of the year was above the National Bank's target range set at the beginning of 2020 (6±2%) on account of food appreciation. Inflation declined to 7.0% YoY in August as the food market stabilized. The EDB projects moderate domestic demand to slow consumer price growth in Tajikistan to 6.5% over 2020 and to 5.4% in 2022.

The National Bank of Tajikistan had reduced its refinancing rate to 10.75% by the end of September 2020 (from 12.25% as of 31 December 2019) as the prices of consumer goods and services stabilized while demand was weak in the economy. We expect the NBT to continue to reduce the rate during the second half of 2020 and first half of 2021 as inflation slows down and domestic demand has to be supported. Later (starting in the second half of 2021), the recovery of economic activity, accompanied by weakening disinflationary pressure, will induce a round of rate rises that will ultimately bring the rate to near current levels (10–11%).

The State budget recorded a deficit of 0.404 billion somoni (1.2% of GDP) in January to June 2020. The figure increased compared with 0.064 billion somoni (0.2% of GDP) in the same period last year. The budget performance deteriorated as its revenues decreased amid the coronavirus pandemic, which was partly offset by more moderate spending than last year's. The EDB projects the budget to stay in deficit in 2020–2022.

There currently remain risks of the economy turning less favorable than assumed in the EDB base case due to the risk of repeated outbreaks of coronavirus. Geopolitical factors, including Western sanctions against Tajikistan's economic partners (Russia), may affect the country as well. The remaining inflation risks are posed by food price fluctuations and by the performance of the national currency's exchange rate.

EXTERNAL CONDITIONS

Economic activity

Unprecedented decline in global economic activity

The first half of this year was marked by a huge challenge — the COVID-19 pandemic. As the disease spread, government bodies in the majority of countries responded by taking measures intended to contain it, which then led to a disruption in global supplies and increased volatility in the financial and commodity markets and exerted an overall negative impact on a great number of key economic sectors. Lockdown measures resulted in a reduction of consumer and investment activity, real and business incomes, and increased unemployment.

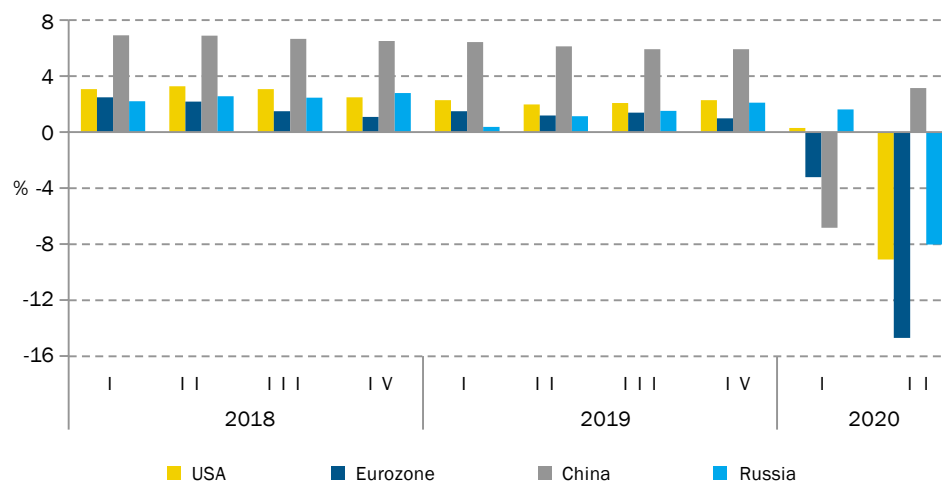
Among the world's largest economies, the biggest decline in business activity in 2Q2020 was observed in the Eurozone, where GDP declined by 14.7% YoY¹ (down 3.2% YoY in January–March 2020), which is the highest drop since the indicator was first calculated in 1995. GDP of the USA decreased by 9.1% YoY² (0.3% growth in Q12020) over the same period, which had not been at this level since 1947. China's GDP showed a positive trend in Q2: it increased by 3.2% YoY (down 6.8% YoY in January–March) upon the restrictions being eased in the spring.

The Russian economy contracted by 8% YoY in 2Q2020 (down 3.4% YoY in the first half of the year). The deteriorating epidemiological situation resulted in a fall in consumer and investment demand, with reduced extraction under the OPEC+ agreement holding back exports further. Coal production, in which heavy-duty Belarusian equipment is used, has experienced a significant decrease.

¹ Seasonally adjusted data. As per our estimates, the year-on-year decrease compared to the previous quarter (seasonally adjusted) amounted to some 40%.

² Seasonally adjusted data. The year-on-year decrease compared to the previous quarter (seasonally adjusted) amounted to 31.7%.

Figure 1.
GDP of the world's
largest economies
(YoY)



Source: CEIC Data, BEA, Eurostat, Rosstat

Big losses in the service sector

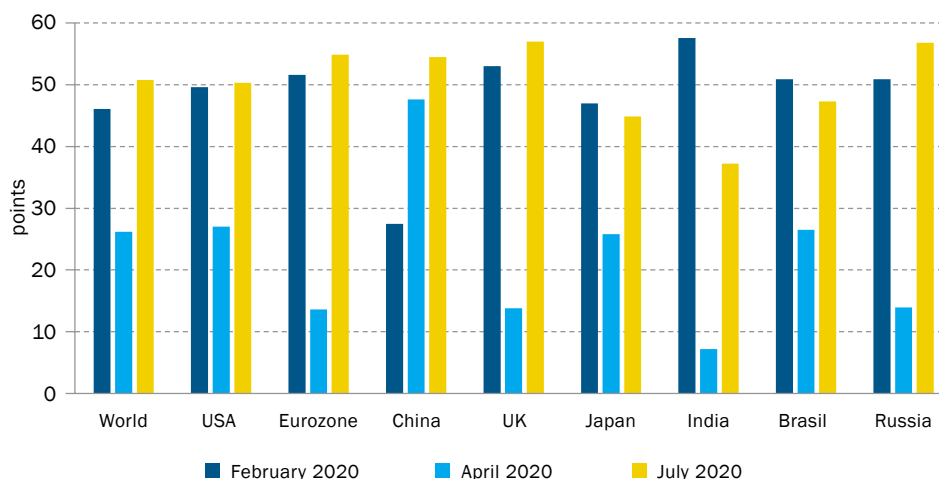
In terms of industry, the largest losses were incurred by businesses providing consumer services. This follows from PMI survey results³, evidencing a significant decrease in business activity in the tourism and hotel industries, as well as in the transport and real estate sectors. A significant deterioration in business sentiment affected technology and financial firms, along with the telecommunications services segment. An output decline was also caused in the manufacturing industry, primarily in mechanical engineering and automobile production. There was a lesser impact of the pandemic on the food and pharmaceutical industries.

Stabilization of the world economy at reduced levels in June–July

The maximum impact of the crisis (barring a second global wave of the disease or provided that its duration and consequences are not overly severe) is likely to have been passed in April–May, with the composite PMI at 26.2 (a record low) and 36.3 points, respectively. In June–July, the indicator increased to 47.7 and 50.8 points, respectively, which attests to a significant slowdown in the economic downturn after lockdown restrictions were eased. The composite PMI for Russia reached 56.8 points in July (13.9 in April 2020), 54.9 in the Eurozone (13.6 in April 2020), 50.3 in the USA (27 in April 2020), and 54.5 in China (27.5 in February 2020).

³ PMI is an indicator describing changes in business activity and the operating conditions of private companies in the manufacturing and service industries. This indicator is based on monthly surveys of purchasing managers. A PMI index reading of over 50 points indicates an increase in economic activity, while readings below 50 indicate a decrease. For more information, please see: <https://www.markiteconomics.com/Public/Release/PressReleases>

Figure 2.
Composite PMI



Source: IHS Markit

Economic sentiment improved in June–July both in the service sector (real estate operations, banking products, telecommunications) and in the manufacturing industry (production of construction materials, automobiles, chemical products, etc.). There was a significant slowing in the decline of new orders volumes, including exports. However, the recovery in global business activity is uneven due to differences in the epidemiological situation, and leading indicators overall signal the stabilization of global output at significantly lower levels than pre-crisis, which indicates the world economy is likely to be slow in returning to its “normal” state.

Inflation

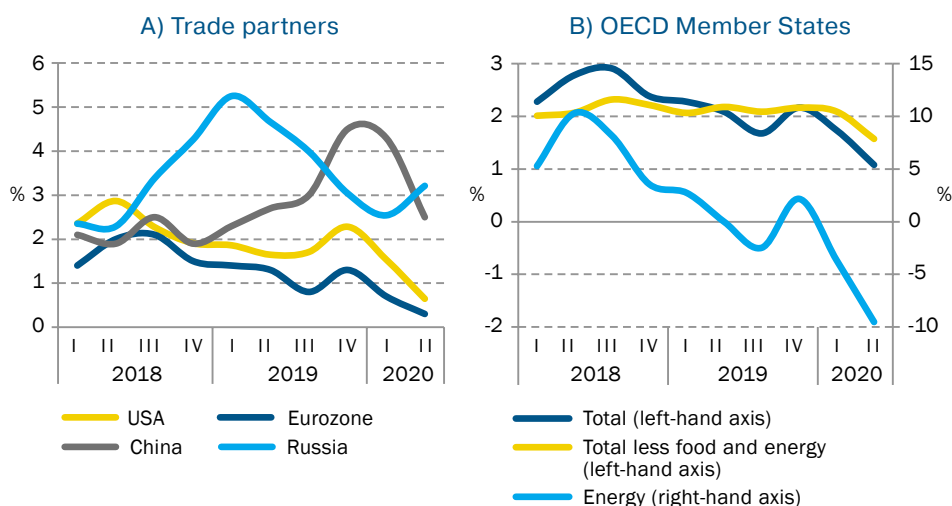
Weak inflation background

The decline in global economic activity resulted in a slowdown in the world’s inflationary processes. Inflation in the OECD countries fell to 1.1% YoY in June from 2.2% in December 2019; in the U.S., it fell to 0.6% from 2.3%; in the Eurozone, it fell to 0.3% from 1.3%; and in China, it fell to 2.5% from 4.5%. The fall in energy costs due to decreased demand acted as an additional disinflationary factor. Accelerated food price growth had an impact on consumer prices despite their decrease in the international market, which might be driven by temporary difficulties relating to transportation and feverish demand for certain products in late March–early April.

Russia retains a moderate price environment: inflation remained below the Bank of Russia’s target (4%) in August, amounting to 3.6% YoY, an increase from 3% YoY in December 2019. The increase in the indicator mainly stems

from the rise in the cost of food products due to the weakening of the national currency, the challenging transportation and logistics situation, as well as the low base effect in the fruit and vegetable segment. Core inflation amounted to 3.1% YoY in August, as in December 2019. Weakened domestic consumer demand curbed its movement.

Figure 3.
Foreign inflation
(the last month in a quarter vs. the last month of the same quarter a year before)



Source: OECD, RF CB

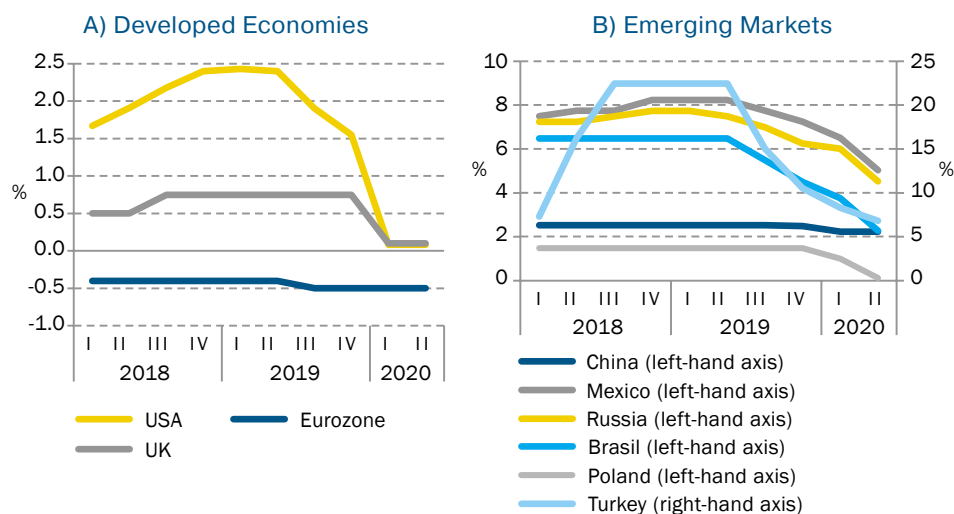
Monetary and fiscal policy

Easing of monetary policy

Active government measures taken to support the population, business and the financial sector were instrumental in limiting the scale of decline of the world's largest economies. Monetary regulators eased monetary policy significantly in the first half of 2020 by lowering key interest rates and expanding asset purchase programs. In addition, top central banks announced their intention to maintain a soft policy in the medium term.

Monetary regulators in developing countries also lowered key rates, most actively in March–April 2020. As of the end of August 2020, the Bank of Russia key rate amounted to 4.25%, 2 pp lower compared to its level at the beginning of the year. The regulator's actions are explained by a shift in the balance of risks in 2Q toward disinflation due to a deep drop in both domestic and external demand, which might cause inflation to drop below the 4% target in the medium term. Since the inflationary trend has proven to be rather moderate, we assess the Bank of Russia's monetary policy as moderately stimulative.

Figure 4.
Key interest rates of foreign countries
(as at the end of period)

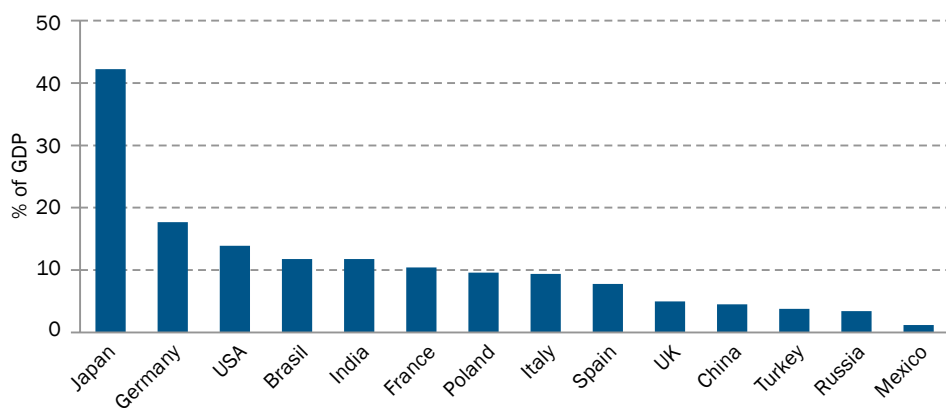


Source: CEIC Data

Stimulative fiscal policy

The volume of fiscal assistance was significantly expanded in the first half of 2020, since a need for anti-crisis measures arose, factoring in support for business and real incomes. According to the COVID-19 Economic Stimulus Index⁴ as of August 25, the volume of fiscal stimulus in Japan amounted to 42.2% of GDP; in the U.S., 13.9% of GDP; in Germany, 17.7% of GDP; in France, 10.4% of GDP; in Italy, 9.4% of GDP; in the UK, 5% of GDP; in China, 4.5% of GDP; and in Russia, 3.4% of GDP.

Figure 5.
Scope of fiscal support measures



Source: COVID-19 Economic Stimulus Index

⁴ For more information, see: Elgin C., Basbug G., Yalaman A. 2020. Economic Policy Responses to a Pandemic: Developing the Covid-19 Economic Stimulus Index. CEPR. Covid Economics, Vetted and Real-Time Papers. No 3. pp. 40–53.

Commodity markets

Low oil prices

The prices of most key exchange-traded goods were driven largely by global demand and expectations of its recovery. After falling in March and April, prices for oil, metals and food began to recover in the face of a revival in economic activity. The OPEC+ agreement also had a positive impact on oil prices, providing for a large-scale reduction in raw materials extraction from May 2020. As a result, the price of Brent rose to USD 42.8 per barrel in July (Urals rose to USD 43.9) from a multi-year low of USD 23.3 in April (Urals: USD 18.2), but remained much lower than before the crisis.

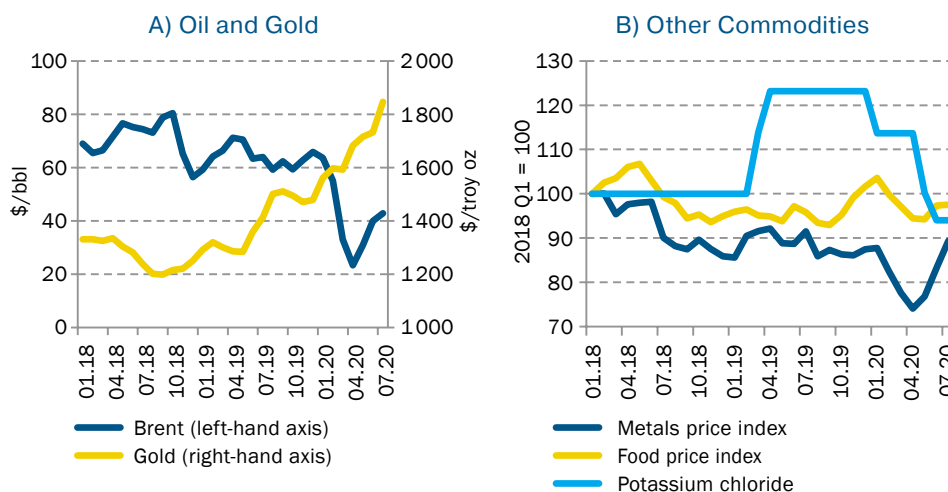
Falling global prices of potash fertilizers

The metal price index increased by 20.7% in July versus the April minimum, and exceeded the level of December 2019. This was largely influenced by the revival of economic activity in China. The weakening of the U.S. dollar against key world currencies, as well as the risk of reduced supply of industrial metals, including copper, caused by the spread of coronavirus in Latin America, also affected the rapid growth of the indicator in June–July. The food price index showed a similar trend: after falling in April–May, there was a recovery in June–July. The market for potash fertilizers and coal remains just as weak in terms of prices, with one ton costing USD 202.5 in June–July 2020, a 23.7% decrease since December 2019 (USD 265).

Increase in gold prices

Amid increasing global uncertainty in the first half of this year, there was a significant increase in demand for protective assets such as gold, with its prices reaching an all-time high in July 2020, being almost 25% higher than in last December. The soft policy maintained by major central banks furthered the increase, accompanied by large-scale injections of liquidity.

Figure 6.
Commodity prices



Source: World Bank

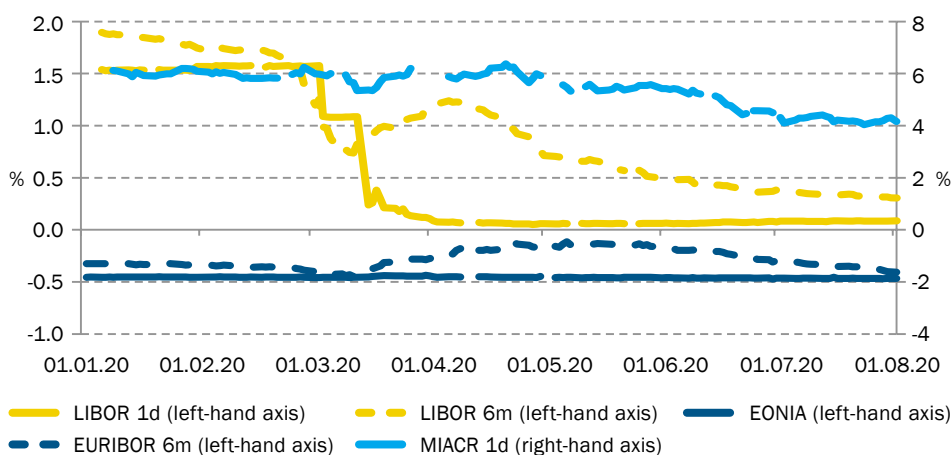
Financial markets

Lowering of interbank market rates

LIBOR rates in U.S. dollars, as well as indicators of the Eurozone money market, decreased in 2Q2020 after monetary regulators opted to ease monetary policy. Central banks' efforts to maintain financial markets liquidity and somewhat improved business sentiment amid stabilizing economic activity were instrumental in reducing spreads between rates on one-day and longer interbank loans, which had returned to pre-crisis levels after an upsurge in March.

The short-term interbank loan rates decreased in Russia over January–June 2020, staying near the policy rate, with a small negative spread resulting from a structural surplus of liquidity remaining in the banking sector. The yield on ruble FLBs also significantly decreased in April–July after an increase in March, propelled by the expectation of a key rate adjustment and the stabilization of the financial market after a period of increased turbulence around the middle of March.

Figure 7.
Money market rates

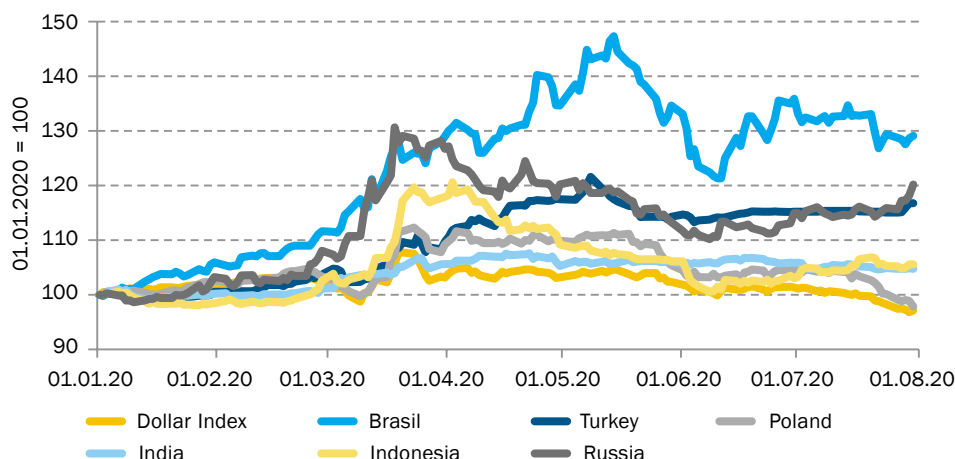


Source: CEIC Data

Weakening of the U.S. dollar against the currencies of developed countries

The U.S. dollar exchange rate against key world currencies weakened markedly in June–July after strengthening in March–April, when investors were exiting from risky assets. The decline in the value of the U.S. currency was caused by a number of factors, including the FRS's statements about its intention to support an extremely soft monetary policy in the medium term, a still high rate of coronavirus disease spread in the USA, and the EU countries' agreement to issue common bonds in July.

Figure 8.
Exchange rates
against the U.S. dollar



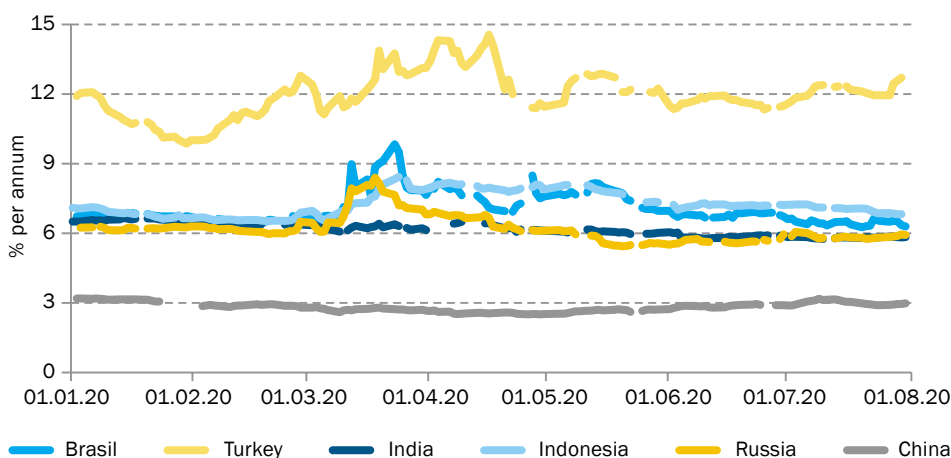
Source: CEIC Data, Investing.com

Volatility in emerging market currencies

The currencies of emerging market countries regained in 2Q2020 some of the ground lost against the U.S. dollar in March, largely driven by signs of recovery in economic activity. In addition, these movements were largely corrective, since the currencies were oversold amid the March panic. However, exchange rates remain volatile. In the wake of new COVID-19 outbreaks in late June and July and a deterioration in China–United States relations, emerging market currencies were again pressurized by increased concerns about a second wave of the pandemic and a decrease in investor interest in risky assets.

The yield on long-term government bonds of emerging market countries decreased in April–July after a significant increase in March; it basically returned to the levels observed prior to the start of the pandemic, if not lower. Both the reduction in key interest rates of central banks and the beginning of recovery processes across economies played a crucial role in this.

Figure 9.
Ten-year government
bond profitability in
emerging markets

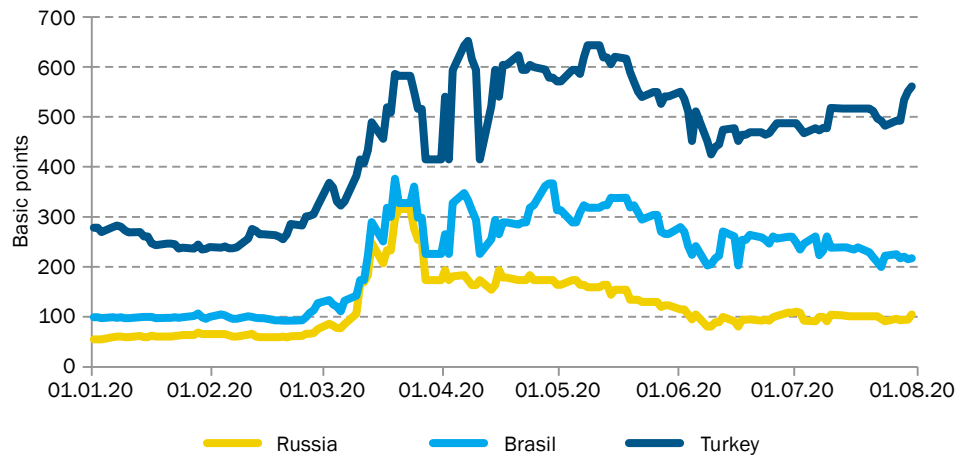


Source: Investing.com

Risk premium has stabilized at a heightened level

Risk premiums for developing economies in 2Q2020 decreased against the highs of March–April, as indicated by the CDS trends. Nevertheless, their indicators stabilized in June–July, at levels higher than those before the crisis, which might be driven by the remaining high uncertainty about the global economic outlook. Country risk premiums will likely remain high until the spread of coronavirus slows in a sustained fashion.

Figure 10.
Five-year CDS in emerging markets



Source: Investing.com

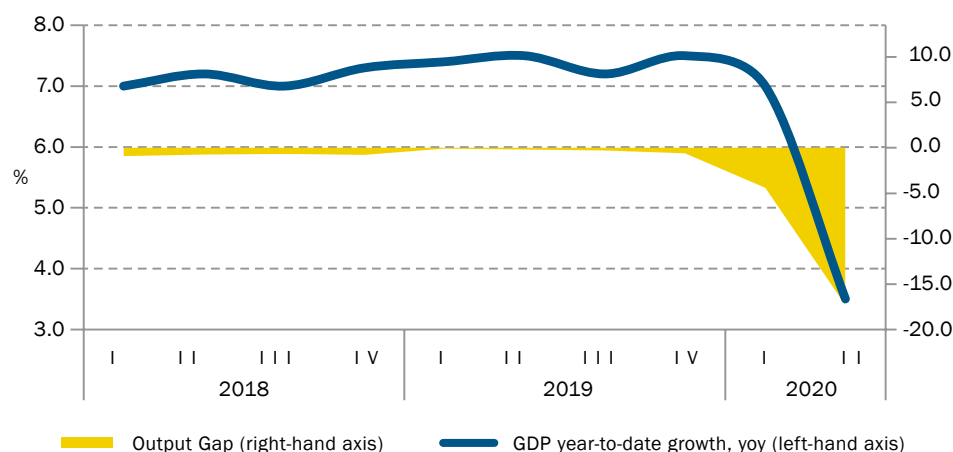
STATE OF THE ECONOMY OF THE REPUBLIC OF TAJIKISTAN

Economic Activity

Non-productive sector decline slows down GDP growth

The growth of the Tajik economy slowed down to 3.5% YoY in the first half of 2020 (after 7.5% in 2019) amid the coronavirus pandemic. The factors driven by the infection outbreak mainly hit the non-productive sector: wholesale and retail sales decreased by 5.2% YoY in January to June (after 9.0% growth in 2019), while the volume of paid services provided declined by 20.0% YoY (vs. plus 2.9% a year before). The productive sector was less affected, with industry increasing output by 9.2% YoY and agriculture increasing by 5.5% YoY (vs. 13.6% and 7.1%, respectively, in 2019).

Figure 11.
Economic Activity



Source: RT Presidential Statistics Agency, calculations by the authors

Households' consumption decreases

Consumer demand contracted in the first half of 2020, which manifested itself as a fall in retail sales by 1.1% YoY (8.6% YoY growth in 1Q gave way to a decline in 2Q⁵ that was at its deepest in May, at minus 18.8% YoY). Reduced household consumption mainly resulted from a decline in incoming remittances from private individuals and in bank lending to the economy.

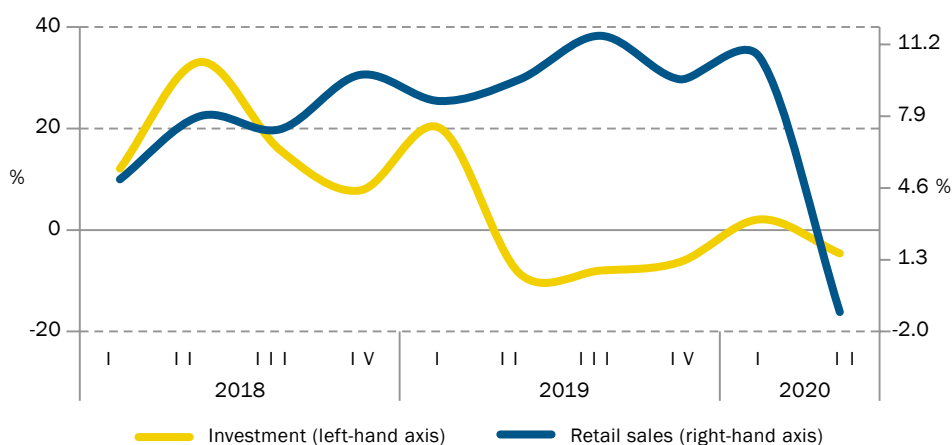
Investment demand contracts

A fall in investment demand hurt the GDP performance in the first half of 2020, just like in 2019. Fixed investments decreased by 4.6% YoY in the six

⁵ The National Statistics Agency publishes no data on retail sales growth in the 2nd quarter.

months (vs. a 6.3% YoY decline in 2019). The adverse effect of the pandemic interrupted the recovery of investment in the Tajik economy that was nascent in the first months of the year, when investment grew by 2.1% YoY in January to March 2020. The aggravation of the epidemiological situation reduced investments funded by the State and, especially, from abroad. In a sectoral perspective, less active works under energy projects and reduced investment in the mining and manufacturing industries were major drivers of the overall decline in investment.

Figure 12.
Retail Sales and Investment
(period's cumulative growth, year-on-year)



Source: RT Presidential Statistics Agency

Industry growth driven by manufacturing and energy sectors

Despite the negative impact from the pandemic, industry continued to grow, by 9.2% YoY over the first half of 2020. Its positive performance was provided by the manufacturing industries (which increased output by 14.0% YoY), mainly the food industry and metallurgy (plus 11.0% and 25.7% YoY, respectively). The production of mineral resources declined by 1.8% YoY in the first half of this year as the ore mining sector decreased output by 1.6% YoY. The coal industry managed to show growth (plus 5.2% YoY over the semester). It is a stable performer as it caters to Tajik energy enterprises, whose total generation volume grew by 4.0% YoY⁶ in January to June.

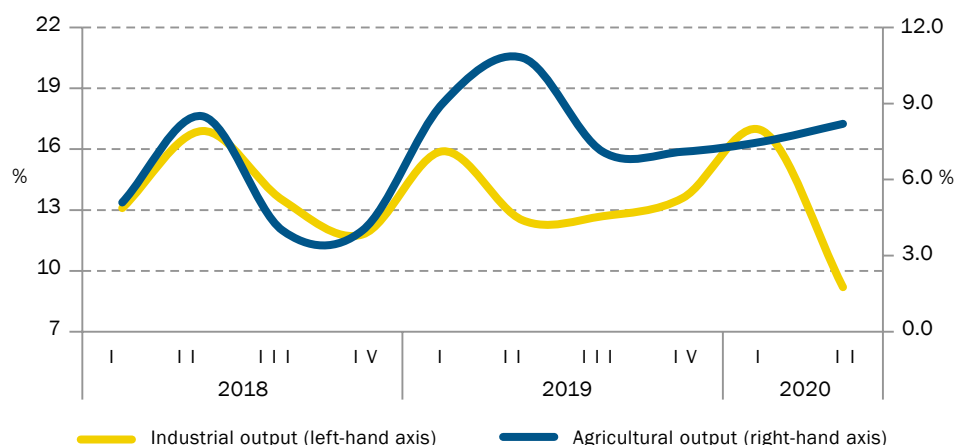
Agricultural output grows

Agriculture accelerated its growth to 8.2% YoY in January — June 2020 (from 7.1% last year). Crop farming output grew by 8.5% YoY on account of a higher harvest of grains and vegetables (by 5.5% and 15% YoY, respectively). Livestock farming gained 7.5% YoY through rapid expansion of poultry growing capacity.⁷

⁶ The first semester's fall in hydropower output caused by low water levels in reservoirs (see e.g. 'Tajikistan Limits Electricity Consumption, Stops Exports to Afghanistan and Uzbekistan', Reuters, 28 July 2020) may have promoted growth in demand for coal as a fuel for thermal generation.

⁷ See '39 Poultry Farms Opened in Tajikistan Since Beginning of the Year', Regnum, 4 September 2020.

Figure 13.
Production Activity
(period's cumulative
growth rate, year-on-
year)



Source: RT Presidential Statistics Agency

Decline uneven across non-productive sectors The scale of the decline in the non-productive part of the Tajik economy varied from sector to sector depending on how directly it was affected by the restrictions imposed during the pandemic, and on whether there were additional shocks — as well as intra-sectoral substitution opportunities. In this connection, the hospitality and public catering sectors suffered a deep downturn (minus 20.0% YoY in January to June) as many of their businesses were locked down during the peak spread of coronavirus in the country. Trade, whose activities were partially limited, reduced sales by 5.2% YoY in the first six months of 2020, while retail sales declined by only 1.1% YoY (the considerable fall in wholesale turnover, by 23.1% YoY, seems caused in particular by the temporary suspension of electricity exports due to a decrease in hydropower generation). Transport freight turnover declined by 0.2% YoY, with a large-scale fall in air cargo traffic (minus 61.8% YoY) during the pandemic counterbalanced by growth in rail shipments (plus 29.0% YoY).

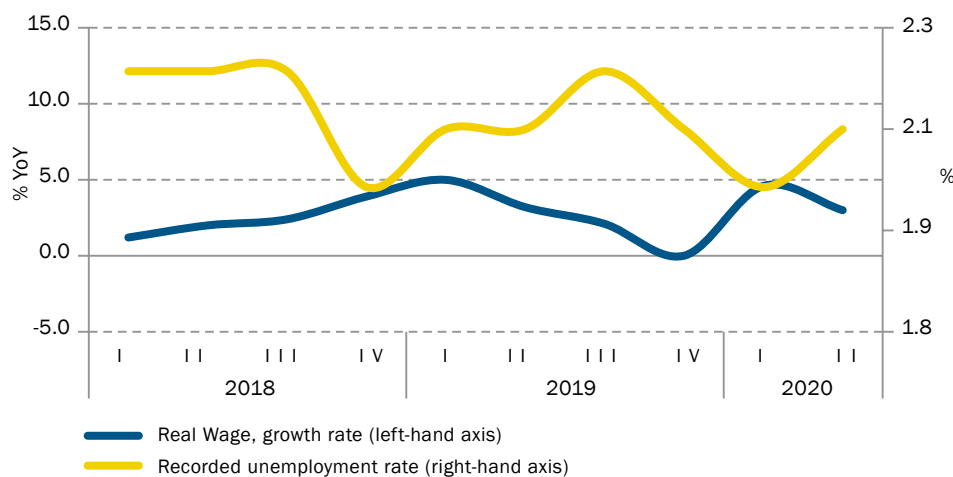
The Labor Market

Wages grow

Real wages increased on the average by 3.0% YoY in the first half of 2020, driven by economic growth that remained in positive territory despite the pandemic. In sectoral breakdown, wages showed uneven trends, with decreases or weak growth mainly in those non-productive sectors whose activity declined amid the spread of coronavirus. In other areas of economic activity labor remuneration rose. Its strong performance was recorded for example in the manufacturing and energy industries, as well as in financial services, healthcare and education.

The negative consequences of the COVID-19 outbreak, such as a fall of activity in a number of sectors and disruption of labor migration, had a weak impact on labor market statistics. Officially recorded unemployment⁸ remained low, at 2.1% at the end of the first half of the year (its January to June average was 2.1% as well). The number of unemployed per vacancy⁹ rose to 7.3 in June, from 6.9 in December 2019 (in June last year it was 7.1).

Figure 14.
Labor Market
Indicators
(period's cumulative
growth rate year-on-
year)



Source: RT Presidential Statistics Agency

Inflation

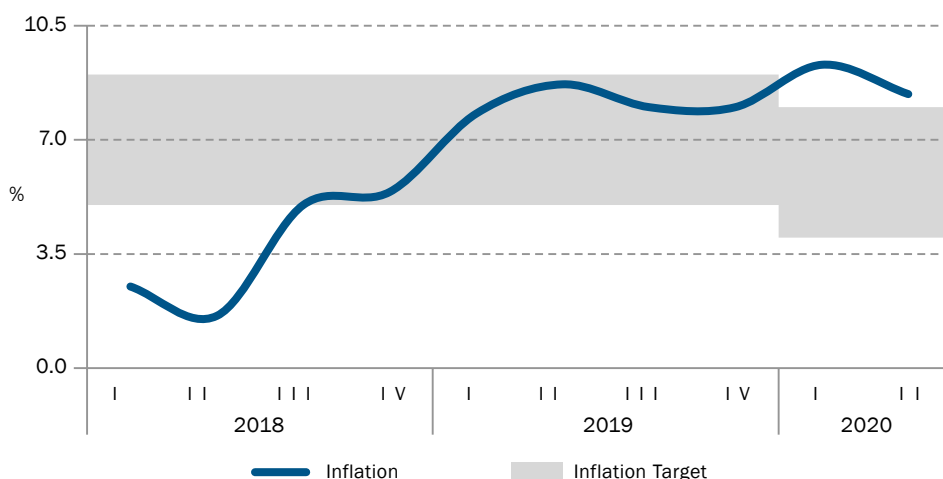
Inflation above target as food prices grow

Over the first six months of 2020, inflation was 8.4% YoY (up from 8.0% YoY at the end of 2019). The first semester's price growth in the country was above the target range set by the National Bank in early 2020. That resulted from food price growth. Other goods and services appreciated at moderate rates. The somoni's weakening against the U. S. Dollar in March and April this year (from 9.7 to 10.3 per USD) had only a limited effect, in both scale and duration, on price movement.

⁸ The indicator reflects the number of officially registered unemployed persons only, so pressure on one vacancy may be more descriptive of the labor market situation.

⁹ This indicator is calculated by the RT Presidential Statistics Agency.

Figure 15. Inflation
(the last month in a quarter vs. the last month of the same quarter a year before)



Source: RT Presidential Statistics Agency, NBT

Acceleration of food price growth

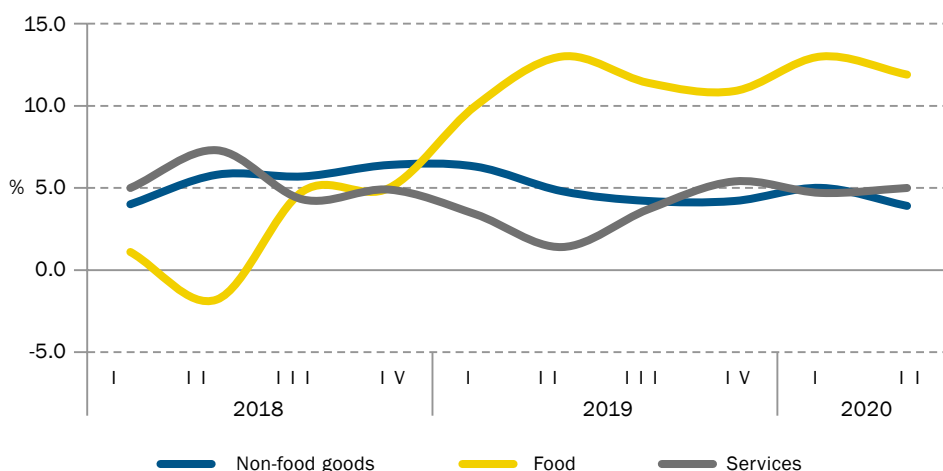
Food prices grew by 11.9% YoY in June (after 10.9% YoY in December 2019). The trends in this product group’s prices were still affected by the worldwide appreciation of foods (primarily, wheat) that took place in the second half of last year. The weakening of this factor caused inflation in this segment of the consumer market to slow down by mid-2020 after peaking in April (at 16.3% YoY).

Non-food inflation slower

Non-food product prices slowed their growth to 3.9% YoY in June 2020, from 6.4% YoY in December 2019. That resulted from weaker consumer demand.

Inflation in the services market also decelerated in the first half of the year. In June, service prices gained 5.0% YoY on average (vs. 5.4% YoY at the end of 2019). Their growth rate is largely determined by the State’s regulatory policy.

Figure 16. Inflation Components
(the last month in a quarter vs. the last month of the same quarter a year before)



Source: RT Presidential Statistics Agency

The External Sector

Current account deficit shrank in 1Q2020

1Q2020 statistics confirm the considerable strengthening of the balance of payments that became felt back in 2019 — quite on time, as it enhanced the Tajik economy’s resilience in the face of the current year’s coronavirus pandemic. The current account deficit was USD 17.5 million (1.1% of GDP⁶) in January to March 2020, down from USD 138.3 billion (9.1% of GDP) in the same period of 2019. That resulted from a decrease of the goods and services trade deficit to USD 369.8 million (22.6% of GDP) from USD 467.7 million (30.7% of GDP) a year before as exports grew. Other CA components, namely the primary (wages, investment income, etc.) and secondary (grants) income balances, did not change much compared to 1Q2019.

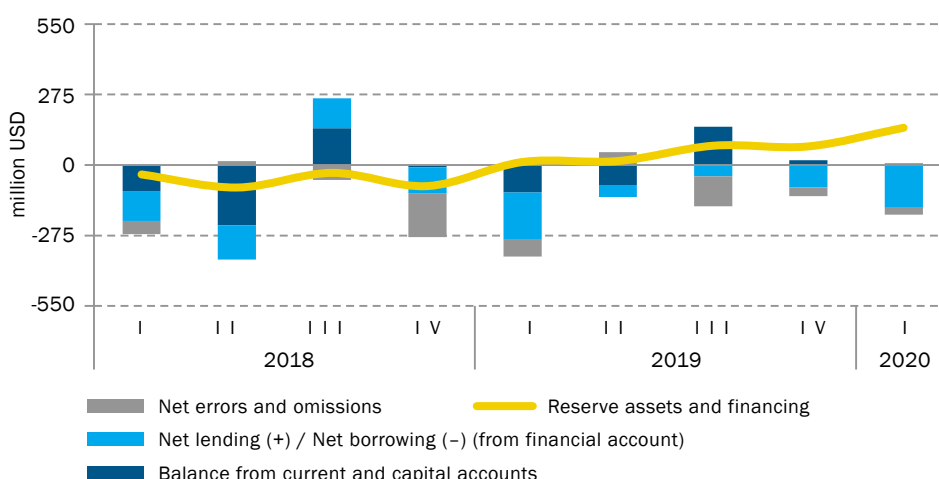
Capital inflow continues

Capital inflow to the country decreased insignificantly compared to the 1Q2019 figure. The financial account deficit was USD 166.4 million (10.2% of GDP) in January to March 2020 (vs. USD 184.7 million, or 12.1% of GDP, a year before). The indicator was relatively stabilized by additionally attracted external funding in the form of ‘other investments’ (mainly trade lending to non-financial organizations) while FDI inflow declined.

Reserve assets grow

The narrowing current account deficit and relatively stable capital inflow supported an increase in Tajikistan’s international reserve assets to USD 1.552 billion in March this year, from USD 1.466 billion at the end of 2019. Although their increase is partly attributable to gold price growth in 2020, the positive balance of payments might suggest that revaluation was not the only growth factor in this case.

Figure 17.
RT Balance of Payments



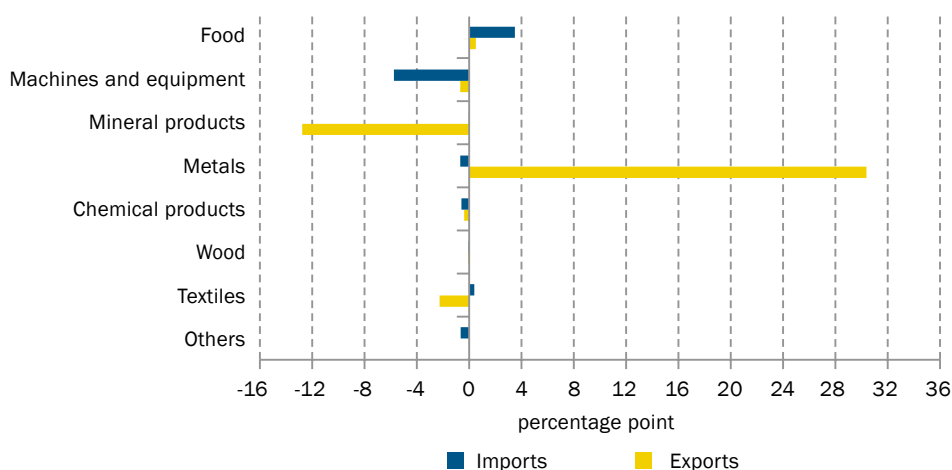
Source: NBT

¹⁰ EDB estimate.

Trade deficit narrows The merchandise trade deficit was USD 0.850 billion in the first half of 2020, versus USD 0.996 billion a year before. In relation to GDP, it decreased from 28.4% to 26.2%. Exports grew to USD 0.654 billion (20.2% of GDP), from 0.571 billion (16.3% of GDP) last year on account of growing revenues from exports of precious metals and stones, primarily gold (plus 140% YoY), crop farming produce (plus 9.7% YoY) and prepared foods (plus 89.3% YoY).

Imports decreased to USD 1.504 billion, from USD 1.566 billion (while growing from 44.7% to 46.4% relative to GDP) as domestic demand declined. The deterioration of the economic situation in 2020 affected foreign purchases of such goods as vehicles (minus 37.0% YoY), machines and equipment (minus 30.3% YoY) and stone, gypsum and cement products (which largely consist of building materials) (minus 29.5% YoY).

Figure 18.
Product Groups’
Contribution to Goods
Export and Import
Growth in January –
June 2020



Source: RT Presidential Statistics Agency, calculations by the authors

EEU countries
account for lower
share of Tajik exports
and greater share of
imports

There was little change in the share of the EEU countries in Tajikistan’s foreign trade in goods: these accounted for 46.1% in the first half of 2020 after 44.9% in the same period of 2019. The decline of the Union’s contribution to export revenues to 16.4%, from 20.3% in January to June last year, is attributable to the growth in the incomes of Tajik producers of gold, who ship it mainly to Western Europe. By contrast, the EEU countries’ share in Tajik imports grew to 59.0% in the first six months of 2020 (vs. 53.9% a year before) on account of continued growth of imports of agro-industrial complex products (from Russia and Kazakhstan) and mineral fuel (from Kazakhstan), while the total volume of goods purchases from outside the Republic declined.

Fiscal Sector

State budget deficit expands

In January to June 2019, the State budget posted a deficit of 403.5 million somoni (1.2% of GDP). The figure increased compared to the same period last year, when it was 0.064 billion somoni, or 0.2% of GDP.

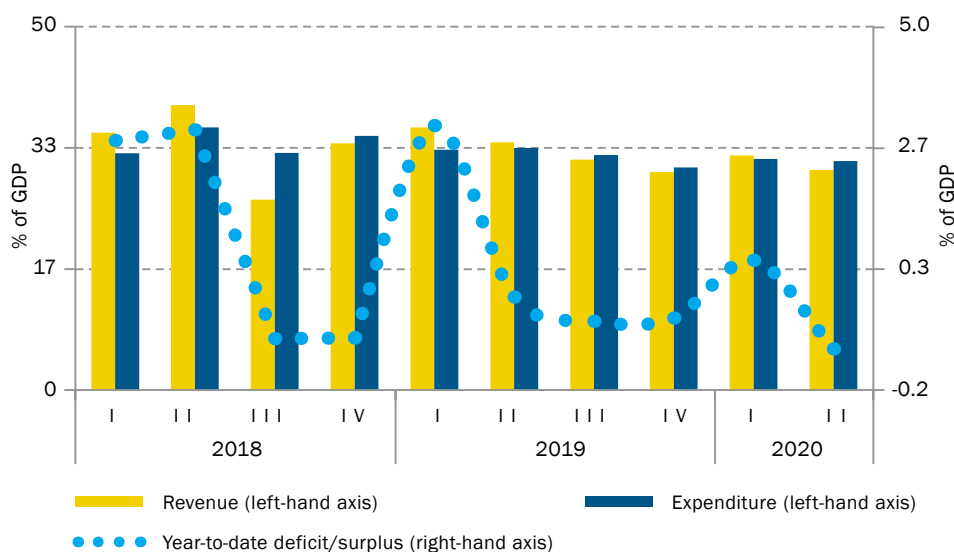
Budget revenues decline

The budget deteriorated as its revenues decreased due to the coronavirus pandemic. They fell to 9.816 billion somoni, or 30.3% of GDP (from 10.949 billion somoni, or 33.1% of GDP, in the same period of 2019). Revenues from income and profit taxes primarily declined, while value added tax collected remained more stable.

Moderate budget spending

Constrained spending compared to last year’s partially counterbalanced the fall in public revenues. Payments from the budget amounted to 10.220 billion somoni, or 31.5% of GDP, in the first half of 2020, after 11.013 billion somoni (33.3% of GDP) in January to June 2019. The saving was largely achieved through a planned reduction of investment in the energy sector.

Figure 19.
State Budget
(period's cumulative)



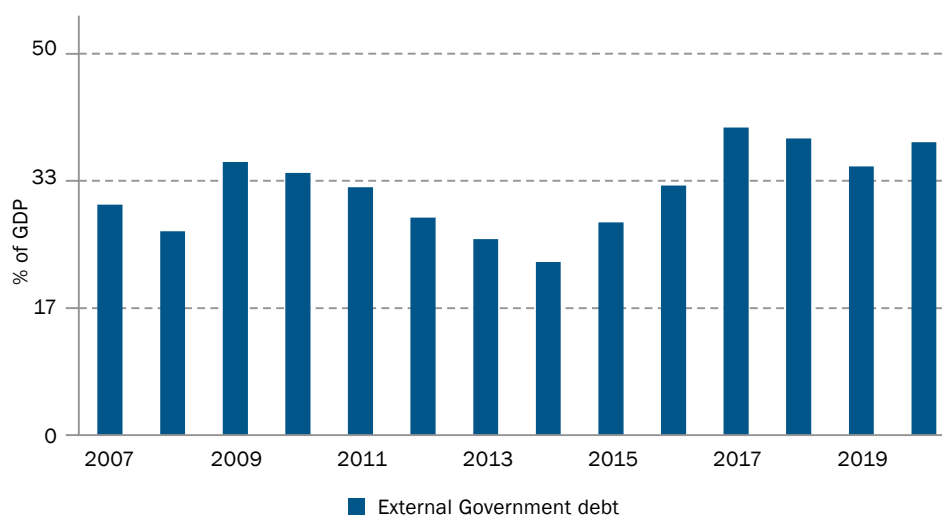
Source: RT Presidential Statistics Agency, calculations by the authors

External public debt grows in 2020

The deterioration of the budget’s balance caused public debt to grow in 2020. The national authorities’ external liabilities increased to USD 3.096 billion, or 38.4% of GDP, by the end of June, from USD 2.925 billion (35.2% of GDP) over 2019. International financial organizations’ resources, including those

provided under new agreements,¹¹ were the main source of external funding attracted by the authorities to support the economy during the COVID-19 pandemic.

Figure 20.
External Public Debt
(at end of period)



Source: RT Ministry of Finance, media reports, and calculations by the authors

Monetary Conditions

National Bank reduces refinancing rate

The National Bank of Tajikistan reduced its refinancing rate from 12.25% as of 31 December 2019 to 11.75% by the end of the first half of 2020 — after raising it to 12.75% due to the need to hold back inflation and keep the somoni stable. In May, the NBT was able to reduce the rate by 1 pp as consumer inflation stabilized and demand was weak in the economy. In August, the National Bank reduced the rate again, to 10.75%, as price growth returned to the target range ($6\pm 2\%$)¹².

Lending and deposit rates go down

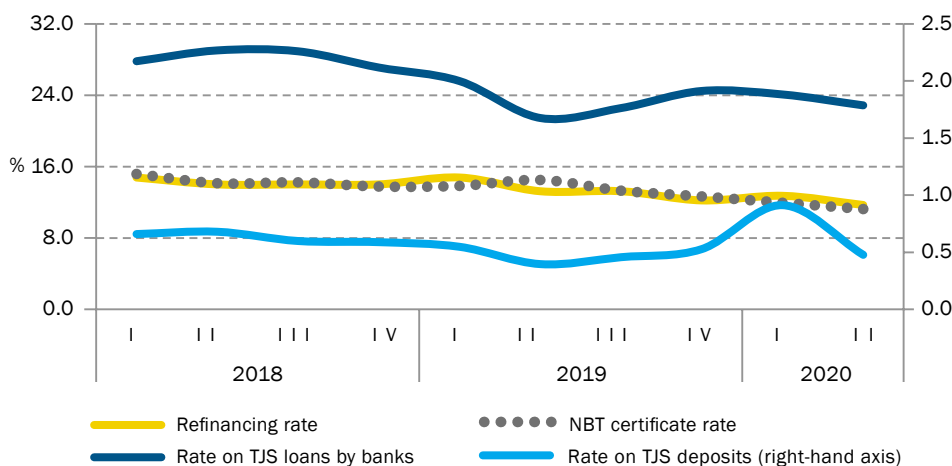
Interest rates in the Tajik economy decreased in the first half of 2020, pushed down by the NBT policy. The average price of a bank loan in somoni declined from 23.6% at the end of 2019 to 22.6% in the first half of 2020, and then to

¹¹ In May 2020, a funding agreement was entered into with the IMF, and in August 2020 (already in the second semester), with the EFSD. Funds are also provided by the World Bank Group, the ADB and other development institutions. The authorities estimate IFO support at USD 300.8 million (see 'Tajikistan Planning to Attract \$68.5 Million from ADB and WB to Support the National Economy', Avesta, 17 July 2020).

¹² The target range was established at the $6\pm 2\%$ level starting from early 2020. It was moved by 1 pp downward compared with the 2019 target range ($7\pm 2\%$).

18.3% (its minimum over 2011–2020) in July. Despite some fluctuations at the beginning of this year, deposit market rates followed the National Bank’s policy and declined as well.

Figure 21.
Interest Rates
(period's average)



Source: NBT

Lending growth slows down

The growth of banks’ and microfinance organizations’ loan portfolios decelerated to 9.5% YoY in June 2020 (vs. 12.0% YoY over 2019) amid the pandemic’s negative impact on the economy. The indicator’s trend was uneven in the first semester: acceleration in 1Q, with the volume of loans increasing by 16.2% YoY towards the end of the quarter, gave way to a rapid slowdown in the following months as the NBT tightened its policy temporarily and borrowers’ demand weakened.

De-dollarization suspended

The trend towards de-dollarization in the lending sector observed over 2015–2019 was interrupted: the share of somoni loans¹³ in total loans decreased to 50.7% in June 2020, from 51.3% at the end of 2019. The main cause was national currency weakening against the U.S. dollar in the first half of the year. The role of the somoni in the banking sector’s operations can be expected to resume its growth later.

Share of bad loans grows, current liquidity and capital adequacy ratios decrease

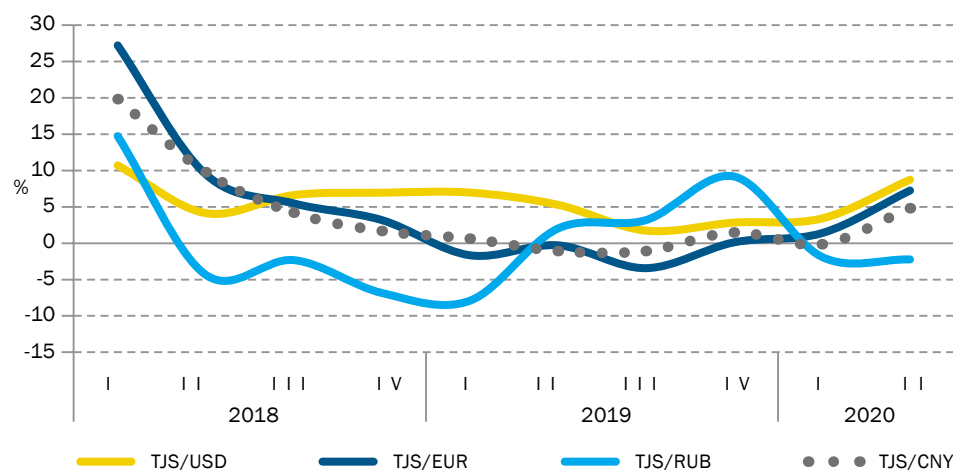
The aggravation of the economy worsened the quality of loans issued by Tajik banks. The share of uncollectible loans grew to 27.2% in the first half of 2020, from 24.0% at the end of last year. Some other indicators of banking sector stability decreased: the current liquidity ratio, to 65.2% at the end of June (vs. 67.5% over 2019), and the capital adequacy ratio, to 19.7% (vs. 21.4% in 2019).

¹³ Data from the NBT Banking Statistics Bulletin.

Somoni weakens versus U.S. dollar

The Tajik national currency depreciated versus the U.S. currency, from 9.7 somoni per U.S. dollar as of 31 December 2019 to 10.3 somoni at the end of the first half of 2020. The exchange rate's most dramatic movements were observed in late March and early April. Later in the year, fluctuations in the somoni to U.S. dollar exchange rate were less significant.

Figure 22. Somoni Nominal Exchange Rates
(period's growth rate year-on-year, + = somoni weakening)

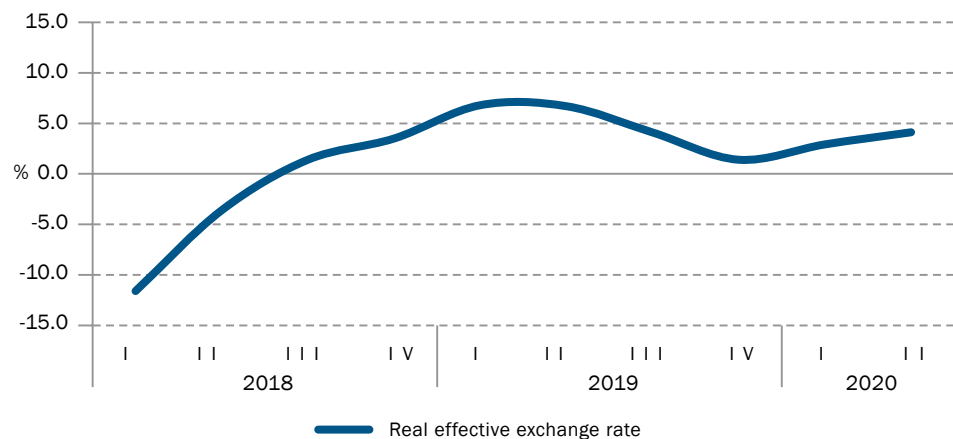


Source: NBT, calculations by the authors

Real effective exchange rate strengthens

The somoni's real effective exchange rate continued to strengthen in the first half of 2020. That resulted from its greater stability relative to the U.S. dollar as compared to the trade partner countries' currencies. Against this backdrop, the somoni grew in nominal terms versus the Russian ruble and, to a lesser extent, versus the Kazakh tenge. Rapid price growth compared to most of the countries with which Tajikistan maintains foreign economic relations was an additional contributor to the strengthening of its monetary unit.

Figure 23. Real Effective Somoni Exchange Rates
(period's growth rate year-on-year, + = somoni strengthening)



Source: NBT, calculations by the authors

ECONOMIC OUTLOOK: REPUBLIC OF TAJIKISTAN

Background

Trade partner economies to gradually recover in medium term

The base case assumes a further easing of lockdown restrictions in the world's largest economies (the US, the Eurozone and China) in the second half of 2020, that, along with stimulative fiscal and monetary policies, will be instrumental in a gradual recovery in consumer and investment activity, as well as international trade. However, due to the increased uncertainty, deterioration of the labor market, disruption of existing value chains, and anticipated changes in consumer habits (social distancing, higher savings rates, etc.), the return to pre-crisis production levels will be slow and is unlikely to be complete until 2022.

External demand constrained

Negative output gaps in the countries under review will gradually close, remaining in negative territory over the entire projection horizon (2020–2022) owing to restrained recovery in economic activity. This is expected to result in low external demand for Tajik exports in the medium term.

Moderate oil price growth

Under the EDB base case, oil prices will grow at a moderate pace in 2020–2022, encouraged by a recovery in global economic activity. Nevertheless, we are quite conservative in our expectations of the increase in energy commodity prices, which will continue to be affected by the uncertain global outlook.

Low foreign inflation

External inflation will remain weak in the medium term. We expect the growth rate of the consumer price index in Russia, the Eurozone and the United States to remain below their regulators' targets in the wake of moderate demand.

Table 1. Forecasts of Key Foreign Economic Indicators

	Average annual gold price (USD per ounce)	Average annual Urals oil price (USD per barrel)	Food prices, 2010 index=100	RF real GDP growth rate, %	Eurozone real GDP growth rate, %
2020	1,779	42.4	88.0	–4.2	–8.4
2021	1,842	48.9	88.0	3.2	5.5
2022	1,658	52.7	88.3	2.7	3.7

Source: calculations by the authors, EEC

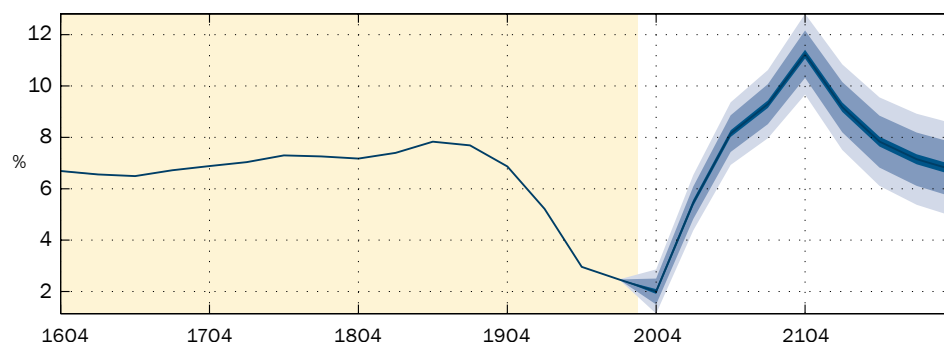
Economic Activity

GDP growth to decline in 2020 and recover in 2021–2022

The 2020–2022 trends in the Tajik economy will be determined by the adverse impact of the COVID-19 pandemic and by the recovery processes to follow. Weakening consumer and investment demand amid declining incomes and mounting uncertainty have led to a slowdown in GDP growth: we expect it to fall to 3.2% over 2020 from last year’s 7.5%. Stabilizing factors such as the resilience of the country’s export revenues (largely on account of greater exports of metals) may help Tajikistan avoid a deeper decline in the figure, along with support from fiscal policy (which may intensify as the country receives assistance from IFOs) and monetary policy (we expect a further NBT policy rate reduction). In 2021 and 2022, the improvement of the global economic situation will foster a recovery of national GDP growth to 8.6% and 7.7%, respectively.

There currently remain risks of economic growth slowing down again due to the risk of repeated outbreaks of coronavirus at home and worldwide. Geopolitical factors, including Western sanctions against Tajikistan’s economic partners (Russia), may affect the country as well.

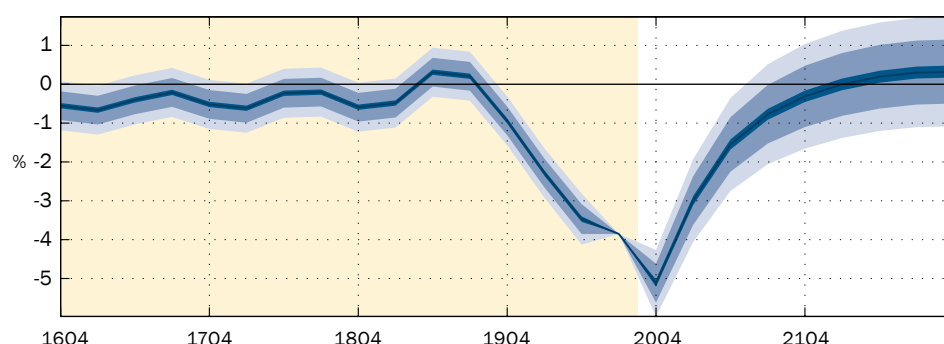
Figure 24.
Real GDP¹⁴
(period’s growth rate year-on-year)



Note: seasonally adjusted data.

Source: calculations by the authors

Figure 25.
Output Gap



Source: calculations by the authors

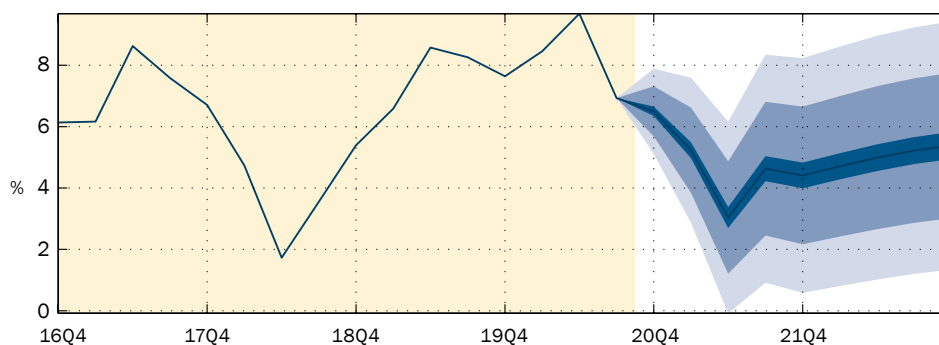
¹⁴ Here and elsewhere the fan chart ranges correspond to the 10%, 50% and 75% confidence intervals.

Inflation

Inflation to slow down amid weak demand Inflation, which reached high figures in early 2020, declined to 7.7% and 7.0% YoY in July and August, respectively, returning to its target range (6±2%). This was facilitated by a stabilizing food market in the wake of positive trends in the agrarian sector and by low energy prices. We expect the growth of consumer prices in Tajikistan to slow down to 6.5% over 2020 and to 5.4% by the end of 2022 amid moderate domestic demand.

Inflation risks Despite the reduction in inflation risks compared to the first months of this year, there remains a considerable probability of heightened inflation persisting (near or above the upper limit of the target range). The main factors behind this include high volatility of food prices in the country and movements of the national currency's exchange rate.

Figure 26.
Inflation
(period year-on-year)



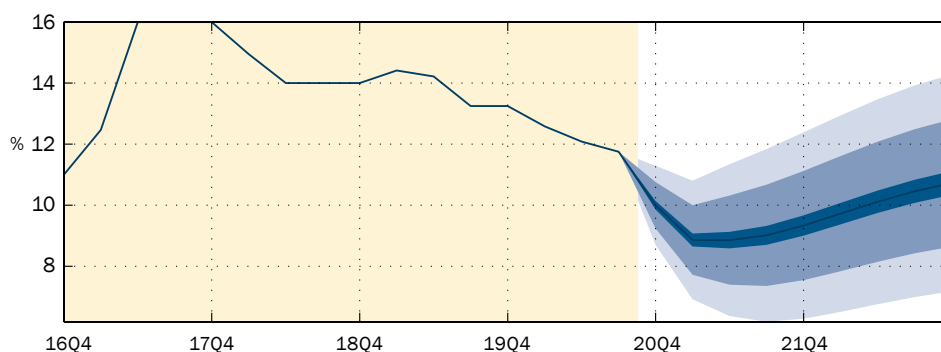
Note: seasonally adjusted data.

Source: calculations by the authors

Monetary Conditions

Refinancing rate to be lowered to support the economy We expect the NBT to continue to reduce its refinancing rate during the second half of 2020 and the first half of 2021 as inflation slows down and domestic demand has to be supported. Starting from the second half of 2021, the recovery of economic activity and weakening disinflationary pressure will induce a round of rate rises that will ultimately bring the rate back to 10–11%.

Figure 27.
Refinancing Rate
(period's average)

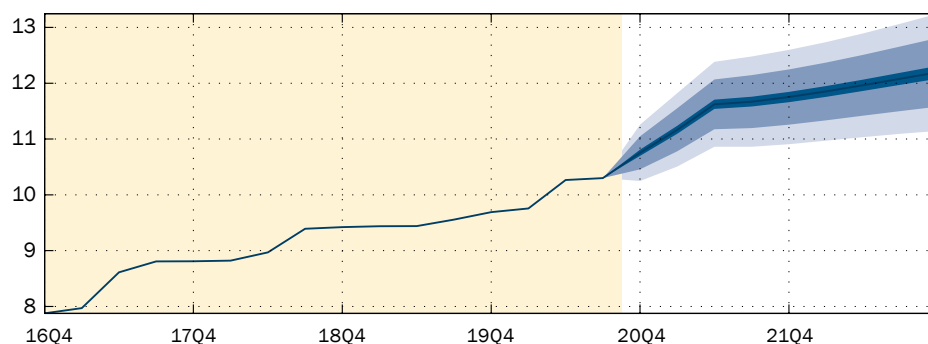


Source: calculations by the authors

Somoni to depreciate

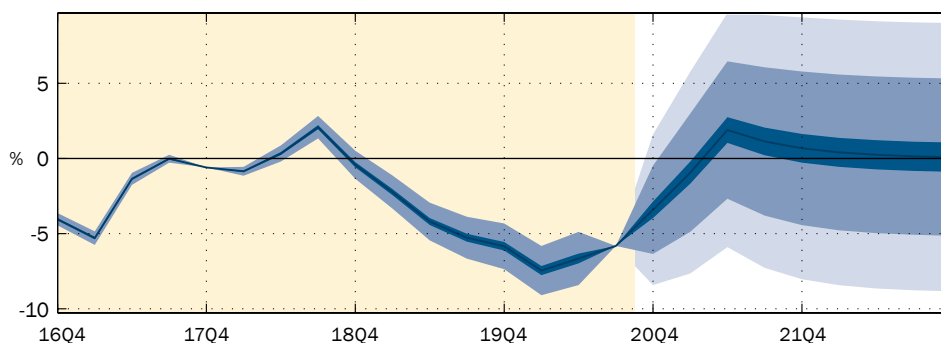
The risk of a faster-than-trend weakening of the national currency prevails while the world economic situation remains complicated due to the coronavirus pandemic. We project the somoni to weaken to 11–12 per U.S. dollar in 2021–2022, which will bring the exchange rate close to equilibrium. Later on, the weakening of the Tajik currency versus the U.S. dollar will slow down considerably. Its speed will depend on the difference in inflation levels between Tajikistan and its trade partners.

Figure 28.
Somoni to U. S. Dollar
Exchange Rate
(TJS per USD)



Source: calculations by the authors

Figure 29.
Real Somoni to
U. S. Dollar Exchange
Rate Gap
(+ = the somoni is undervalued)



Source: calculations by the authors

Table 2. Key Macroeconomic Indicators of the Republic of Tajikistan

Показатель	2017	2018	2019	2020П	2021F	2022F
GDP in constant prices (<i>% growth YoY</i>)	7.1	7.3	7.5	3.2	8.6	7.7
Consumer price index (<i>% growth at end of year</i>)	6.7	5.4	7.6	6.5	4.4	5.4
Refinancing rate (<i>%, the year's average</i>)	15.1	14.2	13.8	11.6	9.0	10.3
Exchange rate of national currency to U.S. dollar (<i>the year's average</i>)	8.5	9.2	9.5	10.3	11.6	12.0

Source: calculations by the authors



Eurasian Development Bank

**RESEARCH DEPARTMENT,
EURASIAN DEVELOPMENT BANK**

Your comments and suggestions concerning this review
are welcome at: pressa@eabr.org

