Eurasian Development Bank


# Macroeconomic Trends and Forecast

# Republic of Tajikistan

Research Department

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# Summary

## Trends:

- The slowdown of GDP growth to 3.5% in 2020H1 from 7.5% in 2019
  - ✓ COVID-19 pandemic
  - ✓ Non-manufacturing and construction sectors contract, industry and agriculture keep expanding
- Inflation drops to 7.0% in August 2020 (8,0% at end-2019)
  - ✓ Consumers' demand contained
- Reduction of policy rate to 10.75% in August 2020 from 12.25% in end-2019
- Budget deficit
  - ✓ Pandemic-related expenditures

## Forecast 2020-2022:

- GDP growth slows to 3.2% in 2020
  - ✓ Consumer and capital expenditures drop
  - ✓ No GDP contraction due to stability of export revenues (among other factors)
- Reacceleration of GDP growth in 2021–2022
- Inflation at 6.5% in 2020
  - ✓ Weak demand
  - ✓ Disinflationary impact of low international energy prices
- Inflation within the NBT target interval 2021–2022
- Additional policy rate reduction in 2020-2021, pick-up starting in 2021H2

# Real Sector. Economic Growth Accelerates

GDP growth in 2020H1 – **3.5%** (7.5% as in 2019):

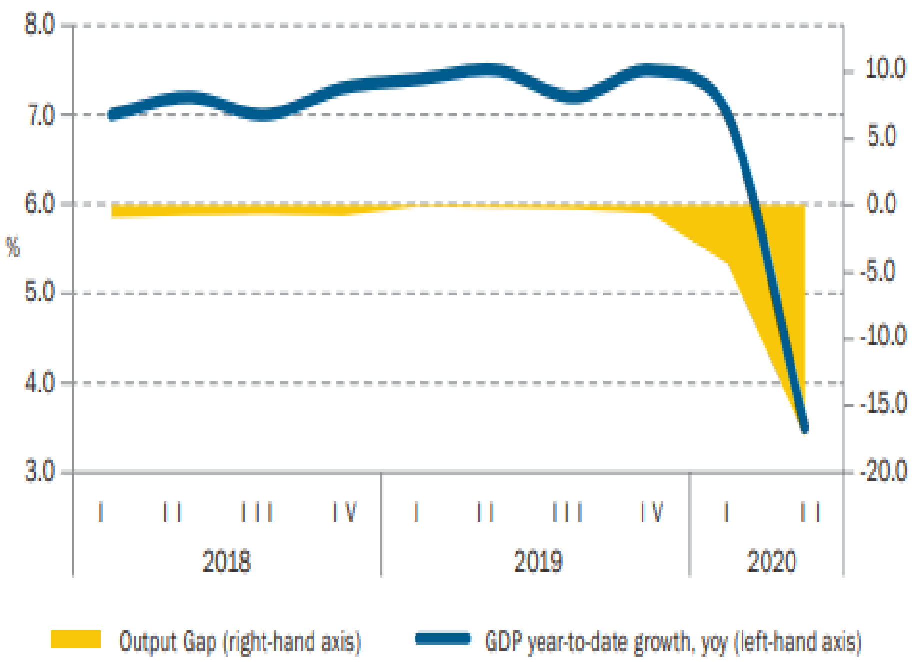
– Trade and services adversely affected by anti-coronavirus restrictions

– Inflow of remittances shrinks

– Banking credit contracts

+ Production growth in industry and agriculture, increase in export revenues (sales of metals to abroad expand)

**Economic Activity**




Source: National stat. agency, authors' calculations

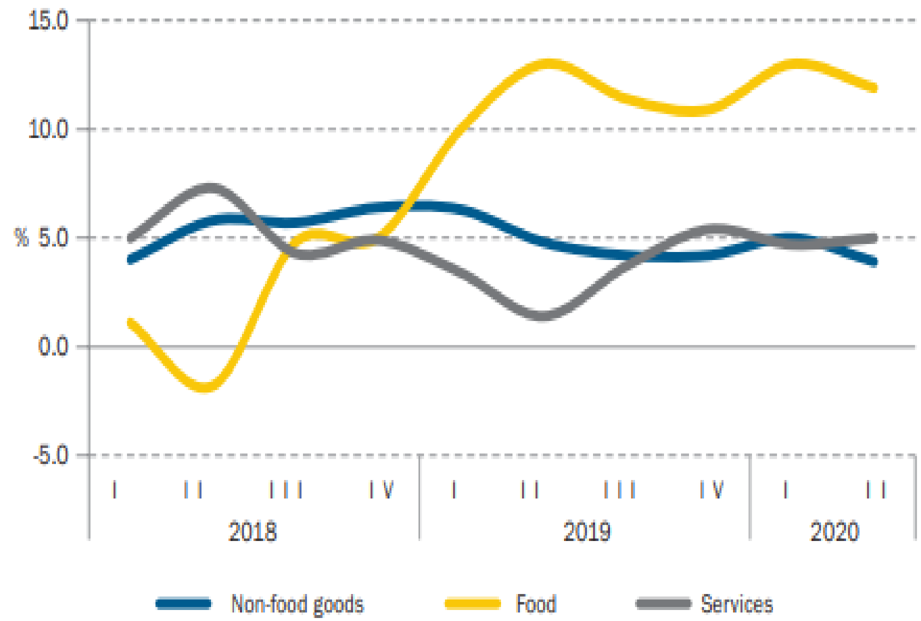
# Inflation. Deceleration due to demand contained

The CPI growth rate was **7.0% YoY in August 2020** (8.0% YoY in December 2019):

- Consumers' demand contained
- Regulation of services' prices

Somoni's depreciation to the U.S. dollar in 2020 had limited effects on inflation

**Inflation**
*(the last month in the quarter vs. the last month of the same quarter the year before)*




Source: National Stat. Agency

# External Sector. Smaller Current Account Deficit

The current account deficit decreases:

+ Smaller trade deficit due to greater export sales

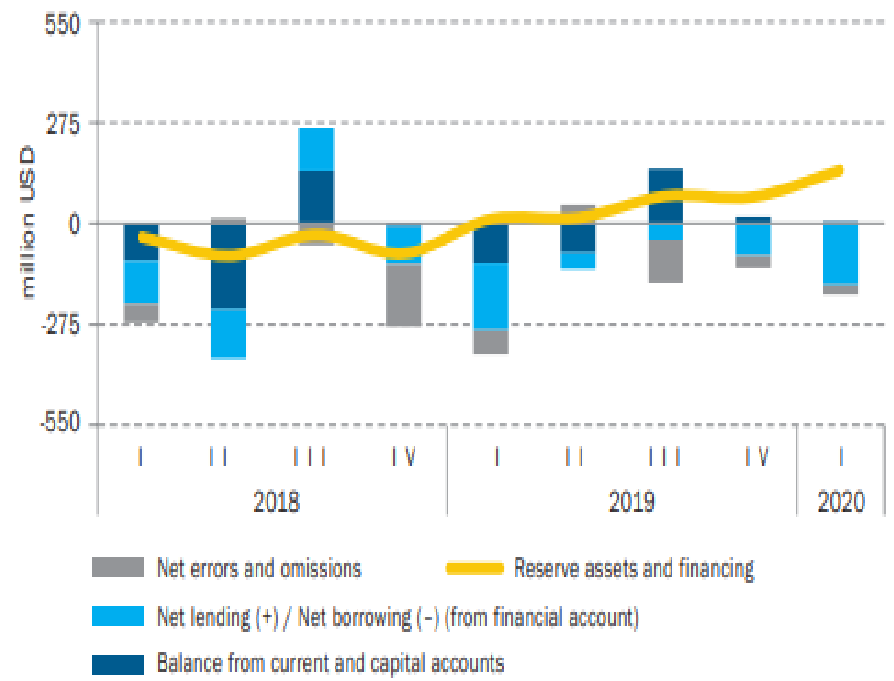
– Labor income inflow shrinks

Financial account deficit decrease is limited:

– Stable inflow of capital in form of trade credit

Increased international reserves

**Balance of Payments**




Source: NBT

# Fiscal Sector. Deficit expands

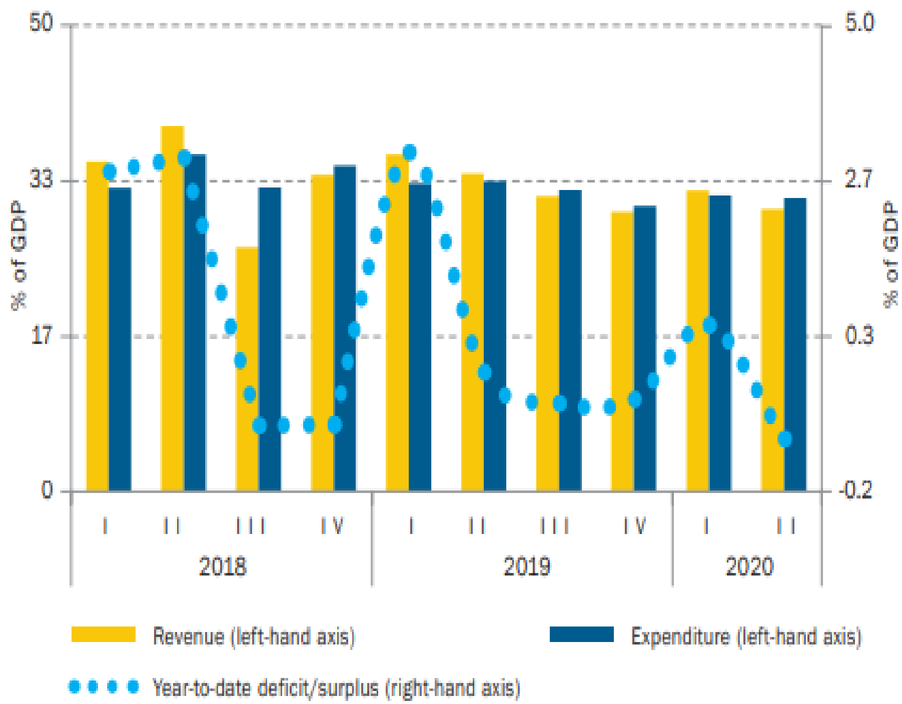
The state budget's deficit in 2020H1 – **1.2% of GDP** (0.2% of GDP in 2019H1):

**–** Reduction of revenues during the pandemic

**+** Planned reduction of energy infrastructure outlays

Public debt grows relative to GDP (external public debt increased to 38.4% of GDP by the mid-2020 from 35.2% on the end-2018)

**State Budget**
*(cumulative for the period)*




Source: MoF, authors' calculations

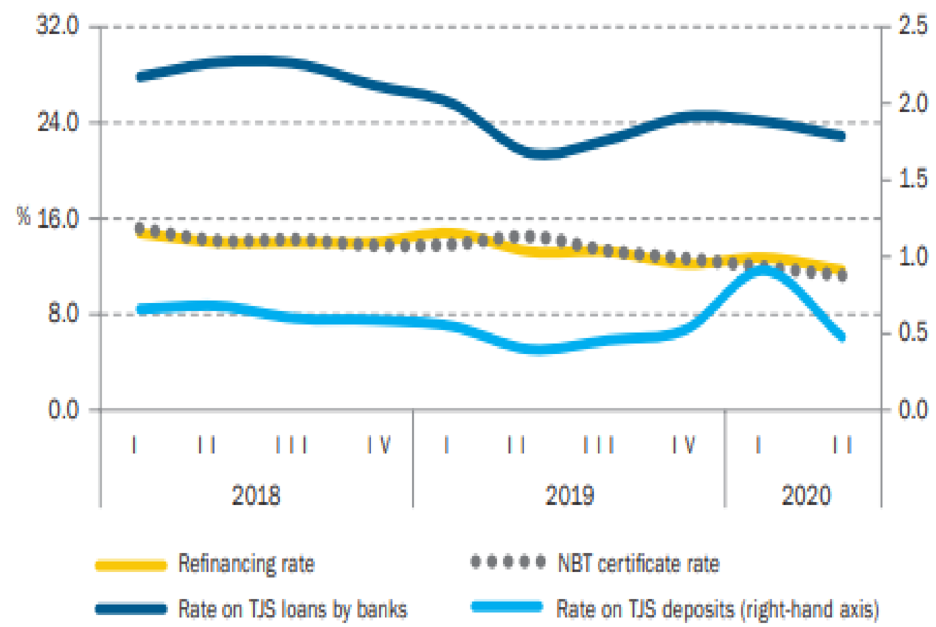
# Monetary Sector. Reduction of Refinancing Rate

Reduction of policy rate to 10.75% in August 2020 from 12.25% in end-2019:

- Food prices show signs of stabilizing
- Reduced demand in the economy

Inflation back inside the target interval (6±2%) in 2020H2

**Interest Rates**
*(period average)*




Source: RF CB, authors' calculations

# **Forecast.** GDP Growth Deceleration in 2020

GDP growth is expected to drop to **3.2%** in 2020:

− Consequences of the COVID-19 pandemic

\+ Production growth in industry and agriculture (sectors not directly affected by the pandemic)

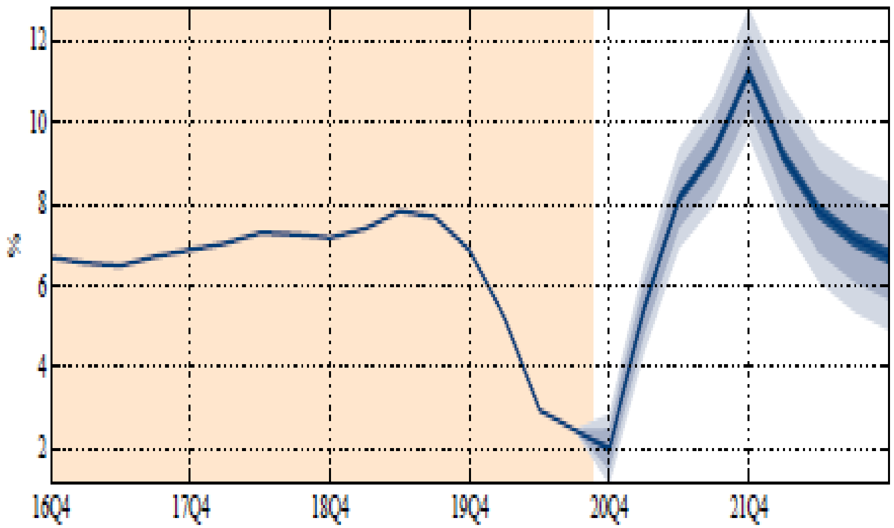
\+ Export sales growth, support by donors

Recovery of economic activity in 2021–2022:

\+ World economy and markets stabilize

\+ High potential growth rate of Tajik economy

**Real GDP**
*(growth YoY)*




Source: authors' calculations

# Forecast. Inflation to slow down in 2020

Inflation to decelerate to **6.5%** in 2020:

– Disinflationary impact of domestic demand

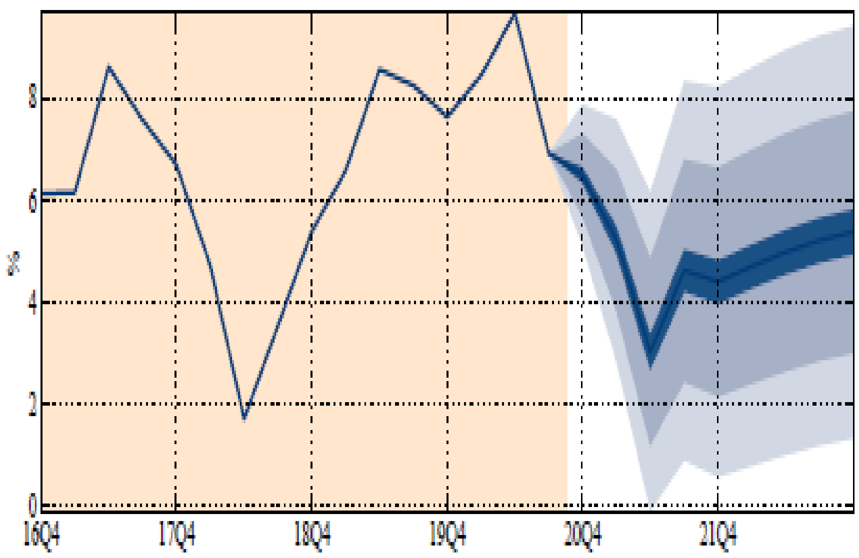
– Low energy prices

+ National currency depreciation

Inflation in 2021–2022 – within the NBT interval (6±2%):

– External inflationary pressure will remain low

**Inflation**
*(for each period, YoY)*

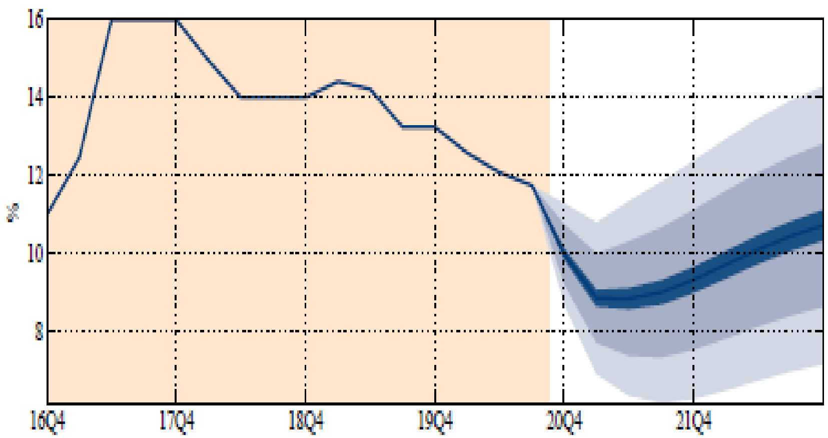



Source: authors' calculations

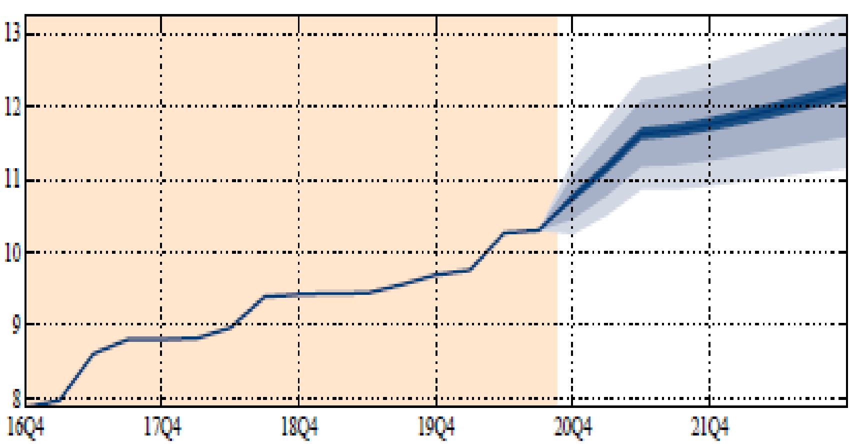
# Forecast. Policy rate reduction potential in 2021-2022

- The NBT will 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.
- 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.

**Refinancing Rate**
*(period average)*




**Somoni Exchange rate Versus the U.S. Dollar**
*(TJS per USD)*




Source: authors' calculations

# Forecast. Key Macroeconomic Indicators

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

Source: authors’ calculations