Macroeconomic Trends and Forecast

Republic of Tajikistan

Research Department

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Summary

Trends:
• The acceleration of GDP growth to 7.5% from 7.3% the year before
  ✓ Growth of demand by households
  ✓ Production capacity expansion in the metallurgy
• Inflation ends 2019 at 8.0% (5.4% at end-2018)
  ✓ Food prices’ pick-up
  ✓ Decelerating or stable inflation at the other segments of consumer’s market
• Reduction of policy rate to 12.25% at the end of 2019
• Smaller budget deficit
  ✓ Moderation of energy infrastructure development spending

Forecast 2020-2022:
• GDP growth slows to 5.5% in 2020
  ✓ Smaller remittances and investment flows from abroad
  ✓ Reduced demand for exports from Tajikistan
• Reacceleration of GDP growth in 2021–2022
• Inflation sticky at 8.0% in 2020
  ✓ Weakening of the somoni
  ✓ Disinflationary impact of low international commodity prices
• Inflation to slow down in 2021–2022
• Potential for policy rate reduction in 2021-2022 after a temporary pick-up
Real Sector. Economic Growth Accelerates

GDP growth in 2019 – **7.5%** (7.3% in 2018):

+ Demand by households expands due to increasing flow of remittances and a recovery in credit activity

+ Industrial output growth (in particular, due to capacity expansion in metal-making after major renovations)

+ Production growth acceleration in agriculture

  - Reduced investment in energy infrastructure development (large-scale projects passed their peaks)

  - Restrained growth of wages

Source: Narional stat. agency, authors’ calculations
Inflation. Acceleration due to food price pick-up

The CPI growth rate was **8.0% YoY in December 2019** (5.4% YoY in December 2018):

- Food prices up
- Real appreciation of Somoni
- Regulation of services’ prices

Somoni’s moderate depreciation to the U.S. dollar in August 2019 had limited effects on inflation.

Source: National Stat. Agency
External Sector. Smaller Current Account Deficit

The current account deficit decreases:

+ Greater labor income and transfer inflows
+/- Trade balance does not change much

Financial account deficit expands:

- Larger inflow of capital: use of trade credit, draw on foreign exchange deposits by non-financial sector

Increased international reserves

Source: NBT
Fiscal Sector. Deficit Decreases

The state budget’s deficit in 2019 – 0.6% of GDP (1.0% of GDP in 2018):

+ Planned reduction of spending on energy infrastructure development

- Decrease in non-tax revenues

Public debt drops relative to GDP (to 44.7% on October 1, 2020 from 48.8% on the end-2018)

Source: MF RT, authors’ calculations
Monetary Sector. Reduction of Refinancing Rate

Reduction of policy rate by 1.75 pp over the year to 12.25%:

- Key role of a food price hike in the inflation acceleration in 2019

National bank hiked the refinancing rate to 12.75% in January as inflation reached the upper bound of its target interval for 2020 (6±2%)

Source: RF CB, authors’ calculations
Forecast. GDP Growth Deceleration in 2020

GDP growth is expected to drop to **5.5%** in 2020:

- Consequences of the COVID-19 pandemic (*weaker inflow of remittances and investments from abroad*)
  - Increase in social spending by state
  - Banking credit growth

Recovery of economic activity in 2021–2022:

- World economy and markets stabilize
- High potential growth rate of Tajik economy

Source: authors’ calculations
Forecast. Inflation to Stay High in 2020

Inflation to stay at **8.0% (upper bound of NBT interval)** in 2020:

- National currency depreciation
- Disinflationary impact of domestic demand

Inflation in 2021–2022 – within the interval:

- External inflationary pressure will remain low

Source: authors’ calculations
Forecast. Policy Rate Reduction Potential in 2021-2022

- Maintaining macroeconomic stability against the backdrop of volatile global financial and commodity markets may require a temporary refinancing rate increase by the NBT in 2020. We expect that slowing inflation will provide the NBT with the possibility to cut the rate to 12-13% by the end 2022.

- Somoni remains under pressure against the U.S. dollar as the global financial markets stay unstable. EBD expects a faster depreciation of the Tajik national currency in 2020-2021 in comparison with 2018-2019. Subsequently the rate of depreciation will slow down.

Source: authors’ calculations
### Forecast. Key Macroeconomic Indicators

<table>
<thead>
<tr>
<th>Indicators</th>
<th>2017</th>
<th>2018</th>
<th>2019</th>
<th>2020F</th>
<th>2021F</th>
<th>2022F</th>
</tr>
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<tbody>
<tr>
<td>GDP in constant prices (% growth YoY)</td>
<td>7.1</td>
<td>7.3</td>
<td>7.5</td>
<td>5.5</td>
<td>7.8</td>
<td>7.6</td>
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<td>Consumer price index (% growth in December to previous year’s December)</td>
<td>6.7</td>
<td>5.4</td>
<td>7.6</td>
<td>8.0</td>
<td>4.9</td>
<td>5.2</td>
</tr>
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<td>Nominal MIACR rate in national currency (the year’s average % per annum)</td>
<td>15.1</td>
<td>14.2</td>
<td>13.8</td>
<td>13.0</td>
<td>12.0</td>
<td>11.6</td>
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<tr>
<td>Nominal Russian Ruble to U.S. Dollar Exchange Rate, RUB per USD (the year’s average)</td>
<td>8.5</td>
<td>9.2</td>
<td>9.5</td>
<td>10.5</td>
<td>11.6</td>
<td>12.2</td>
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Source: authors’ calculations