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INFORMATION DISCLOSURE

This Review includes a detailed description of the current internal 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’.

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LIST OF ABBREVIATIONS

**EDB** – Eurasian Development Bank

**EEC** – Eurasian Economic Commission

**GDP** – Gross Domestic Product

**NBT** – National Bank of Tajikistan

**pp** – percentage point

**RT** – Republic of Tajikistan

**TJS** – Tajik somoni

**U.S.** or **USA** – United States of America

**USD** – United States dollar

**%** – percent

**% YoY** – Year-on-Year growth rate
2018 saw the highest economic growth rate since 2014. GDP increased by 7.3% after 7.1% in 2017. As a result, the economy continued along its steady growth acceleration path, somewhat above the potential level. Investment and consumer activity was the key factor behind the growth acceleration in 2018.

The State infrastructural development programs continue to support investment demand and lay the basis of economic growth.

The revival of domestic demand in 2018 was partially the effect of households’ deferred demand as inflation reached a record low.

In the 2nd half of 2018, inflation reached the target range of 7% (±2 pp); it was 5.4% at the end of the year. The inflation trends were shaped by the world food market, the base effect in the fruit and vegetables sector, and transport and electricity tariff policy.

The current account deficit expanded as the negative goods and services balance widened, partially due to growing imports of machines and equipment for the implementation of large-scale infrastructural projects.

The expansion of the State budget deficit in 2018 also resulted from growing public investment. The State budget’s expenditures on the development of energy sector infrastructure grew 2.2 fold compared to 2017.

Public debt stabilized in 2018, largely because most of the external funding was raised in the form of grants.

In early 2018, the NBT reduced its refinancing rate from 16.0% to 14.0%. However, due to unforeseen external shocks that increased the volatility of EDB member countries’ currencies, inflationary risks increased again, and the monetary authorities suspended their rate reduction round.

The banking system is moving in the direction of recovery, but the indicators remain weak. In 2018 the credit portfolio stopped shrinking and increased by 2.0%.

In the projection period, the economic growth rate is expected to stabilize near 7%. The investment drive will continue to support the economy. Consumer demand expansion will slow down somewhat as remittance inflow decelerates and the low inflation background’s favorable effect on household income peters out.

Inflation will depend on the situation prevailing in the world food markets. World food prices are expected to start recovering in the 1st half of 2019, and by the beginning of 2020 their trend will stabilize, which in turn will impact the trajectory of consumer price growth in the RT.
STATUS OF THE ECONOMY

Economic Activity

GDP growth accelerates

2018 saw the highest economic growth rate since 2014. GDP increased by 7.3% after 7.1% in 2017. As a result, the economy continued along its steady growth acceleration path somewhat above its potential level. Investment and consumer activity was the key factor behind growth acceleration in 2018.

The GDP growth rate in 2018 was stabler than in 2017, largely on account of the intra-annual investment growth trend. The investment growth rate remained positive during the whole of 2018, whereas in 2017 investment decreased in the 1st half of 2017, to recover by the end of the year.

Figure 1. Economic Activity

Investment activity grows

Investment growth exceeded the preceding year’s level. The rate of growth of investment in fixed capital was 7.8% in 2018. The highest investment growth rate was observed in the 1st half of 2018, partially due to the previous year’s low base as well as the more intensive implementation of major hydropower infrastructure projects. The gradual recovery of lending since March 2018 was another positive factor.

Consumer activity expands

Consumer demand was a major driver of economic growth in 2018. Retail sales increased by 9.8% that year after 6.6% in 2017. The expansion of consumer activity resulted from
Slower growth in industrial sectors

Industrial output grew at a lesser rate in 2018 against a high comparison base. The extraction of energy materials decelerated considerably, and textile and apparel output decreased. The production and distribution of electricity, gas, and water retain a positive growth trajectory. Industry remained a major contributor to economic growth in 2018; according to our estimates, it provided 2.0 pp of GDP growth in 2018 (3.2 pp of GDP growth in 2017).

Agricultural production grows

Continued positive growth of agricultural output in 2018 supported economic growth. Agricultural production growth decelerated to 4.0% from 6.8% in 2017, largely due to a low harvest of staple crops. Thus, the gross grain yield declined by 10.5% vs. 2017, while the gross cotton yield fell by 22.3%.

Figure 2. Retail Sales and Investment (growth YoY, cumulative year-to-date)

Source: Statistics Agency of the RT

Figure 3. Production (growth YoY, cumulative year-to-date)

Source: Statistics Agency of the RT
The Labor Market

Real incomes stabilize

Continued positive growth of real income supported consumer demand. In 2018, the nominal wage growth rate stabilized at 7.8% after accelerated growth in 2017 of 19.5% as inflation accelerated. Low inflation in most of 2018 fostered stronger consumer confidence. Positive growth of remittances also facilitated the satisfaction of deferred demand.1

Unemployment level stable

The unemployment level was virtually unchanged in 2018. According to the Statistics Agency of the RT, the recorded unemployment level was 2.0% in 2018, down from 2.1% in 2017.

Inflation

Inflation at record low in 2018

In the 1st half of 2018 inflation decelerated to 1.6% YoY as of end of June 2018; then price growth accelerated, and 2018 annual inflation reached the target range of 7% (+2 pp); it was 5.4% in December. The inflation trends were shaped by the world food market, the base effect in the fruit and vegetables sector, and transport and electricity tariff policy.

Food sector inflation driven by temporary factors

In the 1st half of 2018, food price growth decelerated and even demonstrated deflation in May 2018. The factors behind the first semester’s decrease in food inflation included weak prices in the region’s market, a decrease in the world sugar

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1 According to the Central Bank of the Russian Federation.
Non-food sector inflation stable

2018 inflation in the non-food segment showed a stable upward trend. The accelerated non-food price growth in 2Q2018 was driven by the weakening of the Tajik somoni to U.S. dollar exchange rate. The appreciation of energy products, on account of higher prices in the world oil market among other drivers, also contributed positively to inflation in non-food prices, which rose by 6.4% in 2018 (by 4.4% the year before).

Prices of services grew by 4.9% in 2018 after 7.7% the year before. The volatile service price trend was driven by transport and gas tariff policy.
The External Sector

Current account deficit expands

The current account deficit expanded as the negative goods and services balance widened and interest payments on external liabilities increased.

According to preliminary data from the Statistics Agency of the RT, the increase in the negative trade balance in 2018 resulted from import growth while exports decreased.

Trade balance deficit grows

The export revenue decrease in 2018 was largely caused by the decline of metals exports against the high base of 2017. Exports of food, machines, and equipment also declined. Exports were supported by increasing sales of textiles and mineral products, including electricity.

The increase in imports in 2018 resulted from growing numbers of machines and pieces of equipment imported as large-scale projects were implemented in the hydropower industry. Growing imports of metals and mineral products were also observed. Imports of other goods declined compared to 2017.

Figure 7. Balance of Payments

The net inflow of funds into the country on the financial account was driven by the foreign direct investment inflow recovery and the decreased volume of foreign financial asset purchases. The volume of loans raised by the public and corporate sectors also increased, while trade financing decreased. The foreign economic transactions gap was funded from reserve assets.
The State budget deficit was 1.1% of GDP in 2018, up from 0.3% of GDP the year before. The main factor behind it was greater public spending on investment.

The State budget’s incomes grew by 19.9% on account of growing tax as well as non-tax revenues. The budget was additionally supported by the increase in other revenues, whose volume was 1.4 times greater than in 2017.

The State budget’s expenditure increased by 22.2% in 2018. The public sector’s investment in the development of energy sector infrastructure increased 2.2 fold compared to 2017, and its share grew to 26.9% of total expenditures (15.2% in 2017). Social expenditure items grew by 8.7% YoY.
Public debt stabilizes

In 2018, public debt stabilized after growth in 2017. In 2017, debt increased as Eurobonds worth USD 500 million were placed, while in 2018 most of the funds raised from abroad were received under grant agreements. According to our estimates, including repayment instalments external public debt decreased to 38% of GDP in 2018, down from 40% in 2017.

Figure 10. Public Debt (at end of period)

Policy rate reduced by 2 pp, to 14.0% at end of 2018

On two occasions in 1Q2018 the NBT reduced its refinancing rate, in total from 16.0% to 14.0%, which was due to the inflation slowdown and stable Tajik somoni exchange rate since the 2nd half of 2017. However, starting from 2Q2018, inflationary risks increased as a result of both higher exchange rate volatility and growing uncertainty in the external sector. As a result, the NBT kept its refinancing rate at 14.0% later in 2018.

The terms of withdrawal and provision of short-term liquidity for commercial banks changed in 2Q2018. Thus, the interest rate on overnight loans was reduced from 16.0% to 15.0%, and that on overnight deposits was reduced from 7.0% to 5.0%.

In 2018 the NBT increased the volume of notes in circulation to withdraw excessive liquidity from the banking system and to keep the average interest rate on NBT certificates at the refinancing rate level.
Exchange rate stabilizes in 2nd half of 2018

Amid increased volatility in regional financial markets in 2Q2018, the Tajik somoni weakened versus the U.S. dollar and then stabilized in July 2018 at 9.48 somoni per dollar.

The real effective somoni exchange rate decreased by 2.5% in 2018. Accelerated decrease of the Tajik somoni versus U.S. dollar exchange rate was partially compensated for by its strengthening against the Russian ruble, by 1.2% compared to 2017.
Banking sector trending towards recovery

The average rate on loans issued by commercial banks in national currency was 27.2% in 2018, down from 29.0% in 2017. The rate on deposits in national currency was 0.7% on average in 2018 (0.5% the year before).

In the financial sphere there was a trend towards rehabilitation of the banking sector, although the key indicators remain weak. The share of non-performing loans in the aggregate volume of loans was 30.3% as of end of December 2018 (35.8% a year before). The credit portfolio stopped decreasing, and grew by 2.0% in 2018. Return on assets was 1.30% (0.01% at end of 2017), and return on equity grew to 4.64% (0.05% at end of 2017).
ECONOMIC OUTLOOK

Background

External demand growth decelerates

In the world economic growth forecast, the balance of risks has shifted towards deceleration. The main factors that may constrain future growth of the world economy include mounting tensions in world trade and uncertain economic prospects in major economic centers of Europe and Asia. On the other hand, a switch to smoother tightening of financial conditions in developed economies may support the world economy. In the main trade partner countries of the RT, economic activity is expected to decelerate in 2019, and in the medium term the potential levels will gradually be reached.

In 2019 oil prices are expected to regain some of the ground lost in late 2018: the average Urals price is expected to be some USD 65 per barrel and then decline smoothly. In world food markets, a price spurt in the projection period is a low-probability event, so a slow price recovery trajectory is expected. Stable prices in global metals markets are projected.

Economic policy stays focused on sustainable development

The projection scenario assumes no additional stimulation of the economy through fiscal or monetary policy measures. We expect fiscal policy to remain focused on keeping both the budget and public debt sustainable. Monetary policy will pursue the mid-term inflation target of 7.0% (±2 pp).

Table 1. Forecast Key Foreign Economic Indicators

<table>
<thead>
<tr>
<th>Year</th>
<th>Average annual Urals oil price (USD per barrel)</th>
<th>Metals prices, 2010 index=100</th>
<th>Food prices, 2010 index=100</th>
<th>Russia’s real GDP growth rate, %</th>
</tr>
</thead>
<tbody>
<tr>
<td>2019</td>
<td>65.0</td>
<td>82.1</td>
<td>91.6</td>
<td>1.5</td>
</tr>
<tr>
<td>2020</td>
<td>64.7</td>
<td>82.4</td>
<td>92.9</td>
<td>2.0</td>
</tr>
<tr>
<td>2021</td>
<td>63.4</td>
<td>83.2</td>
<td>94.3</td>
<td>2.2</td>
</tr>
</tbody>
</table>

Source: authors’ calculations, EEC
Economic Activity

Growth to slow down in medium term

The investment drive will support the economy in 2019. The implementation of big infrastructural projects initiated in the public sector should continue in the projection period. Further expansion of consumer demand will be constrained by rising inflation and a projected slowdown in remittance inflow growth. Quicker economic growth may be achieved as banking sector lending recovers and the level of non-performing loans decreases. Long-term economic growth can be made sustainable particularly if debt sustainability balance is maintained.

Figure 13.2
Real GDP (growth YoY)

![Figure 13.2](image)

Source: authors’ calculations

Inflation

Inflation within target range

Current monetary policy serves to limit the mid-term inflationary risks and to keep inflation within its target range of 7.0% (±2 pp) that has been established till the end of 2019. World food prices are expected to start recovering in the 1st half of 2019, and by the beginning of 2020 their trends will stabilize, which, in turn, will be reflected in the trajectory of consumer price growth in the Republic of Tajikistan.

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2 Here and elsewhere the fan chart ranges correspond to the 10%, 50% and 75% confidence intervals.
3 Seasonally adjusted data.
Figure 14. Inflation⁴ (for each period, YoY)

Monetary Conditions

Monetary policy will aim to keep inflation within the target range

Given that the inflation target will be reduced to 6.0% (±2 pp) from 2020, the transition to neutral monetary policy conditions may take longer.

Figure 15. Refinancing Rate (period average)

On the mid-term horizon, the Tajik somoni nominal exchange rate is expected to follow the general trend towards the weakening of developing markets’ currencies.

⁴ Seasonally adjusted data.
**Figure 16.** Tajik somoni vs. U.S. Dollar Exchange Rate (TJS per USD)

![Exchange Rate Chart](chart.png)

**Source:** authors’ calculations

### Key Macroeconomic Indicators of the RT

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</thead>
<tbody>
<tr>
<td>GDP in constant prices (% growth YoY)</td>
<td>6.9</td>
<td>7.1</td>
<td>7.3</td>
<td>7.0</td>
<td>6.2</td>
<td>6.9</td>
</tr>
<tr>
<td>Consumer price index (% growth in December to previous year’s December)</td>
<td>6.1</td>
<td>6.7</td>
<td>5.4</td>
<td>5.6</td>
<td>5.5</td>
<td>5.6</td>
</tr>
<tr>
<td>Refinancing rate (the year’s average % per annum)</td>
<td>9.8</td>
<td>15.1</td>
<td>14.3</td>
<td>14.7</td>
<td>14.0</td>
<td>12.8</td>
</tr>
<tr>
<td>Nominal Tajik Somoni to U.S. Dollar exchange rate, TJS per USD (the year’s average)</td>
<td>7.8</td>
<td>8.5</td>
<td>9.2</td>
<td>9.8</td>
<td>10.3</td>
<td>10.8</td>
</tr>
</tbody>
</table>

**Source:** authors’ calculations. F – forecasts
RESEARCH DEPARTMENT,
EURASIAN DEVELOPMENT BANK

Your comments and suggestions concerning this review are welcome at:
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