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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

EAEU – Eurasian Economic Union
EDB – Eurasian Development Bank
EEC – Eurasian Economic Commission
GDP – Gross Domestic Product
NBT – National Bank of Tajikistan
pp – percentage point
RF – Russian Federation
RT – Republic of Tajikistan
U.S. or USA – United States of America
% – per cent
% YoY – Year-on-Year growth rate
SUMMARY

The growth of the Tajik economy accelerated in the first half of 2019 as households’ consumer activity increased and mining and agricultural output rose. The EDB projects the country’s GDP growth to slow down in 2020 as investment in the energy industry declines somewhat. Later on, economic growth will trend towards its potential rate that we estimate at 7%, the highest level across the EDB Member States.

Inflation accelerated as food prices rose but remains within its current target range established by the National Bank of Tajikistan (7+-2%). As assessed by the EDB, the weak external inflation background favors a slowdown of consumer price growth in Tajikistan in the second half of 2019, that will remain within its target range of 6+-2% in 2020.

The refinancing rate of the National Bank of Tajikistan was reduced in the first half of 2019. The regulator believes inflation remains within its target range, and that its acceleration is caused by short-term factors. According to the EDB’s base projection, the inflation slowdown will enable the National Bank to continue to reduce the rate in 2020–2021.

In the first half of 2019 the State budget posted a deficit of 0.2% of GDP after a surplus of 3.0% of GDP a year before. We believe this to be temporary, particularly as the authorities intend to cut the funding of energy construction projects.
STATE OF THE ECONOMY

Economic Activity

**GDP Growth**
Real GDP in the first half of 2019 increased by 7.5% YoY (7.3% YoY in 2018). The economy is showing its highest rate of growth since 2012. All the main sectors – trade, industry, construction, agriculture, transport and communication – contributed positively to output trends in the first half of 2019.

**Figure 1. Economic Activity**

![Graph showing Economic Activity](source: RT Statistics Agency, calculations by the authors)

**High Growth of Consumer Demand**
Consumer demand growth remains high, as confirmed by an increase in retail sales of 9.6% YoY in comparable prices in the first half of 2019 (vs. 9.8% in 2018). Demand trends were supported by household income growth of 10.4% YoY in real terms in 1Q2019.¹

**Fall in Investment Demand**
Unlike consumer demand, investment demand decreased in the first half of 2019. Investment in fixed capital declined by 8.6% YoY in that period, which is attributable to the progress of major energy projects (a 14.0% YoY decline).

¹ The data on real growth of household incomes in the first half of 2019 have not been published yet.
Accelerated Industry Growth

Industry accelerated its output growth to 12.5% YoY in the first half of 2019, from 11.8% YoY in 2018. More moderate mining trends (an increase of 9.0% YoY in January to June 2019 after 16.3% YoY in 2018) were overcompensated primarily by the energy industry’s growing output. That industry produced 10.4% YoY more electricity and distribution services in the first half of 2019 (vs. +7.8% YoY in 2018) as new capacity began operation, including the first power unit of the Rogun Hydropower Plant\(^2\). Manufacturing output growth remained virtually unchanged (12.4% YoY in the first half of 2019 after 12.5% YoY in 2018), while the production of foodstuffs, metals, and building materials increased, for the domestic and external markets alike.

Higher Output Growth in Agriculture

Agricultural output increased by 10.8% YoY in comparable prices in the first half of 2019. The agrarian sector restored its trend after a relatively unfavorable 2018, when output grew by 4.0% only as the grain and cotton yields were low.

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\(^2\) Began operation on 16 November 2018.
The growth of sales and service volumes in the country decelerated. Sales increased by 9.4% YoY in the first half of 2019 vs. 15.4% YoY in the same period of 2018. The indicator’s decrease is attributable to more moderate wholesale and car sales trends. The rates of growth in those trade sectors whose trends are more stable and indicative of overall mid-term consumption trends remained at their 2018 levels. Service sector growth was 0.9% YoY in the first semester (vs. 2.1% YoY in the first six months of 2018).

Real wages increased by 3.2% YoY on average over the first half of 2019 (3.9% in 2018). The growth of remuneration, that had accelerated temporarily after salaries were raised in the budget-funded sector in September 2018, slowed steadily. While in 4Q2018 average wages growth adjusted for inflation was 6.4% YoY, in 1Q and 2Q2019 it was 5.0% YoY and 1.0% YoY, respectively. Such trends result from the acceleration of inflation from 5.4% YoY in December 2018 to 8.7% YoY in June 2019.

Expanded economic activity and moderate labor cost appreciation combined to raise demand for labor. As a result, the number of unemployed per vacancy\(^3\) decreased from 8.5 in June 2018 to 7.1 in June 2019.

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\(^3\) This indicator is calculated by the Statistics Agency under the President of Tajikistan.
Inflation accelerated to 8.7% YoY in June 2019 from 5.4% YoY in December 2018, while staying within the target range (7+-2%) of the National Bank of Tajikistan. Food appreciation was a key factor behind the increase of consumer prices.

Food price growth reached 13.1% YoY in June 2019, up from 5.0% YoY in December 2018 – driven up by the delayed effect of a low harvest of some crops in 2018 and by the comparison base effect.

In particular, 14.6% less wheat was harvested than in 2017.
Non-food Inflation Decelerates

Non-food inflation slowed down to 4.8% YoY in the first half of 2019, from 6.5% YoY in December 2018. Its trends were restrained by the stability of the Tajik national currency in the first half of this year.

Service Prices Slow Down

Service price growth slowed down to 1.4% YoY in June 2019, from 5.0% YoY in December 2018. The reduction of transport service tariffs remains the main factor that limits inflation in this segment of the consumer market.

Figure 6. Inflation Components (last month in quarter vs. last month of same quarter a year before)

The inflow of capital into the country increased, as indicated by the growth of the financial account deficit\(^5\) to USD 270.1 million (8.1% of GDP) in the

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\(^5\) Here deficit means net inflow of external funding.
first half of 2019, from USD 235.0 million (7.5% of GDP) in the same period of 2018. External funding was actively raised, particularly for the non-public non-financial sector.

Rising export incomes and greater external funding favored the stabilization of Tajikistan’s reserve assets: while in the first half of 2018 the operations’ balance was negative, at USD 138.4 million (4.4% of GDP), in the first half of the current year those operations were in surplus, at a level of USD 28 million (0.8% of GDP).

**Figure 7. RT Balance of Payments**

![Graph showing RT Balance of Payments](image)

**Note:** 1H2019 = average quarterly figures of the first half of 2019.
**Source:** NBT

**Trade in Goods Deficit Decreases**

The deficit of trade in goods decreased to USD 865.3 million (26.1% of GDP) in the first semester, from USD 911.5 million (29.3% of GDP) in January to June 2018. The indicator’s change resulted from goods export growth from USD 428.8 million to USD 481.9 million, while imports increased by a small margin (from USD 1,340.3 million to USD 1,347.3 million). The growth of the country’s income from foreign trade was made possible by a sharp (132-fold) expansion of sales of precious metals and gemstones abroad, that reached USD 124.7 million in the first half of 2019 to become Tajikistan’s principal export item in that period. Moreover, exports of electricity and crops to foreign markets made an important positive contribution to overall export trends, while detractors included exports of non-precious metals (whose world prices fell) and textile products (due to the low cotton harvest of 2018 that affected the cotton fiber production volume).
The State budget posted a deficit of 63.8 million somoni (0.2% of GDP) in the first half of 2019 (versus a surplus of 822 million somoni, or 3.0% of GDP, in the same period of 2018). The change from a positive to a negative balance of public finances was due to weak growth of revenues, with expenditures growing at a faster rate.

The budget’s revenues as a percentage of GDP decreased to 35% in the first half of this year, from 37.5% in January to June 2018. The causes include a decrease in the VAT revenue to GDP ratio to 9.6% from 10.2%, and a non-tax revenue decline to 3.9%, from 4.9% of GDP.

EAEU Countries Play Greater Role in Tajikistan’s Foreign Trade

Foreign trade turnover with EAEU countries grew as imports increased. Exports to Kazakhstan and Russia decreased in the first half of 2019 compared to the same period of 2018. Those countries’ aggregate share in exports from Tajikistan decreased to 19.0% from 33.7% as foreign sales of such Tajik products as non-precious metals and textile products (largely shipped to the RF and RK) declined, while gold supplies (mainly to Switzerland) grew. By contrast, imports from EAEU Member States increased in the first half of 2019. Russia’s share grew to 30.4%, from 29.3% in January to June 2018, and Kazakhstan’s grew to 21.3%, up from 16.9%.

The Fiscal Sector

1H Budget in Deficit
Payments from the State budget grew to 35.2% of GDP in the first half of 2019 (vs. 34.6% of GDP a year before). The financing of the fuel and energy complex was an important item of public spending, that amounted to 7.3% of GDP, up from 6.0% of GDP in the first half of 2018. Given that the 2019 Budget Law provides for lower expenses on the fuel and energy complex than in 2018, we should expect the deterioration of the budget’s balance in the middle of this year to be temporary.

The deterioration of the budgetary situation in mid-2019 did not lead to any increase in external public debt. The Tajik authorities’ liabilities to foreign lenders were some USD 2.9 billion as of the beginning of the second half of 2019, or 35.9% of GDP (vs. 38.9% of GDP at the end of 2018). The Government intends to restrict the growth of the external debt burden in 2019–2020 by attracting foreign funding, primarily in the form of grants.

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6 A reduction of 45% from planned and of 37% from actual 2018 expenses is envisaged.

7 The domestic debt statistics for the first half of 2019 are not published yet. The authorities’ liabilities to Tajik residents accounted for 22.1% of all public debt as of the end of 2018.

The National Bank of Tajikistan reduced its refinancing policy rate from 14% as of the end of 2018 to 13.25% at end June 2019 (raised by 0.75 pp in January and reduced by 1.5 pp in June). To justify the latter rate decision, the NBT Monetary Policy Committee pointed out that the acceleration of inflation observed in the first half of 2019 was due to non-monetary factors and would soon give way to a slowdown, given the high growth in agricultural output. The consumer price trends in 3Q2019 generally met those expectations.

Bank lending rates continued to decrease from their peak levels reached amid the National Bank’s tight policy in 2017. The resultant average rate on loans issued by Tajik banks in somoni was 23.5% in the first half of 2019, after 28.4% in 2018. Similar trends were observed in the deposit market. The average interest rate on deposits in national currency fell to 0.48% over the first half of the current year, from 0.67% in 2018.

**Monetary Conditions**

**NBT Refinancing Rate Reduced**

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**Lending and Deposit Rates Lower**

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**Figure 10. Public Debt (as of end of period)**

![Graph showing public debt](source: RT Statistics Agency, calculations by the authors)

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**Figure 11. Monetary Conditions**
Figure 11. Interest Rates (the period’s average)

Figure 12. Nominal Somoni Exchange Rate (period year-on-year, + = somoni weakening)

<table>
<thead>
<tr>
<th>Source: NBT, calculations by the authors</th>
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</thead>
</table>

**Lending Growth Resumes, Share of Overdue Loans Decreases**

Lending by financial corporations to other sectors of the economy stopped declining. The growth of its volume reached 3.6% YoY on average in January to June 2019 after a 7.3% YoY decrease in 2018. New loans are mainly issued in somoni: the share of foreign currency loans in the banks’ portfolio decreased to 49.8% in June 2019, from 55.6% in 2018. The share of overdue loans fell to 19.4% in June 2019, from 23.0% over 2018.

**Somoni Remaining Stable against U.S. Dollar in 2019**

The exchange rate remained stable throughout January to June 2019, at 9.44 somoni to the U.S. dollar. Devaluation occurred in August, since when the exchange rate has remained in the 9.69–9.70 TJS per USD range.

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3 Data from the NBT Bank Statistics Bulletin.
The real effective somoni exchange rate strengthened by 6.6% YoY in June 2019 as its nominal exchange rate was stable and inflation was fairly high in Tajikistan compared to its main trade partner countries. Somoni weakening against the dollar in August 2019 was not strong enough to reverse that trend.
ECONOMIC OUTLOOK

Background

External Demand Constrained
Economic activity in the countries that are Tajikistan’s main trade partners slowed down in the first half of the year. The growth slowdown in the Eurozone is largely resulting from the negative effect of world trade tensions on net exports and investment. In Russia, GDP growth slowed down in the first half of 2019 as the world economy decelerated and fiscal policy was tightened, with the VAT rate raised and public investment spending reduced temporarily.

Stimulative Monetary Policy Worldwide
The projection’s base scenario assumes the global trade tensions to persist at their level prevailing in September 2019, with no additional protectionist measures anticipated (besides those announced). In this situation, the increasingly uncertain outlook for the global economy will continue to hinder investment activity in the Eurozone countries in the medium term. Throughout the projection horizon, the monetary conditions will remain stimulative, which will manifest itself in a slow recovery of the Eurozone countries’ aggregated GDP growth rate in 2020–2021.

Weak Inflationary Pressure from Abroad
In Russia, the implementation of the national projects is expected to accelerate in the second half of this year, which will lead to a gradual increase of economic activity. The economy will be additionally supported by the easing of monetary policy after the Bank of Russia reduced its key rate in June to September 2019. We project it to result in some 2% annual economic growth in Russia in 2020–2021.

The external sector’s inflationary pressure on the Tajik economy is expected to be low. The projection’s base scenario assumes a gradual decrease of oil prices relative to their average level of 2019 as world demand growth slows down. Russian inflation is assumed to temporarily slow down below its target level by the end of the current year and to gradually recover to 4% in 2020–2021. Low and inertial expectations will continue to restrict price growth in the Eurozone, so we project inflation below the ECB target (close to but lower than 2%) in 2019–2021.
Our projection assumes that the budgetary policy of the Republic of Tajikistan will become more conservative as its expenses on the development of energy infrastructure decrease somewhat. This will hold back the growth of economic activity in the country and inflation. The National Bank will continue to reduce its refinancing rate as the risks weaken of inflation going beyond its target range, that will shift from 7+/−2% in 2019 to 6+/−2% in 2020.

Table 1. Projected Main 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>63.6</td>
<td>78.9</td>
<td>86.7</td>
<td>1.1</td>
</tr>
<tr>
<td>2020</td>
<td>60.7</td>
<td>78.4</td>
<td>87.3</td>
<td>1.8</td>
</tr>
<tr>
<td>2021</td>
<td>58.9</td>
<td>77.8</td>
<td>87.6</td>
<td>2.0</td>
</tr>
</tbody>
</table>

Source: calculations by the authors, EEC

Economic Activity

GDP Growth to Accelerate in 2019

The effect of the investment impetus that facilitated faster economic growth in 2017–2018 will subside somewhat, despite the continuation of major infrastructural projects initiated by the Government. By contrast, consumer demand will be supported as bank lending activity and the volume of labor migrants’ remittances to Tajikistan recover.

Figure 13. Real Effective Somoni Exchange Rate (period’s growth rate year-on-year, + = somoni strengthening)

Source: NBT, calculations by the authors
In the medium term, Tajikistan’s economic growth is expected to trend towards its potential level that we estimate at some 7%, the highest in the EDB operating region. The potential for rapid expansion of economic activity in the country hinges on its strong demographic trends and on a relatively small amount of fixed assets accumulated so far. The practical realization of the growth potential existing in Tajikistan depends on a coherent fiscal and monetary policy that maintains macroeconomic stability and on reforms aiming to improve the economy’s structural features, including labor productivity and the business climate.

Inflation

Inflation to Be Within Target Range

The National Bank’s monetary policy will keep inflation within its current target range (7+/−2%) over 2019. The stabilization of prices in the Tajik food market after the relatively high harvest of 2019 and the absence of considerable pro-inflationary pressure from abroad will serve to keep consumer price growth within the limits established by the National Bank for 2020 (6+/−2%).

10 Here and elsewhere the fan chart ranges correspond to the 10%, 50% and 75% confidence intervals.
We project the National Bank to continue to reduce its refinancing rate as its inflation target is met.

**Monetary Conditions**

**Refinancing Rate to Go Down**

The EDB projects the somoni exchange rate to weaken as inflation stays higher than in the neighboring countries, and also in line with the general trend in developing foreign exchange markets.
Table 2. Main Macroeconomic Indicators of the Republic of Tajikistan

<table>
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</thead>
<tbody>
<tr>
<td><strong>Consumer price index (% growth December to previous year’s December)</strong></td>
<td>6.1</td>
<td>6.7</td>
<td>5.3</td>
<td>7.9</td>
<td>5.8</td>
<td>5.3</td>
</tr>
<tr>
<td><strong>GDP in constant prices (% growth YoY)</strong></td>
<td>6.9</td>
<td>7.1</td>
<td>7.2</td>
<td>7.2</td>
<td>6.3</td>
<td>6.7</td>
</tr>
<tr>
<td><strong>Refinancing rate (the year’s average % per annum)</strong></td>
<td>9.8</td>
<td>15.1</td>
<td>14.2</td>
<td>13.8</td>
<td>13.2</td>
<td>12.1</td>
</tr>
<tr>
<td><strong>Nominal Tajik Somoni to U.S. Dollar exchange rate, TJS per USD (the year’s average)</strong></td>
<td>7.8</td>
<td>8.5</td>
<td>9.2</td>
<td>9.6</td>
<td>10.1</td>
<td>10.9</td>
</tr>
</tbody>
</table>

**Note:** P = Projected.

**Source:** calculations by the authors

Figure 17. Refinancing Rate (the period’s average)

Figure 18. Nominal Somoni Exchange Rate (TJS per USD)
Your comments and suggestions concerning this review are welcome at: pressa@eabr.org