

# Tajikistan

Economic Update  
No.1 | Spring 2015



## Slowing Growth, Rising Uncertainties



WORLD BANK GROUP

**Macroeconomics  
& Fiscal Management**  
Global Practice



# **Tajikistan:**

## ***Slowing Growth, Rising Uncertainties***

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Tajikistan Economic Update No. 1

Spring 2015

Government Fiscal Year: January 1 – December 31  
Currency Equivalents: Exchange Rate Effective as of April 13, 2015  
Currency Unit = Tajikistan Somoni (TJS)  
US\$1 = 6.0005 TJS  
Weights and Measures: Metric System

### **Abbreviations and Acronyms**

ADB	Asian Development Bank
CPI	Consumer price index
FDI	Foreign direct investment
Forex	Foreign exchange
GDP	Gross domestic product
HBS	Household budget survey
IFC	International Finance Corporation
IMF	International Monetary Fund
LHS	Left-hand scale
LSS	Living Standards Surveys
NBT	National Bank of Tajikistan
NPL	Nonperforming loan
PFM	Public financial management
PDPT	People's Democratic Party of Tajikistan
PIP	Public Investment Program
PPP	Purchasing power parity
RHS	Right-hand scale
ROA	Return on assets
ROE	Return on equity
SME	Small and medium enterprise
SOE	State-owned enterprise
TajStat	Agency of Statistics under the President of Tajikistan
TALCO	Tajik Aluminum Company
TJS	Tajikistan Somoni (unit of currency)
TSA	Targeted social assistance
Y/Y	Year-on-year

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## Foreword

*This report is part of series aimed at monitoring developments in Tajikistan. It presents a broad overview of macroeconomic, political, and structural developments in the country in 2014 and early 2015. The authors are Marina Bakanova (Senior Country Economist) and Ravshan Sobirzoda (Economist). Alisher Rajabov (Poverty Economist), Brett Coleman (Senior Financial Sector Specialist) and Sobir Kurbanov (Country Officer) provided valuable contributions. The report benefited from the comments of Samuel Otoo (Advisor), Patricia Veevers-Carter (Country Manager for Tajikistan), Naoko Kojo (Senior Economist) and production assistance from Sarah Babirye and Zakia Nekaien-Nowrouz (Program Assistants).*

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## Overview

**Both lower remittances and terms of trade effects are causing a deterioration of economic growth in Tajikistan to deteriorate.** GDP growth slowed to 6.7 percent in 2014 from 7.4 percent in 2013 as remittances from Russia slackened, global demand weakened, and prices for the main export commodities, aluminum and cotton, fell. The current account deficit enlarged to an estimated 7 percent of GDP as the result of a wider trade gap and lower remittances, although foreign direct investment went up slightly. Inflation started to accelerate as depreciation of somoni led to higher food prices and services costs rose due to tariff adjustments, reaching 7.4 percent at year-end 2014 from 3.7 percent a year earlier. The fiscal deficit narrowed to 0.6 percent of GDP thanks to both solid revenue performance and spending restraints. However, the situation in the financial sector worsened; many commercial banks are saddled with under-performing portfolios.

**So far policy responses have been mixed.** On the fiscal policy side, the government continued its commitment to a generally balanced budget while protecting social spending and postponing spending on categories deemed to be of lower priority. As for exchange rate policy, the National Bank of Tajikistan (NBT) responded to pressures by allowing a managed depreciation of the somoni and imposing administrative controls on the foreign exchange (forex) market. This ate into the NBT's already low reserves and multiple exchange rate practices emerged. Recently the NBT allowed the official rate to depreciate faster to align it with the cash rate, but the gap between the two rates is still about five percent and administrative controls on forex market remain.

**Economic growth is projected to slow to 3.2 percent in 2015 and recover gradually in the medium term, although not to recent historical averages.** The expected steep drop in remittances (40 percent in US\$ terms) will have a particularly adverse impact on services, which account for over 40 percent of Tajikistan's economy. Growth is also slowing in some of Tajikistan's major trading partners (Turkey, China, and Kazakhstan), and a lack of demand will likely keep prices low on cotton and aluminum, the main export commodities. Growth is projected to rebound in the medium term given responsible macroeconomic policies and a reasonable pace of structural reform. Economic growth should be progressively higher toward 2017, although still below recent historical averages. The projected decline in GDP growth is likely to slow the pace of poverty reduction. The significant risks to the macroeconomic outlook mainly relate to the external balance, low external reserves, state-owned enterprises (SOEs), and the banking sector.

**With the external environment highly uncertain and domestic pressures growing, the authorities are confronted with the need to transition to a more sustainable and inclusive growth model.** In response to external pressures, the government has approved an action plan to reinforce its development strategy for 2015–16. Prudent macroeconomic management must be a priority to assure the necessary adjustment, make the country more resilient to shocks, and lay a solid foundation for growth. High on the agenda are addressing financial sector vulnerabilities and assuring that SOEs are well-governed so as to minimize fiscal risks and deliver services to consumers cost-efficiently. The environment for business needs to be reformed in sync with comprehensive public sector reform. In the short to medium term, policies to promote job creation in the private sector, which has been very limited since 2009, will be critical to facilitate absorption of returning migrants; in the medium term, more access to opportunities and basic services, such as education, water, sanitation, and heating, will be needed to ensure the sustainability of poverty reduction and of the monetary welfare gains achieved in recent years.

## A. Recent Political Developments

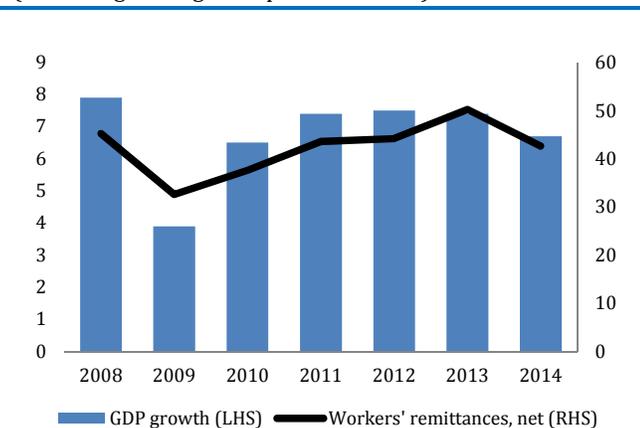
**In the parliamentary elections on March 1, 2015, the ruling People’s Democratic Party of Tajikistan (PDPT) received the majority of votes.** Parliament is the supreme legislative body and PDPT, the President’s party, has dominated it since the party was established in 1994. When the presidential elections were held on November 6, 2013, President Emomali Rahmon was re-elected for another seven-year term; he has held the position since November 1994. Upon his re-election, the government was reshuffled, with a new prime minister and a number of other new ministers charged with economic reforms in finance and banking, energy, and private sector development. Before the parliamentary elections this year the President made a number of public commitments to fighting corruption, poverty, and inequality, and called on the private sector to create more jobs.

## B. Recent Economic Developments

### Economic Growth and Domestic Demand

**The economic slowdown, and the steep currency depreciation of Russia had a major impact on Tajikistan’s economy in 2014, causing a decline in remittances.** According to the NBT, after 19 percent of growth in 2013, the U.S. dollar value of remittances dropped by 8.3 percent in 2014 year-on-year (Figure 1). With remittances equal to 42.7 percent of GDP in 2014 Tajikistan is the most remittance-dependent country in the world. Because over 90 percent of remittances originate in the Russian Federation, they are the main channel for transmission of Russia’s slowdown and ruble depreciation to Tajikistan. In the first two months of 2015 remittances were about 40 percent lower in U.S. dollar value than in the same period of 2014.

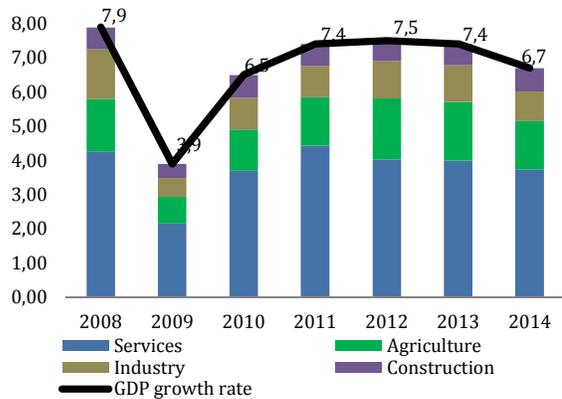
**Figure 1. Economic Growth and Net Remittances**  
(Percentage change and percent of GDP)



Source: NBT, World Bank staff calculations.

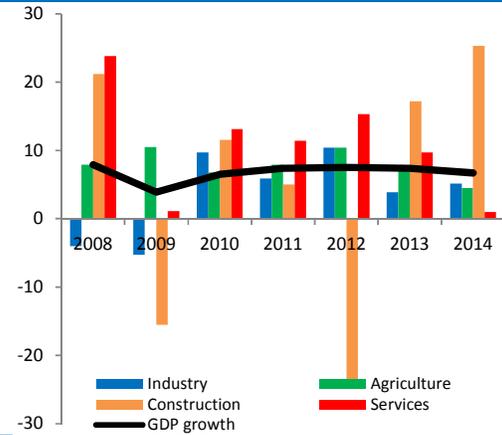
**Tajikistan’s economic growth moderated from 7.4 percent in 2013 to 6.7 percent in 2014.** Growth in agricultural output decelerated to 4.5 percent from 7.6 percent a year earlier because heavy precipitation and lower temperatures in the first half of 2014 reduced the yields for potato, cotton, cocoons, and cereals (Figure 2). Growth in services slowed to 1 percent in 2014 from 9.7 percent a year earlier as remittances declined, but services still accounted for the largest share of total gross domestic product (GDP)—40.8 percent in 2014. For the year, slower growth in services, which mirrors slack domestic demand, was almost completely balanced by acceleration of growth in construction, which rose by 25.3 percent year-on-year (y/y) (Figure 3). Government was responsible for roughly half of the construction.

**Figure 2. Contributions to Real Growth by Sector**  
(Percentage point/percent)



Source: TajStat, World Bank staff calculations.

**Figure 3. GDP and Output Growth by Sector**  
(Percent)

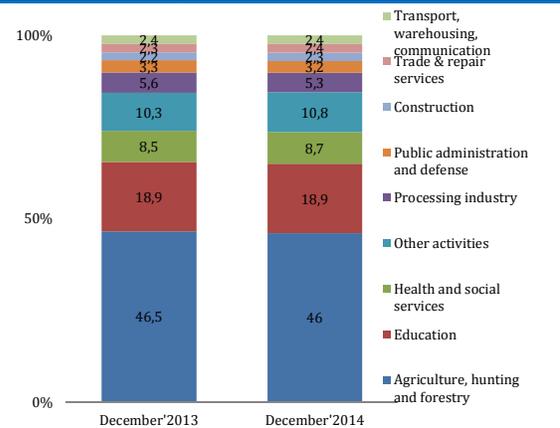


Source: TajStat, World Bank staff calculations.

## Poverty and the Labor Market

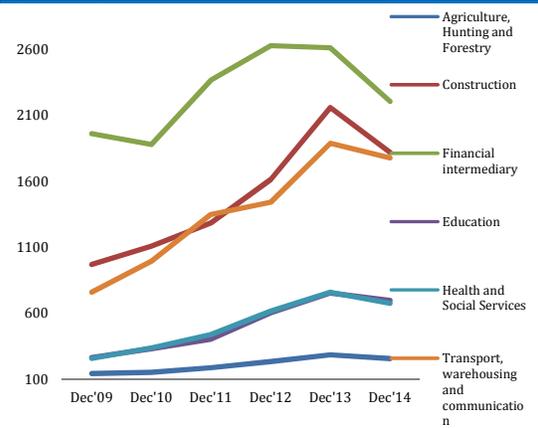
**The registered unemployment rate in Tajikistan is still low at 2.5 percent, but pressure on the labor market has been growing.** Unemployment measured by the number of people officially registered underestimates the actual number of unemployed. For instance, the latest available Labor Force Survey, in 2009, recorded 11.5 percent unemployment—almost four times larger than the registered rate for the same period. Labor earnings affect employment to a considerable extent. In terms of wage employment by economic activity, a slight decrease of half a percentage point was recorded for agriculture in 2014 (Figure 4) compared to a year earlier; it remains the lowest-paid sector (Figure 5). In the near future, pressure on the labor market is likely to intensify because there is a possibility that the Russia’s recession will cause labor migrants to return to Tajikistan. The ability of the agriculture and service sectors, the largest employers in the economy, to absorb additional labor will be critical to moderating potential poverty increases.

**Figure 4. Wage Employment by Economic Activity**  
(Percent of total)



Source: TajStat, World Bank staff calculations.

**Figure 5. Average Monthly Wage by Sector**  
(Somoni)



Source: TajStat, World Bank staff calculations.

**Poverty continued to fall in 2014, but the rate of decline is expected to moderate in 2015–16 due to Russia’s recession.**

According to the seasonally adjusted national official poverty measure, poverty in Tajikistan fell to about 36 percent in 2012–13 and to 34.5 percent in 2013–14.<sup>1</sup> According to the latest estimates based on the household budget survey (HBS), extreme poverty fell from 19.4 percent in 2012–13 to 18.5 percent in 2013–14. At the international poverty line of US\$2.50 a day at purchasing power parity (PPP), poverty declined from 40.9 percent in 2012 to an estimated 33.8 percent in 2014 (Figure 6).

**An important characteristic of poverty in Tajikistan is that it is highly seasonal.**

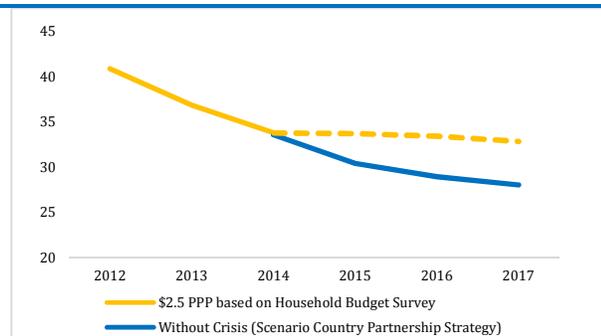
Poverty rates can fluctuate substantially from one quarter of the year to the next, making it difficult to identify the poor. According to the HBS, in a given four-quarter period about 50 percent of households are never poor and about 10 percent are chronically poor. The remaining 40 percent move back and forth across the poverty line. There are several reasons for the churning and the seasonal fluctuation of poverty in Tajikistan. The most important is that in agricultural areas, seasons affect the primary source of income for many households. At harvest time, there is often more work available, and more income for those who produce and sell agricultural goods. In seasons when there is little agricultural activity, however, incomes may be lower, reducing the amount that people can afford to consume. The availability of types of work outside the agricultural sector also varies seasonally, as do remittances from labor migrants; more remittances flow in during summer and autumn. Furthermore, churning is remarkably high: every quarter many poor households exit poverty and many non-poor households enter it. Reasons for churning are closely related to seasonality.

## C. Economic and Structural Policies

### Fiscal Developments

**Thanks to solid revenue performance and spending restraint, the state budget deficit was 0.6 percent of GDP in 2014 compared to a deficit of 1.1 percent in 2013.** Setting aside the externally financed Public Investment Program (PIP), the state budget was nearly in balance and the primary deficit was just 0.4 percent of GDP (Figure 7). Revenues increased by 0.3 percentage points in 2014, to 28.4 percent of GDP, due to improved collection and higher proceeds from foreign economic

**Figure 6. Poverty Rate, 2012–17 (Projected)**  
(Percent)



Source: TajStat, World Bank staff calculations.

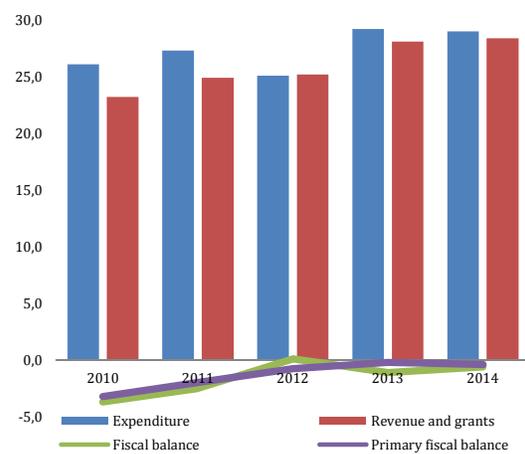
Note: Dotted yellow line refers to projections. Blue line refers to the “absence of shocks” scenario, for which projections from the Country Partnership Strategy, approved in June 2013 were used. Projection method is based on neutral distribution using GDP. HBS data were used for poverty estimates and projections.

<sup>1</sup> Poverty estimates for 1999, 2003, 2007, and 2009 are based on Living Standards Surveys (LSS) and data for 2012 on Tajikistan’s Household Budget Survey (HBS). Thus, due to different design and implementation protocols, the earlier (LSS) and most recent (HBS) data are not strictly comparable.

activities. Expenditures were under-executed by 5 percent, largely due to underspending on the Rogun hydropower plant by 16 percent.

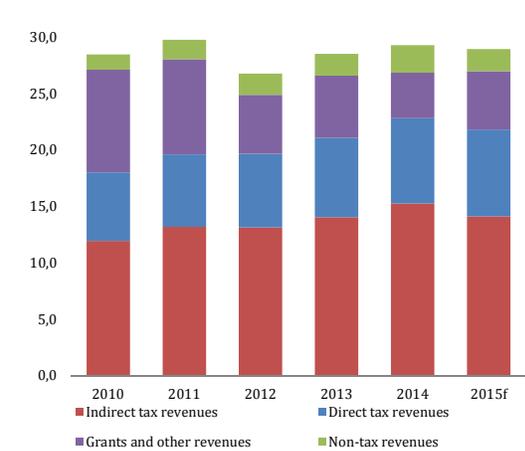
**In 2014, revenue collection exceeded the target by 2 percent, but the performance was uneven.** Proceeds from excises, value-added tax, and non-tax revenues were higher than projected, but a decline in the production of the Tajik Aluminum Company (Talco) in response to both falling demand and falling world prices meant that sales tax proceeds were 76 percent below the target. Likewise, fading demand for cotton reduced sales tax earnings by 36 percent below the target. Overall, indirect tax revenues were the largest contributor to the budget, accounting for 52 percent of total tax revenues in 2014 (Figure 8).

**Figure 7. Government Revenue and Spending**  
(Percent of GDP)



Source: Ministry of Finance, World Bank staff calculations.

**Figure 8. Sources of Government Revenue**  
(Percent of GDP)



Source: Ministry of Finance, World Bank staff calculations.

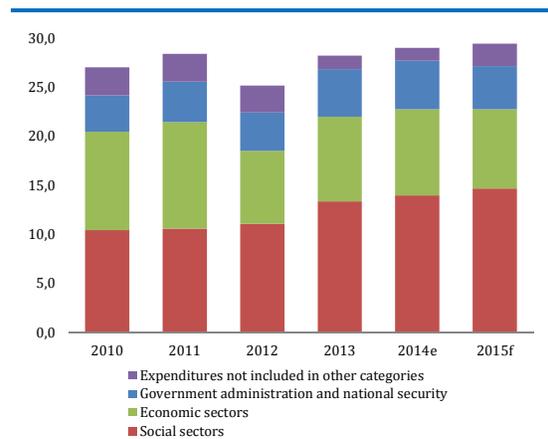
**Slower economic growth and lower imports in early 2015 again depressed revenues.** In the first two months, revenue collection was below the target by 6.1 percent. The government has responded by reiterating its commitment to a generally balanced budget, prioritizing expenditures, and sequestering some spending categories deemed to be of lower priority. Top priority goes to major social spending (salaries, pensions, communal services, etc.), to external debt service, and the most significant capital projects. All other categories are already being subjected to scrutiny and cuts. The revised State Budget for 2015 being prepared is expected to be passed at mid-year.

**Total government spending was equivalent to 29 percent of GDP in 2014; social spending accounted for about half.** Social spending increased as both a share of GDP and as a percentage of total spending in 2014, with social protection and education benefitting the most (Figure 9). Healthcare spending at 2 percent of GDP was similar to the previous period and is the lowest in the Europe and Central Asia region. There were no increases in public salaries in 2014 but after they went up in September 2013, the share of wages in total budget spending grew by almost a full percentage point. The planned rise in public sector wages and in pensions in September 2015 will

increase the pressure on the state budget even as revenues are slowing.<sup>2</sup> However, given the current lack of well-targeted social programs, higher social spending could help to mitigate the potential political impact of a much less encouraging economic environment. Planned expansion of the Targeted Social Assistance (TSA) Program<sup>3</sup> will mitigate some of the negative impacts of the worsening economic environment on the extreme poor. Additional social spending may be warranted because of lower migration and an increasing number of returning migrants.

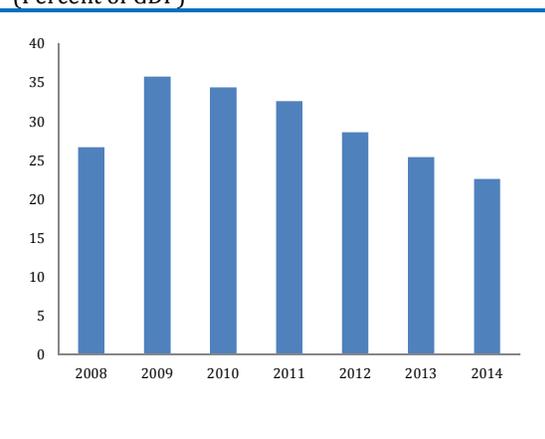
**Government debt fell by the end of 2014, largely because of loan repayments.** The ratio of Tajikistan’s public and publicly guaranteed external debt to GDP went down from 25.4 percent of GDP in 2013 to 22.6 percent on January 1, 2015 (Figure 10), mainly because of repayments of loans from the Chinese, the Asian Development Bank (ADB), and the Islamic Development Bank. The Chinese Export-Import Bank is still Tajikistan’s largest creditor; its loans represent about 43.1 percent of total external public debt as of January 1, 2015. The next largest creditors are the World Bank (15.6 percent) and the ADB (13.3 percent).

**Figure 9. Government Spending by Function**  
(Percent of GDP)



Source: Ministry of Finance, World Bank staff calculations.

**Figure 10. Public and Publicly Guaranteed External Debt**  
(Percent of GDP)



Source: Ministry of Finance, World Bank staff calculations.

**Tajikistan’s fiscal and debt positions are not only fragile, they are subject to significant risks.** The risks arise from the country’s consumption-driven growth model, narrow export base, high dependence on concessional financing, and acute infrastructure needs, especially in social sectors. Amortization of existing foreign debt is also increasing sharply. This all makes the country vulnerable to external shocks just when its ability to mitigate the shocks is limited by low external buffers as well as weak institutions. Domestic policies, including the soft budget constraints of state-owned enterprises (SOE) and directed lending, create substantial quasi-fiscal risks and may undermine

<sup>2</sup> President Rahmon in a speech to Parliament on January 23, 2015, promised to increase salaries of public employees in September 2015. Salaries of employees of the government, law enforcement, and other security agencies will go up by 15 percent. Salaries in education and pensions, including the minimum, will increase by 20 percent, wages of employees in the social protection area by 25 percent, and stipends by 30 percent. The minimum monthly wage will rise by 60 percent, from the current 250 to 400 somoni.

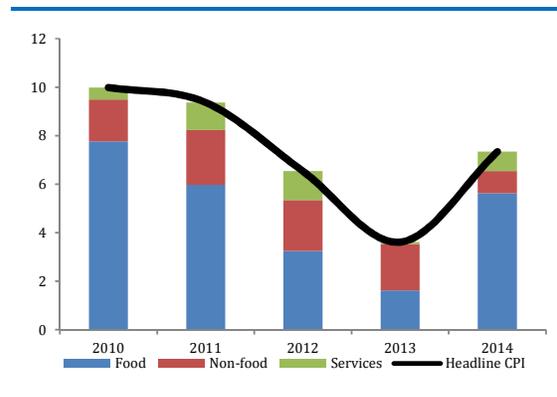
<sup>3</sup> The TSA was launched as a pilot in two districts in 2011 and expanded to 10 in 2013. In 2015 it will be extended to 25 districts and in 2016 to 40 districts, with the nationwide rollout in 2017.

fiscal consolidation efforts. Public spending must be managed more efficiently and transparently so that government revenue can be used to support growth, reduce poverty, and boost shared prosperity.<sup>4</sup>

## Monetary and Financial Sector Developments

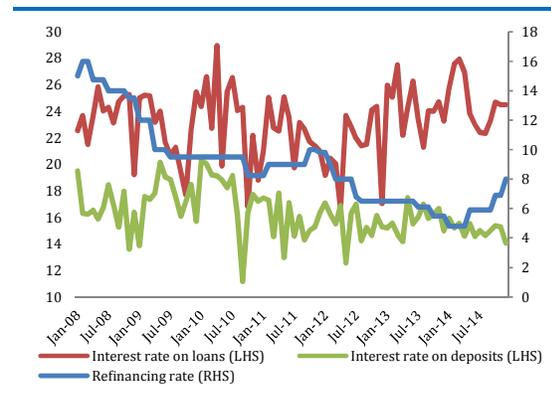
**Average annual inflation increased to 6.1 percent in 2014, up from 5.1 percent in 2013.** Year-end inflation increased from 3.7 percent in 2013 to 7.4 percent in 2014 (Figure 11). Food prices shot up by 9.7 percent in the 12 months through December 2014, from 3.2 percent in 2013, largely because of the somoni depreciation.<sup>5</sup> Higher energy tariffs as of July 2014 pushed up the cost of services by 6.5 percent for the year, compared to just 0.8 percent in 2013. In response to the inflation dynamics, on December 22 the NBT raised the refinancing rate by 110 basis points, to 8 percent, the third increase in 2014 (Figure 12). However, inadequate institutional capacity and low forex reserves undermine the effectiveness of monetary policy. The wide spread between interest rates for commercial lending and for deposit suggests that there is considerable inefficiency in the financial sector. Inflationary pressures have carried into early 2015, along with the depreciation of the somoni. In February 2015, 12-month inflation was 6.8 percent, up from 3.9 percent a year earlier.

**Figure 11. Sources of Inflation**  
(Percent)



Source: NBT, World Bank staff calculations.

**Figure 12. Interest Rates**  
(Percent)



Source: NBT, World Bank staff calculations.

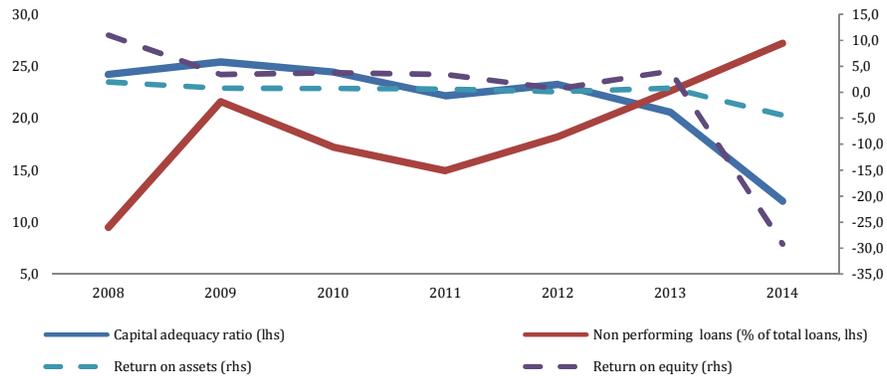
**Conditions in Tajikistan's banking sector worsened in 2014.** Banking system indicators point to continuing erosion of asset quality, and the reported nonperforming loans (NPLs) rose from 23 percent at yearend 2013 to 27.2 percent in December 2014. Actual NPLs are likely even higher, as loans are still significantly misclassified. The reported aggregate capital adequacy ratio for the banking system fell from 22.1 percent in December 2013 to 14.7 percent a year later. Profitability disappeared; return on assets (ROA) was a negative 4.4 percent at yearend 2014, and the reported return on equity (ROE) was a negative 29.2 percent, largely as a result of corrections to the balance sheet and income statement of Agroinvestbank, one of the largest banks (Figure 13). However, with the misclassification of loans and under-provisioning for NPLs, it appears that capital, ROA, and ROE

<sup>4</sup> The World Bank Policy Notes on Public Expenditures (World Bank, 2013–14) gave the government recommendations on ways to strengthen budgetary policy and analysis in key areas.

<sup>5</sup> Food constitutes about 58 percent of the consumer basket, and 80 percent of it is imported.

are all still overstated. Many banks must also deal with liquidity pressures due to maturity mismatches; they have increasingly turned to the NBT for loans to meet their funding needs. The financial system is extremely vulnerable to shocks like the one the country is currently experiencing.

**Figure 13. Financial Soundness Indicators**  
(Percent)



Source: NBT, World Bank staff calculations.

**There is minimal financial intermediation in Tajikistan, and the financial system cannot do much to support economic growth.** The country ranks low in credit and deposit penetration compared to neighboring countries. Deposits as a share of GDP were 14.2 percent in 2014, up slightly from 13.1 percent for 2013. Credit to the private sector as a share of GDP jumped from 19 percent in 2013 to 20.2 percent in 2014; at 53 percent in 2013 and 32.6 percent 2014, credit growth has been worryingly rapid considering the high NPLs and weak financial sector governance. On the “getting credit” indicator in Doing Business for 2015, out of 189 economies, Tajikistan is ranked 116th.<sup>6</sup> Improving access to credit, particularly for small and medium-sized entities (SMEs), requires that among other actions Tajikistan enforce regulatory standards, build up its credit culture, develop its financial infrastructure, modernize its secured transactions system, and promote better risk management.

### Balance of Payments

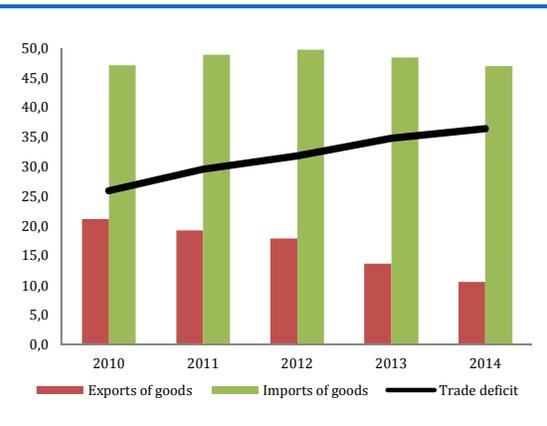
**The trade gap widened as the 3.6 percent increase in the value of exports was overshadowed by a 7.3 percent rise in import value.** The trade deficit widened in 2014 to almost US\$3.4 billion, 36.4 percent of GDP, up from 34.8 percent in 2013 (Figure 14). Although exports of cotton declined by 30.2 percent and aluminum by 37.2 percent, higher exports in other categories, most of which came from the NBT’s operation in Switzerland to convert non-monetary into monetary gold, resulted in moderate growth (Figure 15). As 2014 ended, imports began to contract along with the depreciation of the somoni and falling demand. Overall, imports increased by only 7.3 percent, mainly

<sup>6</sup> Source: <http://www.doingbusiness.org/rankings>.

because of imported food, capital goods, and mineral products, but imports still grew more than exports (Figure 16). “Other imports” was also affected by the NBT operation.

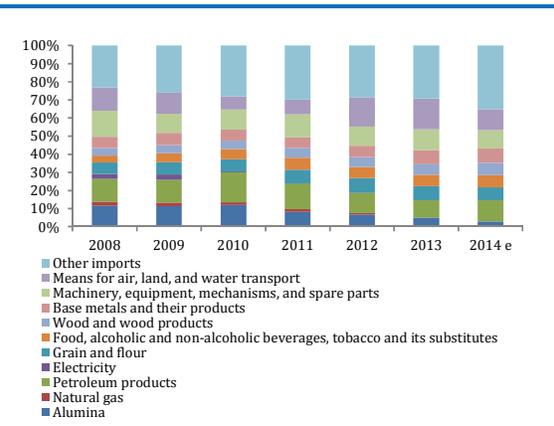
**The current account deficit worsened as the trade gap widened and remittances fell, although there was some increase in foreign direct investment (FDI).** The deficit is estimated to have gone from 2.9 percent of GDP in 2013 to 7 percent because of the larger trade deficit and lower net transfers. Remittances are the largest source of Tajikistan’s forex earnings, contributing more than exports and official development assistance. Largely because of the Chinese investments, FDI almost doubled both in nominal terms and as a share of GDP.<sup>7</sup>

**Figure 14. Exports, Imports, and Trade Deficit**  
(Percent of GDP)



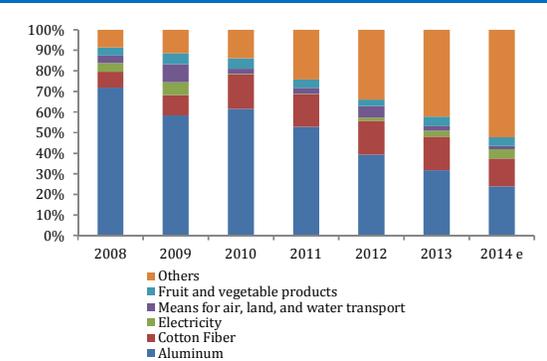
Source: NBT, World Bank staff calculations.

**Figure 15. Composition of Import Value**  
(Percent of total import value)



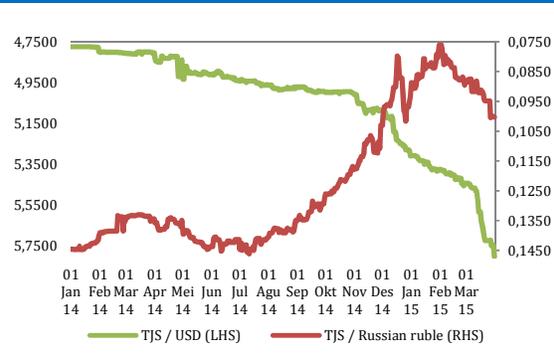
Source: NBT, World Bank staff calculations.

**Figure 16. Composition of Export Value**  
(Percent of total export value)



Source: NBT, World Bank staff calculations.

**Figure 17. Official Nominal Exchange Rate**



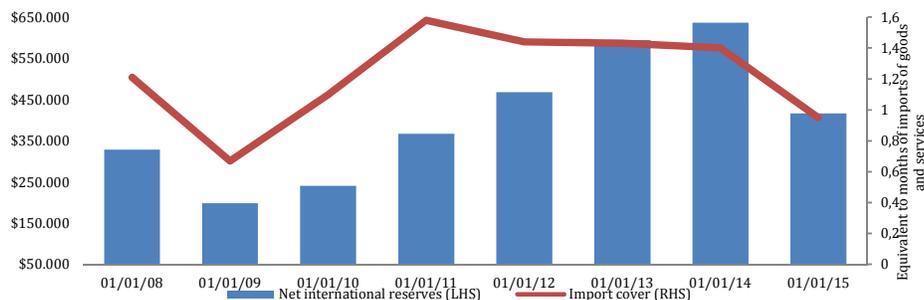
Source: NBT, World Bank staff calculations.

<sup>7</sup> In September 2014, during the Shanghai Cooperation Organization summit in Dushanbe, Chinese President Xi Jinping pledged that China would invest US\$6 billion in Tajikistan over the next three years. Of this US\$3.2 billion is for the gas pipeline crossing Tajikistan from Turkmenistan to China and the rest to be spent on mining, agriculture, and infrastructure projects.

**The authorities have responded to balance of payments pressures by allowing a moderate depreciation of the somoni through interventions and imposition of administrative controls on the forex market.** The official exchange rate for the somoni depreciated by 11 percent against the U.S. dollar in 2014 and another 9 percent in the first three months of 2015 (Figure 17). This still leaves the somoni significantly less depreciated than the currencies in many neighboring countries, and pressures on it have continued. According to the NBT, to stabilize the financial market, every day the regulator sells US\$1.5 million–US\$3 million. However, the gap between the official exchange rate and the cash (market) rate has still widened, hitting 18 percent on March 13, 2015. The NBT has responded by stopping direct sale of U.S. dollars and instead intervening through commercial banks by (1) setting ceilings on the amount of forex bought and sold and (2) strictly monitoring compliance with the ceilings, under threat of license withdrawal. Recently the official rate has been allowed to depreciate faster to align it with the cash rate, but the gap between the two rates is still about five percent and administrative controls on forex market remain.

**Interventions to prevent more rapid depreciation have been draining the country’s already low external reserves.** According to the NBT, as of March 12, 2015, gross reserves were US\$465 million, or about 1.1 months of import cover. In nominal terms, reserves had gone up by almost 12 percent from January 1, 2015 (Figure 18). Yet due to currency market interventions, authorities lost an estimated US\$140 million in gross reserves in 2014, and another US\$17 million in the first two months of 2015. The NBT has committed to allowing more exchange rate flexibility but prefers to manage the process to prevent excessive volatility. However, until full exchange rate adjustment takes place, it will be very difficult to stabilize expectations, excessive volatility will remain a major risk, and reserves will further evaporate. To allow the forex market to work and find a new equilibrium exchange rate, administrative controls should be lifted, multiple exchange rate practices eliminated, and interventions limited to those needed to avoid excessive fluctuations.

**Figure 18. Net International Reserves and Import Cover**  
(US\$ thousands)



Source: NBT, World Bank staff calculations.

## D. Outlook

**The current recession in Russia will significantly affect prospects for growth and poverty reduction in Tajikistan this year.** The expected plunge in remittances (40 percent in US\$ terms) will hit services particularly hard, and that sector accounts for over 40 percent of the economy. Growth is also slowing in Tajikistan’s other major trading partners, Turkey, China, and Kazakhstan,

and sinking demand will likely keep prices low on cotton and aluminum, the country's main export commodities. Depreciation of the somoni may have a mitigating effect, supporting demand substitution away from imports and toward domestically-produced goods and services, as well as increasing the somoni value of remittances. However, the depreciation will push up inflation, although low international food and fuel prices and continuing responsible macroeconomic policy may limit average inflation in 2015 to just above 10 percent.

**The State Budget (excluding externally financed programs [PIP]) is expected to stay close to balance for the near future.** The government is committed to having a fiscal deficit of no more than 0.5 percent of GDP over the medium term. It will achieve this in 2015 by restraining and rationalizing expenditures while ring-fencing, and even increasing, social spending. With the support of the EU-funded project, the Ministry of Finance is crafting a strategy to address fiscal risks from SOEs, to be presented to the government by yearend. In support of its medium-term debt strategy, the government intends to keep total public debt below 40 percent of GDP. Enhancing public sector efficiency and transparency will then be necessary to allow for reallocation of resources from the public to the private sector while safeguarding social cohesion. Policies to facilitate the absorption of returning migrants into the local labor market will also be important (see Special Topic below).

**The projected decline in GDP growth is expected to slow poverty reduction through 2016.** During that time it is projected that household purchasing power will grow more slowly due to lower remittances and slower growth in real wages. Vulnerability is magnified by the current lack of well-targeted social programs. The poor are likely to suffer from both the decline in remittances and higher somoni prices for imported grain and flour—bread is a diet staple—though the planned expansion of the TSA program will mitigate some of the worst effects.

**Over the medium term, growth is projected to rebound, assuming responsible macroeconomic policies and a sufficient pace of structural reform.** Private investment is expected to expand somewhat, to 8 percent of GDP, and the financial sector and the business environment are both expected to improve. Gross investment is projected to reach 19.5 percent of GDP over the medium term. With better global conditions and better economic management, economic growth will be led by private investment and exports. Toward 2017 Tajikistan should achieve progressively higher growth rates, although they will still be below recent historical averages. More ambitious reforms will be needed to accelerate growth in the medium term.

**Significant risks to the macroeconomic outlook arise from the external balance, low external reserves, SOEs, and the banking sector.** Prudent macroeconomic management is a high priority to assure the necessary adjustment, increase the country's resilience to shocks, and provide a solid foundation for growth. It is crucial to undertake the needed fiscal and exchange rate adjustment promptly and adhere to a sound policy mix going forward.

**The impact of Russia's recession on Tajikistan underscores the immediate need to create the foundations for a new model of growth and development.** It will be vital to address financial sector vulnerabilities and to assure proper management of SOEs to minimize fiscal risks and deliver services to consumers cost-efficiently. Reforms to provide a more attractive environment for business need to accompany comprehensive public sector reform. Policies to promote employment creation in the private sector, where job creation has been very limited since 2009, will be critical to facilitate absorption of returning migrants; in the medium term, to sustain poverty reduction and secure the monetary welfare gains of recent years will require increased access to opportunities and basic services, such as education, water, sanitation, and heating.

## E. Special Topic: Labor Migration and Remittances<sup>8</sup>

**Labor migration and remittances have been central to Tajikistan's development since 2000.** With a median population age of about 25 and annual population growth of over 2 percent per year, Tajikistan is one of the youngest and fastest-growing countries in the region. Because employment opportunities at home have been limited, 40 percent of the working-age population—the vast majority under 30—have sought better jobs abroad. Migration to the Russian Federation – the major host country for Tajikistani workers—has grown rapidly since 2000, though from a relatively low base. By 2013 remittances had risen to nearly 50 percent of GDP, making Tajikistan the most remittance-dependent country in the world.<sup>9</sup>

**Russia's current recession and recent changes in Russian migration legislation are expected to reduce the number of Tajikistani labor migrants.** According to the Agency of Statistics under the President (TajStat), for 2011–14 the average number of Tajikistani labor migrants in Russia was about 740,000; in 2014 the number of migrants from Tajikistan was 670,000.<sup>10</sup> An estimated 25 percent reduction in labor migration is expected in 2015, which, with the expected return of many migrants, will translate into a significant increase in the number of job seekers, and into pressure on the local labor market and social pressures.

**About 1 million Tajik citizens—a third of prime-aged men (ages 20–39)—who reside in the Russian Federation are at risk of job loss, lower paychecks, higher fees, and ultimately fewer resources to send back home.** An estimated 60 percent of these are illegal immigrants, with little or no protections under the Russian Federation labor code.<sup>11</sup> Declining remittances would significantly reduce disposable incomes in Tajikistan, forcing the poorest and the lower middle class to cut non-priority expenditures, including those on social services, such as education and health. Reintegration of returned migrants will be difficult given the limited jobs available, mismatched skills, and competition from youth entering the labor market. Returnees are likely to lack awareness of employment and business opportunities, and related legislation—employment information and services are both inadequate.

**The majority of Tajik households are affected by changes in the availability of work in the Russian Federation.** Russian legislation in 2014 put 270,000 Tajikistani workers on the re-entry ban list as of November 2014, reducing paid work opportunities. The number of blacklisted migrants reportedly increased in the beginning of 2015. If those labor migrants return home, they are likely to stay home for up to five years. Furthermore, since January 1, 2015, biometric passports are required for all migrants entering Russia. Also, on January 10, 2015, a new law came into force that bans those found to be staying illegally in Russian Federation territory from reentering for 10 years. These regulations exacerbate the already dire conditions of labor migrants. Those who remain in Russia

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<sup>8</sup> This section is based on the findings of the report *The Skills Road: Skills for Employability in Tajikistan* (World Bank, 2014), background notes for the Tajikistan Country Partnership Strategy, and the new Development Policy Financing series, and information collected specifically for this update.

<sup>9</sup> See the World Bank Migration and Remittances database:  
[www.worldbank.org/prospects/migrationandremittances](http://www.worldbank.org/prospects/migrationandremittances)

<sup>10</sup> TajStat and Russia's Federal Migration Service data differ on the number of Tajikistani labor migrants in the Russian Federation. The former takes into account seasonal (temporary) migrants; the latter covers both seasonal and permanent migrants.

<sup>11</sup> Further legislation tightening conditions for migrants living in the Russian Federation will very likely push more into the shadows and leave many Tajik workers in the Russian Federation with fewer protections.

would not be able to send money home because the devaluation of the Russian ruble against the U.S. dollar has raised the cost of doing so.

**Jobs in Russia are also restricted by the most recent changes in the law on work patents for labor migrants.** According to the state-run Multifunctional Migration Center in Moscow, as of January 1, 2015, the cost of obtaining a patent for foreign citizens who are willing to work in Moscow, where well over 60 percent of Tajikistani labor migrants reside, is about 14,500 Russian rubles (US\$250). This amount covers

- Commuting to and from the Migration Center - 300 rubles;
- Processing documents, transferring them to the competent authorities, and obtaining a patent – 3,500 rubles;
- Fixed advance payment on personal income tax for the first month – 4,000 rubles;
- Bank services: not less than 200 rubles;
- Voluntary health insurance – 3,500 rubles;
- Services of notary for translation of passports - 400 rubles;
- Testing and training - 500 rubles;
- Medical examination in public health facilities – 2,300 rubles and up (the cost for private medical examinations may differ from state rates);
- In the state-run Moscow center, testing and learning the Russian language, the fundamentals of legislation, and the history of Russia – 500 rubles (in other institutions the cost is more than 3,000 rubles).

**As the decline in remittances is likely to be long term, it is even more imperative that Tajikistan execute the structural reforms that are necessary to create the foundation for more internally generated inclusive growth.** With a highly uncertain external environment and growing domestic pressures, Tajikistan must put in place a comprehensive structural reform program to bolster growth, job creation, and poverty reduction. The current difficult situation should be seen as an opportunity to direct the economy to a private-sector-led growth model to generate more and better-paying jobs (see Outlook, above). To keep remittances flowing in and to enhance them, the following problems need to be tackled:

- *Improve the environment in which migrants operate.* This will involve efforts to seek better treatment of Tajikistani migrants in host countries and improving information support services for migrants and their families as well as potential migrants.
- *Provide better financial services to migrants and their families.* This would help capture a larger share of remittance inflows through banks and create the basis for broadening the deposit base and better financing for private investments.
- *Invest in building human capital (including basic education, specialized skills, and languages).* This would help Tajik migrants to earn higher incomes abroad and contribute more upon their return.

## Annex. Economic and Social Indicators in Tajikistan, 2010-17

(Percent of GDP unless otherwise is stated)

Selected Indicators	2010	2011	2012	2013	2014 <sup>a</sup>	2015 <sup>b</sup>	2016 <sup>b</sup>	2017 <sup>b</sup>
<i>Income and Economic Growth</i>								
GDP growth (percent change)	6.5	7.4	7.5	7.4	6.7	3.2	4.4	5.2
GDP per capita (in US dollars)	741	780	890	990	1,060	1,060	1,080	1,080
Gross investment	12.9	15.5	15.4	14.1	15.3	15.8	17.2	18.4
Gross national saving	20	10.8	13	11.2	8.3	10.3	12.8	14.5
<i>Money and Prices</i>								
Consumer price inflation (annual % change)	6.4	12.5	5.8	5.1	6.1	10.1	8.4	7.3
Average exchange rate (TJS/USD)	4.38	4.61	4.76	4.77	4.94	...	...	...
Real effective exchange rate	92.1	90.9	92.4	95.1	106.4	...	...	...
<i>Fiscal</i>								
Revenue and grants	23.2	24.9	25.2	28.1	28.4	25.7	26.1	26.4
Expenditure and net lending	26.9	27.3	25.1	29.2	29.0	27.4	28.0	29.1
Fiscal balance	-3.7	-2.5	0.1	-1.1	-0.6	-1.7	-1.9	-2.7
Primary fiscal balance	-3.2	-2	-0.8	-0.2	-0.4	-0.7	-1	-0.7
Total public debt	37.6	35.4	29.1	28.9	30.1	37.1	35.7	36.9
<i>External Accounts</i>								
Export of goods & services	15.3	17.9	18.2	18.7	17.8	19.1	19.6	20.4
Import of goods & services	52.6	67.2	64.5	66.8	64.9	47.7	47.4	47.7
Workers' remittances, net	39.8	46.2	44	47.6	42.7	26.4	26.9	27.1
Current account balance	-1.2	-4.7	-2.4	-2.9	-7	-5.5	-4.4	-3.9
Foreign direct investment (USD million)	16	65	146	105	198	250	300	350
<i>Population, Employment, and Poverty</i>								
Population (millions)	7.6	7.8	8	8.2	8.4	8.6	8.8	9
Population growth (annual % change)	1.1	2.6	2.3	2.4	2.4	2.4	2.4	2.4
Unemployment rate (percent of labor force) <sup>c</sup>	2.1	2.4	2.4	2.4	2.5	...	...	...
Poverty rate (\$1.25 a day, PPP terms)	...	...	4.7	4.5	3.8	3.8	3.7	3.4
Poverty rate (\$2.50 a day, PPP terms)	...	...	40.9	36.8	33.8	33.7	33.4	32.8
Life expectancy (years)	67	67.1	67.3	...	...	...	...	...

Notes: "..." indicates data that are not available. a – Estimated. b – Projections. c – Registered.



## Tajikistan

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