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POLICY BRIEFING
TAJIKISTAN

Economic implications on Tajikistan of the war in Ukraine and the sanctions against Russia

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Summary

- » Western sanctions against RUS, as a reaction to the war in UKR, weaken the Russian economy with possible negative effects on the TJK economy. We assess the effect on key areas

Energy prices

- » Global energy prices went up due to the war. However, TJK imports oil products from RUS at preferential conditions and has substantial hydropower. Thus, no impact on energy prices so far

Exposure to Russia: remittances, tourism and exports

- » Remittances are key for TJK and RUS is the most important source country; however, remittances from RUS increased strongly in 2022
- » Exports of goods to RUS are not sizeable, but increased by 45% in 9M2022
- » Also tourism from RUS seems to have grown

Migration

- » Sizeable relocation of Russian citizens to TJK has a positive impact on consumption
- » Brain gain poses an opportunity for economic and sectoral (IT) development in TJK

Macroeconomic implications

- » According to official data, inflation did not rise in TJK despite globally growing food prices; however, data scarcity impedes the analysis
- » No negative impact on economic growth in 2022, instead strong growth of 8.0% yoy
- **No negative shock on the TJK economy so far; but strong exposure regarding remittances towards RUS remains a risk**

Outline

1. Introduction
2. Economic situation in RUS
3. Implications of higher energy prices
4. Exposure to Russia: remittances, tourism and exports
5. Migration from RUS
6. Macroeconomic effects
 - I. Inflation
 - II. GDP

1. Introduction

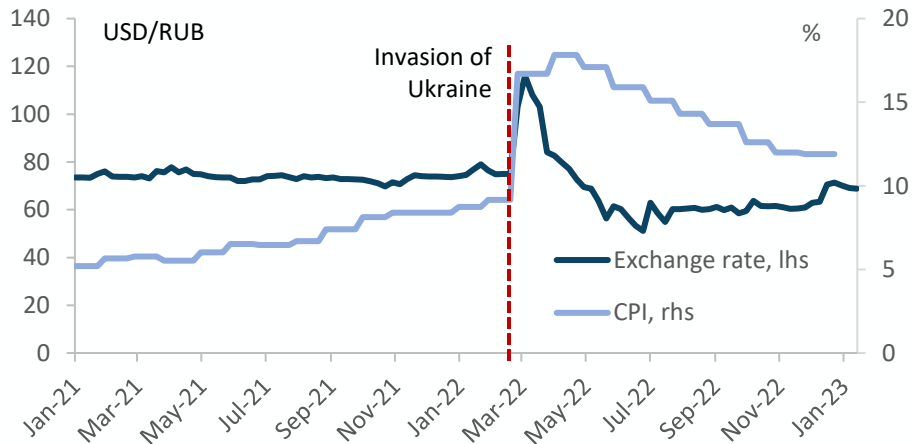
- » As a response to Russia's invasion of Ukraine, Western countries imposed economic sanctions on RUS
- » This has weakened the RUS economy
- » In turn, this could have a negative effect on countries that have economic links with RUS, such as TJK
- » In this analysis, we focus on different channels through which TJK might be affected
 - Higher energy prices
 - Exposure to the RUS economy via remittances, tourism and exports
 - Migration flows

Aim of this policy briefing

- » Estimation of these effect on TJK
- » Assessment of the macroeconomic implications for TJK

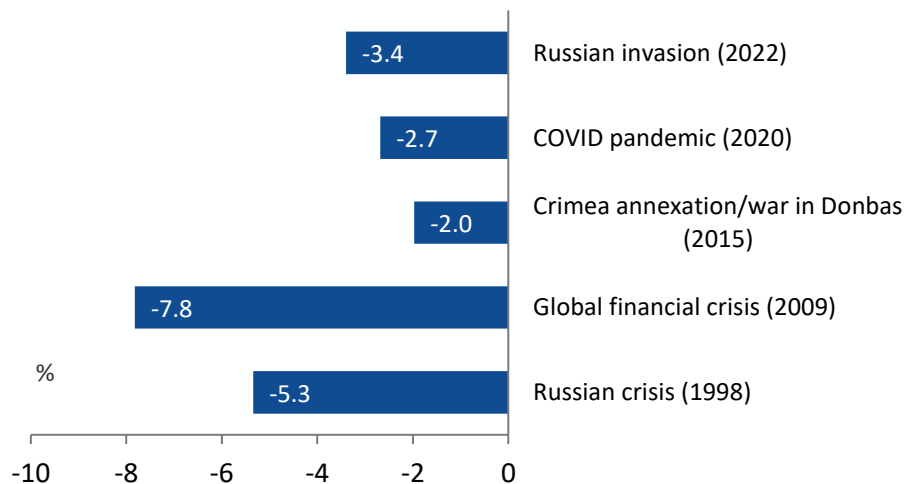
2. Economic situation in Russia

Inflation and exchange rate



Source: CBR

Historic GDP declines



Sources: Rosstat and IMF October 2022 forecast

Severe economic and financial damage

- » The war has led to several waves of sanctions on RUS by Western countries
- » Sanctions led to volatility of exchange rate and rising inflation
- » Government reacted with capital controls, strong increase of policy rate and support measures for the economy
- » Macroeconomic stability restored, but RUS real GDP likely declined by 3.4% in 2022
- » Thus, impact lower than previously anticipated, but still severe and larger than impact of COVID pandemic
- » GDP forecast to decline further in 2023 by 2.3%
- **Significant contraction of the Russian economy and uncertain outlook**

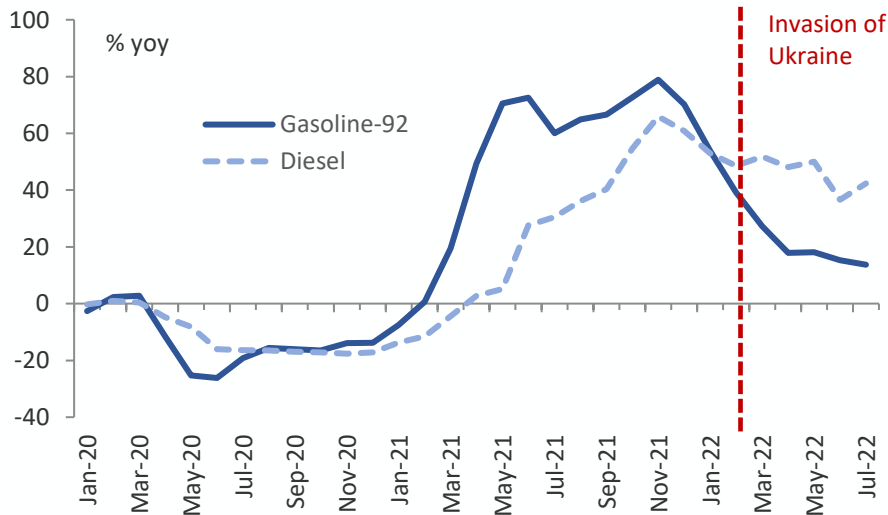
3. Implications of higher energy prices

Energy balance

PJ, avg. 2017-2019	Consumption	Production	Imports (RUS share)	Exports
Crude oil	0	1	2 (0%)	-
Oil products	41	1	40 (80%)	-
Natural gas	4	0	6 (0%)	-
Coal	47	47	0 (0%)	1
Renewables	66	66	-	-

Source: IEA, UN Comtrade, own calculations

Prices for fuel in TJK



Source: Agency on Statistics Tajikistan, own calculations

Starting point

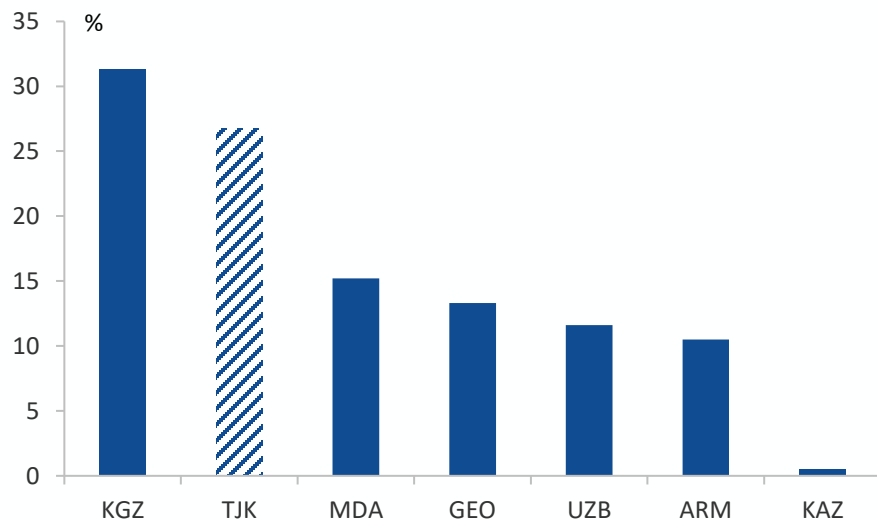
- » High share of 90% of electricity generation from hydro
- » Despite much hydro in electricity, almost 60% of energy consumption from fossil fuels
- » Own production of coal, which is largely used for heating
- » Oil products almost completely imported and largely from RUS
 - Oil products heavily used in transport but also residential sectors

Analysis of effect

- » Oil prices surged in 2021, but no increase for RUS oil since start of war
- » Preferential prices of oil products imports from RUS (no export duty)
- **No effect on Tajik energy prices**

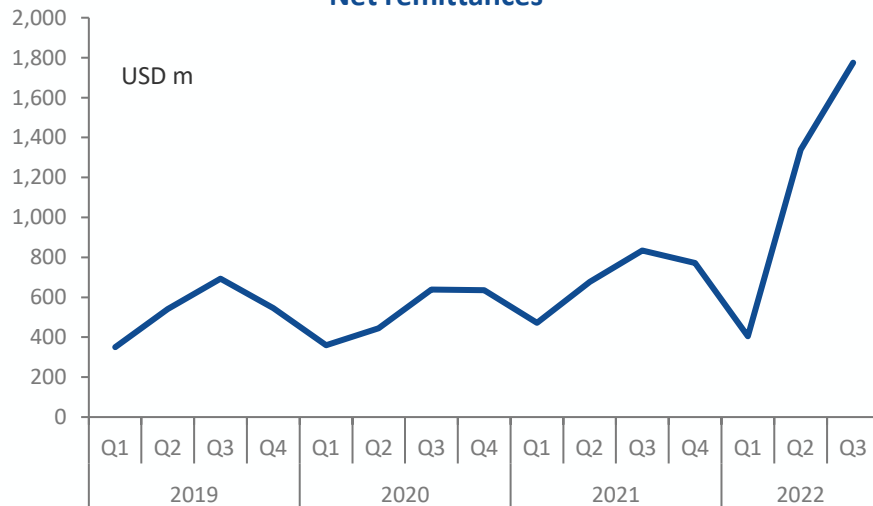
4. Exposure to Russia: remittances

Personal remittances inflow as % of GDP



Source: World Bank, data for 2020

Net remittances



Source: IMF BOP and International Investment Position Statistics

Note: personal remittances = (personal transfers + compensation of employees)

Starting point

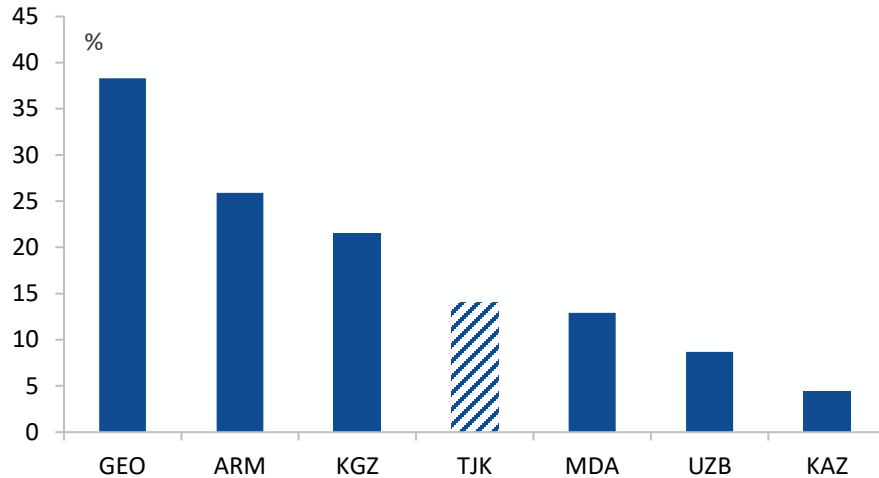
- » Remittances play a major role in TJK economy: 27% of GDP in 2020
- » RUS is by far the most important destination for labour migrants from TJK
 - According to TJK Ministry of Labour: 95% of TJK working migrants choose RUS
 - ILO: more than 1 m citizens (>10% of population) live and work in RUS

Analysis of effect

- » Straight after the start of the war in UKR: expectation of decrease of remittances due to economic weakness in Russia
- » But: economic situation in RUS better than expected
- » Net remittances more than doubled in Q3-2022 vs Q3-2021
- **Expected shock did not materialise; instead increase of remittances**
- **Demand for Tajik labour migrants in Russia still high**

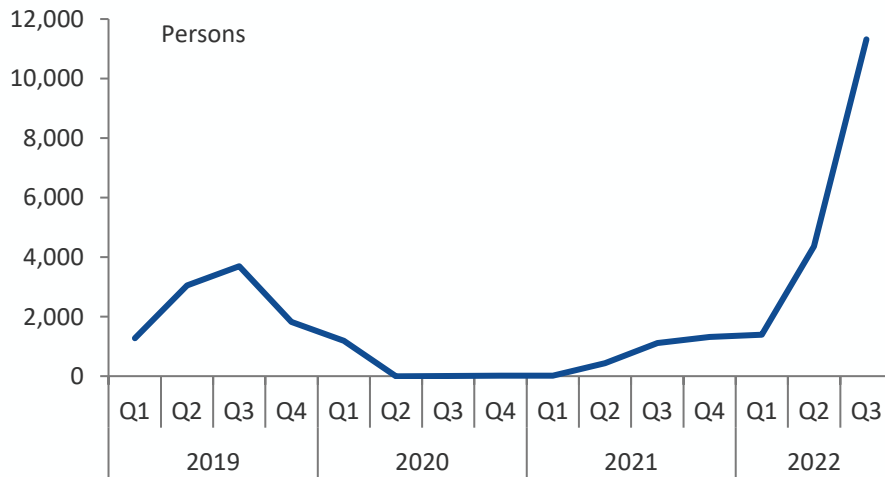
Exposure to Russia: tourism

Visitor spending in total exports of goods and services



Source: World Travel & Tourism Council, data for 2019

Russian tourists in Tajikistan



Source: Federal Security Service (FSB) Russia

Starting point

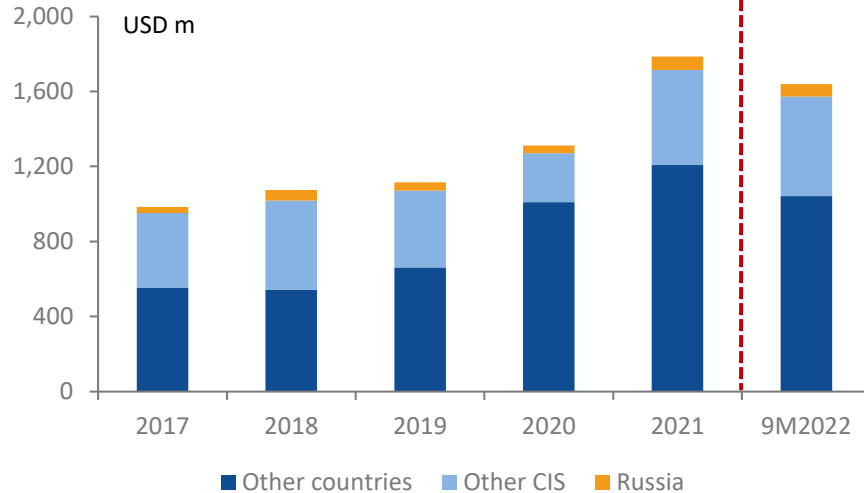
- » Tourism accounts for 14% of total exports of goods and services, mid range in peer group
- » No TJK data on tourists by source countries, but RUS likely plays only a minor role if picture is similar to its neighbors

Analysis of effect

- » According to Russian sources, number of tourists from RUS strongly increased
- » However, data includes the relocation of people from RUS, especially after the mobilisation at the end of Sep 22
- » Nevertheless, no indication of decreasing numbers of tourists from RUS
- **No negative effect on tourism**

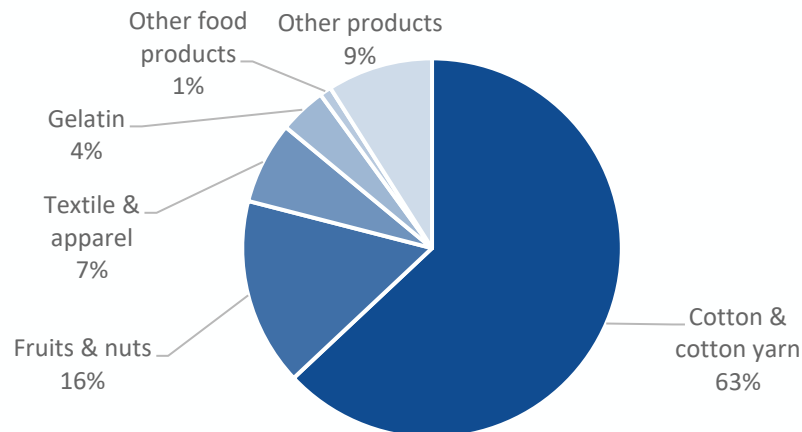
Exposure to Russia: exports

TJK exports of goods



Source: ITC Trade Map, National Bank of Tajikistan

Structure of TJK exports to RUS, 2021



Source: ITC Trade Map

Starting point

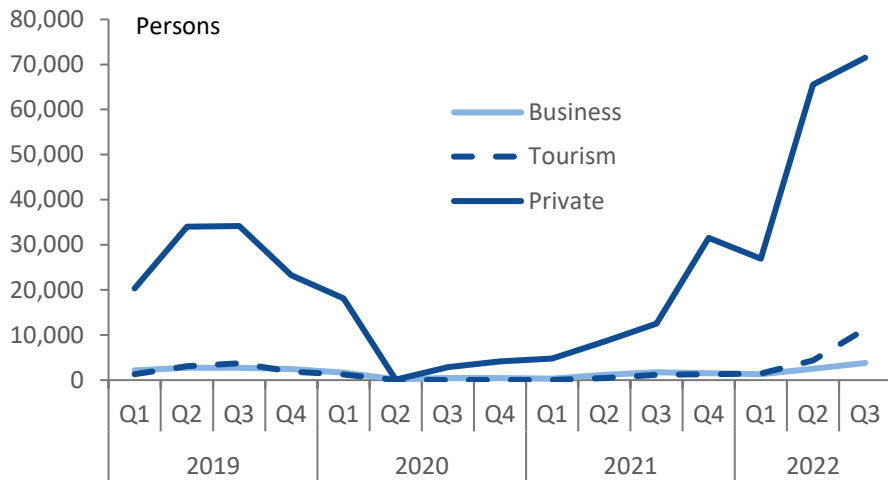
- » 2021: USD 72 m of exports of goods got to RUS, only 4% of total exports
- » Exports dominated by raw materials (gold, mineral ores and cotton) and shipped to other destinations
- » **Exposure of exports to RUS rather small**

Analysis of effect

- » Early forecasts predicted a significant decline of exports to RUS, due to expected economic slowdown in RUS
- » However, trade data of National Bank of Tajikistan shows strong growth of exports to RUS (+45%) in 9M2022
- » Total exports increased by around 5%
- » **No negative impact on exports to RUS, instead strong growth**

5. Migration of workforce from RUS to TJK

Russian citizens leaving RUS to TJK by stated purposes

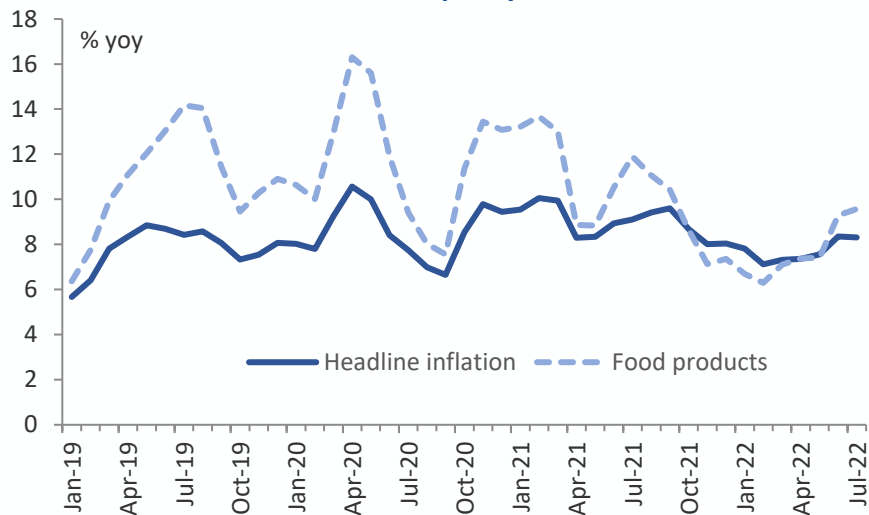


Source: Federal Security Service (FSB) Russia

- » Different sources report on the relocation of RUS citizens to TJK since start of the war
- » As it looks, the relocation also involves IT specialists
- » But, no official data available in TJK
- » However, border crossing data by RUS FSB show strong rise of entries into TJK in Q2-22
 - Entrance due to “private reasons”: +668% vs Q2-21 (still +125% vs Q2-19)
- » Further research necessary to assess whether immigration might be longer term and useful to support economic development
- **Immigration of RUS IT specialists might pose a chance develop the IT sector in TJK**

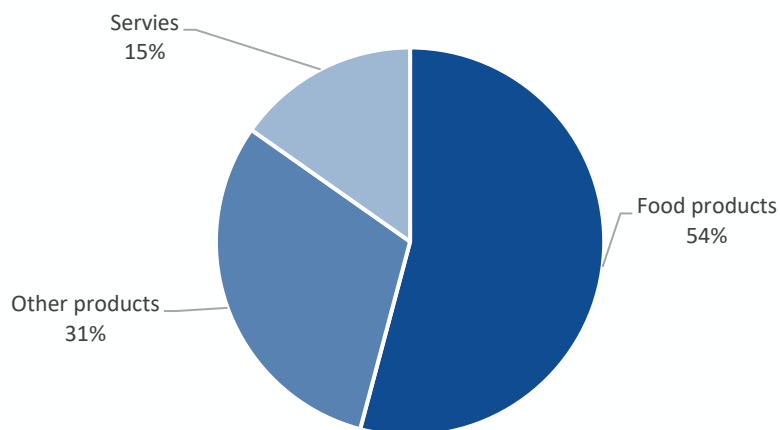
6. Macroeconomic effect: inflation

Inflation and policy rate



Source: Agency on Statistics Tajikistan, own calculations

CPI basket



Source: Agency on Statistics Tajikistan, data for 2019

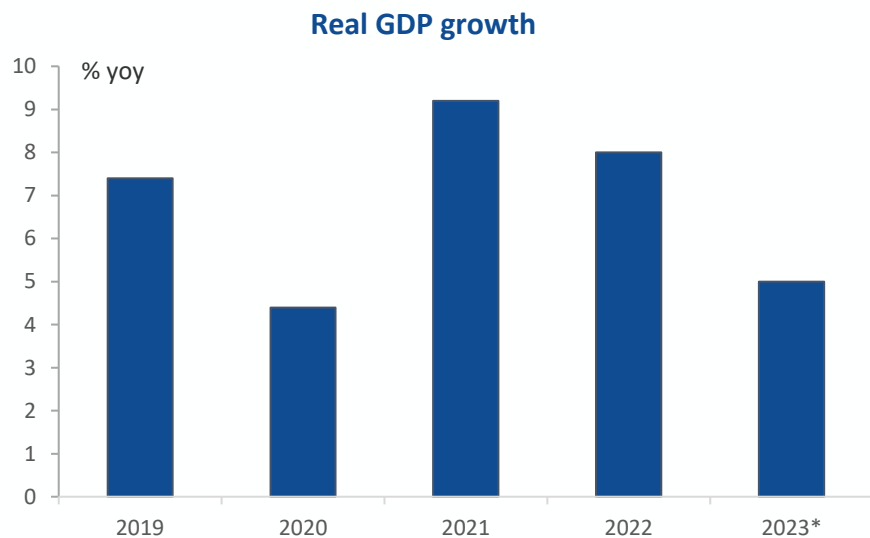
Starting point

- » TJK net importer of food, especially cereals and sugar
 - Food imports 2021: USD 973 m
 - Food exports 2021: USD 48 m
- » With almost 54%, large share of food in CPI basket

Analysis of effect

- » Despite this, inflation remained on similar level as in previous years according to official data
- » Thus, official data suggest that higher world food prices have not led to high food prices in TJK
- » However, development of import prices cannot be checked due to missing trade data
- » Possible explanation: release of strategic food reserves
- **Official data show no increase in inflation**
- **Analysis difficult due to lack of data**

Macroeconomic effect: GDP



Source: Agency on Statistics Tajikistan, *IMF forecast (December 2022)

Regional comparison of real GDP forecasts for 2022

	2021	2022*	2023*
Tajikistan	9.2	8.0	5.0
Kyrgyzstan	3.7	3.8	3.2
Kazakhstan	4.1	2.5	4.4
Uzbekistan	7.4	5.2	4.7
Russia	4.7	-3.4	-2.3
Turkmenistan	4.6	1.2	2.3

Sources: IMF; *forecast (except TJK for 2022 Agency on Statistics Tajikistan)

Analysis of effect

- » Spring 2022: economic growth forecast at only 2.5% due to expected negative effect of the war in UKR
- » But: shock did not materialise
- » Instead: higher remittances and exports
- » Preliminary data for GDP growth in 2022 at 8.0%; quite high
- » On top: relocation of RUS citizens support consumption
- » Growth strongest in the peer group
- **No negative impact on GDP; high economic growth in 2022, according to official data**

About the German Economic Team

Financed by the Federal Ministry for Economic Affairs and Climate Action, the German Economic Team (GET) advises the governments of Ukraine, Belarus*, Moldova, Kosovo, Armenia, Georgia and Uzbekistan on economic policy matters. Berlin Economics has been commissioned with the implementation of the consultancy.

**Advisory activities in Belarus are currently suspended.*

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