

ECONOMIC MONITOR

TAJIKISTAN

Overview

- » 2021: GDP growth of high 9.2%, according to official data
- » 2022: no negative effect of war in Ukraine and Western sanctions on Russia so far; instead, high growth of 8.0% driven by robust remittances
- » Surprisingly, no impact of globally rising food prices on inflation in Tajikistan; Nov-22 inflation below 5% according to official figures
- » Depreciation of somoni vs US dollar right after the start of war in UKR, followed by strong appreciation; similar development as the Russian rouble
- » Current account surpluses in last 3 years due to growing gold exports and remittances
- » Strong growth of imports by 27% in 9M2022, exports grew only by 5%
- » Moderate public debt level of 36% and low budget deficit of 1.4% of GDP in 2022; nevertheless, high risk of debt distress due to spending pressure on infrastructure projects and SOEs

Special topics

- » **Energy balance and trade.** Potential to increase electricity trade with Central Asian neighbours
- » **Metals and mining.** Mining to remain major pillar of economy and even more for exports

Basic indicators

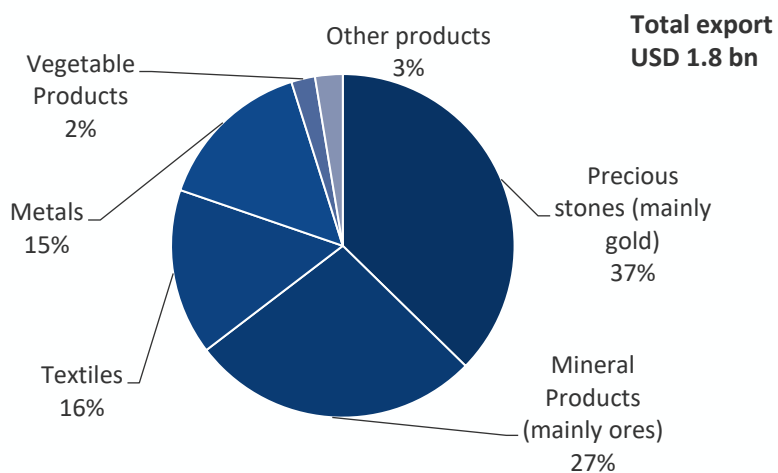
| | Tajikistan | Kyrgyzstan | Uzbekistan | Kazakhstan | Turkmenistan | Russia |
|-----------------|------------|------------|------------|------------|--------------|---------|
| GDP, USD bn | 8.5 | 8.5 | 69.2 | 197.1 | 63.4 | 1,775.5 |
| GDP/capita, USD | 878 | 1,287 | 2,001 | 10,380 | 10,310 | 12,198 |
| Population, m | 9.6 | 6.6 | 34.6 | 19.0 | 6.2 | 145.6 |

Sources: National statistics, IMF, 2021

Trade structure

Exports

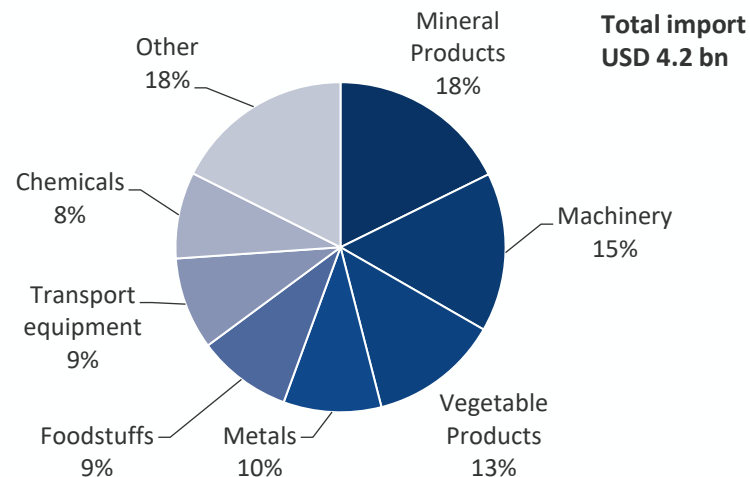
CHE* 30% | KAZ 20% | TUR 13% | CHN 9% | Other 28% (EU 6%)



Source: ITC TradeMap, 2021; *Switzerland – mainly gold exports

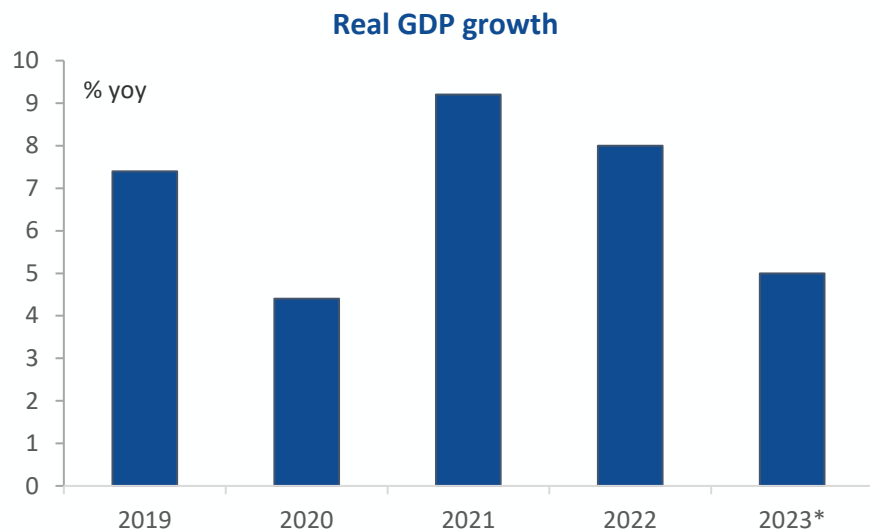
Imports

RUS 30% | KAZ 19% | CHN 16% | UZB 8% | Other 27% (EU 8%)



Source: ITC TradeMap, 2021

Economic growth



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

Regional comparison of GDP growth

| | 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 |

Source: IMF, *forecast (except TJK 2022 data)

GDP

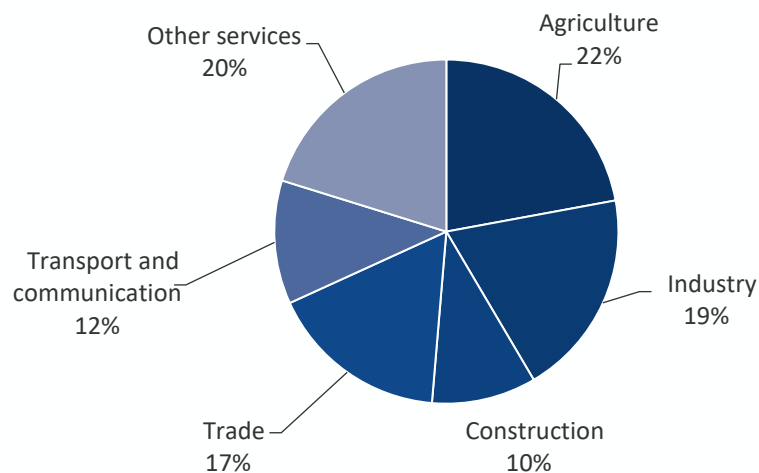
- » 2021: high growth of 9.2% yoy, according to official data
- » Spring 2022: expectation that war in UKR and Western sanctions against RUS would negatively effect TJK
- » But: no negative shock; instead, remittances increased and supported domestic demand
- » Preliminary official data for 2022 shows again very strong growth of 8.0%

Regional comparison

- » TJK outperforms all peer countries in past years and has comparable outlook for 2023
- » However, some question marks remain regarding the reliability of official data
- **No negative effect of war in UKR and sanctions against RUS on GDP growth**

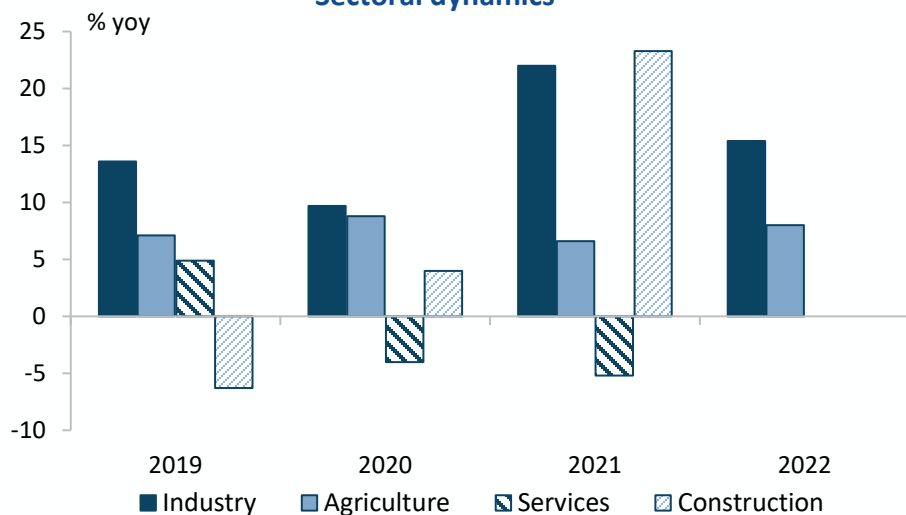
GDP: sectoral perspective

Composition of GDP



Source: Agency of Statistics Tajikistan, 2019

Sectoral dynamics



Source: Agency of Statistics Tajikistan, World Bank Macro Poverty Outlook

Composition of GDP

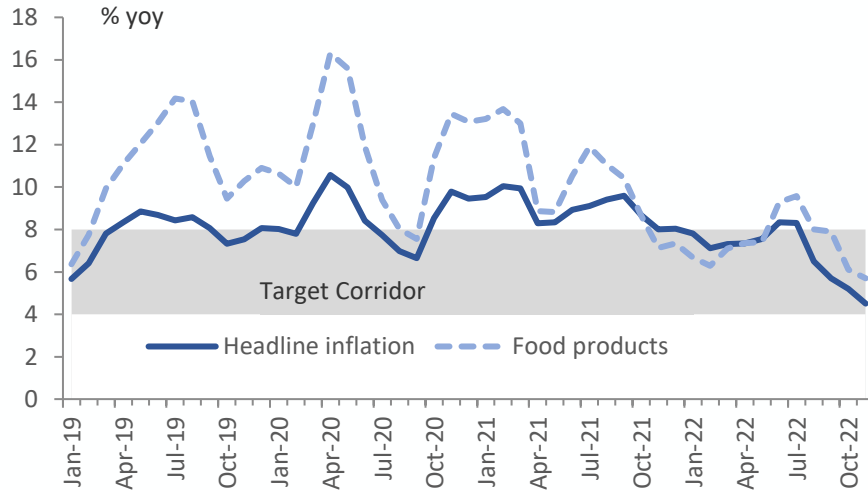
- » Very large agricultural sector, 22% of GDP
- » Agriculture accounts for 46% of total employment
- » Industry sector dominated by mining and metallurgy

Sectoral development

- » Broad based growth in industry, increasing 15.4% yoy in 2022
- » Agriculture also with strong growth of 8%
- » Construction and services also went up, but disaggregated data not freely available
- **Growth driven by all sectors**

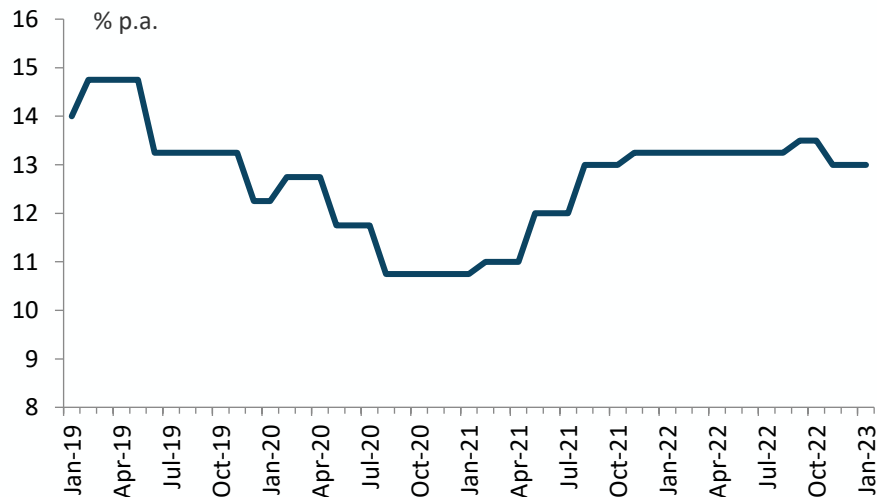
Inflation and monetary policy

Inflation rate



Source: Agency of Statistics Tajikistan, National Bank of Tajikistan

Policy rate



Source: National Bank of Tajikistan

Inflation

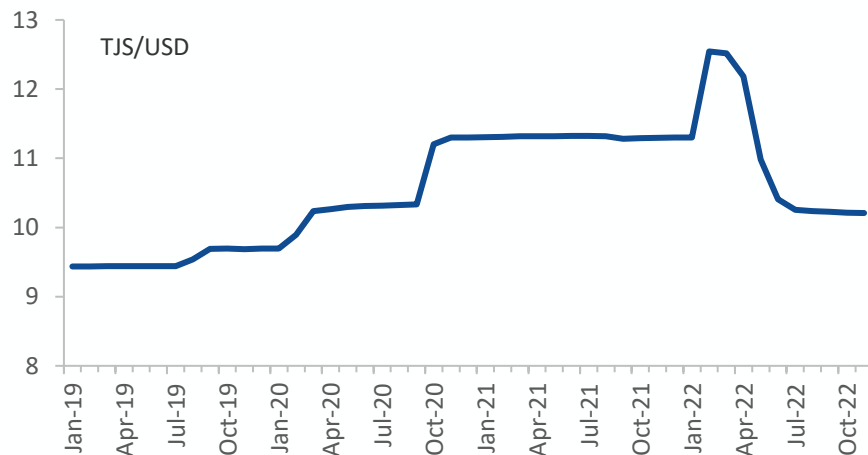
- » Relatively stable inflation in recent years according to official data
- » War in UKR and higher global food prices have not led to higher prices in TJK
- » This is remarkable, given
 - Large share (51.3%) of food in CPI basket
 - TJK being a net importer of food
- » Possible explanation: release of strategic food reserves or data issues

Monetary policy

- » Tight monetary policy since end of 2021, policy rate 13.25% p.a. helped to contain inflation
- **Inflation in the target corridor of the National Bank**
- **No impact of war according to official data**

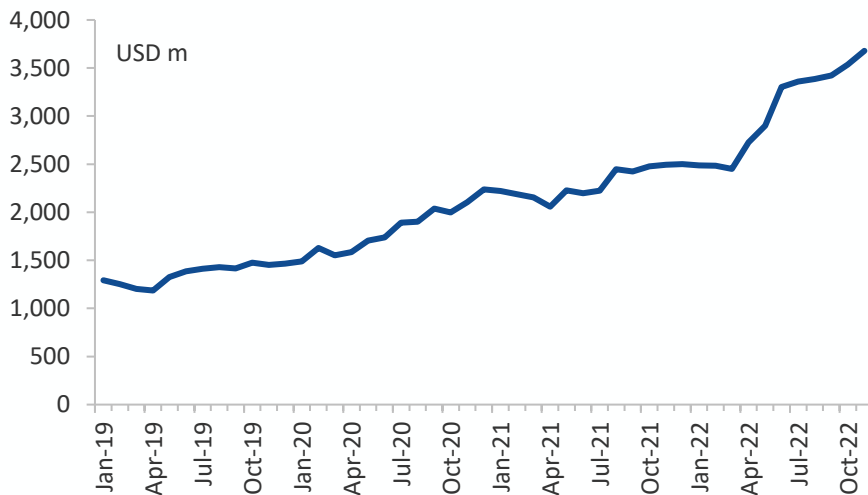
Exchange rate and currency reserves

Official exchange rate



Source: IMF IFS

International currency reserves



Source: IMF IFS

Exchange rate

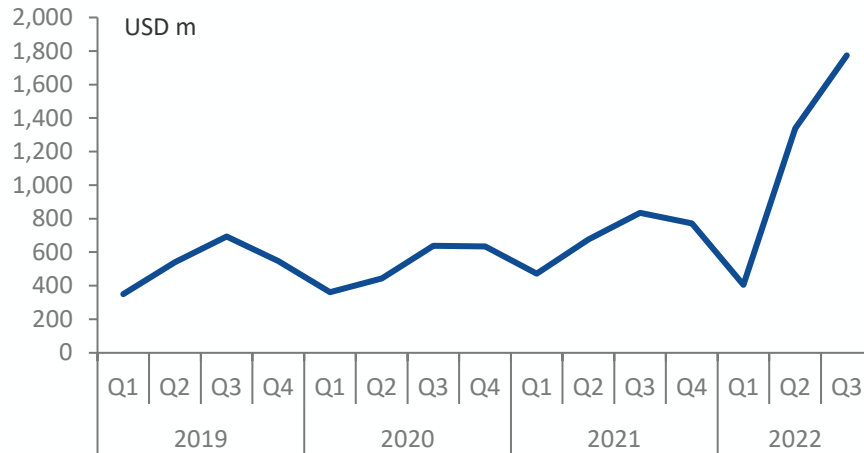
- » Until start of war in UKR: official exchange rate de facto fixed against US dollar
- » However: rate did not reflect market forces; thus, FX shortages and parallel rates
- » Since the start of war: high market volatility forced National Bank of Tajikistan (NBT) to increase exchange rate flexibility
- » Result: depreciation right after the start of the war, followed by strong appreciation; similar development as Russian rouble
- » End of 2022: somoni appreciated 11% vs US dollar

International reserves

- » Increasing reserves on the back of strong remittances; currently at USD 3.7 bn, 8 month of import coverage
- **Significant exchange rate volatility in 2022**
- **Adequate level of FX reserves**

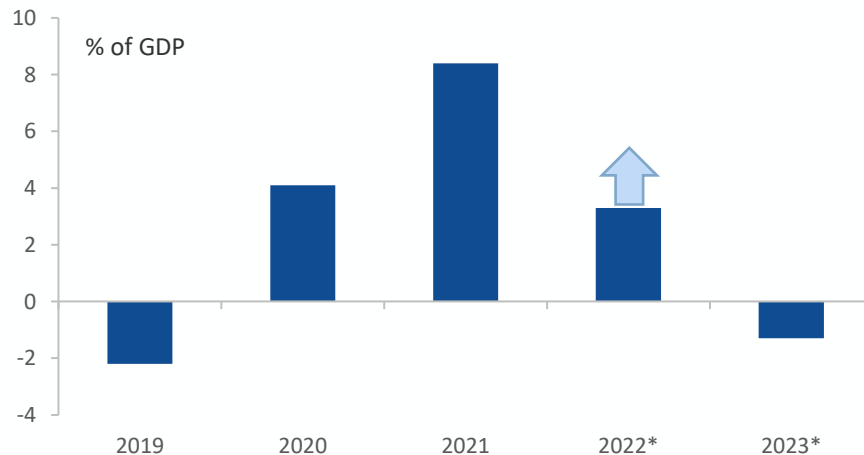
Remittances and current account

Net remittances



Source: National Bank of Tajikistan

Current account



Source: IMF; *December 2022 forecast

Remittances

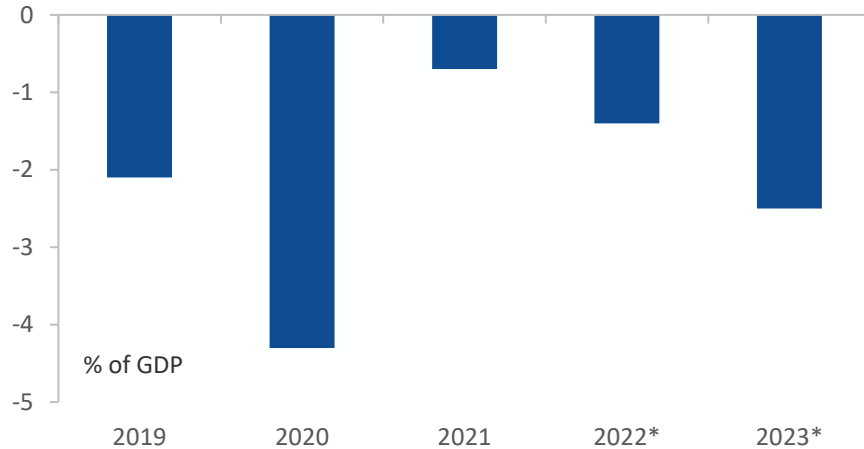
- » Expectation straight after the begin of the war in UKR: negative effect of sanctions against Russia on remittances
- » Remittances decreased after start of the war but strongly rebounded afterwards
- » Net remittances more than doubled in Q3-22 vs Q3-21
- » Reasons: high demand for migrant workers and strong ruble

Current account

- » Strong current account surplus in 2021 mainly due to raising remittances and gold exports
- » As remittances continue to grow, strong surplus also in 2022 expected, likely higher than estimated 3.3% of GDP
- **Strong remittances lead to significant current account surpluses**

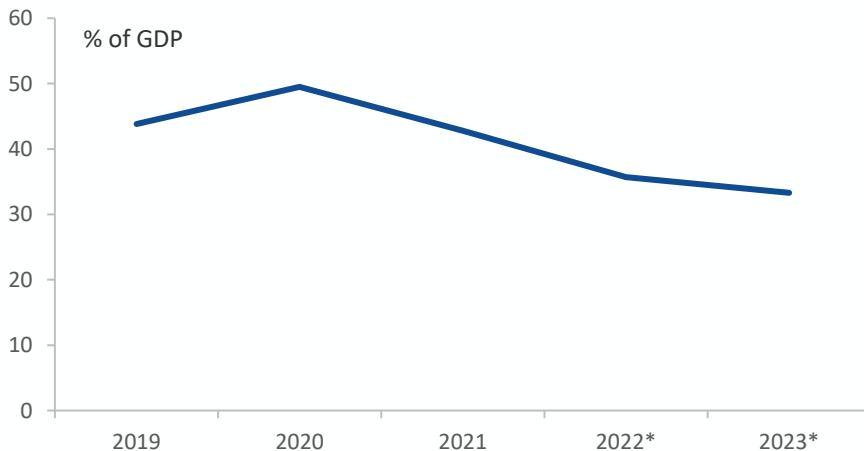
Public finances

Budget balance



Source: IMF; *December 2022 forecast

Public debt



Source: IMF; *December 2022 forecast

Budget balance

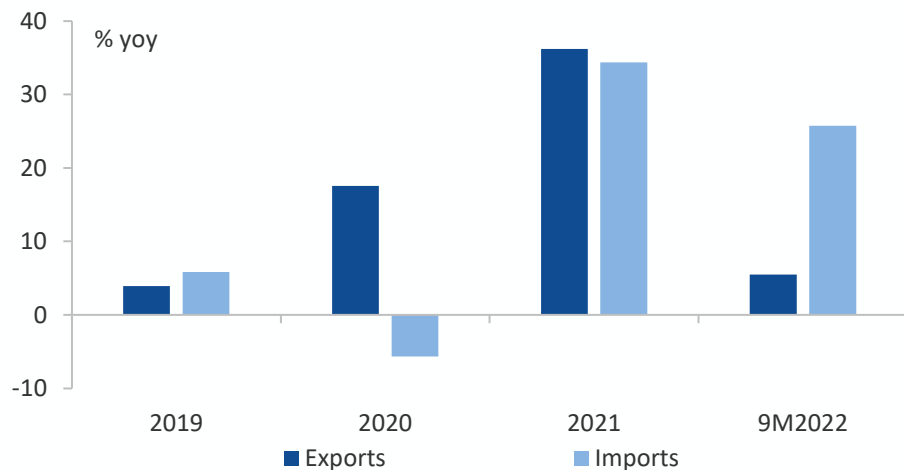
- » 2021: deficit narrowed down to 0.7% of GDP after high deficit during pandemic
- » 2022: deficit of 1.4% of GDP expected due to higher capital spending
- » Declining revenues from VAT and income tax reduction offset by
 - Taxes from growing mining sector
 - Phasing out tax exemptions

Public debt

- » After reaching almost 50% of GDP in 2020, debt level in 2022 only at 36% of GDP
- » Despite relatively low level, risk of debt distress high due to spending pressure on infrastructure projects and SOE liabilities
- » New 2.5% of GDP deficit ceiling should be maintained in the future to counter risks
- » **Sustainable budget deficits**
- **Debt ratio moderate, likely to decrease, but risks remain**

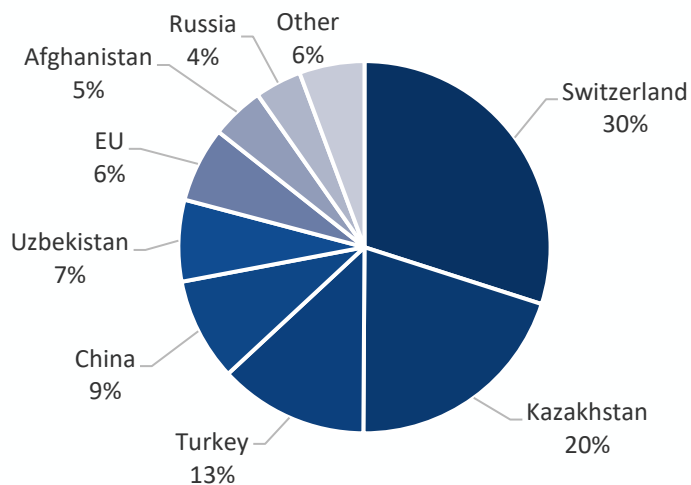
External trade

Trade in goods



Source: Agency of Statistics Tajikistan, National Bank of Tajikistan

Exports by country



Source: ITC TradeMap, 2021

Exports

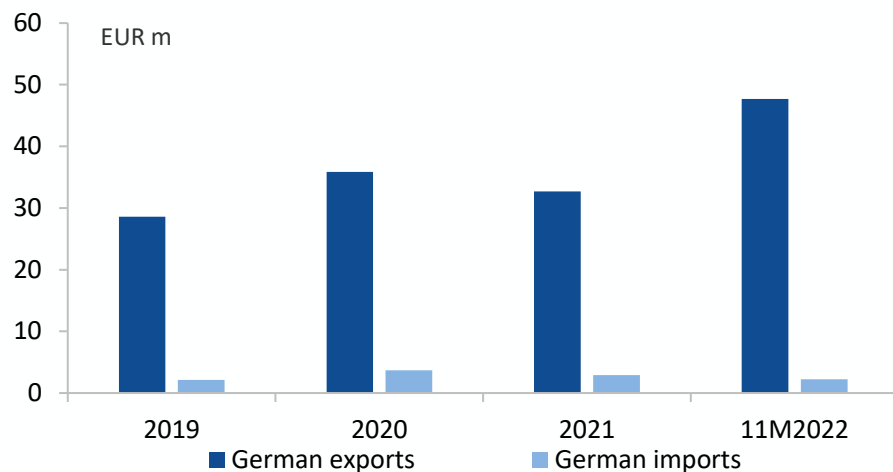
- » 9M2022: moderate increase of exports by 5%, weaker growth than previous years
- » Reason: strongly expanding gold exports in 2020 and 2021
- » Gold by far most important export item, accounting to 37% of total exports in 2021
- » Russia plays only on small role as export destination, as exports are dominated by raw materials going to other destinations

Imports

- » 9M2022: strong increase in imports by 26% yoy
- » Imports from RUS increased even by 35%, likely due to rising imports of fuel products
- **Imports grow stronger than exports on the back of strong remittances and consumption**

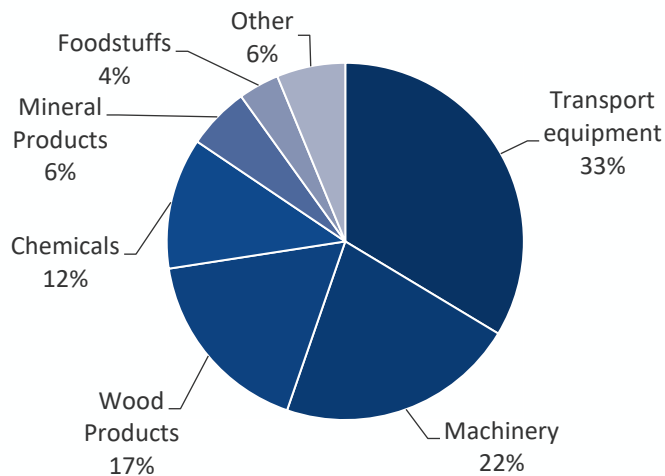
Bilateral trade between Germany and Tajikistan

German exports to Tajikistan



Source: Federal Statistical Office of Germany

German exports to Tajikistan



Source: Federal Statistical Office of Germany, 2021

Bilateral trade volume

- » Trading volume low, EUR 36 m in 2021
- » German trade surplus with Tajikistan

German exports to Tajikistan

- » 11M2022: export of goods amount to EUR 48 m, strong increase of 61% yoy
- » Increased export of cars and wood products

German imports from Tajikistan

- » 11M2022: EUR 2.2 m, -16% yoy
- » Decrease of imports of textile products, which was the main import category
- » Strongest increase in machinery, namely imports of printed circuit boards

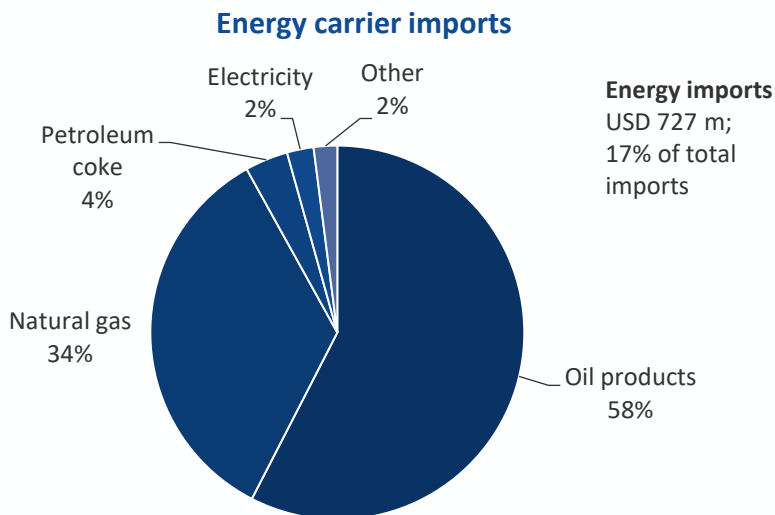
- **Growing German exports to Tajikistan**
- **Import level still very low**

Energy balance and trade

Energy balance

| PJ, avg. 2017-2019 | Con- sumption | 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



Source: UN Comtrade, 2021

Energy balance

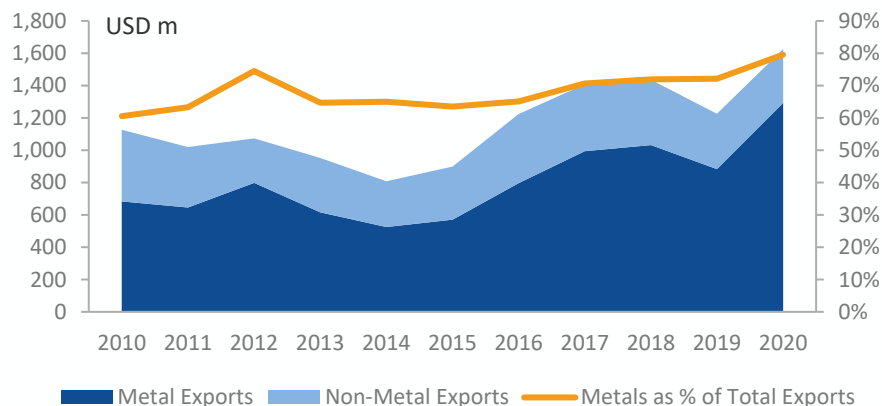
- » Abundant water energy resources, 90% of electricity produced from hydro, 10% from coal and gas
- » Despite much hydro, 60% of energy consumption from fossil fuels
 - Own production of coal, imports of oil products from RUS, gas from KAZ
- » Planned expansion of hydro: Rogun plant with 3.6 GW by 2030

Energy trade

- » Preferential basis for import of oil products from RUS
- » So far little electricity trade, but growing exports to AFG and UZB
- » Re-connection to Central Asia Power System in 2023 and CASA-1000 transmission line introduces import and export opportunities
- **Potential to increase hydro generation and electricity trade with neighbours**

Metals and mining

Metal vs non-metal exports



Source: IEA, UN Comtrade, own calculations

Aluminium and gold production



Source: UN Comtrade

Importance for economy

- » Strong dependency on metals and mining, with progressively larger contributions to export share and tax revenue
- » However, diverging trends between aluminium and gold production

Aluminium

- » Tajik Aluminium Company (TALCO) reducing production: export share fell from 58% to 13% during the decade
- » Major electricity consumer: 17%-40% of total
- » State subsidies include considerably lower electricity tariffs and priority gas access, e.g. electricity debt at ca. USD 38 m in 2020

Gold

- » Gold production increased substantially and further to increase
 - Talco Gold, a joint venture with China, opened new gold mine in 2022; expected annual production of 2.2 tons
- **Mining and especially gold remain a major pillar of the Tajik economy**

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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