

TAJIKISTAN

Country Economic Update Summer 2021

Rebounding Economy, Challenges Remain



TAJIKISTAN | **Country Economic Update** **Summer 2021**

Rebounding Economy, Challenges Remain

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FOREWORD

This edition of the Tajikistan Country Economic Update (CEU) is part of a semiannual series designed to monitor Tajikistan’s socioeconomic developments. This CEU presents an analysis of the economic and social developments in 2020–21. It also includes a special Focus Section, which analyzes the epidemiological situation and COVID-19 vaccination distribution in Tajikistan.

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ABBREVIATIONS AND ACRONYMS

Government Fiscal Year:	January 1–December 31
Currency Unit:	Tajikistan Somoni (TJS)
Currency Equivalents:	Official Exchange Rate Effective on June 1, 2021 US\$1 = 11.32 TJS
Weights and Measures:	Metric System

FDI	Foreign Direct Investment
IDIF	Individual Deposit Insurance Fund
IMF	International Monetary Fund
L2T	Listening to Tajikistan
MOF	Ministry of Finance of the Republic of Tajikistan
NBT	National Bank of Tajikistan
NDVP	National Deployment and Vaccination Plan
TAJSTAT	Tajik Agency on Statistics, under the President of the Republic of Tajikistan
TJS	Tajik Somoni

I. OVERVIEW

The Tajik economy has rebounded strongly from the pandemic

After the economic slowdown in 2020, Tajikistan's GDP grew at an annual rate of 8.7 percent in the first half of 2021. According to the Listening-to-Tajikistan (L2T) survey, the social and economic wellbeing of the population severely deteriorated following the outbreak of COVID-19, and the country remained far from full recovery at the end of 2020. The strong economic rebound was mainly supported by a continued sharp increase in the export of precious metals, and a pickup in private investment and consumption. The cautious and incremental resumption of air traffic with regional countries allowed migrants to resume traveling abroad and restore the inflow of remittances. Domestic economic activity strengthened as the government gradually relaxed lockdown measures. In the beginning of 2021, Tajikistan adopted a National Deployment and Vaccination Plan (NDVP) and launched it on March 23, 2021, after receiving the first 192,000 doses of the Oxford/AstraZeneca vaccine from COVAX.

The fiscal and monetary policies reversed the expansionary policy stances

Following expansionary fiscal policy in 2020, the government has pursued budgetary consolidation during 2021 in line with the adopted budget law for 2021. The expiration of COVID-19-related fiscal relief and solid economic activity in the first half of 2021 bolstered revenues. Almost all sectors saw an increase in budgetary funding, led by social outlays and infrastructure projects in energy and transport. Rising inflation, largely due to global factors, forced the central bank to reverse its policy stance in the beginning of the year. The monetary authorities raised the policy rate twice, in February and April 2021. Inflation moderated from its peak in March 2021, but rising global demand for fuel, food, and supply chain bottlenecks are expected to continue exerting upward pressure on import prices.

Downside risks predominate the economic outlook

The economic outlook hinges on the availability and efficacy of vaccines, the pace of vaccination in Tajikistan, and the resiliency of the global economy to cope with new waves of the pandemic, including those caused by the new Delta variant of the virus. By June 25, 2021, 151,338 people had received their first dose of vaccines and 24,408 had been given both doses. Considering the recent announcement of the G7 countries' donation of 1 billion vaccines during the following year, it is expected that Tajikistan will receive additional doses of vaccines over the coming months. However, the timeline of such deliveries to Tajikistan has yet to be confirmed, and it is unlikely that a large proportion of the population at the level envisioned in the NDVP will be reached before the second quarter of 2022. Growth prospects are also affected by climatic change implications in the country through natural disasters and temperature anomalies. Moreover, structural challenges, including economic losses stemming from inefficient state-owned enterprises (SOEs) and challenges in the business environment, continue to weigh on Tajikistan's future development.

II. ECONOMIC GROWTH AND INFLATION

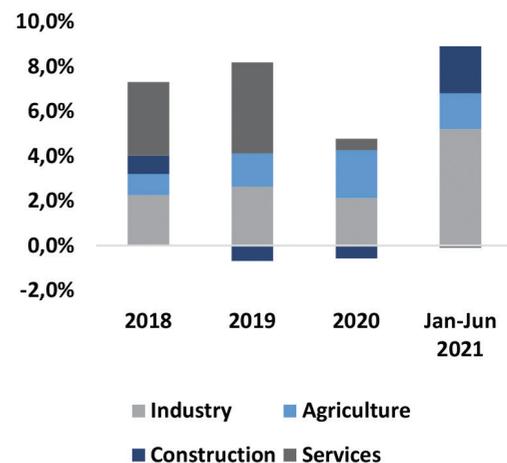
Economic growth rebounded to its pre-pandemic rate

The economy has been experiencing a fast recovery from the COVID-19 pandemic. According to official estimates, real GDP grew by 8.7 percent year over year (y/y) in the first half of 2021 after growth slowed to 4.5 percent in 2020 as a whole (Figure 1). Tajikistan achieved higher economic growth through stronger export of precious metals and considerable pickup in domestic demand. In annual terms, fixed capital investment increased by 22.1 percent during January–June 2021. The private sector drove capital investment, whereas public sector investment was down reflecting fiscal consolidation efforts. In addition, the gradual opening of air traffic with the Russian Federation stimulated the inflow of migrant remittances and supported the incipient recovery of household consumption.

Industry and construction drove GDP growth

The most significant contributions to growth came from industry, which expanded by 23.4 percent (y/y). This gain was driven by mining metallic ore, processing food, and manufacturing textiles, rubber, and plastic products (Table 1). The second-largest contributor to growth was the construction sector, which expanded by 22.1 percent (y/y). Construction primarily concentrated on non-production facilities, such as residential housing, transport infrastructure, and public buildings commemorated for the 30th anniversary of Tajikistan's Independence. Agricultural output grew by 8.1 percent (y/y), supported by animal husbandry and extensive crop harvesting due to increased cultivation area and greenhouses. Finally, the services sector almost recovered to the pre-pandemic levels. The relaxation of movement restrictions propped up wholesale and retail trade activities, restaurant, and hotel services while air passenger and housing services continued suffering from the pandemic's impact. Education, healthcare, and recreational activities also increased compared with the same period of last year.

Figure 1. Sector Contribution to Growth (Annual percent)

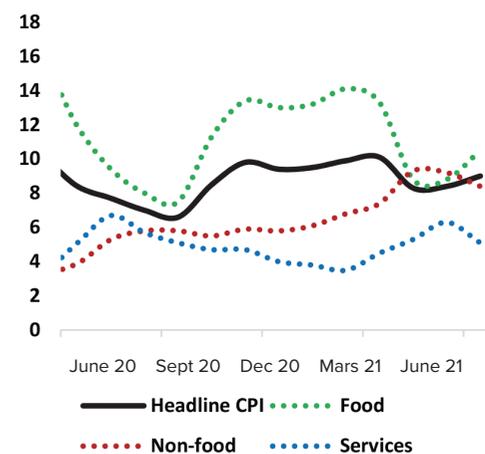


Source: TajStat and World Bank staff calculations.

Inflation moderated after peaking in March 2021

Driven by rising fuel and food prices, consumer prices surged by 10.1 percent (y/y) in March 2021 compared with 2.6 percent a year earlier and 9.4 percent in December 2020 (Figure 2). Inflation started to ease in April, reflecting lower exchange rate pass-through and tighter monetary policy. The 12-month inflation declined to 9.0 percent (y/y) in June 2021. Food prices, up by 10.5 percent (y/y), continued to build inflationary pressures and were driven mainly by price increases on vegetables, oil, and meat products. Inflation in non-food products hit 8.4 percent (y/y). While rebounding global economic activity hiked fuel prices, supply chain bottlenecks and rising transportation costs added to inflationary pressures of all imported items. In contrast, the services sector registered an inflation rate of 5.1 percent (y/y), putting downward pressure on the overall CPI index. The government's decision to postpone tariff increases in electricity until the second half of 2021 helped moderate inflation in the services sector. Transport, passenger tariffs, and gas utilities showed the most price increases.

Figure 2. Consumer Price Inflation (Annual percent)



Source: TajStat and World Bank staff calculations.

Table 1. Contributions to Real GDP Growth
Percentage points

	2017	2018	2019	2020	Jan-June 2021
Real GDP growth	7.1	7.3	7.5	4.5	8.7
Industry	3.6	2.2	2.6	1.9	5.2
Agriculture	1.6	0.9	1.5	1.9	1.6
Construction	0.5	0.8	-0.7	-0.5	2.1
Services	1.4	3.3	4.1	1.1	-0.1

Source: TajStat and World Bank staff estimates.

III. CURRENT ACCOUNT, EXPORTS AND FOREIGN DIRECT INVESTMENTS

Export of precious metals remains the main export commodity

Tajikistan's current account shifted to a surplus of 4.1 percent of GDP in 2020 from a 2.2 percent deficit a year earlier. In the context of strong global demand for gold, precious metals export surged three-fold to \$690 million and comprised half of the total export basket in 2020. All other exports fell, including aluminum, electricity, and cotton. As a result, merchandise exports excluding precious metals dropped by 25 percent (y/y). The total export of goods and services reached 17.2 percent of GDP compared with 14.9 percent in 2019. In contrast, total imports declined in 2020, because of weak demand for mineral products, vehicles, and construction materials. Declining migrant remittances—down by 6.3 percent (y/y)—and exchange rate depreciation by 8.3 percent (y/y) led to a significant cut in household consumption for imported items. The total import of goods and services fell by 8.3 percent (y/y) and made 38.1 percent of GDP compared with 40.8 percent in 2019. Surging exports and the contraction of imports significantly narrowed the trade deficit, to 17.6 percent of GDP in 2020 from 23 percent in 2019. Despite a significant reduction in the trade deficit, imports continued to outweigh exports by about 2.2 times in US dollar terms.

Preliminary estimates suggest that external trade picked up in the first half of 2021. The export of precious metals attained a new height, \$709 million, exceeding the 2020 annual outcome. Tajikistan also boosted export of minerals by 71 percent (y/y) and textiles by 48.9 percent (y/y), totaling \$365.9 million. This increase pushed total merchandise exports to over \$1 billion, an expansion of 88.3 percent (y/y). Imports also saw an increase led by machinery and equipment, non-precious metals, and transport vehicles. Merchandise imports amounted to \$1.85 billion, an expansion of 23 percent (y/y). Increasing durable goods imports is an indication that real incomes of the population and thus the consumer demand are strengthening after the sharp drop in 2020.

The mining sector pulls foreign direct investments

Because of the pandemic and disruptions to the economic activity, foreign investment collapsed by 47 percent (y/y) to \$192.7 million in 2020. This trend is widespread, with foreign direct investments (FDIs) falling by 42 percent worldwide in 2021 (unctad.org 2021). FDI inflows showed a strong recovery in the first half of 2021, increasing by 43.7 percent (y/y) to about \$118 million. The FDI inflows are not a reflection of improved business environment, but rather renewed foreign investor interest in the mining industry, which continued attracting most FDI inflows and accounted for two-thirds of total FDI investments, followed by transport and construction at 6-7 percent. China accounts for three-fourths of all foreign investments in the Tajikistan economy. Investments originating from Russia declined to about 7 percent of the total and were the second largest source of FDI.

Table 2. Balance of Payments
(Percent of GDP)

	2017	2018	2019	2020
Current account balance	2.1	-5.0	-2.2	4.1
Merchandise trade	-20.1	-24.7	-23.0	-17.6
Exports f.o.b.	11.6	11.4	12.0	15.5
Imports f.o.b.	31.6	36.1	34.9	33.1
Services	-1.6	-2.8	-2.9	-3.3
Primary income	16.0	16.0	15.9	16.6
Secondary income	7.7	6.5	7.8	8.4
Capital Account	1.8	2.3	2.0	2.3
Financial Account 1/	-5.8	-2.7	-4.3	-4.7
Foreign direct investment, net	-0.8	-3.3	-2.3	-0.4
Portfolio investment	-6.6	0.0	0.9	0.0
Other capital flows	1.6	0.6	-2.9	-4.3
Errors and omissions	-1.5	-3.5	-2.0	4.3
Overall Balance	7.0	-3.5	2.1	15.4
Financing	7.0	-3.5	2.1	15.4
Reserve assets	7.0	-3.5	2.1	15.4
Credit and loans with the IMF	0.0	0.0	0.0	0.0
The exceptional financing (residual)	0.0	0.0	0.0	0.0
Memorandum items:				
Nominal GDP (US\$ million)	7,553	7,645	8,362	8,194

Sources: NBT and World Bank staff estimates.

Note: fob = free on board.

1/ Based on the BPM6 methodology. A (+) denotes an increase in assets or a decline in liabilities; a plus sign after "FDI," for example, shows net outflows of FDI. A (-) denotes an increase in liabilities—in this case, a minus sign after "FDI" shows net inflows of FDI.

IV. LABOR, EMPLOYMENT AND POVERTY

COVID-19 severely affected the socio-economic wellbeing of Tajiks

According to the L2T survey, the social and economic wellbeing of the population severely deteriorated following the outbreak of COVID-19, and the country remained far from recovery in the second half of 2020. The number of respondents who reported that no household member was currently working spiked in April and May 2020, and although the labor market quickly regained lost ground thereafter, joblessness again surged in November. Job vacancies posted online remained significantly lower than the pre-crisis high. The year also saw worsening household financial conditions and rising food insecurity. Since the outbreak, between 15 and 20 percent of those who reported needing medical treatment said they were unable to obtain it. But government programs designed to combat the effects of the pandemic have had a positive impact. Direct COVID-19 messaging campaigns, part of the Mobile Engage initiative, and in-person communication from healthcare providers have increased risk-reduction behaviors, such as mask wearing and traveling less.

Employment sharply deteriorated during the outbreak

The share of L2T survey respondents who reported that no household member had worked during the preceding week spiked to nearly 40 percent in May 2020. Although reported employment returned to its pre-crisis level by August, joblessness again surged in November, ending the year's 8 percentage point dominance over the same period in 2019. Disruptions in work became less pervasive over the course of the year: in May, 62 percent of respondents reported a household member who experienced some type of disruption; this amount had fallen to about 27 percent by December. While in December 2020, 78 percent of households were pessimistic about the possibility of regaining employment, their expectations had significantly improved by the beginning of 2021. Already by January 2021, about 47 percent of households who lost work during the pandemic answered positively about the likelihood of resuming work.

Concerns over household financial conditions remain high

Fewer people faced severe financial strain later in the year, and about 14 percent of households reported having received some support from the government. The share with deteriorating finances rose swiftly following the outbreak, and then moderated after a peak in May 2020, only to resurge in November. However, the share who believed they could pay an emergency expense of 100 somoni (about \$10) steadily improved, from 43 percent in May to 68 percent in January 2021. Those who received social assistance were more likely to report the ability to pay for an emergency expense. Overall concerns about the economic impacts of the crisis have subsided steadily over the course of 2021. The share who reported being "very" concerned about the impact of COVID-19 on the economy and their livelihoods fell from above 75 percent in May 2020 to below 36 percent in January 2021, with a large majority changing their answer to being "somewhat" concerned.

Interest in migration rose considerably in early 2021

The share of migrants reported to be actively working fell from 89 percent in February to 25 percent in April 2020. The percentage working among those already abroad gradually recovered, reaching 2019 levels by the end of the

year. However, with borders closed due to the pandemic, seasonal migration was abruptly cut short in April 2020, leaving a much smaller cohort of migrants abroad and thus reducing the remittance income households typically rely on. As migrants gradually returned, the number of workers abroad for the most part fell over the rest of year. Interest in migrating for work rose in the latter half of 2020. After falling to only 2 percent of households in May 2020, interest rose above 14 percent of households by January 2021, significantly higher than the same time in 2019.

Lower remittances are expected to have pushed the poverty rate higher in 2020

Rather than having fully lost employment, most respondents reported short-term income loss among migrants as the cause of less frequent remittance transfers. The share of migrants sending remittances over the preceding 10 days caught up to the 2019 level by the end of the year, likely due to fewer migrants returning to Tajikistan than seasonally typical. About 62 percent of recipient households reported a decline in remittances in April 2020, the highest share ever recorded by the L2T survey. However, expectations of continued transfers steadily closed the gap with 2019 levels through the remainder of 2020. However, an extended period of lower remittances and the fall in real wages by 3.9 percent are expected to have pushed the poverty rate up in 2020. Poor households in the country depend much more on remittances than those better off. More than 80 percent of households that receive remittances reported that they spend them primarily on food and other necessities.

Households reduced food consumption

More than 35 percent of households reported that children in their household ate fewer than three full meals in May and June 2020. Overall food security deteriorated during the peak of the crisis across a range of indicators, with rising shares of households reporting going hungry, reducing dietary diversity, and worrying about obtaining enough food. More households also faced the inability to pay for utilities and turned to selling assets and scrimping on medical care spending. Each was negatively associated with income, although few households reported local shortages of basic goods, suggesting that falling income may be a key driver of deprivation. Less than 1 percent of respondents reported that items were out of stock in January 2021, down substantially from 10 percent in May 2020.

Access to medical care remains a challenge

Since April 2020, between 15 and 25 percent of those who reported needing medical care said they were unable to access it. Since the pandemic began, on average between 19 and 30 percent of households per month reported that at least one member needed in-person medical treatment. However, a large share reported that they were unsuccessful in obtaining treatment. In July, only 84 percent reported success, and this fell to 74 percent in September; a slow recovery thereafter reached 81 percent in January 2021. Reports of the inability to access care have been higher among those living in urban areas (24 percent of attempts versus 20 percent in rural areas).

Increased communication about COVID-19 is associated with more risk-reducing behaviors

During the pandemic, the aforementioned Mobile Engage initiative, led by the Tajikistan Ministry of Health and Social Protection and sponsored by the World Bank, sent public health SMS messages to the population through the three largest telecom providers in the country, as well as health information through in-person healthcare provider campaigns. Receiving this information was associated with more reports of risk-reducing behaviors. In particular, respon-

dents to the second survey reported mask wearing, safety-related changes to work patterns, reducing visits with friends and relatives, reducing other travel, and safer greetings (fewer handshakes, and so on). About 97 percent reported more handwashing, and a large but lesser amount reported reducing other greetings, such as kissing and hugging, following the outbreak. Reported mask use and social distancing also rose substantially in the early months of the pandemic and remained elevated into early 2020. However, it is important to note that these survey questions measured whether the household practiced these behaviors at all, but not whether they were consistently followed.

V. FISCAL AND DEBT POLICIES

The fiscal stance was contractionary

After an appropriate considerable fiscal expansion in 2020, the authorities reversed the policy stance in the first half of 2021. According to preliminary estimates, the fiscal deficit declined to 1.5 percent of GDP in the first half of 2021 from a 3.1 percent deficit in 2020. The fiscal consolidation path was supported by higher public revenues on the backdrop of rebounding economic activity and expiration of COVID-19-related fiscal reliefs. On the other hand, government expenditures showed an increase compared with a year ago. In line with immediate COVID-19-related needs, the government continued prioritizing social sector spending, including education, social protection, and healthcare. In addition, other major spending increases took place in the energy and transport sectors as part of the long-term development strategy.

Strong economic growth contributed to increased tax revenue collections

Significant expansion of economic activity and strengthening cross-border trade resulted in higher fiscal revenues. In the first half of 2021, tax collections rose by over 30 percent (y/y) to TJS 9.4 billion and outperformed the collection target by 4.0 percent. All categories of tax receipts saw a robust increase led by value-added taxes, corporate profit and personal income taxes, social contributions, and royalties on mining. Similarly, non-tax revenues also picked up strongly, as extra-budgetary funds rose 46.7 percent (y/y) and other non-tax revenues by 26.9 percent (y/y). In the first half of 2021, the government did not receive grants from donors for budget support, while foreign grants for public investments almost doubled and made TJS 1,164 million.

The budget stepped up spending for almost all sectors

Increases in all spending categories boosted the ratio of expenditures to GDP to 32 percent in the first half of 2021 from 30.7 percent a year earlier. The state budget bolstered spending across almost all sectors of the economy to make up for cuts during the pandemic. Social sector outlays increased by 21.3 percent (y/y), or TJS 935 million in absolute terms, in the first half of 2021. Allocations to the education sector saw an increase of TJS 494 million (26.1 percent y/y), followed by social protection for TJS 238 million (14.5 percent y/y) and healthcare for TJS 204 million (23.7 percent y/y). A relatively higher increase in the education sector can be explained by the government's cutting the sectoral budget by 13 percent from initial plans after the outbreak of COVID-19 and related midyear amendments to the 2020 state budget. In contrast, social protection and healthcare had a significant boost because of immediate needs to support livelihoods and save lives. The energy and transport sectors constituted other major spending items of the state budget in the first half of 2021. The energy sector outlays increased by TJS 747 million (44.6 percent y/y) and the transport sector by TJS 357 million (77.1 percent y/y). Both sectors continue to play an important role in the country's medium- and long-term development, as Tajikistan aims to achieve energy security and end the transportation deadlock.

The government continued attracting external loans for development projects

The volume of public debt did not change from 2020 and stood at \$3.2 billion, or about 50 percent of GDP, by the end of March 2021. In the first quarter of 2021, external loan disbursements made \$53.9 million, led by European Investment Bank, European Bank for Reconstruction and Development, and Saudi Fund for Development. During the same period, external debt service amounted to \$31.5 million in principal repayments and \$27.7 million in interest payments. China's Export-Import Bank remains the largest creditor of Tajikistan, accounting for almost 35 percent of total external debt stock. This was followed by multilateral loans from the World Bank (10.8 percent), Asian Development Bank (9 percent), and International Monetary Fund (5.8 percent). The current debt portfolio is predominantly concessional, and the share of commercial loans makes 15.4 percent of total public debt stock, representing the \$500 million Eurobond issued in 2017. Domestic debt remains small and largely concentrated on banking sector bailout bonds. At the end of 2020, the volume of domestic debt stood at TJS 5.5 billion, and the government ordered to issue another TJS 1 billion in somoni-denominated securities in April 2021.

Table 3. Consolidated Fiscal Accounts
(Percent of GDP)

	2017	2018	2019	2020 est.	2021 proj.
Revenues and Grants	28.1	28.1	26.3	26.0	27.4
Tax Revenues	20.4	20.6	19.8	18.2	19.6
Taxes on Goods and Services	11.7	11.8	11.4	10.7	11.6
Direct Revenues	4.8	4.8	4.8	4.2	4.3
Social Insurance Contributions	2.4	2.4	2.1	2.0	2.3
Taxes on International Trade	1.1	1.1	1.0	0.8	1.0
Non-Tax Revenues	5.3	4.8	4.4	4.4	4.8
Grants	2.3	2.8	2.1	3.5	2.9
Total Expenditures	34.4	30.8	28.9	29.1	30.0
Current Expenditures	17.2	17.7	14.1	17.1	17.6
Capital Expenditures	17.3	13.2	12.2	12.1	12.4
Net Lending	-0.1	-0.1	0.0	0.0	0.0
Government Balance	-6.3	-2.7	-2.6	-3.1	-2.6
General Government Debt	51.2	46.8	43.1	49.9	47.7

Sources: Ministry of Finance and World Bank staff estimates and projections.

VI. MONETARY POLICY AND FINANCIAL SECTOR

The National Bank of Tajikistan tightened the monetary

In response to increased inflation, the monetary authorities raised the policy rate after the accommodative policy stance sought during the pandemic. The National Bank of Tajikistan (NBT) increased the refinancing rate from 10.75 percent to 11 percent in February and further to 12 percent in April 2021. Higher interest rates tapered off credit growth in the economy. The official exchange rate moved little from the last significant devaluation in November 2020. At the end of July 2021, the official TJS/USD rate stood at 11.32, compared with 11.30 in November 2020. Strong export growth, resumption of remittances, and inward FDI supported foreign exchange inflows to the economy.

Private sector credit growth slowed

As a result of higher policy rates, credit growth to the private sector fell from 20.6 percent (y/y) in March to 3.1 percent (y/y) by June 2021. The absolute drop concerned the agriculture sector, where credits fell by 17.9 percent (y/y). As of the end of June, consumer credits accounted for 28.8 percent of total outstanding credit portfolio, followed by the private corporate sector at 24.2 percent. The share of the SOE sector declined to 21 percent from 24.6 percent a year earlier. Tightening of the monetary policy spiked the average lending rate in national currency to 23.9 percent from 21.2 percent at the end of 2020 —the lowest level during the pandemic. Average lending rate in foreign currency made 13.4 percent in May 2021, compared with 13.1 percent at the end of 2020.

Deposits declined

Although the banking sector continued to attract deposits during the past year of the pandemic, deposits showed a declining trend in 2021. By June 2021, the volume of deposits fell to TJS 6.8 billion (7.5 percent of GDP) compared with TJS 7.9 billion (9.3 percent of GDP) at the end of 2020. This downward trend is largely attributed to the license revocation of Tajiksodirobank and Agroinvestbank and repayment of state and private depositor funds.

Despite significant improvement in recent years, the level of dollarization in the banking sector remains high. At the end of June 2021, about half of the banking sector's total liabilities were denominated in foreign exchange compared with 70 percent in 2015. Because of the weak confidence in banks and the strong preference for cash-based transactions, the population continues to keep most savings outside the financial system.

The financial sector showed strong resilience

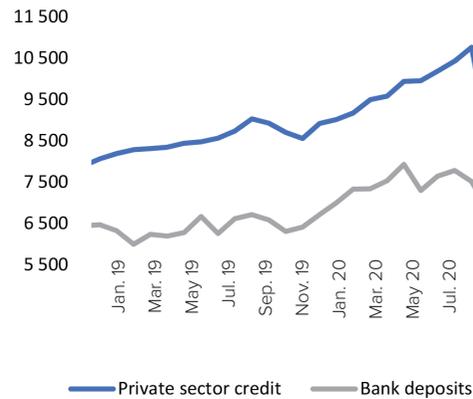
The banking sector did not require any emergency liquidity support or cash injections as a direct result of the pandemic. After a slight deterioration in 2020, the financial sector indicators improved in the first half of 2021, thanks to rapid economic recovery and associated earnings. The system-wide capital adequacy ratio increased to 22.6 percent by June 2021 compared to 18.2 percent at the end of last year. Strong economic

growth and business earnings propelled the repayment of loans. As a result, the ratio of non-performing loans to gross loans declined from 23.1 percent at the end of 2020 to 15.5 percent in the first half of 2021. Some of the improvement in the asset quality is also attributed to the liquidation of Agroinvestbank and Tajiksodirotbank, which had a relatively higher share of overdue loans in their balance sheets. In the first half of 2021, banks also reduced vulnerability to the exchange rate risks. The net open foreign exchange position ratio to the regulatory capital fell markedly from 11.5 percent at the end of 2020 to 0.4 percent by the end of June 2021. In this regard, banks benefited from foreign currency inflows due to strong export growth and resumptions of migrant remittances.

Two insolvent banks were liquidated

In May 2021, the central bank revoked licenses for Agroinvestbank and Tojiksodirotbank. Both banks had been experiencing difficulties since 2015 and ultimately failed to meet their obligations to customers. Although taxpayers bailed out both banks by injecting TJS 3.3 billion in 2016, structural and corporate governance problems could not be appropriately resolved. The government’s decision to mandate the liquidation of banks is in line with the recommendations provided by the international organizations. Box 1 summarizes the liquidation process. At the end of June 2021, NBT also approved the voluntary liquidation of the National Bank of Pakistan’s subsidiary in Tajikistan.

Figure 3. Credit and Deposit (TJS million)



Source: NBT

Figure 4. Financial indicators (Percent)



Source: NBT

Box 1. Summary of the Liquidation Process of Tajiksodirotbank and Agroinvestbank

- May 21: The National Bank of Tajikistan revoked licenses for Tajiksodirotbank (TSB) and Agroinvestbank (AIB).
- May 26: NBT appointed temporary management at TSB and AIB.
- June 14: The Economic Court of Dushanbe approved compulsory liquidation of TSB and AIB and appointed a special administrator.
- The Special Administrator has an initial term of two years, which can be extended for another two years by the court's decision if the liquidated bank has assets that can fetch value. After the four years, the creditors may ask the court to extend the liquidation period if the liquidated bank has assets that can fetch value to repay the creditors.
- The Special Administrator will report to the court and to the NBT on a periodic basis about the progress of the assets sales.
- Rough estimates indicate that the assets are adequate to repay most creditors. The sale proceeds of the assets will be distributed by the liquidator to the remaining creditors according to the legally established hierarchy of claims.
- The Individuals Deposit Insurance Fund (IDIF) provides for the payment of insurance compensation for insured deposits in national currency in the amount of up to TJS 30,000 and foreign currency in the amount of up to TJS 21,000.
- The IDIF has TJS 319.3 million in reserves, which is sufficient to pay the insured depositors of TSB and AIB, which will cost about TJS 215 million somoni.
- June 23: The process of the payment of insurance compensation to the depositors of TSB commenced.
- July 2: The process of the payment of insurance compensation to the depositors of AIB commenced.

Source: Tajik authorities.

VII. ECONOMIC OUTLOOK AND RISKS

Growth prospects are positive

Real GDP growth is projected at 6.0 percent in 2021 and moderates in the medium term. However, this assumes a vaccination rollout to 50 percent by the end of 2022 for low- and middle-income countries, global relaxation of pandemic measures, and continued pickup in economic activity led by China and the United States. Improvements in the global economy will foster international trade and unfold opportunities for migrants to travel and work abroad. Remittances and foreign investment are projected to rise, reflecting a better growth outlook in Russia and China. However, tightening financial conditions, continued increases in commodity and international food prices, and supply chain bottlenecks will create inflationary pressures

Remittances will drive consumer import

The current account surplus is expected to moderate, because of strengthening remittance inflows and increased household consumption. This may show itself in the form of pent-up demand for imported goods that the population could not purchase because of the pandemic. On the other hand, a rebounding global market is forecast to increase Tajikistan's export of metals and minerals. Continued Chinese recovery will increase the volume of foreign investment led by the mining industry.

Social and infrastructure spending will exert pressure on the state budget

The fiscal deficit is projected to decline to about 2.6 percent of GDP in 2021, and it is expected that the government will further step up consolidation efforts in the medium term. The most pressure on the state budget is likely to come from COVID-19-related spending and development projects in infrastructure, particularly energy and transport. New waves of COVID-19 will require continued fiscal spending to support the healthcare system and vulnerable populations. The government may also step up expenditures on sanitization and disinfection measures to contain the spread of the new coronavirus waves. The budget for social assistance programs may also significantly increase from its current level, considering higher demand if the number of poor people rises and indexation to the inflation rate requires upward adjustment of payments.

Downside risks predominate the economic outlook

There are substantial risks to the outlook. The economic recovery considerably depends on the availability and efficiency of vaccines and the resiliency of the global economy to cope with new waves of the pandemic. Thus, despite unexpectedly high economic growth in the first half of 2021, downside risks predominate the economic outlook. Potential outbreaks of COVID-19 and delays in vaccination may trigger new lockdown measures and subdue economic activity in Tajikistan. Escalation of geopolitical tensions in Afghanistan and border dispute with the Kyrgyz Republic pose a security risk. Growth prospects are also affected by climatic changes affecting the country, including natural disasters and temperature anomalies. In addition, inadequate policy response space may create a substantial challenge for the country in effectively managing and combating new coronavirus flare-ups and global warming impacts. Pre-COVID structural challenges remain relevant for the economy and continue to weigh on Tajikistan's future development.

The economy remains highly vulnerable to changes in migrant remittances that support the population's consumption and finance huge import bills. Limited domestic production and high dependence on imports make the country vulnerable to external price fluctuation, especially of fuel and food products. Although the export volume has recently increased, the export basket remains highly concentrated around metals and low-value-added products.

Domestic challenges include inefficient SOEs and insufficient development of the private sector. SOEs continue to dominate the economic space and drain resources from the state budget. Most large SOEs are loss-making, and taxpayers constantly support them via repaying their loans, clearing their payment arrears, and writing off their tax liabilities. Such contingent liabilities from SOEs expose the public finances to more vulnerabilities and create an additional burden on the state budget, which is already distressed by the high level of debt. Moreover, the preferential treatment of SOEs prevents efficient allocation of resources in the economy and inhibits strong private sector development. Although Tajikistan showed significant progress in Doing Business 2020, it still ranks 106th among 190 economies in the ease of running a private business. Considerable challenges remain in receiving public services in the area of tax payments, getting electricity, insolvency resolution, trade facilitation, and construction permits. On the upside, the newly developed tax code is expected to be more business friendly and foster the development of the private sector. In addition, unbundling Barqi Tojik into three different entities responsible for generation, transmission, and distribution should address energy sector inefficiencies.

Table 4. Baseline Scenario: Selected Macroeconomic Indicators
(percent, unless otherwise indicated)

	2020e	2021f	2022f	2023f
Real GDP growth	4.5	6.0	5.0	5.0
Private consumption	-4.4	2.8	4.0	3.8
Government consumption	0.4	4.2	2.7	3.0
Gross fixed investment	-6.6	9.4	6.0	7.6
Exports: goods and services	9.6	9.3	3.4	3.6
Imports: goods and services	-2.8	7.5	2.7	2.9
Consumer price inflation	8.6	7.8	7.0	6.5
Current account balance (percent of GDP)	4.1	1.9	1.1	-0.4
Overall fiscal balance (percent of GDP)	-3.1	-2.6	-2.3	-2.2

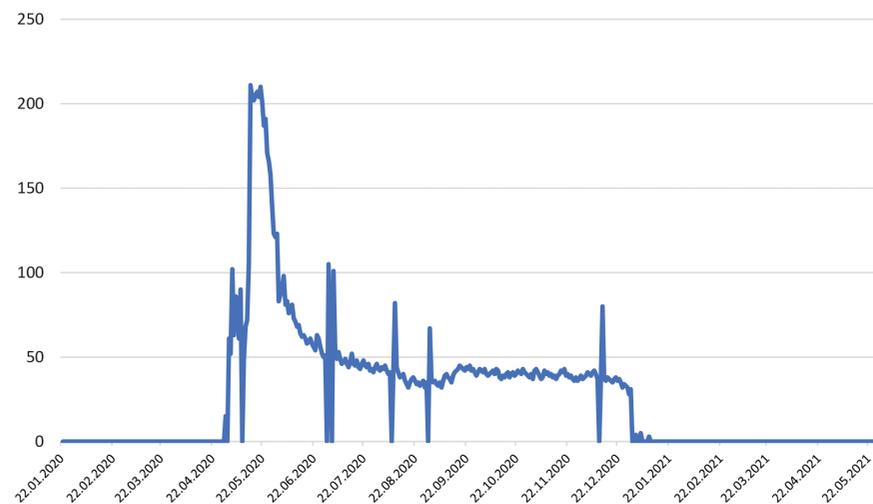
Source: Tajik authorities, W.B. staff estimates and projections

VIII. FOCUS SECTION: ECONOMIC AND SOCIAL IMPACTS OF COVID-19

Epidemiological Situation

On April 30, 2020, Tajikistan announced the first confirmed case of COVID-19 in the country, becoming the second-to-last country in the Europe and Central Asia region to do so. Fifteen cases were reported on that day, and within weeks, cumulative cases grew to thousands. As of August 1, 2021, official data indicated that 15,082 people had tested positive for COVID-19, and 121 people had died. This equates to a crude cumulative incidence of 154.4 per 100,000 population and a cumulative death rate of 12 per 1,000,000 population. The peak incidence rate of 407 was reported on May 19, 2020. Since then, the daily reported number of cases has declined. Between January 22 and June 20, 2021, the country had not recorded a single case of COVID-19. Tajikistan reported 32 new cases of coronavirus infection on June 21, 2021.

Figure 5. Daily new COVID-19 cases in Tajikistan



National COVID-19 Vaccination Program

Vaccination against the coronavirus, which causes COVID-19, is considered the most effective way to end the pandemic. On February 9, 2021, the government finalized its aforementioned National Deployment and Vaccination Plan (NDVP), which outlines Tajikistan's initial approach to vaccinating 70 percent of the population. The NDVP identifies health workers, older people, persons with chronic conditions and comorbidities that put them at risk of severe COVID-19 disease, pregnant women, and essential government workers as

key priority groups for the first stage of vaccination. These groups jointly account for 20 percent of the population. The composition of the remaining 50 percent of the population is still to be determined.

Table 5. COVID-19 vaccination priority groups

Priority Group	Description	% of population	Number of people
1.a	Health and social care workers, people ages 60-69 and >70; people with comorbidities, including diabetes, hypertension, cardiovascular diseases, cancer, HIV, and TB.	9.1%	867,000
1.b	People ages 50-59 and those with other comorbidities, including chronic kidney disease, obesity; patients with immunodeficiency, including those arising after transplants and neurological diseases.	8.3%	792,000
1.c	High-risk workers ages 30-49, and pregnant women.	2.6%	254,000
Subtotal		20%	1,913,000
2	Additional groups, to be defined.	50%	4,782,500
Total		70%	6,695,500

Source: Ministry of Health and Social Protection.

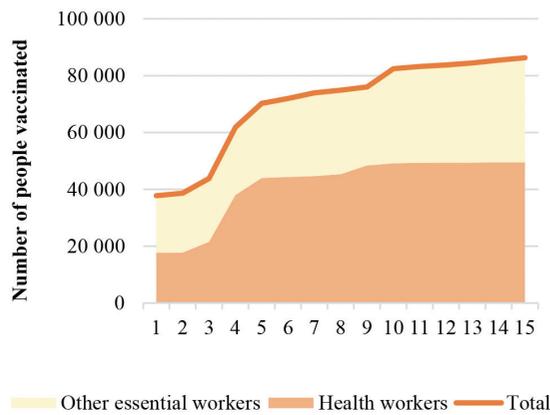
Tajikistan is one of 92 countries eligible to receive donor-financed vaccines under the Gavi COVAX Advanced Market Commitment (AMC) mechanism. COVAX has committed to fully subsidize vaccines for 20 percent of the population prioritized in the NDVP. Following a successful fundraising event on June 2, Gavi increased its projections of population coverage, announcing that it had enough resources to procure vaccines for up to 30 percent of the population of AMC countries at no cost to them. In addition, the mechanism will provide extra doses at subsidized prices. To date, the government has indicated its intent to procure 4,015,714 such self-financed doses—an amount sufficient to vaccinate an additional 20 percent of the population. The funding for the self-financed doses is expected to be provided by multilateral development banks (MDBs): the International Development Association (IDA) and the Asian Bank (ADB) (an IDA \$8.63 million grant was approved by the World Bank Board on February 11, 2021; an ADB project financing the procurement of vaccine was approved in June 2021). In sum, through donor financing and MDB financing, it is expected that COVAX will supply vaccines for about 50 percent of the population of Tajikistan.

Vaccine Rollout

On March 8, 2021, Tajikistan received from COVAX the first 192,000 doses of the Oxford/AstraZeneca vaccine. The national vaccination program was launched on March 23, 2021. As of June 25, 2021, 151,338 people received the first dose of the vaccine (Ministry of Health and Social Protection). This in-

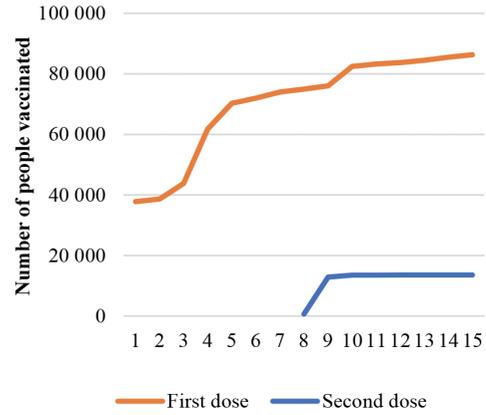
cludes 71,384 health workers—about 30 percent of the total health work force in the country—as well as 79,964 other essential workers, including teachers, border essential government workers, crossing and other security personnel, among others.

Figure 6. Cumulative number of the first dose of COVID-19 vaccine administered in Tajikistan, April–June 2021



Source: Ministry of Health and Social Protection.

Figure 7. Cumulative number of the first and second doses of COVID-19 vaccine administered in Tajikistan, April–June 2021



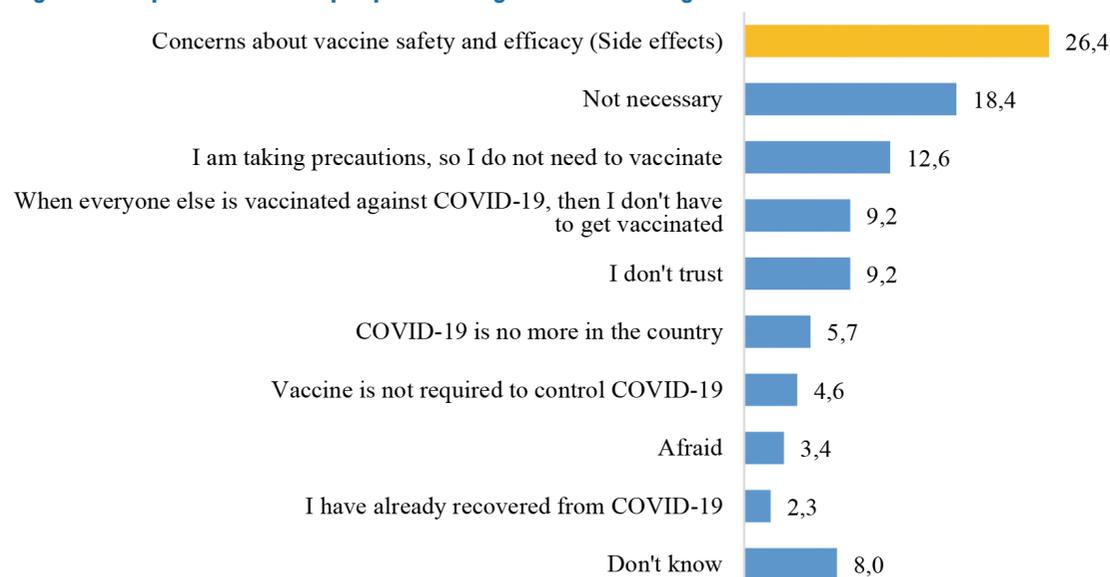
Source: Ministry of Health and Social Protection.

In late May, the government started administering the second dose of the vaccine. As of June 25, 2021, 24,408 people had received the second dose and were considered fully vaccinated.

Given the limited vaccine availability and following World Health Organization recommendations, the government is considering suspending the administration of the second dose of the vaccine. Given that the first dose of the vaccine offers substantial protection (about 70 percent demonstrated effectiveness in preventing symptomatic COVID-19 (Hung and Poland n.d.)), this approach will enable the government to extend protection to a larger part of the population.

The Way Forward

As demonstrated by the rollout of the vaccination program to date, the government has the capacity to administer vaccines to large numbers of people quickly and efficiently. Also helpful, the level of vaccine hesitancy in Tajikistan is low. Based on a UNICEF survey from March 2021, only about 13 percent of people reported that they would not consent to getting vaccinated. The hesitancy is due mostly to concerns about vaccine safety and possible side effects. It is expected that ongoing information and communication campaigns planned by the government will continue to help reduce the level of hesitancy.

Figure 8. Reported reasons people do not get vaccinated against COVID-19

Source: UNICEF, 2021.

On the other hand, the rollout of the vaccination program will likely be constrained by the vaccine supply, which is projected to be limited through 2021. The delivery schedule developed in 2020 by COVAX has been affected by the export ban imposed by the government of India on the Oxford/AstraZeneca vaccine produced by the Serum Institute of India—the key supply source of this vaccine for COVAX. Because of the ban, the fulfillment of the first allocation of the 624,000 doses has been delayed. On June 10, COVAX informed the government that the second batch of fully subsidized vaccines—another 192,000 doses—would be delivered in August 2021. On July 26, 2021, the United States provided 1.5 million doses of Moderna COVID-19 vaccine through the COVAX facility. COVAX also estimates that subsequent deliveries of large quantities of the vaccine could be expected in the last quarter of 2021 and the first quarter of 2022.

Table 6. Preliminary COVAX COVID-19 Vaccine Delivery Schedule

	Quantity	Delivery date
Fully subsidized doses		
<i>Batch 1</i>	192,000	March 8, 2021
<i>Batch 2</i>	192,000	August, 2021
<i>Remainder</i>	3,631,714	Q4 2021 or Q1 2022
Self-financed doses	4,015,714	Q4 2021 or Q1 2022

Source: Ministry of Health and Social Protection of Tajikistan, COVAX

Notes: The quantities are based on the assumption that COVAX will fully subsidize vaccines for 20% of the population and the number of fully-subsidized doses assumes a 2-dose vaccine regime.

Among donor countries, China delivered 300,000 doses of Sinovac COVID-19 vaccine to Tajikistan on June 20, and another 2 million doses on July 28th, 2021. It is possible that additional sources of vaccines will open up over the coming months. On June 13, the G7 countries announced that they would donate 1 billion doses of vaccines to low-income countries (Lee and Morton 2021). However, the timeline of such deliveries globally and to Tajikistan specifically are yet to be confirmed. Overall, based on the information available currently, it is unlikely that a large proportion of the population at the level envisioned in the NDVP will be reached before the second quarter of 2022.

ANNEX 1. SELECTED MACROECONOMIC AND SOCIAL INDICATORS, 2018–23

	2018	2019	2020	2021	2022	2023
	Actual			Projections		
(Percent)						
National Income and Prices						
Real GDP growth	7.6	7.4	4.5	6.0	5.0	5.0
Private consumption growth	7.2	7.1	-4.4	2.8	4.0	3.8
Gross investment, growth	7.9	-6.4	-6.6	9.4	6.0	7.6
Consumer price inflation, period average	3.9	8.0	8.6	7.8	7.0	6.5
Average exchange rate (TJS per USD)	9.2	9.5	10.3	...	...	...
(Percent of GDP)						
External Accounts						
Exports of Goods and Services	11.4	12.1	15.5	19.7	19.5	19.4
Imports of Goods and Services	42.1	41.1	38.1	41.4	41.6	41.7
Current Account Balance	-5.0	-2.2	4.1	1.9	1.1	-0.4
Capital Account	2.3	2.0	2.3	2.0	1.9	1.9
Financial Account	2.7	4.4	4.7	4.7	4.3	4.1
Foreign direct investment, net	3.3	2.3	0.4	1.8	2.1	2.3
(Percent of GDP)						
Consolidated Fiscal Accounts						
Revenues	28.1	26.5	26.0	27.4	27.5	27.8
Expenditures	30.8	29.1	29.1	30.0	29.8	30.0
Overall fiscal balance	-2.7	-2.7	-3.1	-2.6	-2.3	-2.2
Primary fiscal balance	-1.6	-1.7	-2.2	-1.4	-0.7	-0.5
Total Public Debt	46.8	43.1	49.9	49.4	49.0	48.6
(Percent)						
Monetary Accounts						
Broad money growth	5.1	16.9	18.5	...	...	...
Reserve money growth	7.0	20.1	20.3	...	...	...
Private sector credit growth	1.3	7.7	19.9	...	...	...
Refinance rate, end of period	14.0	12.3	10.8	...	...	...
Social Indicators						
Population, total (millions)	9.1	9.3	9.4	...	...	...
Population growth (percent)	2.3	2.1	2.0	...	...	...
Unemployment rate (officially registered)	2.0	2.1	2.1	...	...	...
International poverty rate (\$1.9 in 2011 PPP)	2.5	2.2	2.0	1.8	1.7	1.3
Lower middle-income poverty rate (\$3.2 in 2011 PPP)	12.5	11.1	10.2	9.2	8.4	7.7
Upper middle-income poverty rate (\$5.5 in 2011 PPP)	41.8	38.5	37.2	35.3	33.5	31.1
Life expectancy (years)	70.9	71.1	...	...	...	...

Source: Tajik authorities, and World Bank staff estimates and projections

Tajikistan

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