

# Economic Review Tajikistan

№ 11, 2014

## The State Budget of Tajikistan for 2015 is adopted

The Law of the Republic of Tajikistan “On the State Budget for 2015” was adopted by the Parliament on 19 November, 2014. The total budget revenues are planned to be TJS 15.28 bn, while expenditures are envisaged to come to TJS 15.54 bn, or almost 30% of GDP. Compared to 2014, both, revenues and expenditures in 2015 are up by 10%. The budget deficit is planned to be TJS 264.1 m, or 0.5% of GDP in 2015.

As in previous years, authorities announced that the budget in 2015 is socially oriented: more than 50% of the total budget expenditures are directed to the social sector. Social expenditures in the upcoming year are increased by 12.4% compared to 2014 and are equal to TJS 7.75 bn (14.7% of GDP).

Planned expenditures for the real sector of economy made overall TJS 4.29 bn (8.1% of GDP). The main destination of budget spending is the fuel and energy sector: foreseen expenditures for this sector are TJS 1.99 bn (3.8% of GDP). The lion's share will be channelled to Rogun HPP construction: TJS 1.6 bn. In comparison, the total cost of constructing Rogun HPP is estimated to be between USD 2 – 4 bn (around TJS 10 – 20 bn at current exchange rate) and external financing is needed to successfully complete this project. Other public expenditures on energy include TJS 52.7 m for reconstruction of Nurek HPP, TJS 20 m for Dushanbe-2 power plant and TJS 13 m for CASA-1000 project.

According to the Ministry of Finance, the medium term budget for 2015-2017 was composed taking into account the volatile macroeconomic and financial situation. Nevertheless, macroeconomic variables, taken into calculation of the budget are overoptimistic: in 2015, GDP growth is assumed to reach 7.2% y/y, although international organisations project about 6% y/y growth. The exchange rate is expected to be 5.0 TJS/USD in 2015, while the market exchange rate at the time of adopting the budget was around 5.4 TJS/USD. Basing the budget on overoptimistic assumptions will lead to difficulties in executing the budget in 2015.

## Tajikistan is a top improver in the WB's Doing Business 2015 Report, but still a long way to go

The World Bank published the Doing Business 2015 Report. The report provides rankings of 189 countries and focuses on regulations of 10 areas of business development. These areas include starting a business, dealing with construction permits, getting electricity, registering property, getting credit, protecting minority investors, paying taxes, trading across borders, enforcing contracts and resolving insolvency.

Tajikistan was ranked 166<sup>th</sup> in Doing Business 2015 compared to 177<sup>th</sup> in Doing Business 2014, an advancement of 11 places. Also, Tajikistan was given first place in the list of 10 top improvers due to its business supporting reforms.

Improvements were conducted in four areas of business development. Advancement in starting a business in Tajikistan was due to the introduction of new software at the one-stop shop and fewer registration procedures. Dealing with construction permits became less costly, as fees for such permits were reduced. Access to credit information was enhanced because the Credit Information Bureau of Tajikistan started to provide credit scores. Paying taxes improved as well thanks to the launch of an electronic system for filing and paying corporate income tax, VAT and labour taxes.

Meanwhile, such areas as protecting minority investors, trading across borders, and enforcing contracts had not been improved according to the current report.

Although Tajikistan is a top improver in doing business according to the 2015 Report, its ranking is only 166 out of 189 countries. There is a long way to go in improving the business environment to a satisfactory level and Tajikistan should further accelerate the rate of reforms.

## IMF's Regional Economic Outlook: time for a new economic model

**Forecast of real GDP growth in Central Asia, %**

	2014	2015
Kazakhstan	4.6	4.7
Kyrgyzstan	4.1	4.9
Tajikistan	6.0	6.0
Turkmenistan	10.1	11.5
Uzbekistan	7.0	6.5

Source: IMF

The International Monetary fund (IMF) has published a Regional Economic Outlook Report covering Middle East and Central Asia. The report warns that economic growth in the Caucasus and Central Asia (CCA) region will slow down due to a decline in Russia's economy, geopolitical risks coming from the Russia-Ukraine crisis, and lower domestic demand in some CCA countries. Negative spillover from the slowdown in Russia will be channelled through lower inflow of remittances, foreign trade, and Foreign Direct Investments. According to the report, decrease of GDP growth in Russia by 1 p.p. will lead to 0.7 p.p. lower GDP growth in oil importing CCA countries, such as Tajikistan. The IMF predicts GDP growth in Tajikistan at the level of 6.0% y/y in 2014 and 2015 and inflation rate of 6.6% y/y in 2014 and 8.3% y/y in 2015.

The IMF states that despite strong economic growth in recent years, poverty and inequality rates are high in CCA countries. The current economic model in the region is based on volatile commodity exports and remittances. The report advocates for a new economic model that would lead to more sustainable, diversified and less volatile growth. In order to shift to a new economic model, the IMF recommends Tajikistan to have a more flexible exchange rate; improve monitoring and governance of state-owned enterprises and decrease quasi-fiscal risks; promote the financial sector; and implement medium-term structural reforms aimed at diversification of the economy, enhancement of business environment and better regional cooperation.

## Tajikistan's Macroeconomic Data

	2008	2009	2010	2011	2012	2013
Nominal GDP, somoni m	17,706.9	20,628.5	24,704.7	30,071.1	36,161.1	40,524.5
Nominal GDP, USD m	5,162.4	4,982.7	5,640.3	6,523.6	7,592.6	8,506.0
Real GDP growth, % y/y	7.9	3.9	6.5	7.4	7.5	7.4
Industrial production real growth, % y/y	-3.5	-6.5	9.2	5.7	10.4	3.9
Agricultural production real growth, % y/y	6.1	10.5	6.8	7.9	10.4	7.6
Construction real growth, % y/y	21.2	-15.5	-8.0	5.5	-24.4	17.2
Trade real growth, % y/y	12.4	12.5	7.5	9.1	16.9	19.3
Exports of goods, USD m	1,406.1	1,008.9	1,195.3	1,452.3	1,359.0	1,163.3
Imports of goods, USD m	3,269.8	2,568.8	2,657.8	4,217.5	3,778.6	4,121.3
Remittances to Tajikistan, USD m	2,498.3	1,861.8	2,420.7	3,171.4	3,715.2	4,200.0
Exchange rate, USD, av.	3.4	4.1	4.4	4.6	4.8	4.8
Consumer Price Index, av., % y/y	20.4	6.4	6.5	12.5	5.8	3.7
Poverty level, %	50.0	46.7	45.0	41.0	38.2	35.6
Money supply (M2), TJS m	1,955.0	2,601.9	3,214.3	4,334.4	5,014.3	5,726.1
Refinance rate, average, %	11.2	9.0	8.5	13.0	14.8	6.2
External debt, % of GDP	26.7	35.8	34.4	32.5	28.5	25.7
Population, m	7.3	7.4	7.6	7.8	8.0	8.1

Sources: TajStat, NBT, MoEDT, MF, author's calculations

### Notes:

m	million	q/q	quarter over quarter change
bn	billion	av.	average
y/y	year over year change	p.p.	percentage point

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