

Tajikistan:

Moderated Growth, Heightened Risks



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Currency Equivalents: Exchange Rate Effective as of September 29, 2014
Currency Unit = Tajikistan Somoni
US\$1 = TJS 4.9919
Weights and Measures: Metric System

Abbreviations and Acronyms

ADB	Asian Development Bank
AIB	Agroinvestbank
BAAG	BEEPS at a Glance
BEEPS	Business Environment and Enterprise Performance Survey
BT	Barki Tojik
CPI	Consumer price index
EBRD	European Bank for Reconstruction and Development
ECA	Europe and Central Asia
GDP	Gross domestic product
GFSM	Government Finance Statistics Manual
GoT	Government of Tajikistan
IFC	International Finance Corporation
ILO	International Labour Organization
IMF	International Monetary Fund
IPSAS	International Public Sector Accounting Standards
LPI	Logistics Performance Index
MEDT	Ministry of Economic Development and Trade
MFO	Microfinance organization
MHFP	Ministry of Health and Social Protection
MoF	Ministry of Finance
MPI	Multidimensional Poverty Index
NBT	National Bank of Tajikistan
NPL	Nonperforming loan
PFM	Public financial management
PIP	Public Investment Program
QFD	Quasifiscal deficit
ROA	Return on assets
ROE	Return on equity
SME	Small and medium enterprise
SOE	State-owned enterprise
SUERIP	State Unitary Enterprise for the Registration of Immovable Property
TajStat	Agency of Statistics under the President of Tajikistan
TALCO	Tajik Aluminum Company
TC	Tax Committee
TJS	Tajikistan <i>somoni</i> (unit of currency)
TSA	Targeted social assistance
UCOA	Unified chart of accounts
VAT	Value-added tax
WTO	World Trade Organization

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Overview

Tajikistan's economic growth moderated to 6.7 percent in the first half of 2014 from 7.5 percent a year earlier as activity slowed in almost all sectors. Weaker world economic growth and lower prices for cotton and aluminum adversely affected the major export-oriented industries, pushing total industrial growth below 3 percent from nearly 7 percent a year earlier. Lower inflows of remittances due to the slowdown in Russia have translated into lower domestic demand and slower growth in services and housing construction. Though growth in agricultural output also moderated due to heavy rains and low temperatures, it was still a healthy 6 percent. Inflation began to pick up as food prices rose and tariffs for utilities were adjusted, reaching 4.7 percent for the first half of 2014 compared to 1.6 percent a year earlier. However, fixed investment grew swiftly as the public investment program got underway.

GDP growth is projected to ease to 6.5 percent in 2014 because of the spillover effect from the slowdown in Russia and in export sales. A Russian slowdown affects Tajikistan largely through the remittances channel. A slackening in remittances weighs heavily on household demand, notably demand for services and housing construction. Inflation pressures are expected to increase but stable global food prices should help to keep growth in inflation within a single digit. Despite slower economic growth the fiscal deficit is projected to remain unchanged in 2014 because of higher than expected revenues from foreign trade, reforms in revenue collection, and spending restraint. The current account deficit is projected to widen to 3.7 percent of GDP because of sluggish export growth and the remittance slowdown. Tajikistan could perhaps benefit from the Russian ban on import of food from the West but fragile market links, limited economies of scale, poor access to credit, and barriers to entry and expansion limit Tajik ability to benefit from increased Russian demand.

There are both domestic and external risks. The main risks to the near-term outlook relate to serious vulnerabilities and governance issues in the financial sector, fiscal risks from state-owned enterprises (SOEs), a slower recovery in the prices of aluminum and cotton, and a further slowdown in activity in Tajikistan's main trading partners. The pace and financing of large infrastructure projects are also very uncertain. The main transmission channels through which adverse exogenous shocks could impact the Tajikistan economy are remittances (partly because migrants may return) and external trade. Reinforcing fiscal and external buffers will be critical to mitigate the impact of external shocks, particularly in light of the Tajikistan's strong links with Russia and such other trading partners as Kazakhstan, Turkey, and China. In the near term, prudent macroeconomic policies, such as greater exchange rate flexibility, could help the country absorb any shocks.

Because the risks are intensifying, Tajikistan needs to put in place a comprehensive structural reform program to bolster growth, job creation, and poverty reduction. Reforms to improve the business-enabling environment need to go hand in hand with comprehensive public sector reform. High priorities are to address financial sector vulnerabilities and assure proper SOE governance to minimize fiscal risks and deliver services to consumers cost-efficiently. Beyond the general reform task, many sectors where SOEs operate, such as energy, infrastructure, and delivery of other services, have specific challenges to be addressed. Policies to facilitate absorption of returning migrants into the local labor market will also be important. Over the medium term, prudent macroeconomic management and structural reforms directed to diversification and better integration into global and regional markets would create more economic opportunities and reduce Tajikistan's vulnerability to shocks. Investing in human and institutional capital would support productivity improvements and job creation and speed the transition to a more sustainable growth model.

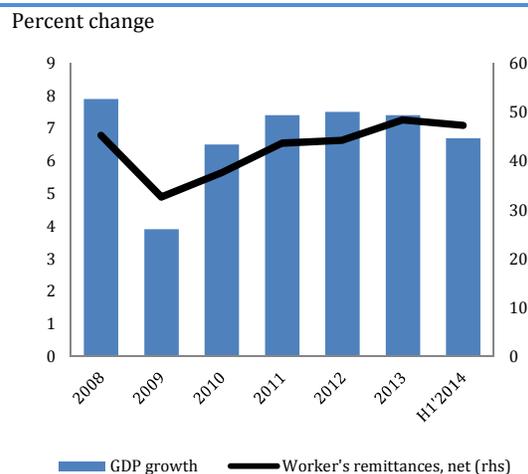
A. Recent Economic Developments

Economic Growth and Domestic Demand

Tajikistan has felt the impact of Russia's slowdown through the decline in remittances. In 2013 remittances equaling almost 50 percent of GDP made Tajikistan the most remittance-dependent country in the world. Over 90 percent of those remittances originate in Russia, so that remittances are bound to be an important channel through which the Russian slowdown spills over onto the Tajik economy.¹ According to the National Bank of Tajikistan (NBT), the impact has so far been moderate: after 19 percent growth in 2013, in the first six months of 2014 the inflow of remittances to Tajikistan dropped by about 2 percent year-on-year (Figure 1).

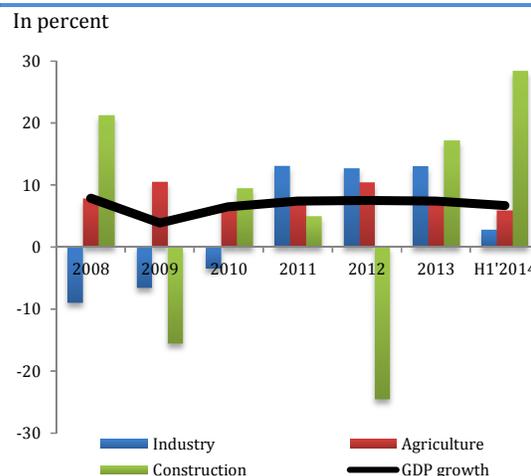
Tajikistan's economic growth moderated from 7.5 percent a year earlier to 6.7 percent for the first half of 2014 due to weaker activity in almost all sectors. Weaker world economic growth and lower prices for cotton and aluminum dampened Tajikistan's exports. A contraction in the production of the major export-oriented industries, aluminum and textiles, dragged down total industrial output growth from 6.6 percent a year earlier to less than 3 percent y/y (Figure 2). Slowing remittances have been translated into lower domestic demand and slower growth in services and housing construction. Fixed investment, by contrast, expanded by 28.4 percent from 9.3 percent a year earlier as the public investment program got underway. Heavy rains and low temperatures slowed growth in agricultural production to 6 percent from 12.1 percent a year earlier. Services and "other sectors" continue to contribute 65.3 percent of total economic growth, followed by agriculture at 13.2 percent.

Figure 1. Economic growth and net remittances



Source: TajStat, National Bank, World Bank staff calculations.

Figure 2. Real GDP and output growth by sector



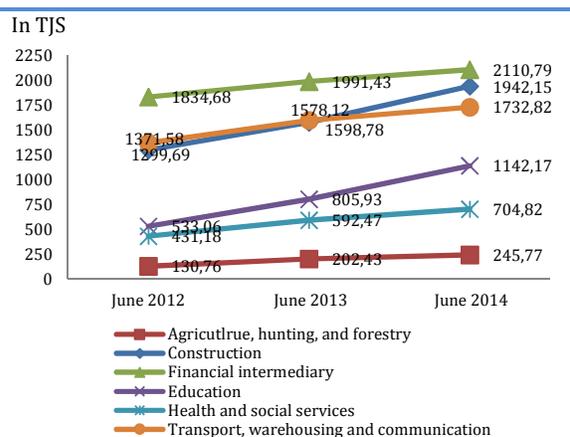
Source: TajStat, National Bank, World Bank staff calculations.

¹ See World Bank (2014), *Central Asia Economic Premise*, August 2014. Mimeo.

Poverty and the Labor Market

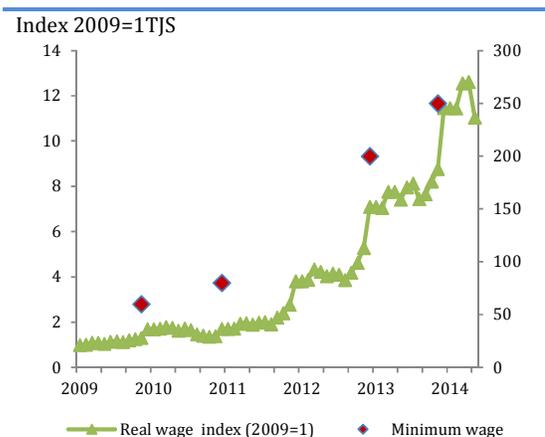
In June 2014 major job creation in services pushed up wage employment by 1.6 percent y/y. Employment in services increased by 4.6 percent, largely due to more jobs in health and education. Employment in agriculture has been declining on average by 1 percent a year for the past three years, reflecting a move toward urbanization (migration of rural residents abroad or to cities in Tajikistan) as well as the response to shocks to input or output prices and livestock diseases. According to a recent World Bank study, international migration is the main strategy households adopt to cope with climate-related shocks: more than a third of drought events triggered migration by at least one household member.²

Figure 3. Average monthly wage by key economic sectors



Source: TajStat, World Bank staff calculations.

Figure 4. Real wage growth and the minimum wage



Source: TajStat, World Bank staff calculations.

Despite a stable official unemployment rate, there are signs of increasing pressure on the labor market. Registered unemployment was 2.5 percent in June of both 2013 and 2014. Hidden unemployment—those on forced leave or working shorter hours—was up marginally to 0.7 percent in June 2014 from 0.6 percent a year earlier. Furthermore, the ratio of registered unemployed per vacancy rose to 6.9 in June 2014 from 6.1 in June 2013. A big chunk of the officially unemployed have no professional qualifications or have lost skills due to lengthy lay-offs; and more than 63 percent of them have at most only a general secondary education. All these factors make them less employable. According to the latest Labor Force Survey, conducted in 2009, the unemployment rate in Tajikistan was 11.5 percent—nearly four times greater than the official unemployment rate for the same year. The latest ILO modeled estimates (10.8 percent in 2013) suggest that the gap between official (registered) and true unemployment has widened since 2009. High wage growth also suggests that the labor market is tightening. Real wages grew by almost 17 percent on average y/y in June 2014, with the highest growth (25.1 percent on average) recorded in financial intermediation, trade, transport and communication, education, and health (Figure 3). The growth in education and health wages was due to a 20 percent average increase in public sector wages that went into effect September 1, 2013.³

² World Bank (2014). *Tajikistan: Autonomous Adaptation to Climate Change: Economic Opportunities and Institutional Constraints for Farming Households*. Report No. 85597-TJ, May 2014.

³ Wages in health care increased by 20 percent; wages in education increased by 30 percent.

The minimum wage grew faster than the national average and rose above the poverty line. The minimum wage tripled between 2009 and 2014 in both nominal and real terms to the current TJS 250 per month, US\$50 (Figure 4). However, it is comparable only to the average wage in agriculture; average wages in other sectors are far higher. Until 2012, the minimum wage was constantly below the poverty line. It has since risen above that line, which is a positive sign.

To date Tajikistan has done a remarkable job of reducing poverty. The national poverty rate fell from 96 percent in 1999 to 47 percent in 2009 and an estimated 36 percent in 2013.⁴ Tajikistan's pace of poverty reduction in the past 15 years has been among the top 10 percent in the world.⁵ If the same pace can be sustained, by 2025 Tajikistan could reduce poverty to 14 percent and before then should meet President Rahmon's target of bringing poverty down to 20 percent by 2020.

Box 1. Council for poverty and middle class measurement in Tajikistan

The need for a national methodology for measuring poverty became acute when the Government shifted focus from Living Standard Measurement Surveys (LSMS) to Household Budget Surveys (HBS) to assess and monitor poverty. To help the government and TajStat design a sound poverty measurement methodology, the World Bank advocated establishment of an advisory committee, where experts from government, the statistical office, the private sector, academia, and civil society could together discuss and recommend a methodology suitable for Tajikistan's needs.

In May 2014, the Prime Minister's Office created and appointed members to the Council for Poverty and Middle Class Measurement. The Council is an advisory body operating under the Ministry of Economic Development and Trade of the Republic of Tajikistan (MoEDT). It ensures interaction between public authorities and institutions, representatives of academia, and donor communities in designing and putting in place the national methodology for measuring the poverty level and the middle class in Tajikistan. Represented on the Council are the MoEDT, TajStat, Ministry of Finance, Ministry of Justice, State Investment Committee, and State Property Management and Strategic Research Center under the President. The Council has two tiers, with the upper tier (responsible for policy) led by MoEDT and the lower tier (technical) led by TajStat. The plan is for the upper tier to meet quarterly and the lower tier to meet more often. The first meeting of the Council took place on August 6, 2014. The objectives of the Council are to:

- discuss poverty and the middle class indicators and make recommendations for their adjustment and transparency;
- discuss program on implementing the National Development Strategy and medium-term strategies;
- justify the poverty and middle-class indicators from an economic development perspective;
- discuss and formulate recommendations for adjustment of poverty and middle-class indicators; and
- ensure that poverty indicators are transparent based on international best practices.

Source: Based on Government of Tajikistan (GoT) and Poverty Team documents.

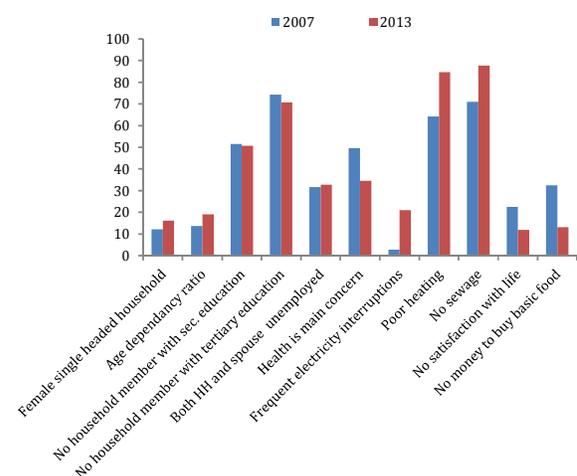
⁴ Since 1999, monetary poverty has been measured using the Living Standard Measurement Surveys (LSMS) primarily prepared and financed by the World Bank with help from TajStat. A new but preliminary poverty rate of 36 percent is based on 2012/2013 data from the national Household Budget Survey (HBS). Due to differences in methodology, this number is not strictly comparable with poverty numbers reported in the past, and represents a structural break of the reported series (see Box 1).

⁵ Azevedo, Joao Pedro, Aziz Atamanov, and Alisher Rajabov (2014). *Poverty Reduction and Shared Prosperity in Tajikistan: A Diagnostic*, World Bank Working Paper Series. WPS6923.

The country has done less well in reducing nonmonetary than monetary poverty. While methodologies have changed and hence the poverty rates obtained should not be compared, it is still clear that in the past 15 years monetary poverty has gone down substantially. However, to understand the full picture in terms of living standards it is necessary to look beyond monetary poverty. To analyze aspects of poverty other than monetary, the Tajikistan team used the multidimensional poverty index (MPI) methodology developed by the Oxford Poverty and Human Development Initiative.⁶ The analysis found that 32 percent of the Tajik population was multidimensionally poor in 2007 and 34 percent in 2013, with marked differences in the different dimensions of nonmonetary poverty. Between 2007 and 2013, the number of people who reported dissatisfaction with life, reported health to be a key concern, and reported not having enough money to buy food went down, but there was a significant worsening of access to heating and sewerage infrastructure (Figure 5). Decomposition of the MPI dimensions shows that *Education*, *Sewerage*, and *Poor heating* are the main contributors to multidimensional poverty in Tajikistan (Figure 6). By region, only Gorno-Badakhshan Autonomous Oblast (GBAO) shows a steep drop in multidimensional poverty (from 42 percent in 2007 to 25 percent in 2013), the MPI rate was unchanged in Khatlon, and in all other regions multidimensional poverty went up.⁷

Figure 5. Dimensions of multidimensional poverty, 2007 and 2013

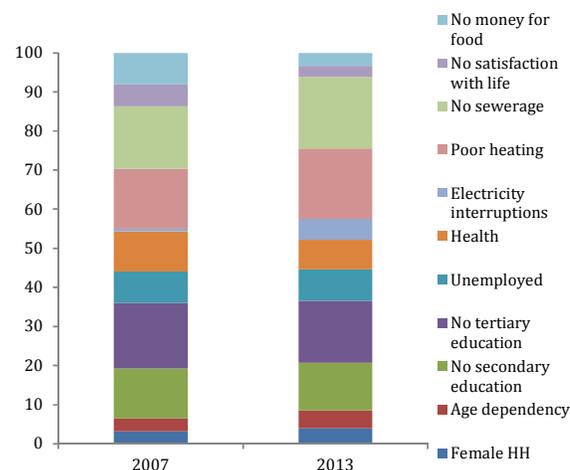
Percent of population



Source: Joao Pedro Azevedo, Aziz Atamanov, and Alisher Rajabov (2014), *Non-monetary Aspects of Poverty in Tajikistan in 2007 – 2013*. Photocopy. World Bank, Washington, DC.

Figure 6. Contribution of dimensions to multidimensional poverty

Contribution to MPI, in percent



Source: Joao Pedro Azevedo, Aziz Atamanov, and Alisher Rajabov (2014), *Non-monetary Aspects of Poverty in Tajikistan in 2007 – 2013*. Photocopy. World Bank, Washington, DC.

⁶ Data from LSMS 2007 and a separate household survey were used for this analysis and the results show some inconsistencies with the results of monetary poverty assessments. The MPI dimensions used for Tajikistan were *Single-female-headed household*, *Age dependency*, *Secondary education*, *Tertiary education*, *Health*, *Employment*, *Sewage*, *Electricity*, and *Poverty*. These dimensions were chosen because that they are mentioned as priority areas in the strategic development documents of the Government and the World Bank. For an explanation of the methodology and complete MPI analysis see Joao Pedro Azevedo, Aziz Atamanov, and Alisher Rajabov (2014), *Non-monetary Aspects of Poverty in Tajikistan in 2007 – 2013*. Photocopy.

⁷ Joao Pedro Azevedo, Aziz Atamanov, and Alisher Rajabov (2014), *Non-monetary Aspects of Poverty in Tajikistan in 2007–13*. Photocopy.

The findings of the MPI analysis of Tajikistan suggest that different policy measures may be needed to tackle the incidence of poverty when nonmonetary poverty is stubbornly high. The main conclusions of the MPI analysis are as follows:

- Lack of sewerage, poor heating, and lack of access to secondary and tertiary education are the main contributors to multidimensional poverty.
- The same dimensions seem to be those most unequally distributed among the population:
 - Heating and sewerage problems differ by region and by urban or rural residence.
 - Education is also associated with poverty
- Improvement was recorded in terms of both coverage and inequality between 2007 and 2013 in terms of both monetary poverty and self-assessment of health.
- However, both coverage and inequality worsened in such areas as demography, electricity interruptions, and employment.

External Accounts

The trade deficit widened to \$1.85 billion in January-June 2014 because of lower exports and continued growth in imports. Less external demand and lower prices for major export commodities caused the value of exports to contract by almost 15 percent y/y in the first two quarters of 2014. The decline was recorded for all major export categories, not just cotton and aluminum, though they are the most important. Import of goods shot up by about 24 percent driven by soaring imports of capital goods. However, the Tajik *somoni* depreciated only moderately compared to the currencies of major trade partners (see more in the monetary and exchange rate policy section), so to date the impact of the depreciation on the external position has been negligible.

Given its high product and export market concentration, the economy is vulnerable to external shocks. Despite some product diversification, Tajikistan continues to export very few products: about 160 out of a possible 5,000, the second lowest among Central Asia countries after Turkmenistan. Export markets have not been very dynamic either, with Tajik products reaching only 45 markets, the fewest in the region.⁸ Tajikistan's top six export markets in the first half of 2014—Switzerland, Turkey, Kazakhstan, Iran, Russia, and Afghanistan—accounted for over 88 percent of its total exports.⁹ Imports were even more concentrated, with Russia, China, and Kazakhstan accounting for over 57 percent of the total. Relatively low growth rates in the economies of its major trading partners, especially Turkey and Russia, have depressed demand for Tajikistan's aluminum and cotton. As a result, aluminum exports plunged by almost 50 percent and cotton exports by 46 percent y/y. Notwithstanding the drop in exports of these two strategically important commodities, aluminum and cotton still accounted for about one-third of total export value (Figure 8).

There is potential to increase exports of cotton now that international prices for cotton stabilized in 2014 and are expected to go up moderately in the near term. Export of cotton fiber sank in 2013–14 because farmers lost interest in cotton production due to lower international prices and higher Russian and Kazakh demand for other commercial crops. The cotton-growing area was 11 percent smaller in 2014 than in 2012. Cotton yields, however, continue to grow, proving that

⁸ World Bank (2014). *Central Asia: Development through Trade*. Forthcoming.

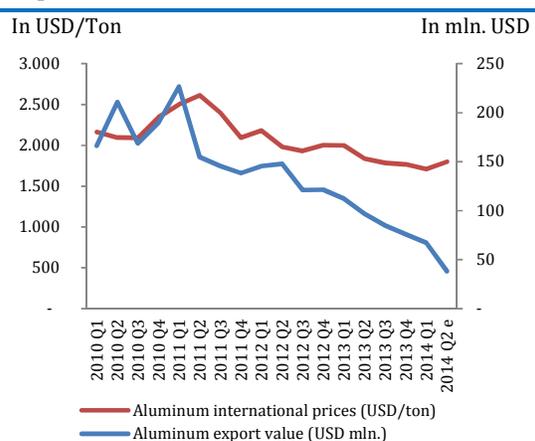
⁹ Exports to Switzerland, which alone accounted for about 28 percent of total exports in the first half of 2014) surged because of the National Bank of Tajikistan (NBT) operation to convert nonmonetary gold into foreign reserves. See the section on monetary and exchange rate policy.

diversification of agriculture creates incentives for more productive private farms. The expected moderate recovery of cotton prices could be met by exporting more cotton fiber.

Because of less demand and lower international prices, the aluminum smelter, TALCO, cut its production in the first half of 2014. According to the Ministry of Economic Development and Trade (MEDT), aluminum production amounted to almost 64,000 tons in the first half of 2014—45.7 percent less than in the same period of 2013. However, because global aluminum prices began to rise in July (13 percent higher than at the beginning of 2014), the outlook is moderately optimistic. TALCO has designed an action plan to attract more foreign investment to modernize and increase the efficiency of its production and has requested government support in the form of guarantees. However, a thorough review of TALCO operations and all ownership and management options is needed to ensure that the company's export-driven production path is viable.

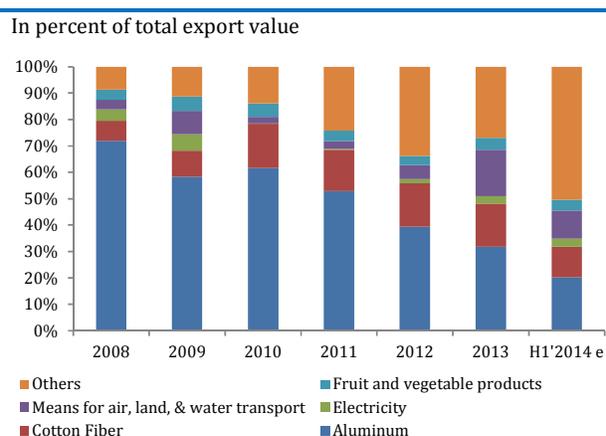
Export of agriculture products, processed as well as fresh, is growing, with Russia and Kazakhstan the largest markets. Tajikistan represents only 3 percent of Russia's fruit and vegetable imports. In the first two quarters of 2014 exports to Russia, primarily agricultural produce, increased by 15.2 percent y/y and the GoT plans to increase export of fruits and vegetables in response to the Russian ban on import of those goods from the West. However, fragile market links, limited economies of scale, poor access to credit, and barriers to entry and expansion constrain the potential for a quick supply response. Resolution of these problems will require a shift in the priorities for sector development, with more emphasis on private sector development. Measures to increase the commercialization of agriculture will be integral to the new priorities.

Figure 7. International aluminum prices and export value



Source: National Bank of Tajikistan, TajStat, World Bank staff calculations. Note: e – estimate

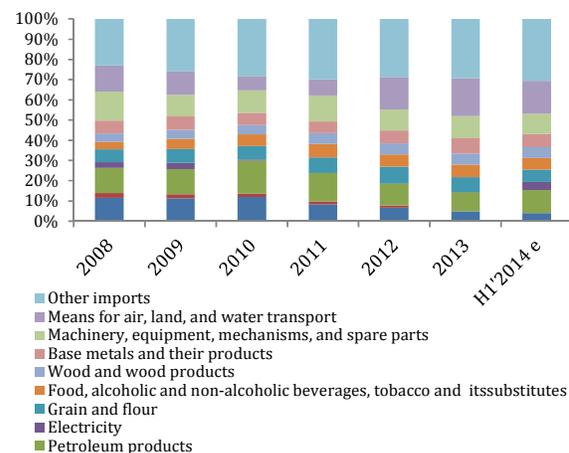
Figure 8. Composition of export value



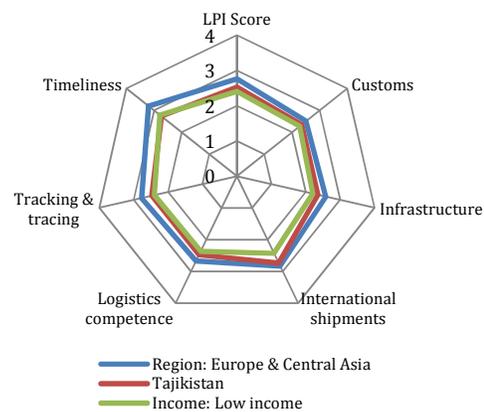
Source: National Bank of Tajikistan, TajStat, World Bank staff calculations. Note: e – estimate

Figure 9. Composition of import value

In percent of total import value



Source: National Bank of Tajikistan, TajStat, World Bank staff calculations. Note: e – estimate.

Figure 10. Logistics Performance Index 2014: Tajikistan and comparators

Source: <http://lpi.worldbank.org/international/scorecard/radar/254/C/TJK/2014/R/ECA/2014/I/LIC/2014>

Tajikistan is working to reduce logistics costs in response to the problems caused by its location and the lack of transportation infrastructure. The only railway that can be used to export goods passes through Uzbekistan, and higher tariffs there have raised transportation costs. Moreover, according to the MEDT, the average distance to reach the end buyers of Tajik aluminum is 4,156 km and the average distance to reach the final consumers of Tajik cotton is 3,241 km. This makes aluminum and cotton prices less competitive, so local producers have to reduce their margins. The only way for them to become sustainably competitive is to raise production efficiency and reduce the logistics costs. Tajikistan ranked 114th out of 160 countries in the 2014 Logistics Performance Index¹⁰ (LPI). The LPI score show that Tajik trade facilitation is below the regional average but higher than averages for other countries in its income group (Figure 10). Tajikistan's total LPI score was higher in 2014 than in 2012, but much more needs to be done to create an environment conducive to international trade.

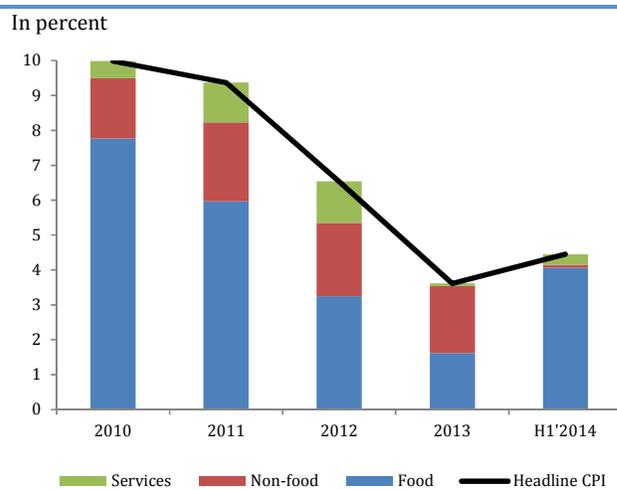
Though inflows of remittances were declining, imports continued to grow at a high rate, driven by imports of capital goods and minerals. High investment growth fuelled imports of capital goods and minerals, but the contraction in aluminum production led to the decline in imports of alumina (Figure 9 and 10). Imports of machines and equipment surged by 51.1 percent y/y in the first two quarters of 2014 compared to a 2.8 percent contraction a year earlier. Import of optical, medical, and electrical tools, which had declined by 14.6 percent in 2013, soared by 227 percent. The value of imported transport vehicles, the lion's share of which are passenger cars, went up by only a meager 0.4 percent y/y in the first half of 2014 after a 36.3 percent rise in 2013. The change

¹⁰ The logistics performance index (LPI) is the weighted average of a country's scores on six dimensions: (1) Efficiency of the clearance process (i.e., speed, simplicity and predictability of formalities) by border control agencies, including customs; (2) quality of trade and transport-related infrastructure (e.g., ports, railroads, roads, information technology); (3) ease of arranging competitively priced shipments; (4) competence and quality of logistics services (e.g., transport operators, customs brokers); (5) ability to track and trace consignments; (6) timeliness of shipments in reaching destination within the scheduled or expected delivery time. The scorecards demonstrate comparative performance—the dimensions are shown on a scale (lowest to highest score) from 1 to 5 relevant to possible comparison groups—of all countries (world), region, and income group.

demonstrates a major impact of slower remittances. Imports of wheat flour, the main food import, contracted by 10.8 percent y/y; how lower remittances are affecting imports of other consumer goods is yet to be seen. Overall, mineral products, transport vehicles, and machinery and equipment were the three largest import categories in Tajikistan, accounting for almost 50 percent of total imports in the first half of 2014.

Inflation

Figure 11. Consumer price inflation, contribution



Source: National Bank of Tajikistan, World Bank staff calculations.

Higher food and utility prices caused a pick-up in inflation. Consumer prices grew by 4.5 percent in the first six months of 2014; they had gone up only 3.7 percent for all of 2013 (Figure 11.). Food prices, which constitute about 58 percent of the consumer basket, went up by 7 percent in June 2014 (compared to 1.6 percent in June 2013) and became the main factor accelerating inflation. An increase in services prices, especially energy, as of July 1st pushed up services costs by over 8 percent in July-August, adding up to a 5.4 percent growth in consumer prices so far in 2014. Inflation in Tajikistan had been low and declining for the past few years due to relatively low food and fuel prices, a stable nominal exchange rate, and unchanged tariffs for major utilities.

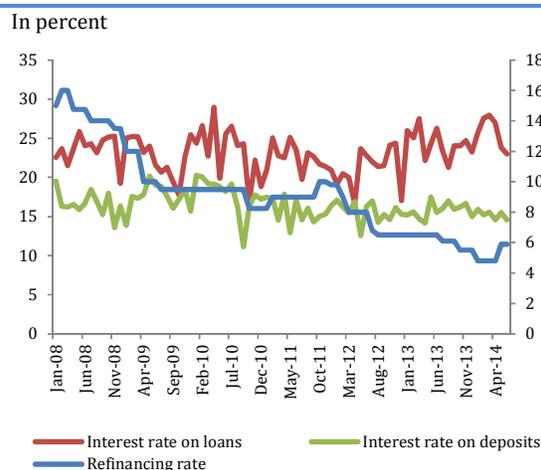
B. Economic and Structural Policies

Monetary and Exchange Rate Policies

As inflation began to head up, monetary policy was gradually tightened. After two cuts in 2013 and one in January 2014, the NBT raised the refinancing rate by 110 basis points to 5.9 percent in May because of inflation dynamics. The impact of monetary tightening on domestic demand and inflation has been limited, however, because the share of NBT funding at the refinancing rate in the banking sector is very low. Accordingly, there is a significant gap between the refinancing and the interbank loan rates, which stood at 14.14 percent as of July 2014 (Figure 12).

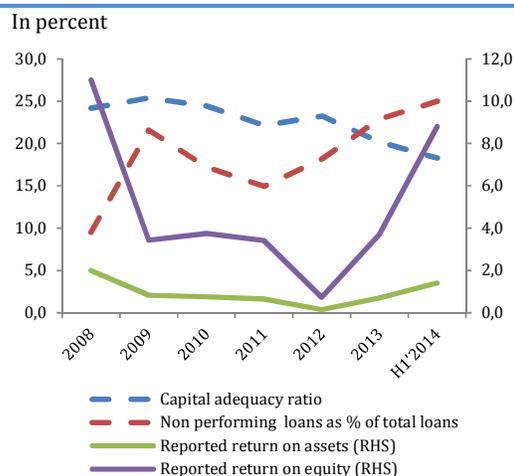
Supported by the NBT interventions, Tajik somoni depreciated less than other regional currencies, but the scope for interventions is limited because reserves are low. The somoni had depreciated against the U.S. dollar by about 4.6 percent by mid-September 2014 (y/y), significantly less than the Russian ruble (18.1 percent) and the Kazakhstani tenge (18.6 percent). Continued weakening of regional currencies will heighten the pressure on somoni, but at the beginning of July Tajik reserves stood at just below US\$600 million, or about 1.2 months of imports of goods and services. To replenish international reserves, the NBT has converted its stock of nonmonetary gold into monetary gold—a long-awaited measure, recommended by the IMF.

Figure 12. Interest rates



Source: NBT, World Bank staff calculations.

Figure 13. Financial soundness indicators



Source: NBT, World Bank staff calculations.

Financial Sector

The banking sector in Tajikistan worsened in 2013–14, with governance issues and enforcement of prudential regulations continuing to be of concern. Banking system indicators show a continuing deterioration in asset quality as nonperforming loans (NPLs) rose from 18 percent at yearend-2012 to 23 percent at end-2013 and 25 percent by mid-2014 (Figure 13). Moreover, actual NPLs are probably higher because loans continue to be seriously misclassified. The reported aggregate capital adequacy ratio for the banking system dropped from 25.9 percent in December 2012 to 19.5 percent in June 2014. The reported return on assets (ROA) was a dismal 1.4 percent at mid-2014—although still up from 0.7 percent at yearend-2013. Similarly, the reported return on equity (ROE) went from 0.7 percent at the end of 2012 to 8.8 percent at mid-2014. However, misclassification

of some loans and under-provisioning of NPLs suggests that capital, ROA, and ROE are all overstated. Moreover, the aggregate numbers disguise severe stress in individual banks. Many banks that face liquidity pressures due to maturity mismatches have been increasingly dependent on the NBT for loans to meet their funding needs. The financial system is at risk of future shocks.

It is urgent that the government cease inappropriate interventions and that the NBT cease its forbearance for problem banks. Among factors exacerbating the deterioration in asset quality are weaknesses in bank risk management systems; inadequate regulatory and supervisory framework and enforcement by the NBT; and weaknesses in financial infrastructure. Most troubling, however, is government interference in commercial bank decisions related to lending, branches, and mergers, and in NBT's ability to intervene in problem banks. Directed lending in 2009–11 and again in 2013 undermined the quality of the loan portfolio by adversely impacting bank risk management systems and financial positions, undermining the NBT's independence as bank regulator and supervisor and also the credit culture. The case of Agroinvestbank (AIB) is the most serious example of default on directed loans, followed by new directed loans to some of the same parties. Repeated use of the budget to recapitalize AIB, purchase bad loans, or repay AIB on behalf of delinquent borrowers represents transfers from taxpayers to delinquent borrowers and undermines development of a strong credit culture. While the government has again replaced the management of AIB, NBT's interventions are still few and feeble, and only a small fraction of NPLs has been collected.

Not only is financial intermediation limited in Tajikistan, so is its support for economic growth. Tajikistan ranks lower in credit and deposit penetration than other countries in the region. Deposits as a share of GDP were 13.6 percent in June 2014, only slightly up from 13.1 at yearend-2013 and 13.3 percent at yearend-2012. Credit to the private sector as a share of GDP jumped from 13.9 percent in 2012 to 19 percent in 2013 and stayed there in the first half of 2014, as credit grew at a worrying 53 percent, undeterred by poor financial sector governance and high NPLs. In the latest Doing Business rankings, on the Getting Credit indicator Tajikistan is ranked 159th out of 189 countries.¹¹ From one hand, the percentage of Tajik firms considering access to finance not to be an obstacle to current operations increased from 29.7 percent in the 2008 Business Environment and Enterprise Performance Survey (BEEPS) to 44.9 percent in 2013; from the other hand, the percentage considering access to finance to be a major or severe obstacle rose from 25 to 26 percent (for a more detailed discussion of the 2013 BEEPS findings see section 4). Improving access to credit, particularly for small and medium-sized entities, requires, among other things, that Tajikistan enforces its regulations, builds up the credit culture, reinforces the financial infrastructure, modernizes the secured transactions system, and strengthens risk management.

Microfinance organizations (MFOs) continue to grow, are typically well-governed, and are filling many gaps left by the banking sector, but insurance is still embryonic. MFOs are having an impact in rural areas; their loans as a percentage of national GDP grew from 3.4 percent at yearend 2013 to 3.7 percent by mid-2014. Their NPLs fell from an already-low 1.2 percent in 2013 to 1.0 percent by July 2014. Unlike banks, MFOs have adopted a code of consumer protection. In contrast, consumer confidence in the insurance sector is extremely low. In 2013, the ratio of insurance payouts to premiums was only 11.3 percent, compared to 80–90 percent in more developed economies, suggesting little benefit to policy holders in Tajikistan. This raises the risk for public safety as well as allocating resources inefficiently.

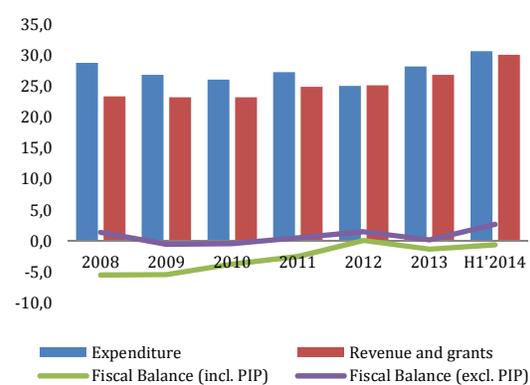
¹¹ See <http://www.doingbusiness.org/rankings>.

Fiscal Policy

The budget deficit narrowed to 0.6 percent of GDP in the first six months of 2014 from 1.3 percent in 2013 due to buoyant revenue performance and spending restraint. Because of improved collection and higher proceeds from foreign economic activities, revenue grew by 15.4 percent in nominal terms y/y in the first two quarters, exceeding budgeted revenues by 2.4 percent; and expenditures were less than 90 percent of their target. Excluding the externally financed public investment program (PIP), the budget was in surplus of 2.7 percent of GDP in the first half of 2014 (Figure 14). However, the true fiscal picture is likely to be less positive because of the elaborate quasifiscal activities of SOEs.¹²

Figure 14. Government revenue and spending

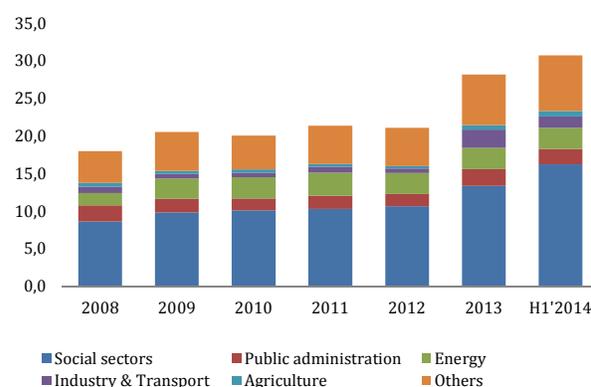
In percent of GDP



Source: Ministry of Finance, World Bank staff calculations.

Figure 15. Composition of government spending

In percent of GDP



Source: Ministry of Finance, World Bank staff calculations.

In the first half of 2014, revenue collection amounted to 33.7 percent of GDP, above the six-month target by 2.4 percent. However, performance was uneven. Several large taxes brought in much more than projected, primarily excises (26.3 percent more), income tax (3.5 percent more), and value-added tax (VAT; 3.3 percent more). Non-tax proceeds exceeded the target by 12.9 percent. Installation of special software programs to ensure better control over medium-sized and large taxpayers heightened revenue collection. But proceeds from the sales tax on aluminum plummeted to just 1.6 percent of the target because TALCO's production and sales fell. Similarly, lower sales of cotton brought in less than 55 percent of what was expected.

Government spending hit 30.7 percent of GDP in the first half of 2014, up from 28.2 percent a year earlier, and its composition shifted toward social sectors. In the first half of 2014, social spending accounted for almost 52.8 percent of total expenditures, equivalent of 16.2 percent of GDP (Figure 15). Social protection and education benefited the most from higher outlays, but spending on health in relation to GDP, already the lowest in Europe and Central Asia (ECA), decreased slightly. Pressure for more social outlays is growing. As argued in the World Bank Programmatic Public Expenditure Review, the largest source of fiscal space for social sectors is expected to come from sound macroeconomic policies and accelerated structural reforms that would support economic growth, increase government revenues, and thus make affordable more social investment in response to

¹² See World Bank (2014). *Fiscal Risks from State-Owned Enterprises*. Tajikistan Policy Notes on Public Expenditures. Policy Note no.5. Report no.880050-TJ, June 2014.

projected demographic trends and the need for better quality. Given the limited fiscal space, the government needs to give high priority to greater spending efficiency and better public investment and management of public finances.¹³

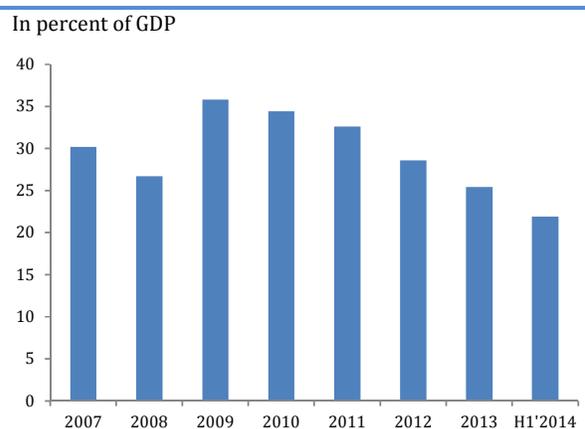
Government debt—of which three-quarters is owed to external creditors—fell further in the second quarter of 2014, largely because of loan repayments. Tajikistan’s public and publicly guaranteed external debt-to-GDP ratio went down from 25.4 percent of GDP in 2013 to 21.9 percent as of July 1, 2014 (Figure 16). The major contribution to this decline was repayments on Chinese, Asian Development Bank (ADB), and European Union loans. At the same time, a new loan agreement for \$13.07 million was signed with the Islamic Development Bank for reconstruction of substation Ravshan. The Chinese Export-Import Bank remained Tajikistan’s largest creditor; as of July 1, 2014, its loans represented about 41.3 percent of total external public debt. The other large lenders are the World Bank with a 16.4 percent share and the ADB with a 14.3 percent share.

Tajikistan’s fiscal and debt positions are fragile and at significant risk.

The fiscal and debt positions have been weakened by the country’s remittances-driven growth model, narrow export base, high dependence on concessional financing, and major infrastructure needs (especially in the social sectors). Meanwhile, the cost of amortizing existing foreign debt is heading upward quickly. All this makes the country extremely vulnerable to external shocks, and it has little ability to mitigate such shocks because it has limited external and fiscal buffers and, more importantly, it has major institutional and governance issues. Domestic policies, such as soft budget constraints for SOEs and directed lending, have created substantial quasifiscal risks that may undermine fiscal consolidation efforts.¹⁴ 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. The government should be cautious about contracting and guaranteeing new debt, particularly nonconcessional debt, and should conduct cost-benefit studies of large-scale infrastructure projects and then base decisions on careful assessment of the results.

Figure 16. Public and publicly-guaranteed external debt



Source: Ministry of Finance of Tajikistan.

¹³ *Tajikistan: Policy Notes on Public Expenditures, 2013–14*: “Government Expenditures: Size, Composition and Trends,” “Review of Public Expenditures on Health,” “Review of Public Expenditures on Education,” “Key Issues in Public Finance Management,” “Fiscal Risks from State-Owned Enterprises,” “Capital Expenditures and Public Investment Management.”

¹⁴ *Ibid.*

Structural Reforms

Financial Sector Reform

Legal Prudential Norms and Supervision

To address the numerous challenges emerging from the domestic banking system, Parliament has passed new laws and regulations directed to improving banking supervision and registration of collateral. Among them are laws on secured transactions and Islamic banking; draft insurance and consumer protection laws; and a number of NBT regulations to enhance commercial bank compliance with prudential norms to prevent the risks of bankruptcy. Unfortunately, the secured transaction law underplayed the role of the NBT, giving more authority to the Ministry of Justice. Continued efforts are needed to draft regulations that empower the NBT in its supervisory role for the secured transaction registry.

AIB Resolution

Despite a bailout in April 2012 that, among other things, transferred 37 directed loans from AIB to the Ministry of Finance (MoF) in return for TJS 500 million in bonds to AIB, and an MoF injection of TJS 200 million in capital and twice replacement of AIB executive management (in 2012 and again in 2013), the financial condition of AIB has deteriorated steeply.

The AIB is a key Tajik intermediary, and its effective resolution could help transform the financial sector and the economy at large. Through its extensive branch network, a well-functioning AIB could be a major source of credit and help unleash the potential of SMEs and the agricultural sector. A robust AIB might also attract long-term financing from foreign banks and international financial institutions (IFIs) to support long-term investment and growth. A joint World Bank-IMF technical assistance mission was in Tajikistan in May 2014 to advise the authorities on options for a lasting AIB resolution based on both the best international experience and the country-specific circumstances. The Bank and the IMF stand ready to provide support should the authorities decide to resolve AIB using one of the proposed options. An acceptable resolution package for the AIB is a requirement for the new budget support series for Tajikistan.

Energy Sector Restructuring

Continuing deterioration of the power sector poses increasing risks to (1) proper system provision of energy to the economy and population as a core public good; (2) macrofiscal stability; and (3) the prospects for and viability of any potential large investments in hydropower projects. Barki Tojik (BT), the national power company, has been facing a significant revenue-expenditure gap, a quasifiscal deficit (QFD), because of chronic loss-making tariffs, insufficient cash collections on electricity invoices, and high technical electricity losses. If short-term recovery costs alone are taken into account, the QFD in the power sector of about 2 percent of GDP in 2013 is large enough to create serious fiscal risks. The estimated true economic subsidy cost in 2013 based on long-run average incremental costs could be as large as 15 percent of Tajikistan's GDP. BT's tax arrears soared in 2011–13 to the equivalent of almost 5 percent of total tax revenues. The company also delayed repaying loans from the MoF and paying independent power producers and other creditors. BT is not able to either properly rehabilitate and maintain its current assets nor invest in new energy infrastructure. Transparency and accountability are minimal, and BT also lacks commercial and financial management skills, which undermines not only its performance but also its credibility. What is needed is systemic intervention to both contain losses and improve BT operational and management efficiency.

In 2014 the government moved as follows to improve BT's the financial situation:

- GoT Resolution #302 (May 2014) stipulated an offset scheme between enterprises of the Agency for Melioration and Irrigation, BT, and the budget that is equivalent to about TJS 243 million and deferred BT tax payments of TJS 170 million for three years. The resolution, however, does not provide any concrete measures or a schedule for improving the company's financial viability; nor does it prevent the use of nontransparent and costly schemes to temporarily relieve future pressures.
- BT approved an internal action plan for improving its operational efficiency and financial viability.
- As of July 1st, electricity and heat tariffs were raised by about 15 percent, except for TALCO, whose annual average tariff was increased by about 56 percent. Higher tariffs should be accompanied by measures to improve cash collection and reduce technical losses. The new targeted social assistance program, launched by the GoT in 2011 as a pilot and gradually expanded since then to reach the national scale by 2016, could help responding to the energy tariff increases and any future economic shocks by enabling a quick and effective mechanism of outreach to the poorest.
- BT, supported by the World Bank and the European Bank for Reconstruction and Development (EBRD), has been scaling up installation of modern electricity meters and billing systems in the Dushanbe and Sughd regions.

Regulation of Business

Progress in regulatory reforms was slow in 2012–13. In the World Bank's Doing Business 2014 report, Tajikistan ranked 143rd globally and 25th regionally on ease of doing business.

In 2014 with support from the International Finance Corporation (IFC), work has continued on drafting a new law to introduce a risk-based inspection system that will be legally binding for all types of business inspections (sanitary, tax, etc.). Another new law will set out an evaluation checklist to assess an inspector's performance in terms of preventive and consulting services (rather than the prevailing violation and punishment approach).

The government introduced the following improvements in the business-enabling environment in 2013–14; they are expected to be reflected in the 2015 Doing Business report:

- TajStat was given the power to issue the statistics code for the new business at the time of registration. This is expected to make starting a business easier.
- The fee to obtain the architectural planning assignment was reduced. This is expected to make dealing with construction permits less costly.
- Credit bureaus have established two years of historical data since 2010, including retroactive data on loan agreements for most borrowers, and have begun to provide credit scores. This is expected to improve access to credit information.
- An electronic system for filing and paying corporate income tax, VAT, and labor taxes was introduced. This is expected to make paying taxes easier.

Reform of Tax Administration

A public awareness campaign is continuing to inform entrepreneurs and SMEs about the benefits of using electronic tools to file and submit tax declarations. As for tax committee (TC) modernization and administration, the number of taxpayers who file electronically more than quadrupled between June 2013 and June 2014 (to 4,700) and continues to grow quickly. As recommended by the Bank team, the TC now provides an electronic token free of charge to taxpayers who register for e-filing. In addition to making filing easier for taxpayers, e-filing also reduces TC administrative costs. Almost 90 percent of large taxpayers file electronically and their doing so will soon be mandatory. The TC continues to

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introduce interim IT services to meet immediate TC needs until the new IT system (Integrated Tax Management Software – ITMS) is up and running.

Meanwhile, the TC, with support from the World Bank Tax Administration Reform Project (TARP), continues to modernize the information system, build the capacity of both central and local office staffs, and promote e-filing platforms in order to reduce corruption-prone physical interactions between tax inspectors and entrepreneurs. So far, the TC reports, 6,000 taxpayers submitted tax declarations electronically for 2013–14, and 2,200 calls to the new TC hotline were answered.

The real challenge is to secure the right balance between tax administration and tax policy to ensure equity and efficiency. This should help to avoid overtaxing the private sector and prevent possible shrinkage of the tax base.

Public Financial Management

The government is also moving to implement the new accounting policy and a unified chart of accounts (UCOA) consistent with the *Government Finance Statistics Manual* (GFSM) 2001 and the International Public Sector Accounting Standards (IPSAS) adapted to local accounting capacity and systems. Of the 32 IPSAS, 10 have been approved and are expected to go into effect on January 1, 2015.

The new UCOA and the revised budget classification, which incorporates GFSM 2001-based economic and functional categories, have been applied to budget execution since January 1, 2014.

As approved last year, work is now underway on a new organizational structure for both central and regional Treasury offices. The new structure will add functional units responsible for commitment control, cash management, and accounting.

With regard to modernizing public financial management (PFM), all data for the 2014 budget were introduced into the new SGB.NET budget preparation module. A new PFM information system SGB.NET went into operation in January 2014; it is expected that the government will ultimately have a Financial Management Information System operational that covers Treasury functions across the whole of Tajikistan. Automated data exchange and submission will include, in addition to the core Treasury functions, modules for managing assets, payroll, and revenue administration.

Work on extending the Treasury Single Account is underway.

So far, medium-term expenditure frameworks have been drafted for six pilot sectors. The pilot ministries identified sector-related programs and subprograms to be used as the basis for formulating baseline budgets. At present, there are 10 to 20 programs, developed by the lead line ministries for each pilot sector. The budget submissions presented to the MoF cover a three-year period. The MoF is currently designing a program classification as a constituent of a complete budget classification.

Social Protection

The major reforms in the social protection system were related to institutional changes, with transfer of the social protection function from the former Ministry of Labor and Social Protection to the Ministry of Health and Social Protection (MHSP) as part of the roll-out of the registry and the targeted social assistance (TSA) program. The intent is to make social cash transfers more targeted and thus more efficient. The World Bank is now providing additional support to the new State Agency for Social Protection under the MHSP, which will manage the TSA program.

The government launched the pilot of the TSA program in two districts in 2011, applying a proxy-means test to identify needy households. New targeted poverty benefits will replace the former flat-

rate universal benefits. Evaluation of the pilot found significant improvements in targeting: the new mechanism was approximately twice as accurate in directing social assistance to poor households as the legacy programs. Moreover, though transfer amounts were small, beneficiary households reported significantly higher satisfaction. However, the evaluation also identified areas for improvement. In 2013 the government introduced the revised pilot in eight additional districts. Further expansion has been on hold due to recent institutional changes in the government and required project restructuring, although preparations are underway to add 25 more districts by the end of 2014.

Land and Farm Restructuring

Farm restructuring activity has again speeded up, with noteworthy progress achieved in Sughd Oblast in the first six months of 2014. The total number of land certificates issued has reached 79,735; about 8,000 certificates were issued in Sughd alone in the last six months.

The State Unitary Enterprise for the Registration of Immovable Property (SUERIP) has moved forward in its development by clarifying that it is institutionally situated under the State Land Committee. It has begun to appoint officials and has initiated transfer of the Bureau of Technical Inventory and Markaz Zamin resources to SUERIP ownership. This is a major step toward a unified Tajikistan land and property registration system.

Pilot SUERIP registration has commenced in the districts of Kulob and Khujand. Registration offices have been opened, technology installed, and staff engaged and trained on the registration system. Work is now commencing in these two sites on merging the data from the Markaz Zamin and the Bureau of Technical Inventory and confirming them in the field to launch the integrated immovable property registration system database.

C. Outlook

GDP growth is projected to ease to 6.5 percent in 2014 due to the spillover effect from the Russian slowdown and the feeble performance of key exports. A further slowdown in Russia would affect Tajikistan largely through the remittances and trade channels.¹⁵ Lower remittances would heavily depress household demand and thus services and housing construction. Total investment growth, however, is expected to be strong, buoyed by public spending and the launch of private investment projects. As aluminum and cotton prices are expected to remain low in 2014, exports are projected to decline further in dollar terms. An expected increase in global prices for aluminum and cotton in 2015–16 along with measures to modernize and improve the energy efficiency of TALCO would result in a modest recovery for these two exports, though from a very low 2014 base. Inflation is projected to end the period at 7 percent as a result of the pass-through effect from somoni depreciation and the rise in electricity tariffs as of July 1, 2014, but stable global food prices would help to limit inflation to a single digit in the near term (Table 1).

Table 1. Selected macroeconomic indicators for Tajikistan, 2013–16

(Percent of GDP unless otherwise indicated)				
	2013	2014 ^a	2015 ^b	2016 ^b
Real GDP growth	7.4	6.5	6.0	6.3
CPI inflation (end-of-period percent change)	3.7	7.0	7.5	7.5
Overall revenues and grants	28.1	28.0	27.6	28.0
Expenditures and net lending	29.2	29.0	29.1	29.4
Overall fiscal balance	-1.1	-1.0	-1.5	-1.4
Total public and publicly guaranteed external debt	25.8	25.8	26.5	26.1
Current account balance	-0.7	-3.7	-3.9	-3.8

Source: Ministry of Finance, TajStat, IMF, World Bank staff estimates.

Notes: ^a Estimates. ^b Projections.

Even with economic growth slowing, the overall budget deficit is projected to be unchanged in 2014 before widening to 1.5 percent in 2015. Improved revenue collection and a moderate devaluation would help to prevent a slowing in growth from causing a substantial revenue shortfall. Budget spending, however, is expected to grow faster in 2015–16 due to higher public investment and projected increases in wages and pensions. The projections are based on government spending plans for 2015–17. Some rationalization of expenditures is assumed as a result of better management of public spending and financing reforms in key social sectors. In addition, a gradual reduction in quasifiscal deficits (especially in the energy sector) is expected as a result of reforms in the SOE sector supported by the World Bank Group and other development partners.

The current account deficit is projected to widen to 3.7 percent of GDP in 2014 because of muted external demand, low prices for aluminum, and the slowdown in remittances. In the medium term, lower remittances may help to improve the trade balance by reducing imports of consumer goods. This stabilizing impact, however, is expected to be largely offset by increased imports of capital goods for public infrastructure projects. Export of aluminum and cotton will rebound very slowly due to slack recovery in both prices and external demand. Most export growth is expected to come from “other exports” (e.g., agriculture produce, precious metals, electricity). In the medium term, a solid increase in the export of services (e.g., tourism) is projected as a result of improved infrastructure

¹⁵ The World Bank’s latest baseline scenario for Russia projects growth of 0.5 percent in 2014 and 0.3 percent in both 2015 and 2016.

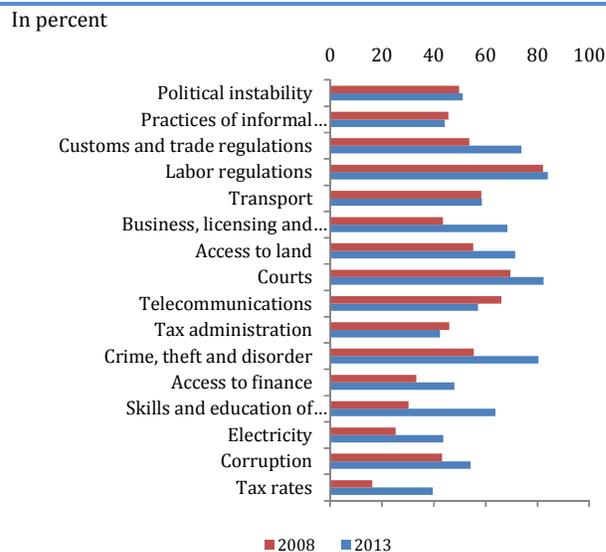
(commissioning of a number of new hotels, a new airport terminal in Dushanbe, road improvements). Overall, the current account deficit will hover around 3.8 percent of GDP for the medium term. Despite a projected increase in foreign direct investment, remittances will continue to have the major role in financing the large trade gap.

There are both domestic and external risks. The main risks to the near-term outlook relate to the serious financial sector vulnerabilities and governance issues, fiscal risks caused by SOEs, a slower recovery in the prices of aluminum and cotton, and a further slowdown in activity in Tajikistan's main trading partners. There is also major uncertainty about the pace and financing of large infrastructure projects, especially the Rogun HPP. The main transmission channels through which adverse exogenous shocks could impact the Tajikistan economy are remittances (some migrants may well return) and external trade. The possible spillover effect from the Russian slowdown onto the Tajikistan economy is estimated to be one of the largest in the ECA region: a 1 percentage point reduction in the growth of Russia's GDP would reduce growth in Tajikistan by the same amount.¹⁶ Strengthening fiscal and external buffers will be critical for mitigating the impact of external shocks, particularly given Tajikistan's close links with Russia and such other trading partners as Kazakhstan, Turkey, and China. In the near term, prudent macroeconomic policies could help the country absorb the shocks, especially allowing for greater exchange rate flexibility.

¹⁶ World Bank (2014). *Spillovers from Tension between Russia and Ukraine*, August 28, 2014. DEC DG note.

D. Special Topic: 2013 BEEPS for Tajikistan – Major Highlights¹⁷

Figure 17. Firms indicating that a specific issue is not an obstacle to current operations



Source: 2013 BAAG for Tajikistan.

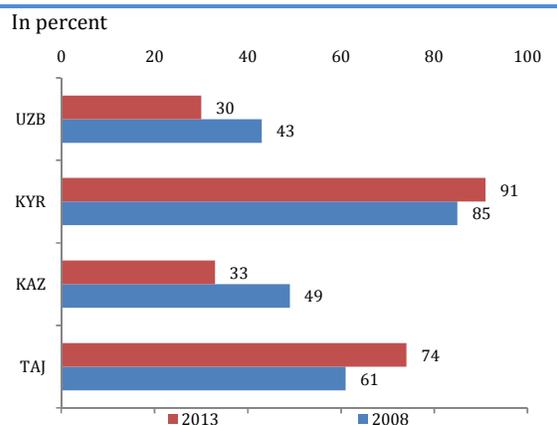
increased to 27.4 percent in 2013. The percentage of firms inspected went up to 74 percent in 2013 from 61 percent in 2008 (Figure 18), as did the number of inspections per firm visited (Figure 19), and the frequency of bribe solicitations went down only slightly (Figure 20).

According to the latest Business Environment and Enterprise Performance Survey (BEEPS), business sentiments in Tajikistan improved significantly between 2008 and 2013. Perceptions improved in 10 of the 16 areas listed, with the notorious exceptions of tax administration, practices of the informal economy, and telecommunications and with practically no change in transport and political instability (Figure 17).

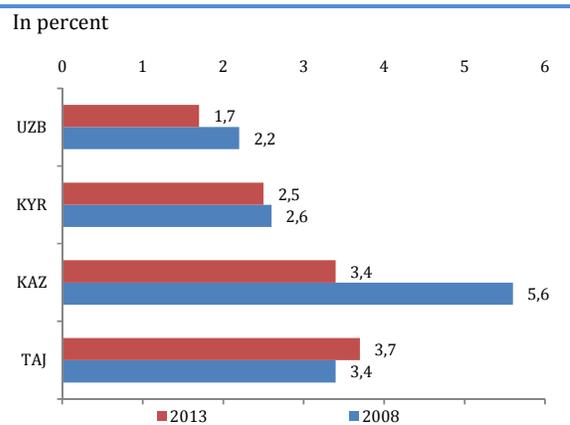
However, perceptions of the tax environment still lag behind. Tax rates are still number 1 among the 16 areas measured based on the methodology of the BAAG (BEEPs at a Glance),¹⁸ with 50 percent of respondents perceiving them as a moderate obstacle or worse. Perception of tax administration worsened dramatically—in 2008 16.5 percent of firms perceived it as a major or higher obstacle, this number

¹⁷ The EBRD-World Bank Business Environment and Enterprise Performance Survey (BEEPS) has been carried out in five rounds: in 1999, 2002, 2005, 2008, and 2012/13 and covers virtually all the countries of Central and Eastern Europe and the former Soviet Union, as well as Turkey. The survey covers a broad range of business-related issues. This section is based on the latest draft of 2013 BEEPS at a glance (BAAG) for Tajikistan (July 2014) and additional contributions from the BEEPS ECA team.

¹⁸ The BEEPS team in ECA asked, “Using the response options on the card (from ‘no obstacle’ to ‘very severe obstacle’), to what degree is XYZ an obstacle to the current operations of this establishment?” The team then estimated an average score (“no obstacle” = 0 to “very severe” = 4) and used the average to rank countries. The IFC team used a different approach, e.g. question M1 – “By looking at the card can you tell me which of the elements of the business environment in the list, currently represents the biggest obstacle faced by this establishment?” and then took the percentage of firms that checked any of the obstacles on the list.

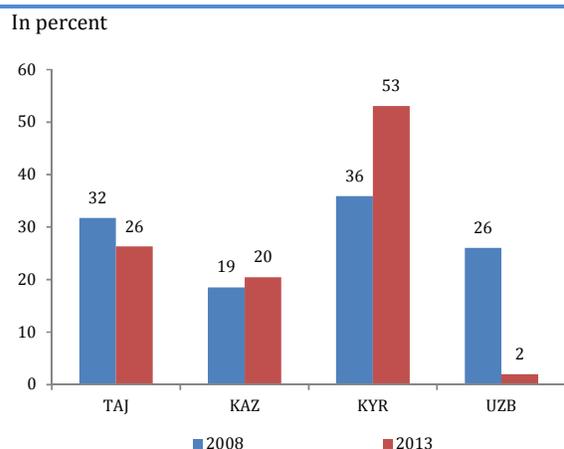
Figure 18. Firms visited by tax officials in the last year

Source: BEEPS.

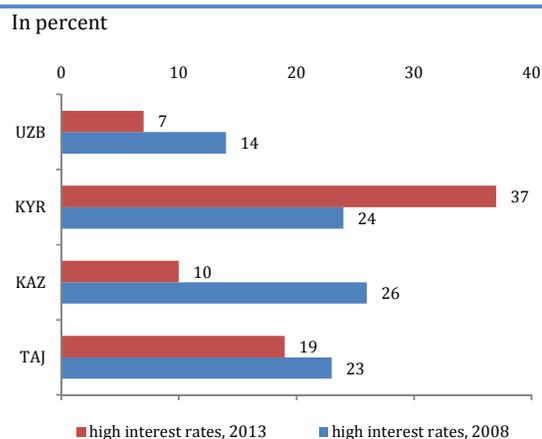
Figure 19. Average number of single-firm visits by tax officials in the last year

Source: BEEPS.

The percentage of firms reporting that access to finance is not an obstacle went up 4.4 percentage points and of firms perceiving financing as a major or severe obstacle went up 1 percentage point. Perceptions, however, vary by sector: the percentage of manufacturing firms reporting “no obstacle” has not changed, but the percentage perceiving financing as a major or very severe obstacle went up trend from 25 to 28 percent. Similarly, in 2008 13.6 percent of large companies (annual sales over \$1 million) perceived access to finance as a major obstacle but in 2013 the percentage had shot up to 19.7 percent. Furthermore, in 2008 only 5 percent of firms reported the complexity of the application process as the main reason for not applying for a loan, but in 2013 9 percent did so. Firms using bank credit for financing went from 11 percent in 2008 to 5 percent in 2013. The percentage of firms reporting high interest rates as a reason for not applying for a loan went down between 2008 and 2013 but was still higher in Tajikistan than in Kazakhstan and Uzbekistan (Figure 21).

Figure 20. Firms indicating that tax officials expected informal payments

Source: BEEPS

Figure 21. Firms reporting high interest rates as deterring application for loans

Source: BEEPS.

While firm views on foreign trade continue to be relatively favorable, Tajikistan needs to make its exports more competitive. Customs and trade regulations are not a serious issue for the firms and some reported bribes at customs were less frequent. While dealing with customs is easier, only a minuscule share of Tajikistan firms are engaged in direct export, and the number went down between surveys from 4 to 3 percent of the sample. For a small open economy other worrisome trends that point to a stagnation of export sectors and increasing concentration of exports are that (1) there was a substantial drop in firms that export (from 45 in 2008 to 28 in 2013); (2) economy-wide export sales are virtually unchanged, but mainly because one large company increased its exports; and (3) countrywide, a smaller percentage of sales are coming from exports even though exporting firms report that a larger portion of their own sales come from exports.

Other observations from the first round of analysis of 2013 BEEPs for Tajikistan are these:

- The perceived frequency of unofficial payments has gone down in all three major areas of business-government interactions (taxes and tax collections; customs and imports; and courts).
- Participation in government procurement went up but kick-backs held steady at the same level.
- ‘Time tax’ is on rise (as in other Central Asian economies) and the percentage of firms that spent more than 25 percent of management time dealing with public officials or public services in Tajikistan went up from 14 percent in 2008 to 25 percent in 2013. The percentage of senior management time spent dealing with public officials or public services went up from 16 to 27 percent.
- There have been noticeable improvements in specific government-business interaction: firms spend less time waiting and fewer of them pay bribes to secure licenses, utility connections, and construction permits.
- The quality of most services has improved; it now takes less time to obtain a service in Tajikistan—with the single exception of import licenses.
- Although 59 percent of respondents still experienced electricity outages in the 12 months leading to the survey, sales losses due to outages went down.
- Labor skills and quality are also becoming less of an obstacle to current operations. The percentage of employees with a university degree reached 41 percent (compared to 9 percent in Slovenia and 27 percent in Latvia). Also, 67 percent of production employees participated in training, more than double the percentage in 2008.
- Development of new products and R&D spending are down, as they are in the rest of Central Asia.
- Significantly more firms perceive that state capture has moderate or higher impact on businesses at all levels.

Further analysis of the new data should provide important insights into the business environment in Tajikistan and analytical underpinnings for the continuing dialogue on structural reform and for the future budget support series.

Appendix

Economic and Social Indicators: Tajikistan 2009–16

	2009	2010	2011	2012	2013	2014 ^a	2015 ^b	2016 ^b
								Projections
Income and Economic Growth								
GDP growth (percent change)	3.9	6.5	7.4	7.5	7.4	6.5	6.0	6.3
GDP per capita (USD)	662	741	836	951	1040	1067	1123	1197
Gross fixed investment ^c	14.3	12.9	15.5	14.9	14.1	14.5	15.2	15.4
Public	13.3	10.9	12.5	10.9	9.3	10.2	10.5	10.5
Private	1.0	2.0	3.0	4.0	4.8	4.3	4.7	4.9
Savings	12.8	20	18.1	17.7	18.4	15.8	16.3	16.4
Public	7.8	7.2	10	9.5	6.7	9.3	9.2	9.2
Private	5.0	12.9	8.1	8.2	11.7	6.5	7.1	7.2
Money and Prices								
Consumer price inflation (percent change, year-end)	5	9.8	9.3	6.4	3.7	7.0	7.5	7.5
Consumer price inflation (percentage change, annual average)	6.5	6.4	12.4	5.8	5.1	5.5	6.9	7.1
Average exchange rate (TJS/USD)	4.14	4.38	4.61	4.76	4.77	...	...	...
Real effective exchange rate index (2005=100)	97	92.1	90.9	92.4	95.1	...	...	...
Fiscal								
Revenue and grants	23.4	23.2	24.9	25.2	28.1	28.0	27.6	28.0
Expenditure and net lending	28.8	26.9	27.3	25.1	29.2	29.0	29.1	29.4
Fiscal balance	-5.4	-3.7	-2.5	0.1	-1.1	-1.0	-1.5	-1.4
External public debt (USD million)	1,691	1,943	2,124	2,169	2,248	2,253	2,501	2,683
External public debt	35.8	34.4	32.6	28.6	25.4	25.8	26.5	26.1
Total public debt	36.6	37.6	35.0	32.6	31.0	30.9	30.7	30.4
External Accounts								
Export growth of goods and services (percent change)	-12.7	14.7	34.8	18.6	15.0	6.5	11.2	11.6
Import growth of goods and services (percent change)	-26.7	9.4	47.6	11.7	15.8	5.8	4.5	4.8
Export of goods and services (USD million)	755	866	1 167	1 384	1 592	1 695	1 885	2 104
Import of goods and services (USD million)	2 714	2 968	4 382	4 894	5 671	6 000	6 272	6 574
Workers' remittances, net (USD million)	1,622	2,122	2,844	3,557	4,243	4,199	4,283	4,377
Percent of GDP	32.6	39.8	46.2	47.5	48.2	46.2	43.3	40.7
Current account balance (USD million)	-295	-69	-305	-99	-60	-336	-386	-408
Percent of GDP	-5.9	-1.2	-4.7	-1.3	-0.7	-3.7	-3.9	-3.8
Foreign direct investment (USD million)	16	16	65	146	105	137	178	231
Population, Employment and Poverty								
Population (millions)	7.5	7.6	7.8	8	8.2	8.4	8.6	8.8
Population growth (percent change)	2.2	1.1	2.6	2.3	2.4	2.4	2.4	2.4
Unemployment rate (percent of labor force)	2	2.1	2.4	2.4	2.4	...	...	...
Poverty headcount (percent of the population at national poverty line)	47.2	...	...	...	...	...	...	...
At \$1.25 a day PPP	6.6	...	...	...	...	...	...	...
At \$2 a day PPP	27.7	...	...	...	...	...	...	...
Gini coefficient (income)	30.8	...	...	...	...	...	...	...
Life expectancy (years)	67	67	67.1	...	...	...	...	...

Tajikistan: Moderated Growth, Heightened Risks

	2009	2010	2011	2012	2013	2014 ^a	2015 ^b	2016 ^b
	Projections							
Other								
GDP (TJS millions)	20,623	24,705	30,069	36,161	40,507	46,183	52,626	60,137
GDP (USD millions)	4,981	5,642	6,523	7,593	8,495	9,091	9,892	10,758
Doing Business rank ^d	159	152	139	147	141	143	...	...
Human Development Index rank ^e	127	127	127	125	133	...	...	...
CPIA (overall rating)	3.2	3.3	3.4	3.4	3.3	...	...	...
Economic management	3.5	3.7	3.8	3.8	3.8	...	...	...
Structural policies	3.2	3.2	3.2	3.2	3	...	...	...
Social inclusion and equity policies	3.4	3.4	3.5	3.5	3.4	...	...	...
Public `sector management and institutions	2.7	2.8	2.9	3	3	...	...	...

Sources: TajStat, NBT, Ministry of Finance, IMF, World Bank.

Notes: "..." indicates that data are not available.

^a Estimates.

^b Projections.

^c Domestic investments excluding changes in stocks.

^d Out of 175 countries in 2007, 178 in 2008, 181 in 2009, 183 in 2010 and 2011, 185 in 2012, and, 189 in 2013.

^e Out of 177 countries from 2005 to 2008, 181 in in 2009, 169 in 2010, 187 in 2011, and 195 in 2013 (estimates for 2012).



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