

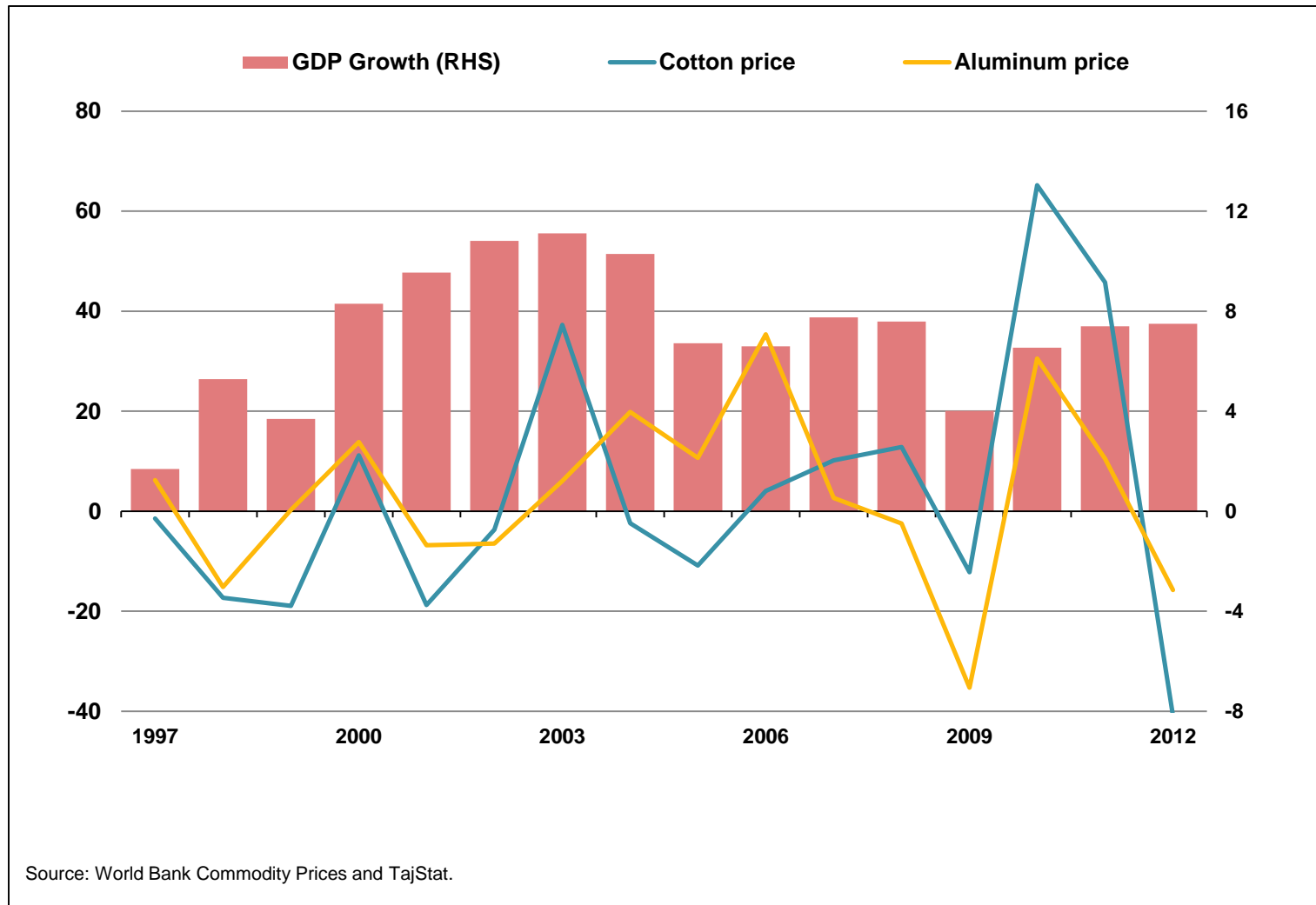


Asian Development Bank Country Diagnostics Study for Tajikistan

Key Findings

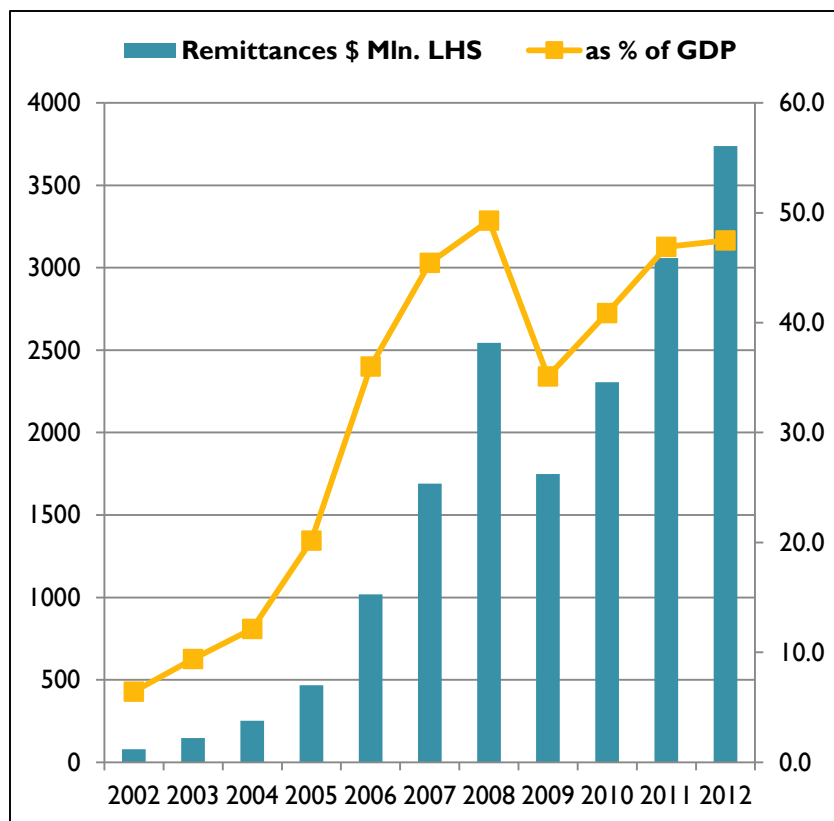
C.C. Yu, Chair
Development Coordination Council
10 February 2015

Economy has become vulnerable to the fluctuations in the prices of cotton and aluminum exports

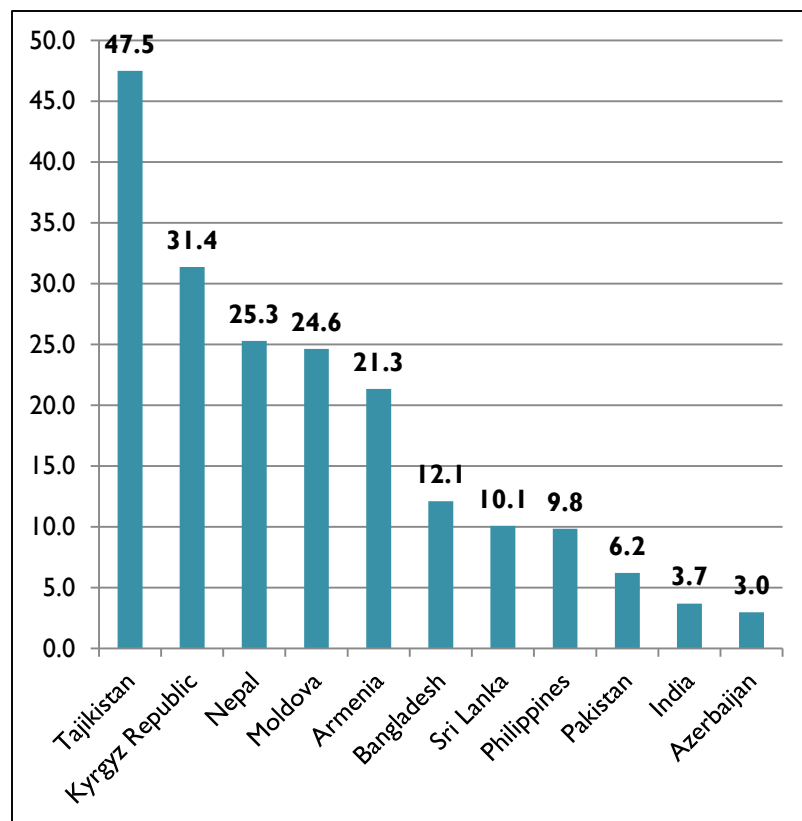


Dependence on remittances have made the economy vulnerable to external demand shocks

Workers Remittances (\$ Million and % of GDP)



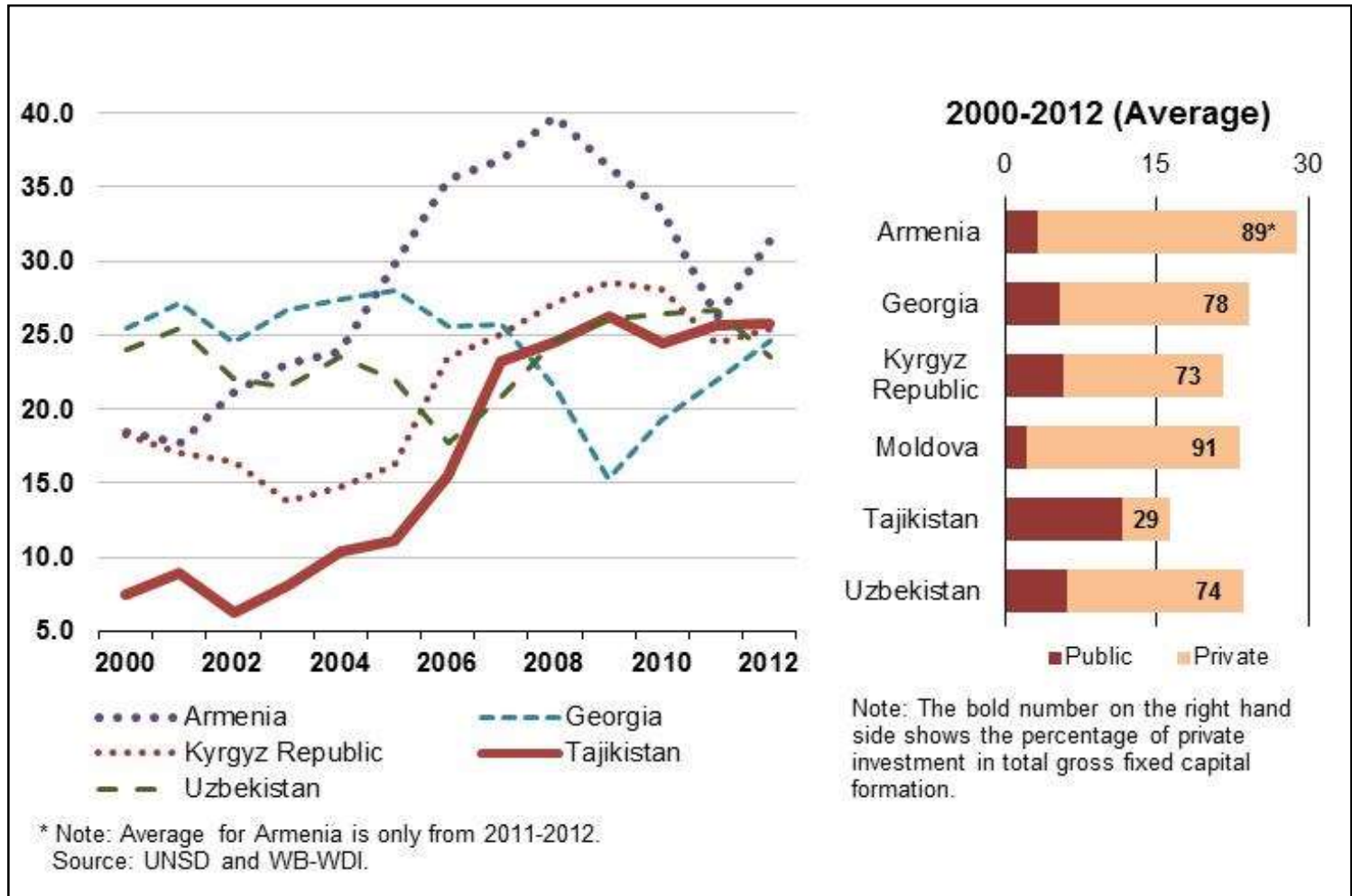
Tajikistan's dependence on Workers Remittances (% of GDP): 2012



Source: World Development Indicators 2014

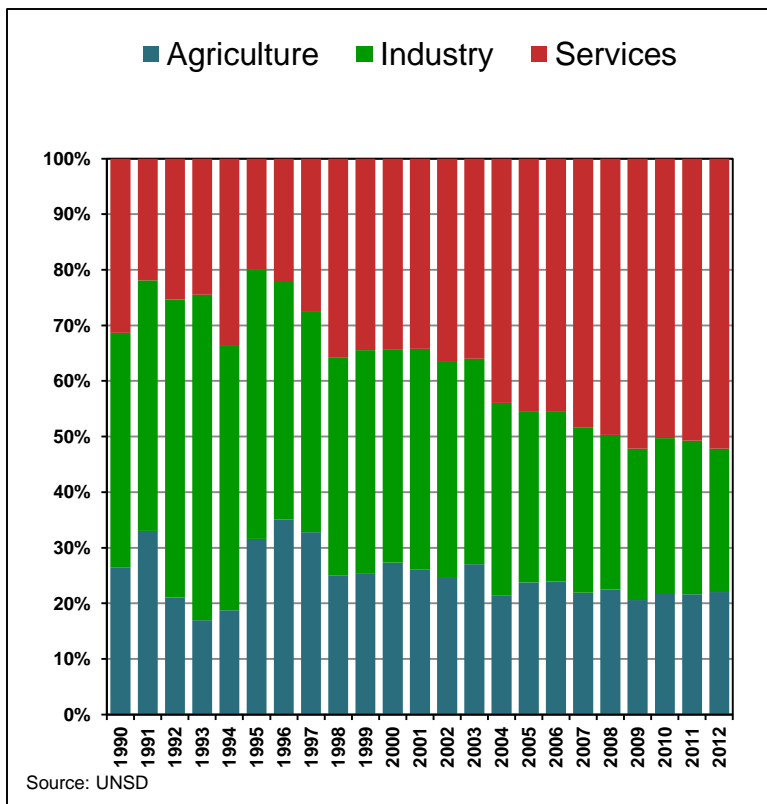
Private investment remained low despite increasing remittances...

Gross Fixed Capital Formation, 2000–2012 (% of GDP)

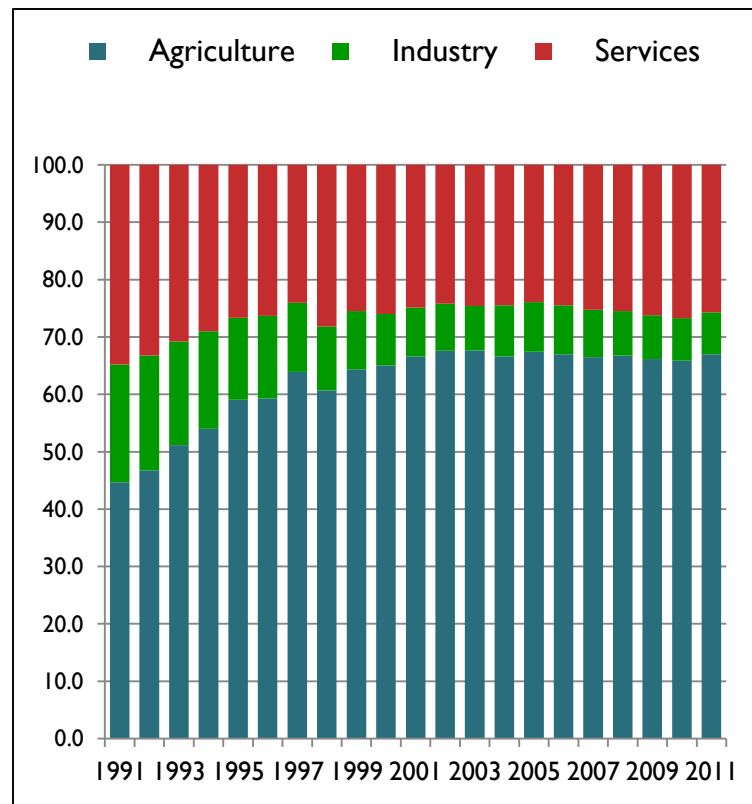


High growth resulted in little change in the employment composition

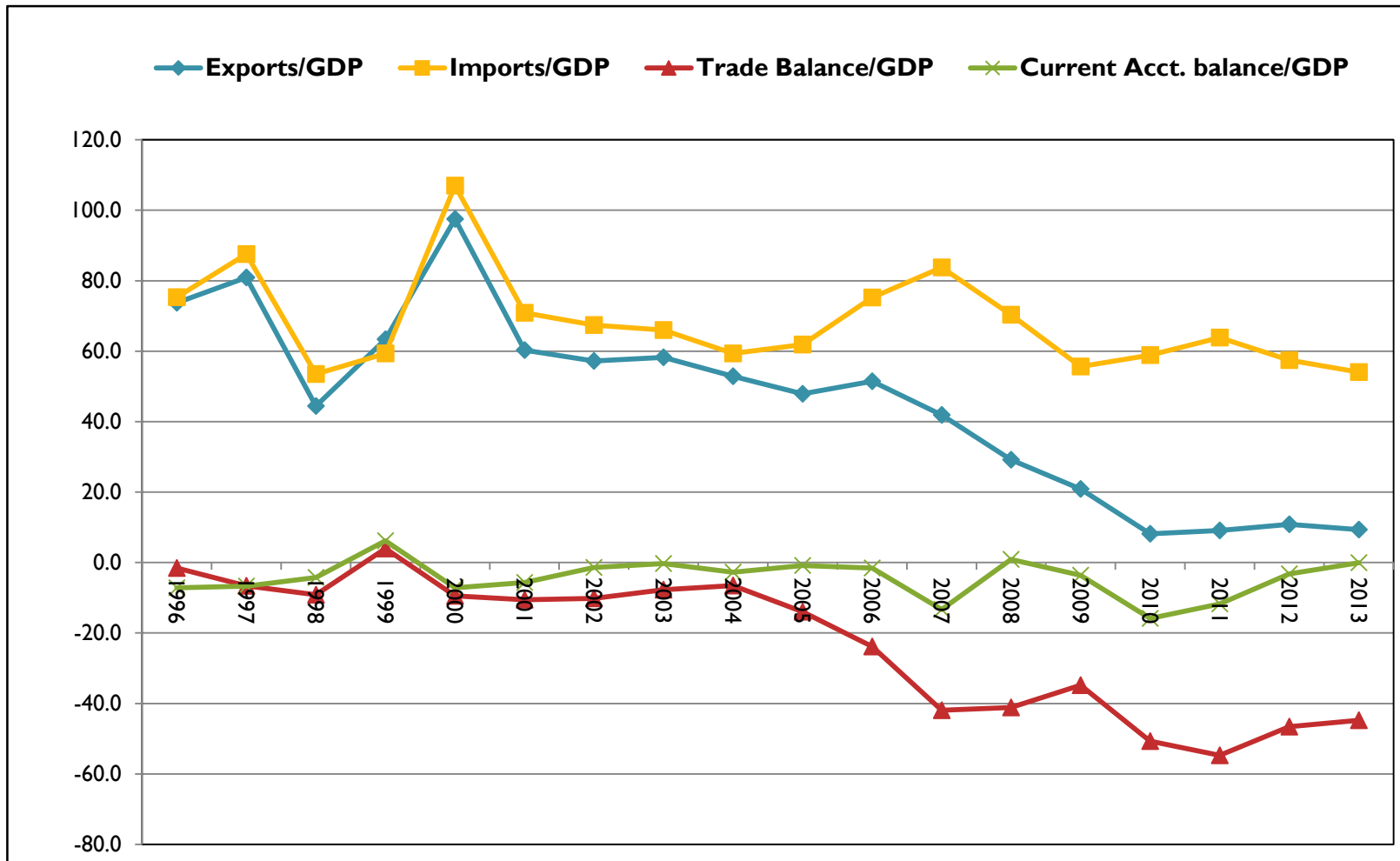
Output Shares in GDP (%)



Employment Shares in GDP (%)



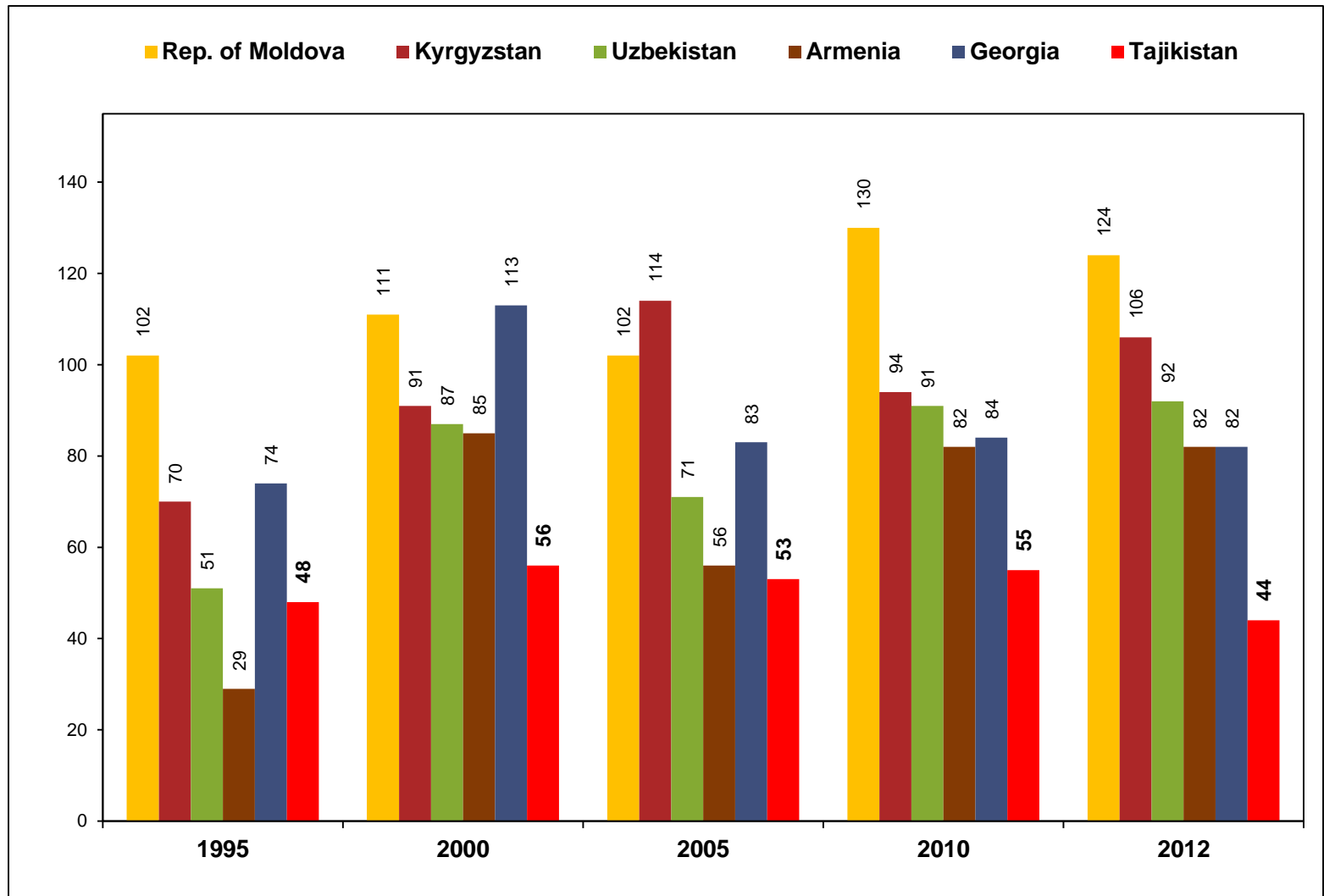
Consumption driven growth led to increase in import while exports continued to decline...



Source: World Development Indicator 2014

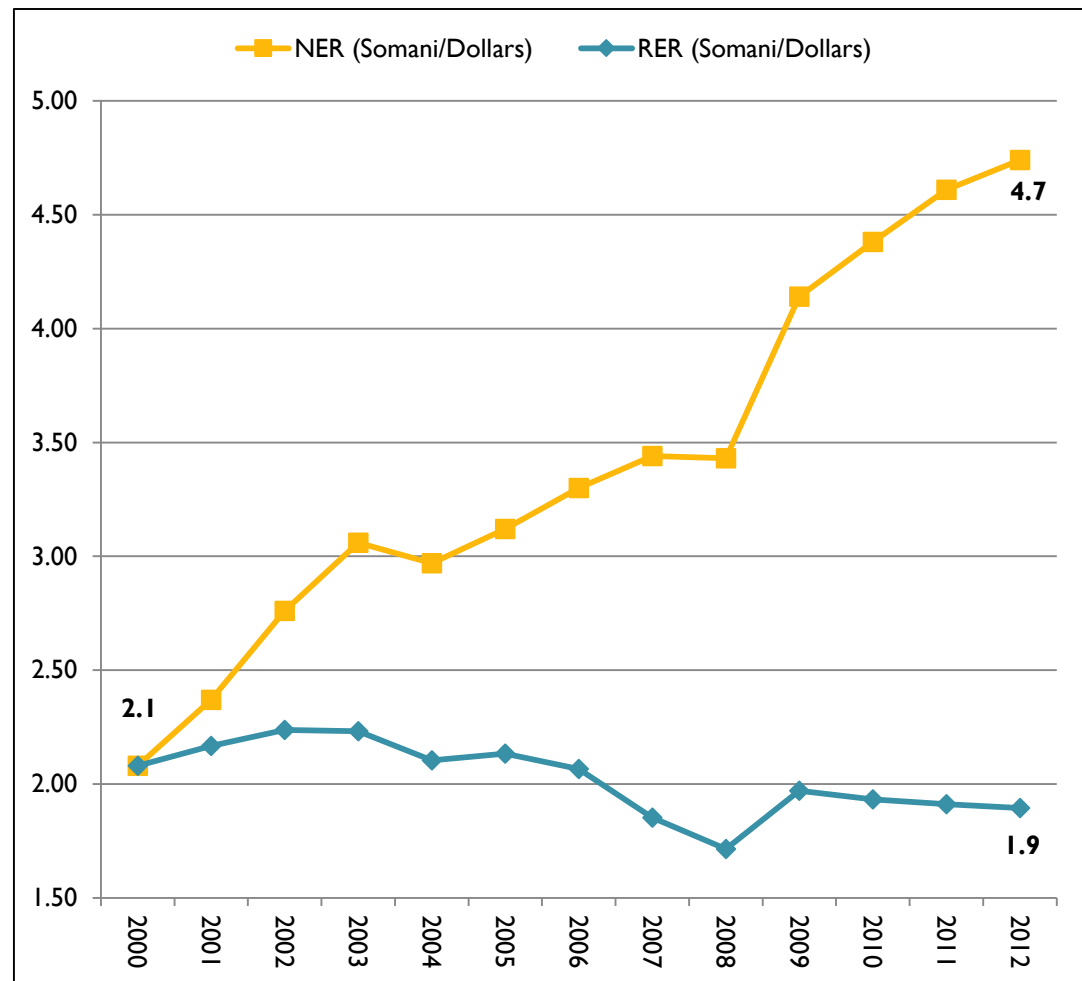
Tajikistan has not been able to diversify and its comparative advantage has rather declined

Number of Products with Comparative Advantage: 1995-2012



Remittance inflows may have threatened the competitiveness of the export sector

- Remittances inflows have resulted in appreciation of Real Exchange Rate and threatens the expansion of the export sector.
- During 2000-2012, while Nominal EX rate depreciated by 56%, Real Exchange Rate has appreciated by 9.8%.
- This has resulted in squeezing the tradable sector at the expense of non-tradable sector



Tajikistan's growth rate is **BOP** constrained. Need to improve the quality of exports, move from low value added to high value added products.

Long run growth can be approximated by $Y_{Bop} = [\varepsilon * z] / \pi$
Basic equation without capital flows

Where ε = export demand elasticity wrt trading partners' weighted GDP,

z = growth rate of weighted GDP and

π = import demand elasticity wrt domestic GDP.

Conclusions

- Despite high growth Tajikistan's economy has not been successful in speeding up the process of structural transformation. And majority of the labor force continue to get employment in agriculture sector.
- Economy has become dependent on the exports of aluminum and cotton (low concentration) and flows of remittances. This has made it vulnerable to external demand shocks.
- Remedy lies in diversifying and upgrading exports towards high value added products.
- Modern industrial policy can play an important role in reviving the private sector investment. Government needs to address the critical constraints with a view to support the private sector to innovate and move towards high value added products.