

Tajikistan's vital remittance income hurt by Russian Federation economic downturn

Falling international energy prices, which are causing an economic crisis in the Russian Federation and some other countries in the region, are having major spillover effects on Central Asia. In the economy and financial sector of Tajikistan, remittances from workers have fallen sharply.

Tajikistan covers some 141,000 square kilometers, with a population of about 9 million people. With a gross domestic product of about \$7.0 billion—per capita about \$800—it is one of the most remittance-dependent countries in the world.

For several years it was number one in the world in remittances-to-GDP ratio in 2014, dropping to fourth place in 2016 because remittances from the crisis-affected Russian Federation declined.

As part of an Asian Development Bank Institute study on financial inclusion in the countries of Central Asia and the South Caucasus, Roman Mogilevskii and Shokhboz Asadov of the Institute of Public Policy and Administration, University of Central Asia, examined financial inclusion, regulation, financial literacy, and financial education in Tajikistan.

A survey conducted in 24 regions of Tajikistan found that 80% of the remittances are transferred from the Russian Federation, 7% from Kazakhstan, 3% from Belarus, and 10% from other countries.

As most of the remittances come from the Russian Federation, the recent devaluation of the ruble against the US dollar and the Tajik somoni cut the remittances received by households.

Remittances are very much connected with loans since households use loans as a source of cash until they receive the next money transfer from abroad.

Remittances of labor migrants to Tajikistan fell from \$3.7 billion in 2013 and \$3.4 billion in 2014 to \$2.3 billion in 2015 and \$1.9 billion in 2016, half the 2013 level.

This required a major devaluation of the somoni, from 4.77 to the dollar at the end of 2013 to 7.87 at the end of 2016, creating serious challenges for all financial and nonfinancial institutions, which had a mismatch between assets and liabilities denominated in national and foreign currencies.

The key sectors of Tajikistan's economy are agriculture and industry—of which a large part is just one enterprise, the aluminum smelter Talco—with construction and non-tradable services large sectors of the economy.

A huge part of the economy is informal, especially agriculture, retail trade, and consumer services, and is based on cash settlements.

This economic structure has major implications for financial sector development, limiting its depth and pace of growth.

The total number of labor migrants is not known, but available estimates suggest 1 million people, or some 30%–40% of the country's total labor force, works outside the country.

There is little opportunity to save. The national savings rate of about 11.5% of GDP is the lowest in Central Asia and the South Caucasus.

The level of deposits in Tajikistan's financial system is relatively low; it had been slowly growing until 2015, but declined in 2016.

The key sector of the economy receiving loans is industry, which gets 27% of the total, with agriculture, construction, foreign trade, and personal consumption also receiving large loans.

Because of the crisis, the quality of loans has deteriorated dramatically.

Substandard banking loans constitute just one-third of all loans while different nonperforming loans account for some 66% of the total amount of loans.

These nonperforming loans have been mostly issued to large borrowers—industrial and other enterprises. The credit portfolio of microfinance institutions is much healthier, with nonperforming loans accounting for 16% of the total amount of loans issued by these institutions.

As of mid-2017, the credit organizations of Tajikistan had provided loans of about \$1.1 billion. The average interest rates on bank loans are 30.04% per annum in local currency and 20.80% in foreign currency. Micro-financing institutions charge rates of 38% in local currency and 28% in foreign currency.

Tajikistan is considered a high-risk economy. The current rate of hedging for Tajikistan is 15.3%; in 2009, it was 33%.

Tajikistan is dependent on remittance inflows and other external sources of income, such as exports, foreign aid, and foreign direct investment.

Domestic savings cannot be accumulated sufficiently to satisfy the domestic demand for financial resources, which means a high dependence on foreign sources, such as expensive US dollars, and strict collateral requirements for financing.

In recent years, people's access to financial services measured by the volume of deposits, loans, card transactions, and infrastructure density has significantly improved, from a low base.

Much needs to be done to improve financial inclusion in Tajikistan, including steps to ensure macroeconomic stability in the country, encourage financial institutions to develop financial infrastructure, especially associated with the use of new technology-based products, including mobile and internet banking, and improve financial literacy.

This episode is based on [Financial Inclusion, Regulation, Financial Literacy, and Financial Education in Tajikistan](#), by Roman Mogilevskii, associate director and senior research fellow at the Institute of Public Policy and Administration, and Shokhboz Asadov, a senior research fellow also at the Institute of Public Policy and Administration, University of Central Asia. It is part of an Asian Development Bank Institute study on financial inclusion in Central Asia and the South Caucasus.

Listen to podcast

- <https://soundcloud.com/adbinstitute/tajikistans-vital-remittance-income-hurt-by-russian-federation-economic-downturn/>

Read the working paper

- <https://www.adb.org/publications/financial-inclusion-regulation-literacy-education-tajikistan>

Know more about ADBI's work

- <https://bit.ly/2FCrKr2>
- <https://bit.ly/2RykSly>