



## TAJIKISTAN

### Highlights

- **Economic growth remains strong but fiscal pressures are building.** The economy grew by 6.9 per cent in 2016 according to official data and 6.8 per cent (year-on-year) in the first nine months of 2017. However, fiscal pressures are rising as a result of the challenges in the financial sector.
- **The banking sector is still in a challenging state.** The government had to bail-out major banks in December 2016, and is trying to secure international support for a fundamental reform of the sector.
- **Construction of the Rogun dam was launched in October 2016.** In September 2017 Tajikistan successfully placed its debut sovereign Eurobond of US\$ 500 million to finance the Rogun dam construction. On 28 August 2017, Standard & Poor's (S&P) and Moody's assigned first-time sovereign ratings for Tajikistan as follows: B- (S&P) and B3 (Moody's), both with stable outlooks.

### Key priorities for 2018

- **Banking sector weaknesses need to be tackled vigorously.** It will be essential to make a comprehensive assessment of the financial situation of the largest systemic banks, to recapitalise them and restore their liquidity, and to improve their management. The regulatory framework needs to be enhanced, including through the stronger supervision and introduction of an improved non-performing loan (NPL) resolution framework.
- **Reforms need to continue to improve the business environment.** A particular focus is needed on improving tax administration practices and easing currency restrictions, two of the most important constraints for businesses.
- **Efforts should be further accelerated to restructure the vertically integrated electricity company Barki Tojik and rationalise the tariff-setting in the sector.** Cost transparency for electricity generation, transmission and distribution needs to be enhanced, and ultimately the three parts should be unbundled and tariffs adjusted gradually over time, while related social issues need to be addressed. Securing the completion of CASA-1000 and more transparency in the management of the Rogun project will also be important going forward.

#### Main macroeconomic indicators %

	2013	2014	2015	2016	2017 proj.
GDP growth	7.4	6.7	6.0	6.9	6.5
Inflation (average)	5.0	6.1	5.8	5.9	8.2
Government balance/GDP	-0.8	0.0	-1.9	-10.6	-6.5
Current account balance/GDP	-7.8	-2.8	-6.0	-3.8	-6.3
Net FDI/GDP [neg. sign = inflows]	-1.5	-3.3	-5.4	-5.0	-3.0
External debt/GDP	47.4	43.0	48.6	57.8	59.5
Gross reserves/GDP	5.6	5.5	6.3	9.4	n.a.
Credit to private sector/GDP	18.6	21.5	23.4	18.2	n.a.

## Macroeconomic performance

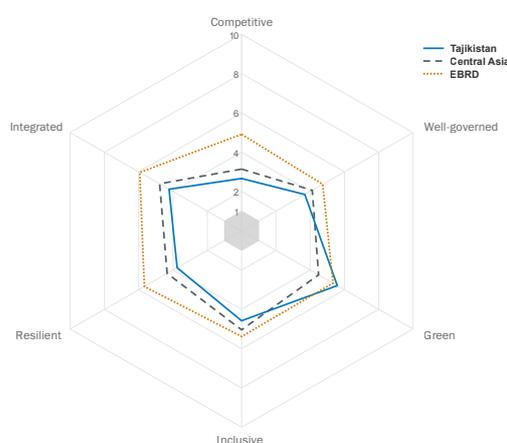
**Economic growth remains strong.** GDP growth was 6.9 per cent in 2016 and 6.8 per cent (year-on-year) in the first nine months of 2017 according to official figures. However, the headline figures mask the build-up of structural disruptions, reflected in the fragility of the banking sector. The fall in global prices for aluminium and cotton, Tajikistan's main export commodities, impeded the economic performance of the country in 2015 and early 2016. Remittances from Russia declined by 42.4 per cent in US dollar terms in 2015 year-on-year. However, the decline eased to 13.1 per cent in 2016, and the first half of 2017 saw a significant rebound by 22.4 per cent year-on-year, positively affecting domestic demand.

**Currency controls kept the somoni broadly stable in 2016, but exchange rate pressures intensified in 2017.** The somoni depreciated by 10.5 per cent against the US dollar in the first 10 months of 2017. The National Bank of Tajikistan (NBT) gradually increased its refinancing rate from 4.8 per cent in early 2014 to 16.0 per cent in March 2017. Measures introduced by the authorities in 2015 aimed at preventing sharp currency depreciation have remained in place. They include controls to restrict households' and companies' access to foreign exchange and the banning of all currency exchanges in the country. Foreign exchange and gold reserves have increased recently, to US\$ 1.3 billion at the end of September 2017 (an import cover of around five months) mainly due to the Eurobond issuance proceeds. Inflation averaged 5.9 per cent in 2016 and increased to 6.7 per cent in September 2017 year-on-year.

**Tajikistan's banking sector has been facing significant challenges since 2015.** The fundamental problems in banks, including the longstanding weaknesses in governance and lending to related parties, were aggravated by the significant currency depreciation in the country. Overdue and NPLs, mostly concentrated in the two large banks, rose to around 54.0 per cent in the fourth quarter of 2016 from 29.9 per cent in 2015, according to NBT data and decreased only by 3.7 percentage points between December 2016 and June 2017. Fiscal risks stemming from the government's need to shore up the banking system are substantial. Public external debt rose to US\$ 2.3 billion in 2016 (33 per cent of GDP), the issuance of the US\$ 500 million Eurobond added an additional 7 per cent of GDP. Domestic public debt stood at the equivalent of US\$ 700 million (12 per cent of GDP) at the end of 2016, including US\$ 422 million in special government debt securities guaranteed by the NBT issued under the bank bail-out programme.

**Officially reported real GDP growth is expected to reach 6.5 per cent in 2017 and slow to around 5.0 per cent in 2018.** Significant downside risks remain in light of the possibility of further banking sector turbulence and in view of the difficult fiscal position of the country.

### Assessment of transition qualities (1-10)



## Major structural reform developments

### **The investment climate and business environment deteriorated further over 2016-17.**

Heavy-handed tax administration practices have become more intrusive and arbitrary in the past two years as a result of increased fiscal pressures and, along with currency controls and the difficult access to finance, are negatively affecting businesses and limiting their ability to carry out their operations. The delays in structural reforms to resolve banking sector challenges, as well as to improve the business environment, with a particular focus on tax administration practices and easing currency restrictions, are likely to allow vulnerabilities to accumulate further. Tajikistan ranks 123rd out of 190 countries in the World Bank's *Doing Business 2018* report, with large gaps remaining in most areas, in particular in getting electricity, getting credit, trading across borders, paying taxes and resolving insolvency.

**Large parts of the banking sector have been bailed out.** The second largest bank, Tojiksodirobank (TSB), was put into temporary administration in May 2016 and a number of other banks face solvency and liquidity problems. In December 2016, the government announced a US\$ 422 million bail-out programme for the two largest banks, Agroinvestbank (AIB) and TSB, and two smaller banks, Tojprombank and Fonoibank. The bail-out was funded through the issuance of special government debt securities guaranteed by the NBT. In January 2017, the NBT announced the withdrawal of somoni 1.6 billion (US\$ 200 million) from AIB and TSB, which was followed by the revocation of the licences of Fonoibank and Tojprombank in February 2017. The government is now considering a fundamental reform of the sector and is working on securing international financial institution financial and policy support.

**Currency controls introduced in 2015 have mostly remained in place.** These include measures to restrict households' and companies' access to foreign exchange and banning all private currency exchange offices in the country. In January 2017, the NBT started a gradual depreciation against the US dollar, with the currency weakening by 10.5 per cent against the US dollar in the first 10 months of 2017. In May 2017, the AIB reduced its daily withdrawal limit to somoni 500, from Somoni 1,000, while at TSB the limit has remained at somoni 200.

**Tajikistan tapped the international bond market with a debut Eurobond issuance.** The US\$ 500 million 10-year sovereign bond, yielding 7.125 per cent, was successfully placed at the beginning of September 2017. The proceeds of the bond will be used to finance the Rogun dam, construction of which was officially launched in October 2016. In April 2017, the parliament also approved the government's plan to reallocate somoni 530 million (US\$ 62.5 million) in bail-out funds for Fonoibank and Tojprombank (both of which are liquidated) to the construction of the dam. However, given its struggle to attract investment in the past and with investors facing significant economic risks, securing financing for such a large project remains a challenge.

**Tajikistan intensifies exploring Eurasian Economic Union (EEU) membership.** In July 2017 the head of the customs service in Tajikistan announced that an expert committee had completed its study of Tajikistan's potential EEU accession. The results have not been made public. Negotiations for Tajikistan's accession to the EEU have been slow. However, the difficult situation in the banking sector and the broader economy might motivate Tajikistan to seek closer ties with the EEU to request financial support.