



TAJIKISTAN

Highlights

- **The economy is growing strongly again.** Real gross domestic product (GDP) expanded by 8.7 per cent year-on-year in the first half of 2021. Domestic demand started recovering with retail trade turnover growing and fixed investment increasing, while exports surged, driven by precious metals.
- **Two troubled banks, Agroiinvestbank and Tojiksodirotbank, were finally liquidated.** Despite earlier efforts focused on restructuring and recapitalisation, the banks were wound down because their financial situation was not improving.
- **A single window for the registration of export, import and transit procedures has been launched.** The system is designed to speed up and simplify the exchange of information between stakeholders engaged in export-import and transit transactions. This is a significant contribution to the ease of cross-border trading.

Key priorities for 2022

- **The government should step up efforts to create new opportunities for young workers and returning migrants.** The government needs to improve tax administration practices within the currently developed tax code to reduce the burden of tax compliance on businesses, which will create more opportunities for formal employment. Any spending measures should be balanced against the need to pursue fiscal consolidation.
- **Further efforts are needed to advance the digitalisation agenda.** The regulatory framework should be updated in line with international practices and broadband access should be expanded, which will improve businesses' access to information and finance, while enabling more Tajik workers to learn and work remotely.
- **Fiscal discipline should be maintained.** Since Tajikistan has a high risk of debt distress, the government should adhere to its commitment to consolidate the budget and manage any new borrowing in accordance with the updated Debt Management Strategy for 2021-23.

Main macroeconomic indicators %

| | 2017 | 2018 | 2019 | 2020 | 2021 proj. |
|-----------------------------------|------|------|------|------|------------|
| GDP growth | 7.1 | 7.3 | 7.5 | 4.5 | 6.5 |
| Inflation (average) | 7.3 | 3.8 | 7.8 | 8.6 | 8.5 |
| Government balance/GDP | -6.0 | -2.8 | -2.1 | -4.4 | -3.0 |
| Current account balance/GDP | 2.2 | -5.0 | -2.3 | 4.2 | 2.0 |
| Net FDI/GDP [neg. sign = inflows] | -2.6 | -2.9 | -2.6 | -1.3 | -3.0 |
| External debt/GDP | 77.2 | 79.4 | 80.3 | 80.6 | n.a. |
| Gross reserves/GDP | 18.0 | 17.1 | 18.1 | 26.8 | n.a. |
| Credit to private sector/GDP | 13.0 | 11.9 | 11.6 | 12.9 | n.a. |

Covid-19: macroeconomic implications

The economy is recovering strongly. Real GDP expanded by 8.7 per cent year-on-year in the first half of 2021. Domestic demand started recovering, with retail trade turnover growing 17.1 per cent year-on-year and fixed investment increasing 22.1 per cent year-on-year in the first half of 2021. Industrial output grew at a very high rate (23.4 per cent year-on-year in the first six months of 2021) with strong gains in mining (150 per cent year-on-year) and manufacturing (20.3 per cent year-on-year). Agriculture expanded by 8.1 per cent over the same period. The trade deficit narrowed in the first half of 2021 to US\$ 619 million, from US\$ 850 million in the first half of 2020. Exports nearly doubled in this period, driven by precious metals, while imports rose by 23 per cent year-on-year as domestic demand has expanded. However, data from the Russian central bank show that remittances from Russia to Tajikistan declined by 37 per cent year-on-year in US dollar terms in the first quarter of 2021.

Inflation has been above target since September 2020. Annual inflation was 9.0 per cent in June 2021, outside the central bank target corridor of between 4 and 8 per cent. The policy rate was raised from 10.75 per cent in January 2021 to 11.0 per cent in February, and was further increased by 1 percentage point in April and another 1 point in August. Loan growth accelerated to 14 per cent year-on-year in June 2021 from 10 per cent a year ago. The non-performing loan (NPL) ratio declined to 15.3 per cent in June 2021 from 30.4 per cent in June 2020, reflecting the liquidation in May 2021 of two troubled banks with a high concentration of NPLs (see below).

Fiscal accounts have improved. From January to May 2021 the state budget surplus was TJS 133 million (0.2 per cent of GDP) compared with a deficit of TJS 364 million (0.4 per cent of GDP) a year before. Revenues increased by 31 per cent in this period year-on-year thanks to a strong growth in tax receipts, while expenditures increased by 24.3 per cent year-on-year primarily in the energy sector, transport and communications as well as healthcare and social protection. The country's public debt reached almost 48 per cent of GDP in 2020, up from 43 per cent in 2019, as the government relied on external financing to mitigate the impact of the Covid-19 pandemic. The current public debt portfolio is mostly concessional, with the share of commercial loans at around 15 per cent of the total public debt stock, following the US\$ 500 million Eurobond issued in 2017. Tajikistan's foreign exchange reserves were assessed at close to US\$ 2 billion in August 2021, providing for eight months of import coverage, a significant improvement over the pre-pandemic situation. In addition, Tajikistan received a windfall of US\$ 236 million worth of Special Drawing Rights allocated by the International Monetary Fund (IMF) in August 2021, which it can use to mitigate the economic impact of the Covid-19 pandemic.

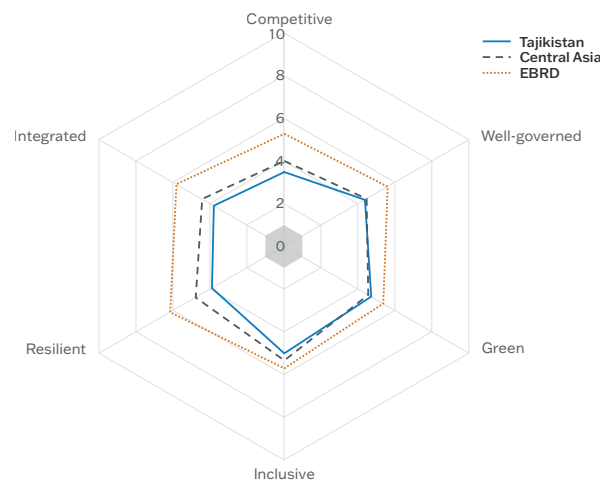
The economy is expected to grow by 6.5 per cent in 2021. Remittances will support private consumption, and further expenditure on the Roghun project will drive public investment. In 2022 real GDP is forecast to grow by 6.2 per cent. Downside risks relate to the Covid-19 pandemic continuing to disrupt trade and mobility. The main upside risk is associated with a rapid intensification of trade, transport and investment linkages with Uzbekistan. In the longer term, re-establishing trade and transport connections with Afghanistan will be important for the Tajik economy, particularly given Tajikistan's plans to increase electricity exports following the completion of the Roghun hydropower plant and the CASA-1000 electricity transmission lines.

Policy response to Covid-19

Measures are still in place to mitigate the impact of the Covid-19 pandemic. A government decree, "Preventing the effect of the Covid-19 pandemic on social and economic sectors of Tajikistan", approved in June 2020, remains the main anchor of the country's policy response to Covid-19. It includes measures such as price controls for key consumer goods and medical supplies, provision of free medical care to citizens diagnosed with Covid-19, tax holidays and free rent of state property. In addition, in August 2021 the government announced that 165,000 vulnerable families will receive TJS 500 (US\$ 44) in emergency cash assistance.

Tajikistan received further financial assistance in 2021. The World Bank provided US\$ 8.63 million to finance the purchase of vaccines and US\$ 12.57 million in grant financing in February 2021 as part of the Tajikistan Emergency Covid-19 Project, to further strengthen Tajikistan's healthcare capacity and protect vulnerable population groups. In addition, the Asian Development Bank approved a US\$ 25 million grant in June 2021 to help the country procure vaccines and improve the country's capacity to implement its vaccination programme.

Assessment of transition qualities (1-10)



Structural reform developments

A single window for the registration of export, import and transit procedures has been launched. The system, which began operating in September 2020, is designed to speed up and simplify information exchange between stakeholders engaged in export-import and transit transactions. This mechanism allows exporters and importers to provide standard documentation required by government agencies in a single form and to one agency. This is a significant contribution to the ease of cross-border trading.

Agricultural sector reform seeks to increase productivity and improve access to export markets. In October 2020 the government adopted a new concept for creating and developing agro-industrial clusters up to 2040. The main aim is to diversify agricultural production and facilitate the deeper processing of food products through increased cooperation among farms, aggregators, processing enterprises, research institutions and other upstream and downstream actors. In addition, the government approved a programme to promote the introduction of international food security standards (International Standard Global GAP) to improve agricultural producers' access to export markets.

Two major banks have closed. The two troubled banks, Agroinvestbank and Tojiksodirotbank, were finally liquidated in May 2021, in line with a long-standing IMF recommendation. Earlier efforts to improve the situation with these banks were focused on restructuring and recapitalisation; back in December 2016 the government announced a US\$ 422 million (6.1 per cent of GDP) bail-out programme for the two banks, funded through the issue of special government debt securities guaranteed by the National Bank of Tajikistan. The banks were then wound down in May 2021 because their financial situation was not improving. This is a major step towards strengthening the banking sector and lowering the NPL ratio significantly.

Energy sector reform is advancing. In accordance with government decree number 330 issued in June 2019, Barqi Tojik remains responsible for the generation of power while electricity transmission and distribution assets were transferred to the newly created Shabakahoi Intiqoli Barq and Shabakahoi Taqsimoti Barq, respectively. These new companies are now fully operational. The government is working to further amend the legal and regulatory framework to reflect the new business structure of the power sector.

