



## Tajikistan

### Highlights

- **The economy's post-Covid recovery is continuing apace.** Gross domestic product (GDP) grew 7.4 per cent year on year in the first half of 2022, with strong gains in all sectors. The impact of the war on Ukraine on the economy has been limited, as Russian demand for migrant workers and remittances peaked in the second quarter of 2022, and the country has also improved its external resilience by building up significant international reserves. With inflation at 5.7 per cent in September 2022, Tajikistan is the only regional economy to keep inflation within the central bank's target corridor.
- **Significant amendments to the tax code were put in place in late 2021.** To ease the burden on businesses, reduce informality and support the country's fiscal stance, the number of taxes was decreased from ten to seven and tax rates were reduced across the board. Further improvements and the digitalisation of tax services are envisaged to increase voluntary compliance and minimise corruption.
- **The inclusion agenda is advancing.** The authorities have introduced a new law on equality and the elimination of all forms of discrimination, appointed a Commissioner for Human Rights (ombudsman) and launched a new financial inclusion strategy.

### Key priorities for 2023

- **Efforts to bolster food and energy security are required.** In light of export restrictions by neighbouring countries, the authorities should seek ways to diversify import routes. It is vital to ensure price stability by managing food reserves in line with best international practices, balancing market principles and the needs of vulnerable households.
- **The authorities should accelerate infrastructure investment.** The Tajik section of the CASA 1000 transmission line is expected to be completed by the end of 2022. The G7's Partnership for Global Infrastructure and Investment opens up new opportunities for Tajikistan to attract funding for the completion of the Roghun hydropower plant and other infrastructure projects.
- **Tajikistan should continue to improve its tax administration and broaden the tax base to create space for development projects without crowding out social spending or putting debt sustainability at risk.** Measures should include the adoption of a modern risk assessment methodology to guide audits, further simplification of tax reporting requirements, the harmonisation of tax and financial account reporting, the automation of selected taxpayer services, including the value added tax (VAT) refund system, and the gradual deployment of digital technologies, such as digital signatures.

**TABLE** Main macroeconomic indicators %

	2018	2019	2020	2021	2022 proj.
GDP growth	7.6	7.4	4.39	9.2	7.0
Inflation (average)	3.8	7.8	8.6	9.0	8.3
Government balance/GDP	-2.7	-2.1	-4.3	-0.7	-2.5
Current account balance/GDP	-4.9	-2.2	4.1	8.4	3.8
Net FDI/GDP [neg. sign = inflows]	-2.8	-2.6	-1.3	-0.4	-0.1
External debt/GDP	67.7	69.0	71.1	67.2	n.a.
Gross reserves/GDP	16.5	17.7	27.5	28.6	n.a.
Credit to private sector/GDP	11.9	11.6	13.0	9.7	n.a.

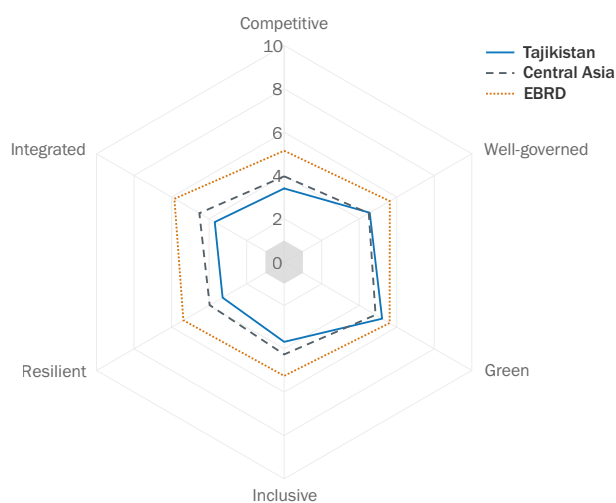
## Macroeconomic developments and policy response

**Economic growth remains robust.** After expanding 9.2 per cent in 2021, the pace of GDP growth slowed marginally in the first half of 2022. An almost complete freeze on the export of precious metals and stones in January to April led to a significant drop in overall exports (down 38 per cent year on year). However, for the first half of 2022, industrial production, including export-oriented mining activities, grew considerably (up 17.3 per cent year on year), while the agriculture sector expanded 7.2 per cent. The rouble’s strength and Russia’s record demand for migrant workers supported consumer demand, resulting in higher imports (up 25 per cent year on year) and retail trade turnover (up 9.3 per cent year on year). Also, in the first seven months of 2022, Tajikistan saw an 85 per cent increase in imports from China, suggesting that the country is serving as a conduit for parallel imports to Russia. The Tajik somoni recovered almost fully to its pre-war value against the US dollar and appreciated significantly against the euro. Fixed capital investment increased 2.5 per cent on the year in the first half of 2022. Overall, in the first half of 2022 the economy grew 7.4 per cent year on year.

**Inflation is easing following timely mitigation measures by the authorities.** The National Bank of Tajikistan (NBT) has kept its policy rate well above inflation in 2021-22. Planned tariff increases for utilities (electricity, heat and water) have been postponed until October 2022 to counter the impact of rising food and commodity prices. In August 2022, as inflation slightly exceeded the NBT target range in June and July, the policy rate was increased by 25 basis points (to 13.5 per cent). With inflation easing further to 5.7 per cent in September 2022, the policy rate was restored to 13.0 per cent in November. Tajikistan is currently the only regional economy to keep inflation within the central bank’s target corridor (of 4-8 per cent).

**Fiscal and external balances have strengthened.** In January-May 2022, budget revenues rose 13.6 per cent year on year, driven by a 13 per cent increase in tax receipts. To boost external resilience, Tajikistan has managed to build up significant international reserves. As of 1 July 2022 international reserves provided 8.1 months of import cover. In July total external debt decreased to US\$ 3.1 billion from US\$ 3.7 billion a month earlier. The country’s public debt amounted to US\$ 3.1 billion, or 46.3 per cent of GDP and, under the government’s debt management strategy 2021-23, will remain below 60 per cent of GDP. Strong growth will continue in the short term. We forecast GDP to grow 7.0 per cent in 2022 and 8.0 per cent in 2023. Downside risks relate to potential violence in Afghanistan spilling over to Tajikistan’s territory and/or derailing regional efforts to connect Central Asia to Pakistan and, further south, to India and Iran. Given the importance of the domestic agriculture sector, climate risks present a further vulnerability. An uptick in international financial institution (IFI) investment, supporting Roghun and other infrastructure projects, presents significant upside risk.

**CHART** Assessment of transition qualities (1-10)



## Structural reform developments

**The government has drawn up a new economic plan.** Introduced in March 2022, the “action plan for the mitigation/prevention of the potential impacts and risks to the national economy” seeks to maintain macroeconomic stability (control inflation, shift contracts to national currencies, establish correspondent accounts in foreign banks and ensure banking sector stability), protect vulnerable population groups (prevent unreasonable price hikes and ensure adequate stocks of staple goods), improve the investment climate (showcase investment opportunities, allocate concessional credit to domestic producers and facilitate international trade) and ensure the effective and sustainable performance of state-owned enterprises (SOEs) (reduce non-priority expenses, improve financial disclosure and ensure the timely fulfilment of SOEs’ obligations to the state budget).

**The tax system has been significantly reformed.** Significant amendments to the tax code were put in place in late 2021 with a view to weakening the incentives for tax evasion, reducing informality and broadening the tax base. The number of taxes was decreased from ten to seven and tax rates were reduced across the board. Income tax for legal entities was reduced from 23 per cent to 20 per cent and for individuals from 13 per cent to 12 per cent. The VAT rate was reduced from 18 per cent to 15 per cent and further decreases are planned: to 14 per cent in 2023 and 13 per cent in 2027. The social-security tax for employers was reduced from 25 per cent to 20 per cent.

**Measures to promote inclusion have advanced.** In June 2022 Tajikistan adopted a new law on equality and the elimination of all forms of discrimination – a significant step towards a more inclusive society. The bill introduces legal definitions for segregation, direct and indirect discrimination. In addition, a Commissioner for Human Rights (ombudsman) was appointed to help prevent all forms of discrimination and ensure equality. In a further development in July 2022, the government approved a new strategy for financial inclusion for 2022-26, focusing on digital services, increasing the variety of financial products, protecting customer rights and enhancing financial literacy.

**The banking sector is being cleaned up.** In 2021 the NBT liquidated three troubled banks – Agroinvestbank, Tojiksodirotbank and Kafolatbank – which had a high concentration of non-performing loans (NPLs). As a result, the NPL ratio declined to 13.4 per cent (as of 30 June 2022) from 22.7 per cent in March 2021.

**Reforms to the tariff system in the energy sector are lagging.** Overall tax arrears have increased substantially (by 25 per cent year on year in January-May 2022), with more than 40 per cent of them due to Tajiktelekom and two state-owned hydropower plants, Sangtuda and Roghun. Non-cost-reflective electricity tariffs are a major obstacle to the further development of the country’s electricity system. Barqi Tojik’s (Tajikistan’s national power utility company) debt to interdependent power producers and the Ministry of Finance is currently assessed at US\$ 3.1 billion.