TAJIKISTAN

Highlights

- **The Tajik economy continues to grow despite the impact of the Covid-19 pandemic.** Real GDP rose by 3.5 per cent year-on-year in the first half of 2020 thanks to strong performances in industry (leading to a dramatic increase in gold exports) and agriculture.
- **The government has focused its limited crisis response resources on healthcare, food security, targeted support of vulnerable households, and tax benefits to small and medium-sized enterprises (SMEs).** Low-income households received cash transfers, and firms were granted tax holidays, free rent of state property, property tax exemptions and postponements of non-tax audits.
- **Tajikistan received a comprehensive foreign aid package.** This includes US$ 189.5 million in emergency financing from the International Monetary Fund (IMF), a US$ 52.5 million grant from the Asian Development Bank, a US$ 11.3 million grant from the World Bank, and debt relief of US$ 50 million under the G20 debt service suspension initiative.

Key priorities for 2021

- **The authorities should continue providing targeted support to vulnerable households and SMEs in the hardest-hit sectors.** There should also be a focus on preserving existing jobs, and creating new opportunities, for young workers and returning migrants, including through public work programmes.
- **Reforms need to continue to improve the business environment and attract foreign investment.** The focus should be on easing two key constraints for businesses: tax administration practices, and currency restrictions. The business environment is also hampered by governance deficiencies and a lack of a level playing field, which should be tackled to facilitate the flow of investment.
- **Fiscal and monetary discipline should be maintained.** The authorities should adhere to the targeted overall fiscal deficit of 4.4 per cent of GDP in 2021 and refrain from non-priority spending, while the central bank should continue exercising strong oversight of the banking sector to ensure confidence in the banking system.

Main macroeconomic indicators %

	2016	2017	2018	2019	2020 proj.
GDP growth	6.9	7.1	7.3	7.5	-1.0
Inflation (average)	5.9	7.3	3.8	7.8	8.0
Government balance/GDP	-9.0	-6.0	-2.8	-2.1	-6.0
Current account balance/GDP	-4.2	2.2	-5.0	-2.3	-7.5
Net FDI/GDP [neg. sign = inflows]	-3.5	-2.6	-2.9	-2.6	-0.1
External debt/GDP	68.9	77.2	79.4	80.3	n.a.
Gross reserves/GDP	9.4	18.0	17.1	18.1	n.a.
Credit to private sector/GDP	19.2	13.7	12.3	11.8	n.a.

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Covid-19: macroeconomic implications

Tajikistan's economy initially appeared to be relatively immune to the Covid-19 pandemic, but problems have arisen. With the first Covid-19 cases declared only at the end of April 2020, Tajikistan was able to introduce relatively mild containment measures, and did so later than most regional peers. Temporary restrictions included a ban on mass gatherings and closing of some local businesses, schools and kindergartens, but most SMEs were able to continue operating through much of the period. The economy was mainly affected by the disruption to transportation links with key trading partners and limited access to the Russian labour market. International arrivals halved in the first half of 2020 while remittances from Russia declined by around 15 per cent year-on-year in the same period, weighing on consumption, imports and the government's tax receipts.

Despite external pressures, Tajikistan's economy grew by 3.5 per cent year-on-year in the first half of 2020. Growth was driven by strong performances in industry (leading to a dramatic increase in gold exports) and agriculture. Freight transportation, hospitality, retail trade and services to households had a negative contribution to growth. The country's gold exports (to Switzerland) increased by 140 per cent year-on-year in US dollar terms. Excluding precious metals, exports took a major hit, declining by 22 per cent year-on-year. Tax revenues were 7 per cent lower than targeted in the first half of 2020, forcing the government to cut budget outlays to public management, industry and construction. The central bank reduced the policy rate stepwise from 12.25 per cent in December 2019 to 10.75 per cent in August 2020 in order to support domestic demand.

The exchange rate was mildly devalued. In response to deteriorating external accounts, the central bank devalued the exchange rate by 5 per cent in March 2020. Overall, the official exchange rate weakened by 6 per cent in the first three quarters of 2020. The gap between the official and parallel market exchange rate was 3.2 per cent at 30 June 2020. Inflation stood at 6.6 per cent year-on-year in September 2020 (slightly down from 8.1 per cent a year ago).

The economy is expected to go into a slight recession in the short term, with some recovery in 2021. The economy is forecast to contract by 1 per cent in 2020 but grow by 3 per cent in 2021, following expected economic recoveries in Russia and China. Risks are tilted to the downside, especially if a prolonged pandemic continues to affect key trading partners.

Policy response to Covid-19

The government's anti-crisis response focuses on food security, vulnerable groups, and tax benefits to SMEs. To prevent panic-buying and control prices, the government temporarily banned the export of wheat, rice, lentils, peas, mung beans, eggs, potatoes and meat. Price controls were introduced for key consumer goods and medical supplies, and essential imports were exempt from value-added tax. Vulnerable households received cash transfers equivalent to the minimum wage (around US$ 12 a week). Free medical care is provided to citizens diagnosed with Covid-19, along with sick leave and compensation benefits. Firms benefited from tax holidays, free rent of state property, property tax exemptions as well as postponements of non-tax audits. Public servant salaries, pensions and scholarships were increased by 10 to 15 per cent in September 2020. Health workers are to receive supplemental pay, while utilities tariff increases have been postponed until the end of 2020.

The central bank adopted an action plan to mitigate the impact of the Covid-19 pandemic. To free up liquidity for banks, in April 2020 the National Bank of Tajikistan (NBT) reduced reserve requirements for liabilities in local currency from 3 to 1 per cent and, in foreign currency, from 9 to 5 per cent. It exempted credit institutions from paying fees for using the settlement system. The NBT also recommended banks to waive penalties for affected businesses and individuals who struggle to repay their loans between May and October 2020. In addition, banks are also encouraged to prioritise lending to enterprises engaged in import-substituting activities.

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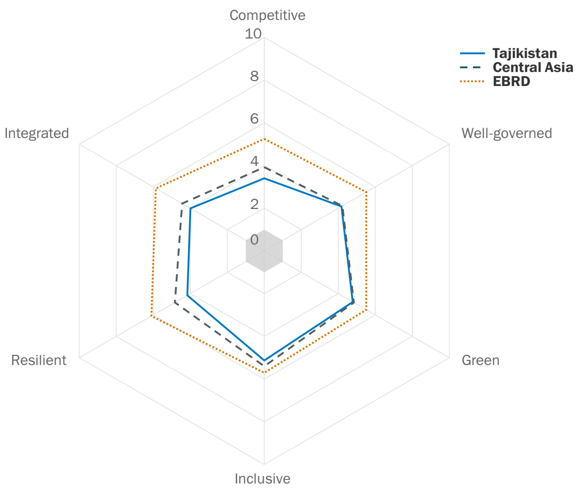
Policy response to Covid-19 is being supported by international financial assistance. Among others, Tajikistan received US$ 189.5 million in emergency financing from the IMF for budget support. The IMF estimates that a worsening in Tajikistan's external and fiscal positions will lead to a large fiscal and external financing gap in 2020 of around US$ 150 to US$ 400 million (2 to 5 per cent of GDP). The IMF assistance will provide a sizeable share of the financing needed to implement anti-crisis measures. The government also attracted a US$ 52.5 million grant from the Asian Development Bank, a US$ 11.3 million grant from the World Bank, and support from other development partners. The IMF and the authorities agreed on the implementation of fiscal consolidation measures of 2 per cent of GDP in 2021-22 to ensure debt sustainability. This will be achieved via a combination of revenue and expenditure measures to ensure that priority capital spending could be financed domestically to reduce reliance on external financing. In addition, Tajikistan received six-month debt relief from the IMF (amounting to US$ 10 million), with potential extensions of up to a maximum of two years from April 2020; debt relief around US$ 50 million was also provided under the G20 debt service suspension initiative.

Assessment of transition qualities (1-10)



Structural reform developments

A new Tax Code is being developed. This effort is being supported by international partners and is being designed in consultation with the private sector. Disruptive tax collection practices are a key challenge for Tajik businesses, and the private sector's engagement in the tax reform process is a positive development. The new Tax Code aims to simplify tax administration, reduce the tax burden, eliminate inconsistencies that allow for ambiguous interpretation and arbitrary application of many provisions, and incentivise businesses to move out of the informal sector. The draft Tax Code has been submitted to ministries and parliament for review and is expected to be finalised by January 2021.

Further steps have been taken to reform the energy sector. In 2019, the government adopted Resolution No. 389 of 2019, creating the Electricity Sector Regulation Department to serve as an independent sector regulator. The asset and inventory split between transmission and distribution, and functional unbundling of the national utility company Barki Tojik, were largely completed. Barki Tojik also proceeded with legal unbundling: in accordance with the government decree No. 330: OSHC "Barqi Tojik" was split into two companies: Shabakahoi Intiqoli Barq OJSC (transmitting electric networks) and Shabakahoi Taqsimoti Barq OJSC (electrical distribution network). As envisioned by the Ministry for Energy and Water Resources, the new companies are to become fully operational by the end of 2020, following the appointment of new management, and the establishment of separate balance sheets and income statements.