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REPUBLIC OF TAJIKISTAN

February 2022

2021 ARTICLE IV CONSULTATION—PRESS RELEASE; STAFF REPORT; AND STATEMENT BY THE EXECUTIVE DIRECTOR FOR THE REPUBLIC OF TAJIKISTAN

Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. In the context of the 2021 Article IV consultation with the Republic of Tajikistan, the following documents have been released and are included in this package:

- A **Press Release** summarizing the views of the Executive Board as expressed during its January 21, 2022 consideration of the staff report that concluded the Article IV consultation with the Republic of Tajikistan.
- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on January 21, 2022 following discussions that ended on November 3, 2021, with the officials of the Republic of Tajikistan on economic developments and policies. Based on information available at the time of these discussions, the staff report was completed on January 3, 2022.
- An **Informational Annex** prepared by the IMF staff.
- A **Debt Sustainability Analysis** prepared by the staffs of the IMF and the International Development Association.
- A **Statement by the Executive Director** for the Republic of Tajikistan.

The IMF's transparency policy allows for the deletion of market-sensitive information and premature disclosure of the authorities' policy intentions in published staff reports and other documents.

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PRESS RELEASE

PR22/44

IMF Executive Board Concludes 2021 Article IV Consultation with the Republic of Tajikistan

FOR IMMEDIATE RELEASE

Washington, DC – **February 18, 2022:** On January 21, 2021, the Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation[1] with the Republic of Tajikistan.

Tajikistan is recovering rapidly from the negative COVID-19 shock. After growing by 4.5 percent in 2020, the economy expanded by 8.9 percent in the first nine months of 2021 due to strong industrial activity and domestic demand, supported by public investment and robust remittance inflows. While the current account surplus has decline somewhat as imports pickup in line with the recovery, international reserves remain well above adequacy metrics. Inflation remains somewhat above the NBT's target range (6±2 percent) mainly due to higher global food and fuel prices.

As prospects have brightened, the stimulus provided by more accommodative fiscal and monetary policies during the pandemic has been gradually withdrawn in 2021. Banking system stability has improved with the closure of problematic banks, supporting the flow of credit to the private sector. Along with help from international partners, COVID vaccination rates have increased, and reported infection rates have remained low.

Looking ahead, the recovery is expected to continue. Real GDP growth is projected to come in at 7.0 percent in 2021, but moderate to 5.5 percent in 2022 as the impact of pent-up demand (reflecting a rebound in remittances) and base effects fade. Over the medium term, growth is projected to stay around 4 percent of GDP with inflation falling within the NBT target range. Risks to the outlook remain tilted to the downside due to uncertainty regarding the pandemic and regional spillovers. A new wave of infections (possibly associated with the deteriorating COVID situation in some key trading partners) could undercut the recovery. Regional security and geopolitical tensions could jeopardize economic prospects. From a domestic perspective, delayed SOE reforms, limited competition, structural rigidities, and incipient financial sector vulnerabilities could also derail growth and keep inflation elevated.

[1] Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. A staff team visits the country, collects economic and financial information, and discusses with officials the country's economic developments and policies. On return to headquarters, the staff prepares a report, which forms the basis for discussion by the Executive Board.

Executive Board Assessment[2]

Executive Directors agreed with the thrust of the staff appraisal. They commended the Tajik authorities' prompt policy response, which has mitigated the economic and health impact of the pandemic and underpinned a strong recovery. Given high uncertainty about the pandemic and limited fiscal space, Directors underscored that carefully calibrated policies and key structural reforms are needed to foster a more durable and sustainable recovery and safeguard macroeconomic stability.

Directors stressed the need for fiscal discipline to ensure that debt remains on a sustainable downward trajectory given the high risk of debt distress. They agreed that achieving the 2022 fiscal targets will require tight expenditure control and additional measures if revenue shortfalls emerge. Over the medium term, Directors recommended introducing an operational fiscal anchor, complemented with steps to phase out tax exemptions, broaden the tax base, and improve public spending efficiency and transparency.

Directors agreed that a restrictive monetary policy stance remains warranted given inflationary pressures. Noting the authorities' plans to transition to an inflation targeting regime, they emphasized that this will require further reforms, including a gradual move toward exchange rate flexibility over the medium term and a further upgrade of the central bank's governance framework.

Directors called on the authorities to continue strengthening the macroprudential policy framework and banking supervision, including by integrating beneficial ownership information into the supervisory process. They encouraged the authorities to enact the new AML/CFT law, complete the ongoing bank resolutions transparently, rebuild the buffers of the deposit insurance fund, and improve the crisis management framework.

Directors stressed the importance of prioritizing structural reforms to improve the business climate, attract investment, and support a sustainable recovery. They called for accelerating reforms across state-owned enterprises (SOEs), particularly to improve their governance and transparency, and gradually adjust electricity tariffs toward cost recovery while strengthening the social safety net to protect vulnerable populations. Directors encouraged adopting a public procurement law consistent with best international practices and implementing anti-corruption policies. They also called on the authorities to reengage with the Extractive Industries Transparency Initiative and to follow through with their adaptation strategies to enhance climate resilience. Directors noted that achieving the country's development goals calls for higher investments in healthcare, education, and infrastructure. They took positive note of the authorities' interest in a potential arrangement with the Fund to support their reform agenda.

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[2] At the conclusion of the discussion, the Managing Director, as Chairman of the Board, summarizes the views of Executive Directors, and this summary is transmitted to the country's authorities. An explanation of any qualifiers used in summings up can be found here: http://www.IMF.org/external/np/sec/misc/qualifiers.htm.

Table 1. Selected Economic Indicators, 2018–23

(Quota: SDR 174 million)

(Population: 9.3 million; 2019)

(Per capita GDP: US$857; 2019)

(Poverty rate: 26 percent; 2019)

(Main exports: mineral products, aluminum, cotton)

	2018	2019	2020	2021	2022	2023
				Est.	Proj.	
National accounts	(Annual Percent Change, unless otherwise indicated)					
Real GDP	7.6	7.4	4.5	7.0	5.5	4.5
Headline CPI inflation (end-of-period)	5.4	8.0	9.4	8.2	7.0	6.5
General government finances	(Percent of GDP, unless otherwise indicated)					
Revenue and grants	28.2	26.8	24.6	25.0	25.6	25.0
Tax revenue	20.6	19.9	18.2	20.2	20.2	20.2
Expenditure and net lending	30.9	28.8	28.9	27.0	28.3	27.5
Current	16.7	16.7	16.9	16.5	17.6	17.6
Capital	14.2	12.1	12.0	10.5	10.7	9.9
Overall balance (excl. PIP and stat. discrepancy)	1.6	1.5	-2.1	0.3	0.4	1.8
Overall balance (incl. PIP and stat. discrepancy)	-2.7	-2.1	-4.3	-2.0	-2.7	-2.5
Total public and publicly-guaranteed debt	46.3	43.1	50.1	46.5	43.5	42.0
Monetary sector						
Broad money (12-month percent change)	5.1	16.9	18.5	17.1	13.6	11.3
Reserve money (12-month percent change)	7.0	20.2	20.2	13.9	13.5	13.5
Credit to private sector (12-month percent change)	1.3	7.7	19.9	14.1	12.0	10.1
Refinancing rate (in percent, eop/ latest value)	14.8	12.3	10.8	...	...	...
External sector						
Current account balance	-4.9	-2.2	4.1	2.6	-1.0	-1.6
Trade balance (goods)	-24.3	-23.1	-17.6	-21.0	-25.1	-25.6
FDI (net)	3.2	2.3	0.4	1.4	1.4	1.4
Total public and publicly guaranteed external debt	37.5	35.5	43.5	39.1	38.2	37.2
Memorandum items:						
Nominal GDP (in millions of somoni)	71,059	79,110	84,579	96,382	107,948	119,513
Average exchange rate (somoni per U.S. dollar)	9.15	9.53	10.32	...	...	...

Sources: Data provided by the Tajikistan authorities, and Fund staff estimates.

INTERNATIONAL MONETARY FUND

REPUBLIC OF TAJIKISTAN

STAFF REPORT FOR THE 2021 ARTICLE IV CONSULTATION

January 3, 2022

KEY ISSUES

Context. With a strong recovery in train, the authorities are gradually withdrawing the policy stimulus released during the pandemic. Although debt is sustainable, there is a high risk of debt distress. At the same time, financing the Roghun dam project while implementing tax reform remains a key challenge. The financial sector has stabilized, but intermediation remains low. Risks to the outlook are tilted to the downside due to uncertainty on the pandemic and regional spillovers.

Key recommendations:

- **Rebuild fiscal buffers while continuing to normalize monetary conditions.** Limit the annual fiscal deficit to –2.5 percent of GDP over the medium term to ensure a declining public debt path. Tight expenditure control and spending efficiency will be key. Over the medium term, greater exchange rate flexibility is warranted.

- **Strengthen the financial sector's resilience to shocks.** Complete the resolution of insolvent banks to minimize costs and ensure creditor rights. Rebuild the Individuals Deposit Insurance Fund's buffers and improve bank resolution and crisis management frameworks.

- **Accelerate governance reforms to enhance transparency and performance.** Implement public financial management, procurement, and SOE governance reforms along with AML/CFT legislation; strengthen financial sector regulation and supervision; and further enhance NBT governance and capacity.

- **Bolster resilience to climate-related risks.** Implement readiness plans and adaptation strategies in key sectors such as agriculture, water, and energy. Raise tariffs to improve SOE cost recovery and incentivize efficient electricity usage.

- **Promote inclusive, diversified, private sector-led growth**. Reduce administrative burdens, and improve governance and transparency, including to strengthen anti-corruption efforts. Foster entrepreneurship, prioritize investment, and better targeting of social protection to nurture talent; raise productivity and support sustainable growth.

Approved By
Subir Lall (MCD) and Daria Zakharova (SPR)

The staff team comprised Selim Elekdag (head), Kevin Ross, Faten Saliba, Farid Talishli, Kalin Tintchev, Maxwell Tuuli (all MCD), Sergei Dodzin (MCM), Francisca Fernando (LEG), Dmitry Plotnikov (SPR), Jami Chiniev, and Nailya Menlasheva (both Resident Representative office). Alessandro Santoni (MCM) and Juan Yepez (SPR) participated in selected meetings. During October 18-November 3, 2021 the team met remotely with the First Deputy Prime Minister, the Economic Advisor to the President, the Chairman of the National Bank of Tajikistan, the Minister of Finance, the Minister of Industry and New Technologies, the Minister of Economic Development and Trade, other senior governments officials, and representatives of the private sector. The team was supported from headquarters by Shant Arzoumanian and Svetlana Zolotareva. Piotr Trabinski (Executive Director), Marcel Peter (Alternate Executive Director), and Ilhomjon Rajabov (Advisor, OED) participated in selected discussions.

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CONTEXT

1. **Tajikistan has made significant progress in reducing poverty over the last two decades**.[1] With many households having a family member working abroad, remittances remain high at around 30 percent of GDP. These inflows offset persistent low employment and underpin consumption and growth. Despite gains in poverty reduction, Tajikistan still ranks relatively low on the *2020 Human Development Index*. Moreover, the economy has remained undiversified with a narrow export base—primarily cotton, aluminum, and increasingly gold.

2. **Completing the Roghun Hydropower Project is a key part of Tajikistan's development strategy.** Tajikistan has substantial water resources, but like much of the region, lacks a reliable supply of electricity. Roghun, a 3,780-megawatt dam first started in 1976, is expected to be completed by around 2030 at an estimated cost of approximately $4.8 billion (59 percent of 2020 GDP). However, there is high uncertainty over future financing, final costs, and revenue flows—all of which make fiscal policy planning difficult.[2]

3. **The government is interested in developing their extractive industry economy.** With large proven mineral reserves, gold production and other mining activities have expanded (Annex III). Gold purchases by the authorities have been used to rebuild FX reserves, recapitalize the National Bank of Tajikistan (NBT), and provide budget support. There are plans to expand investment, but attracting well-known international players has been difficult.

4. **The authorities have made some progress in implementing past Fund advice and are generally adhering to commitments made under the May 2020 Rapid Credit Facility (RCF).** However, efforts to reform the functioning of the FX market, and to improve the business climate, governance and transparency have lagged, resulting in resource misallocations that have held back Tajikistan's growth potential. Therefore, progress in these reform areas will help ensure more sustainable and equitable growth going forward.

RECENT ECONOMIC DEVELOPMENTS

5. **A strong recovery is underway**. The authorities implemented several policy measures during the pandemic to protect lives and livelihoods, and to cushion the blow to the economy (Box 1). Official data indicates that growth dipped to 4.5 percent in 2020 from 7.4 percent a year earlier, reflecting the impact of the pandemic. Reportedly, the economy expanded by 8.9 percent in the first nine months of this year, driven by services as well as the industrial (including mining) and construction sectors. Inflation remains above the NBT's target range (6±2 percent) mainly due to higher imported food and fuel prices amid a rebound in economic activity.

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[1] A key objective of the National Development Strategy 2030 is to increase per capita incomes by 3.5 times and to cut poverty by half.

[2] Plans to export electricity to higher paying India and Pakistan markets via Afghanistan have been complicated by recent developments in Afghanistan. At the same time, climate change is rapidly impacting environmental conditions.

6. COVID vaccinations have recently ramped up. The authorities have received vaccine donations from China, Russia, the European Union, and the United States, have budgeted about $10 million for new purchases, and are benefitting from the *UN's COVAX* and *ADB's APVAX* facilities. As of mid-November, there have been only two new official COVID cases reported.[3]

7. The 2020 current account moved into surplus (4.1 percent of GDP) given high gold exports and import compression. The NBT engineered a 16.6 percent depreciation of the TJS/US$ exchange rate, but with large trading partner inflation differentials, the real effective exchange rate (REER) only depreciated by 2 percent. A smaller 2.6 percent of GDP current account surplus is expected in 2021 as imports pickup in line with the expansion.

8. Monetary policy has begun to normalize. As of mid-November 2021, the refinancing rate has been raised by 250 bps in four steps, reserve requirements have been restored to their pre-COVID levels, and exchange rate (ER) depreciation has been more restrained. Reserves have risen, on the back of the NBT's gold purchases from domestic producers, to over 8 months of import cover, as well as from timely support from international partners, including the IMF.

9. The overall fiscal balance is set to improve. The 2020 fiscal deficit widened by 2.2 percentage points to –4.3 percent of GDP due mostly to a decline in tax revenues as activity sagged. For the most part, COVID related expenditures were accommodated under expenditure reprioritization. For 2021, the budget deficit is expected to improve to –2.0 percent of GDP, reflecting a combination of higher tax revenues as the recovery takes hold, and lower expenditures, signaling an unwinding of COVID measures.[4] Unexpected funding shortfalls in late 2021 delayed outlays and required the Roghun Joint Stock Company to issue an unplanned TJS 900 million bond (approximately 1 percent of GDP), which was placed in the pension fund. Taken together, the debt-to-GDP ratio, which had risen by 7 percentage points to 50.1 percent in 2020 financed by new donor disbursements and IMF support, is set to fall back to 46.5 percent in 2021.

Tajikistan. General Government Operations, 2019–22
(In Percent of GDP)

	2019	2020	2021	2022
	Act.	Act.	Est.	Proj.
Overall revenues and grants	**26.8**	**24.6**	**25.0**	**25.6**
Tax revenues	19.9	18.2	18.9	18.2
Nontax revenues	4.7	4.3	3.5	3.5
Grants	2.2	2.1	2.6	3.9
Total expenditure and net lending	**28.8**	**28.9**	**27.0**	**28.3**
Current expenditures	16.7	16.9	16.5	17.6
Capital expenditures	12.1	12.0	10.5	10.7
Overall balance	**-2.1**	**-4.3**	**-2.0**	**-2.7**
Public debt to GDP	43.1	50.1	46.5	43.5

Sources: Tajikistan authorities, and Fund staff estimates.

10. Some progress has been made in stabilizing the financial sector. NBT support measures underpinned banking system stability and supported private sector credit growth during the pandemic. The NBT closed five banks in 2021 (two formerly systemic, namely AIB and TSB, and three very small institutions with deposits less than 1 percent of total deposits). While bank capital

[3] Officially, approximately 22 percent of the population is fully vaccinated (which corresponds to about 40 percent of the adult population) as of mid-November 2021. Moreover, approximately 38,000 vaccine doses are being administered daily, which is expected to continue through 2022 as vaccines are received from various sources.

[4] All but two of the 2020 COVID fiscal measures lapsed in 2021. A TJS 500 a month transfer to select households, and a SME loan facility targeting female entrepreneurs, remain in effect.

adequacy ratios have improved, dollarization levels, nonperforming loan (NPL) ratios, and concentration risks remain elevated.

OUTLOOK AND RISKS

11. The recovery is expected to continue, but uncertainty remains high. Barring another wave of COVID infections, the economy is estimated to grow by 7.0 percent in 2021, underpinned by the global economic recovery, strong industrial activity, and domestic demand spurred on by public investment. Growth is projected to moderate to 5.5 percent in 2022 as the impact of pent-up demand (reflecting a rebound in remittances) and base effects gradually fade. Over the medium term, growth is projected to settle at 4 percent, with inflation falling within the NBT target range. With gold exports in line with gold production, and the terms-of-trade declining from the 2021 peak, the current account is envisaged to fall into a deficit in 2022, while international reserves are projected to remain above 6½ months of import cover throughout the medium-term.

12. Risks to the outlook remain tilted to the downside due to uncertainty on the pandemic and regional spillovers. Importantly, given their correlated nature, these risks can be mutually reinforcing (see the *Risk Assessment Matrix*, Annex I). A new wave of infections (possibly associated with the deteriorating COVID situation in some key trading partners) could undercut the recovery—highlighting the importance of increasing vaccination rates, particularly in rural regions. Regional security and geopolitical tensions could jeopardize economic prospects, including by suppressing exports. Tajikistan's agricultural sector is especially exposed to climate-related risks. From a domestic perspective, delayed SOE reforms, structural rigidities (such as limited competition), and incipient financial sector vulnerabilities could also derail growth and keep inflation elevated. Given gold's countercyclical properties, the rising value of gold exports, and gold related revenues can act as a natural hedge, mitigating some of these risks.[5]

13. The authorities held a slightly more optimistic view regarding the pace of the recovery and medium-term growth prospects. They agreed that the level of uncertainty was elevated and expressed concerns that regional security developments could aggravate existing risks, including those associated with the pandemic. However, they noted that their ongoing vaccination campaign, combined with efforts to mobilize resources, was significantly increasing inoculation rates. The authorities also thought the medium-term prospects would be more favorable, including because of ongoing infrastructure projects.

[5] The value of gold tends to rise during periods of negative economic shocks. For example, during the 2020 COVID pandemic, gold prices rose by some 30 percent, allowing gold producing countries like Tajikistan to experience higher export and gold-related revenues, see Annex III for further details.

POLICY DISCUSSIONS

There was consensus that the main challenge facing Tajikistan is how to calibrate policies to continue to support the recovery, while at the same time bolstering its durability through reducing debt, inflation, and structural rigidities. In this context, the consultation focused on policies to enhance near-term economic resilience and to foster more sustainable medium-term growth. The overarching themes centered around: (1) enhancing governance (including transparency) and (2) strengthening policy frameworks to ensure debt sustainability, safeguard financial stability, and modernize ER and monetary operations.

A. Ensuring Debt Sustainability and Enhancing Fiscal Transparency

Background

14. Tajikistan's debt is currently assessed as sustainable, but there is a high risk of debt distress in the context of limited fiscal space. The debt-to-GDP ratio is projected to decline to 40.0 percent by 2026. However, under the baseline, the external debt service-to-exports ratio breaches its threshold at Eurobond payment due dates (2025-27), contributing to a higher external risk rating. At the same time, vulnerabilities have increased, and higher fiscal outlays (including higher health-related expenditures to manage another possible outbreak), residual bank resolution costs, SOE-related contingent liabilities, and resorting to commercial borrowing, could increase public debt over the medium term.

15. A comprehensive reform of the tax system is expected to enter into force in 2022. The new tax code contains some positive features (for example, taxpayer protections and administrative reforms). However, it also includes lower tax rates (without base broadening) and new tax expenditures, which are not in line with commitments under the RCF and will likely result in revenue losses that would undermine development and social spending.

16. Reforms in the large SOE sector are ongoing. The authorities have already unbundled the operations of *Barki Tojik* (BT), the vertically integrated state-owned energy company and the largest SOE, to increase efficiency and transparency, but have yet to finalize the distribution of fixed assets (and liabilities). Despite an increase based on a new methodology, tariffs are still below cost recovery and export parity estimates. Likewise, BT accounts for over 90 percent of SOE losses with significant arrears to creditors and suppliers (approximately 6 percent of GDP in 2020).

Staff Views

17. Adherence to fiscal discipline is needed to create fiscal space and ensure that debt remains on a downward trajectory. The 2022 budget implies an expansionary fiscal stance, which is broadly appropriate given the envisaged moderation in growth.[6] Preliminary estimates suggest

[6] The relatively larger share of grants secured by authorities in 2022 is expected to be used partly to finance large infrastructure projects.

that the fiscal deficit will widen to around –2.5 to –2.7 percent of GDP in 2022. However, achieving this fiscal objective will require marked expenditure restraint. Moreover, notwithstanding forthcoming administrative reforms, there is a risk of greater revenue shortfalls (given the new tax code) which would need to be promptly offset with concrete contingency measures (for instance, higher mining royalties, lower non-priority capital expenditures) to align with the assumptions in the budget.

18. Over the medium term, an operational fiscal anchor, which limits fiscal deficits to –2.5 percent of GDP, would foster fiscal discipline and be in line with RCF commitments. This operational framework would entail committing to a sustainable Roghun financing envelope as well as improving spending prioritization, efficiency, and transparency.[7] Importantly, phasing out ineffective tax exemptions should be considered to ensure that changes to the tax code are revenue neutral over the medium term. Likewise, any fiscal loosening that results in material deviations from the fiscal anchor should be accompanied by a combination of revenue and expenditure measures to uphold debt sustainability.

19. Reforms across the SOE sector should proceed apace to improve performance.

- Meetings of the *Coordinating Council for Fiscal Risk Management* (FRM) and publication of the annual *SOE-Fiscal Risk Statement (FRS)* should resume, and the new SOE FRM reform strategy should be finalized. The implementation of the Ministry of Finance's SOE Monitoring Department FRM manual should commence with a focus on enhancing transparency, governance, and risk management frameworks. Identifying and focusing surveillance on key public interest entities is critical. Likewise, implementation of the revised SOE Law should proceed with a focus on the disclosure of quasi-fiscal activities and adoption of international reporting standards.

- Turning to *Barki Tojik (BT)*, the process to fully unbundle operations should be expedited, and given the economic recovery, gradual increases in electricity tariffs should resume and be accompanied by a strengthening of the social safety net to protect vulnerable populations. Likewise, a plan to clear BT's arrears to suppliers and to ensure that all loans from banks are current, needs to be developed. Gradually applying market electricity rates to the *Tajik Aluminum Company*, which consumes a sizeable share of Tajikistan's electricity, would also improve BT's financial health.

- Consideration should be given to privatizing ineffectual SOEs over the medium term. Most of the SOEs struggle to make a profit, utilize outdated management structures, and need substantial infrastructure investments. Many are operating at low capacity rates with outdated technology. Attracting private sector investment and know-how is critical.

[7] In line with their RCF commitments, this implies that the authorities should avoid non-concessional borrowing until Roghun power purchase agreements have been finalized (while debt remains sustainable).

20. Structural fiscal reforms should focus on improving governance and transparency.

- Achieving Tajikistan's development goals will require substantial investments in health care, education, and infrastructure. To create fiscal space for these outlays, efforts are needed to reprioritize expenditures and strengthen public spending efficiency. Better targeted social spending with outcome-based targets would help to reduce poverty and inequality at a lower budgetary cost (Annex IV).

- Tajikistan scores poorly on fiscal transparency and budget oversight indicators. Direct no-bid contracts and leases, and opaque procurement processes should be avoided. Capital spending is elevated with limited control. Thus, upgrading the appraisal, selection, and monitoring process for public investments is critical. Advancements in public financial management including a public investment management assessment and a fiscal transparency evaluation, coupled with publishing more timely and comprehensive fiscal data, would enhance macro-fiscal analysis and outcomes, and increase accountability and transparency across government.

- Reengagement with the *Extractive Industries Transparency Initiative (EITI)* should be pursued to increase budget transparency regarding the flow and use of revenues emanating from the mining activities. This would raise confidence in the sector and help to encourage needed foreign investment. Given Tajikistan's natural resource wealth, extractive industries can be a key growth driver and a source of budget revenue.

Authorities' Views

21. The authorities underscored their commitment to limit the fiscal deficit to –2.5 percent of GDP in line with their RCF commitments. They understood the desire to keep tax policy reform revenue neutral, but argued that regional tax competition had incentivized business relocations, eroding their tax base. In their view, disciplined spending controls and selected tax adjustments (on immobile bases) would allow them to continue to focus on priority infrastructure projects, while retaining a commitment to the fiscal deficit target over the medium term. These steps would reduce debt and be consistent with the spirit of their RCF commitments. They also noted that, while not envisaged, any deviations from their deficit targets could be met with cuts to non-priority capital expenditures. The authorities also reaffirmed their commitment not to contract new non-concessional external borrowing in line with their pledges under the RCF. While they agreed with the need to increase budget transparency, and reform social spending programs to achieve SDG goals, they noted that SOE governance reforms and tariff increases should be implemented gradually over the medium term. There was agreement on the need to responsibly manage the country's natural resource wealth.

B. Strengthening Exchange Rate and Monetary Policy Frameworks

Background

22. The external position in 2021 is broadly in line with the level implied by medium-term fundamentals and desirable policies. Accounting for the cyclical position and temporary factors (including the exceptional surge in gold exports resulting from the conversion of monetary gold into FX reserves) results in an adjusted CA balance of –4.2 percent of GDP in 2021, which is within the range of the CA norm (Annex II). Accordingly, the REER is not far from its equilibrium level, and at over 8 months of import cover—bolstered by the SDR allocation—reserves are deemed adequate.

23. The NBT plans to gradually transition to inflation targeting (IT). Modernization efforts are ongoing. However, monetary transmission remains weak due primarily to underdeveloped money markets. According to the IMF AREAER, the de jure ER arrangement is managed floating, while the de facto arrangement is classified as stabilized. Tajikistan maintains an exchange restriction and two multiple currency practices (MCPs) subject to Fund approval under Article VIII, Section 2(a) and Section 3 of the IMF's Articles of Agreement.[8]

24. The authorities are making progress in implementing the 2021 safeguards recommendations. The NBT is no longer extending any new credit to the government at below market interest rates. The membership of the NBT audit committee was amended to include only non-executive Board members. In addition, the NBT is finalizing drafting amendments to the NBT Law, in consultation with the IMF staff, for further submission to the government to strengthen central bank operational autonomy and governance.[9]

Staff Views

25. Monetary conditions should continue to remain restrictive. The NBT appropriately raised interest rates and reserve requirements in 2021. Inflation and inflation expectations, however, remain above the NBT's target range, against a background of strong economic growth, surging remittance flows, excess liquidity, and volatile global food and fuel prices. Staff noted that gradually repatriating and auctioning off some of the FX proceeds from the NBT's gold sales would help to absorb excess liquidity and build a deeper local FX market.

26. The planned transition to an IT will require resolute reform efforts in line with IMF TA. Monetary aggregates should continue to be used as an interim anchor during the transition. To improve liquidity management, reserve averaging for local currency reserve requirements should be introduced. Moving to price-based FX auctions, improving transparency on FX market transactions, and executing public-sector transactions at prevailing market rates, would help reduce FX shortages and could facilitate the elimination of the exchange restriction and multiple currency practices. In

[8] See Informational Annex for further details.

[9] Staff is following up on the implementation of other safeguards recommendations to enhance the internal audit and risk management functions, as well as controls in the IT security area.

addition, a gradual transition to greater FX flexibility would allow monetary policy to focus more directly on inflation stabilization. Legal amendments to the NBT Law should be finalized to enhance the NBT's autonomy and governance framework. Recent NBT efforts to strengthen the central bank's equity position and to diversify its international reserves through the proactive sale of gold are welcome.

Authorities' Views

27. There was agreement that monetary policy needed to stay restrictive given lingering inflationary pressures. The NBT stressed that they stand ready to guard against inflationary shocks becoming entrenched. They also noted that the steady increases in the refinancing rate and reserve requirements provided policy space to respond to adverse external shocks. While the NBT agreed to some refinements in the functioning of the FX market, they did not think the environment was conducive for greater ER flexibility in the near term. The NBT broadly concurred with staff's external sector assessment and confirmed that they plan to save the SDR allocation to boost reserves. Moreover, they stated their commitment to continue to enhance the NBT's governance and independence and expressed a desire for additional TA support as they transition to IT over the medium term.

C. Safeguarding Financial Stability

Background

28. Notwithstanding recent advances, the financial sector continues to face challenges. Reported financial soundness indicators show some improvements in 2021. Capital adequacy ratios have risen, and, despite a recent increase in provisioning, the banking system remains profitable. However, credit risk remains a key vulnerability, with NPLs (excluding AIB/TSB) still accounting for nearly 15 percent of total loans. At the same time, dollarization and credit concentration levels (including to SOEs) remain elevated, reflecting the legacy of weaknesses in governance, risk management, and supervision. More generally, financial intermediation still plays a relatively limited role in supporting economic growth (Box 2).

29. The authorities have been taking concrete steps to improve the AML/CFT framework. Tajikistan's AML/CFT framework was assessed in 2018 by the *Eurasian Group on Combating Money Laundering and Financing of Terrorism (EAG),* which identified technical compliance deficiencies and effectiveness challenges which have contributed to ongoing pressures on correspondent banking relationships (CBR). To strengthen their AML/CFT regime, the authorities have enacted revisions to several laws and have sought TA, including from Fund staff.

Staff Views

30. The AIB and TSB bank resolutions should be completed swiftly and transparently to minimize costs while ensuring adequate protection of creditor rights. The two banks' licenses have been revoked, liquidators have been assigned, and appraisals of eligible collateral and creditor lists have been submitted to courts for approval. To ensure transparency and protection of creditor rights, the authorities should publish a detailed report on the full costs of resolving the banks, and who in the end will bear them. Looking ahead, bank resolution and crisis management frameworks need to be revised in line with international standards.

31. **Strengthening financial supervision and the macroprudential policy framework would increase resilience to external shocks**. As COVID-related measures are rolled back, there is a risk that the health of the financial system could weaken, and problem loans could increase. Thus, the NBT should increase the intensity and rigor of supervision, including the early intervention process, and ensure that banks maintain prudent asset classification, provisioning, and credit risk management practices. Banks with still high NPLs should continue to adhere to their NPL reduction plans. Supervisory stress tests suggest that credit risk remains the main source of risk to financial stability. Supervisors should continue discussing capital trajectories and dividend or share buy-back plans with each bank in the context of the normal supervisory cycle. For their part, banks should consider postponing dividend payments to preemptively strengthen capital buffers and increase their resilience to shocks. In addition to previous macroprudential de-dollarization measures (for example, higher risk weights or capital charges for FX loans), the authorities could consider measures to limit FX lending to unhedged corporate borrowers. A full diagnostic of financial stability risks and TA needs will be undertaken by the forthcoming Financial System Stability Review (FSSR).

32. **Beneficial ownership (BO) disclosure requirements need to be fully incorporated into the supervisory process to strengthen the monitoring of related party risks (RPTs)**. Governance deficiencies, including RPTs, were a prime factor that led to the ultimate demise of the two banks (AIB/TSB)—and current high NPL levels. In response, the NBT strengthened BO disclosure requirements. To effectively manage RPT risks going forward, it is important to fully integrate this information into the supervisory process (including by empowering supervisors to conduct and act on shareholder suitability assessments) and keep related party exposures within regulatory limits.

33. **Enacting a new AML/CFT law, with Fund TA support, will help efforts to address CBR pressures and the anti-corruption agenda.** The law is envisaged to be better aligned with international standards and address issues that are important to correspondent banks (for example, transparency of beneficial ownership information). An improved AML/CFT law will also support anti-corruption efforts, by helping to prevent the laundering of proceeds of illicit activities.

34. **The Individuals Deposit Insurance Fund (IDIF) should be placed on a firm footing**. IDIF assets appear sufficient to cover liquidation-related payouts (approximately TJS 200 million), but its resources would be significantly reduced. While a backstop funding mechanism has already been put in place, raising insurance premiums, and revising the IDIF investment strategy would help rebuild buffers over the medium term.

Authorities' Views

35. The authorities stressed their commitment to supervisory vigilance and a careful monitoring of systemic risks. Banks will be required to adhere to their NPL reduction plans and prudent BO disclosure requirements. The NBT is also considering regulatory adjustments which will fortify the reporting of concentration and FX risks. Recognizing the importance of upgrading the AML/CFT framework, including in the context of addressing CBR pressures, the NBT is prioritizing efforts to adopt a new AML/CFT law with Fund TA support. Regarding the AIB/TSB bank resolutions, the authorities agreed with staff recommendations, but stressed that the liquidators bear the responsibility for its successful completion and would be best placed to report on associated costs. Nevertheless, IMF TA could help strengthen the bank resolution framework. Finally, they noted that the planned increase in insurance premiums will bolster the IDIF's financial viability, but its investment policy is currently constrained by a lack of suitable instruments.

D. Enhancing Governance, Transparency, and Sustainable Growth

Background

36. Despite some recent progress, Tajikistan still scores below peers on governance, business environment, competitiveness, and transition quality indicators. Weaknesses in these areas impede the efficient allocation of resources, limiting private sector led growth and development. The size of the state remains large, with support to struggling SOEs crowding out more growth-enhancing investment. The result is high informality and emigration, limited FDI, weak entrepreneurship and SME development, and low productivity. The government is in the process of reforming the public procurement law, which is a key part of Tajikistan's anti-corruption and public fiscal management reform strategies. They have also established an anti-corruption agency and developed a National Anti-Corruption Strategy (2013–20). However, a new amnesty-repatriation law has been passed which allows misappropriated funds related primarily to tax infractions to be legalized.[10]

37. The authorities launched a National Climate Change Adaptation Strategy (NCCAS) in 2017. Tajikistan is susceptible to climate change with one of the risks being the intensity and frequency of droughts that disproportionately impact vulnerable households (Annex V). At the same time, the agriculture sector—the main employer and a key driver of growth—is exposed to climate-related risks which jeopardize food security. In May 2021, torrential rains triggered a severe cascade of floods, landslides, and mudflows, which according to estimates, adversely affected over 25,000 people, making it one of the worst such disasters over the last decade.

[10] This law has been scrutinized by the EAG to ensure it meets the FATF's principles with respect to voluntary tax compliance programs.

Staff Views

38. Strengthening governance and transparency frameworks would support higher, inclusive, and more productive investment and growth. A cross-cutting theme is how weaknesses in these areas impede Tajikistan from realizing its full growth potential. Deficiencies arise, inter alia, in the context of inefficient SOEs; public spending; opaque ER operations; limited competition; and financial sector and central bank governance. Reforming the public procurement law in line with best international practices, and implementing actionable anti-corruption policies (for instance, asset declaration by public officials) is critical. Strengthening the overall AML/CFT law and enacting a new AML/CFT framework would also help in this regard. The Amnesty Law should follow the FATF's Principles for Voluntary Tax Compliance to ensure effective application of AML/CFT preventive measures and ensure that there are no exemptions.

39. To bolster resilience to climate-related risks, the authorities should follow through with their adaptation strategies. The NCCAS notes the urgency of economic diversification to increase rural resilience and to reduce food insecurity. The 2020 Readiness and Preparatory Report for Adaptation Planning focuses on mainstreaming adaptation in priority sectors such as agriculture, water, and energy. In this context, raising tariffs would improve BT's cost recovery and would also help more efficient electricity usage.

Authorities' Views

40. The authorities indicated that a new 2021-30 Anti-Corruption Strategy was recently finalized.[11] It focuses on eradicating corruption across property management, procurement, and government services. They reported some progress on e-procurement, but noted it would take time to hire and train specialists, staff a dedicated agency, and complete the e-platform. Similarly, they are still working on the new Public Procurement Law, completing by-laws, and making sure it is harmonized with other legislation. On a positive note, they have created registers of qualified as well as unqualified providers. Regarding asset declarations, they noted that they collect these from all public officials and that this information is provided to the tax authorities.

41. They acknowledged the importance of climate-related risks. The authorities agreed with staff that adaptation efforts, such as policies to diversify the economy, are critical to mitigate the impact from climate-induced shocks. Going forward, the government plans to redouble efforts to broaden the industrial base, promote higher valued-added production, and accelerate agricultural diversification to increase resilience to climate risks.

STATISTICAL ISSUES

42. Enhanced statistical reporting would aid economic decision making. Priority areas include strengthening of *SNA* data, completing migration of fiscal accounts to *GFSM-2014 standards*,

[11] The authorities passed an Anti-Corruption Law in August 2020.

and enhancing debt statistics by broadening coverage to include SOE debt. The authorities noted progress in compiling preliminary quarterly GDP estimates since 2019 based on a new methodology developed in collaboration with IMF TA.

STAFF APPRAISAL

43. The economy is rebounding from the COVID-19 shock. The authorities responded promptly at the onset of the pandemic to protect public health while mitigating the fallout on economic activity. Recent growth momentum has been supported by strong industrial activity and domestic demand underpinned by public investment and robust remittance inflows. A smaller current account surplus is expected in 2021, reserves are above adequacy metrics, and the external position is broadly in line with the level implied by medium-term fundamentals and desirable policies. Risks to the outlook remain skewed to the downside due to uncertainty on the pandemic and regional spillovers.

44. Fiscal discipline is needed to ensure that debt remains on a downward trajectory. Although Tajikistan's debt is currently assessed as sustainable, there is a high risk of debt distress. The 2022 budget limits the fiscal deficit to approximately –2.5 percent of GDP—in line with RCF commitments. However, given spending pressures, achieving this goal will require tight expenditure control. Despite administrative reforms, there is also a risk of revenue shortfalls which would need to be promptly corrected with contingency measures. Over the medium term, an operational fiscal anchor, limiting fiscal deficits to –2.5 percent of GDP, should be considered to enshrine fiscal discipline in line with RCF plans. Phasing out tax exemptions, committing to a Roghun financing envelope which is fully consistent with debt sustainability, and improving spending prioritization, efficiency, and transparency, should be key aspects of this framework. In this context, undertaking a public investment management assessment and a fiscal transparency evaluation would be invaluable.

45. Reforms across the SOE sector need to be accelerated to enhance transparency and performance. The process to fully unbundle BT operations should be completed swiftly and increases in electricity tariffs should resume along with the strengthening of the social safety net. Likewise, BT's financial health would be improved by gradually applying market electricity rates on the Tajik Aluminum Company. More generally, transparency across the sector needs to be enhanced, including by resuming the disclosure of SOE-related risks.

46. Restrictive monetary conditions remain warranted. The recent increase in the monetary policy rate was appropriate. However, given that inflation and inflation expectations remain above the NBT's target range, and given the emergence of strong domestic demand and volatile global commodity prices, the NBT needs to guard against inflation risks becoming entrenched. The transition to IT will require further reforms, including greater ER flexibility over the medium term, which would help monetary policy to focus on inflation stabilization more directly. Although efforts to strengthen NBT's equity position and to diversify its international reserves are welcome, additional reforms are needed to strengthen the NBT governance framework.

47. Notwithstanding recent improvements, enhancements to supervision and macroprudential policy frameworks need to proceed apace to bolster resilience to external shocks. The intensity and rigor of bank supervision should be augmented with due focus on credit, concentration, and FX risks. Beneficial ownership information should be fully integrated into the supervisory process to effectively manage risks from related party transactions. In addition to existing macroprudential de-dollarization measures, the authorities could consider measures to limit FX lending to unhedged corporate borrowers. Enacting a new AML/CFT law would further strengthen the overall legal and supervisory framework and help efforts to address CBR pressures.

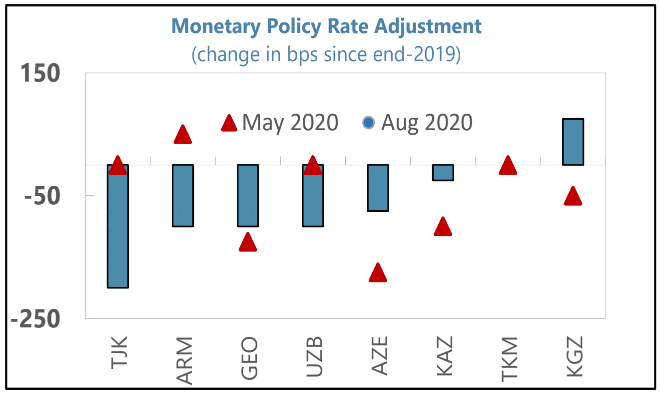
48. Completing the AIB and TSB bank resolutions in an expeditious and transparent manner would help to minimize costs and protect creditor rights. In particular, a detailed report on the full costs of resolving the banks, and who in the end will bear these costs, should be published. The IDIF needs to rebuild buffers over the medium term by raising insurance premiums and revisiting its investment strategy. Furthermore, bank resolution and crisis management frameworks should be revised in line with international standards.

49. Implementing governance and transparency reforms would support higher and more productive investment and growth. Despite advances, weaknesses in governance and transparency across the public sector continue to impede the efficient allocation of resources and limit growth. Reform priorities include adoption of the new public procurement law in line with best international practices, elimination of opaque direct contracting by SOEs, and implementation of actionable anti-corruption policies. The assets repatriated under the new Amnesty Law should be fully in line with AML/CFT principles. The authorities should continue to follow through with their adaptation strategies to enhance resilience to climate-related risks.

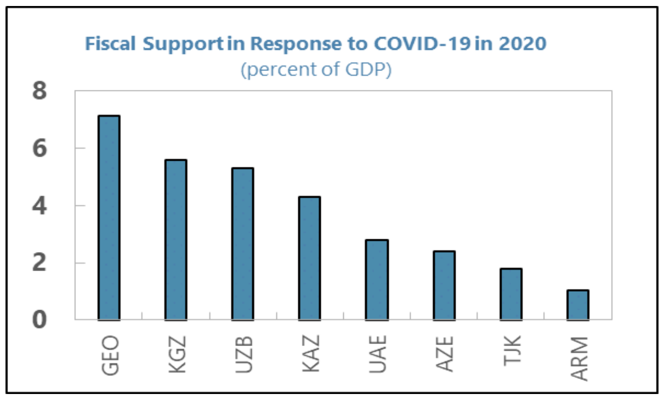
50. It is proposed that the next Article IV consultation be held on the standard 12-month cycle.

Box 1. COVID-19: Policy Response

During the pandemic, the authorities skillfully implemented a range of policy measures to protect public health, and the economy.



- **The NBT lowered the refinancing rate by 200 bps, reduced reserve requirements, increased FX liquidity provisions, and engineered a 16.6 percent depreciation of the currency vis-à-vis the US dollar.** Banks were asked to restructure loans and avoid dividend distributions and certain supervisory sanctions were temporarily waived. The monetary policy response was larger than most other countries in the region.

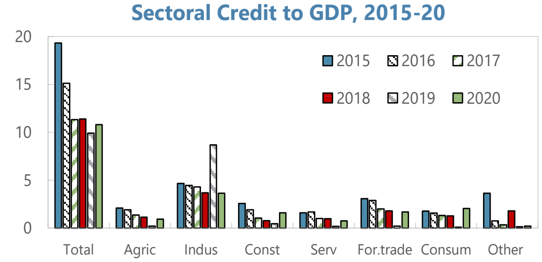


- **Fiscal policy entailed tax breaks and other targeted relief measures, VAT exemptions on medical supplies and food, transfers to vulnerable households, delayed tariff increases, and financial resources for the SME fund.** Grain, seed, and fuel support was provided to farms to increase food security, and Targeted Social Assistance program was extended to all 68 districts. Health expenditures rose by about 1 percent of GDP, while priority expenditures rose by 5 percentage points to 44 percent of GDP. The surprising buoyance of remittance flows and the natural hedge provide by gold revenues also helped offset the negative impact of the pandemic and lowered the cyclical demands on the budget.

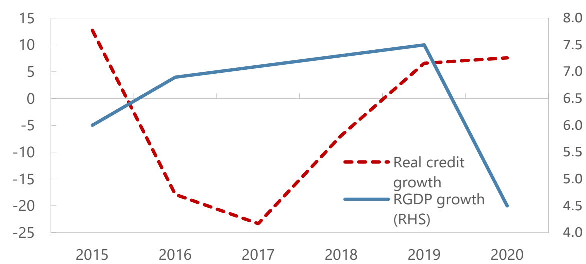
Box 2. Macro-Financial Linkages and Spillovers

- **Legacy of the AIB/TSB banking resolution.** The crisis and bail out of the two large systemic banks in 2016 was a sizable shock to the financial system. It precipitated a broad-based consolidation and decline in credit, from which the system is only now gradually recovering.
- **Low level of financial intermediation.** The credit-to-GDP ratio has declined from about 20 percent in 2015 to 9.9 percent in 2019, before recovering slightly to 10.8 percent in 2020. Real credit growth rate picked up earlier (after 2017). However, the credit-to-GDP ratio continued to fall until 2020 given a rapidly rising GDP. While intermediation rates have stabilized, they are one of the lowest in the Caucasus and Central Asia (CCA).
- **Limited macrofinancial linkages.** Overall, the relationship between real GDP growth and real credit growth appears to be somewhat weak. The banking crisis and decline in credit growth did not have a major impact on real activity, with correlations between the two variables negative at times.

Sectoral Credit to GDP, 2015-20



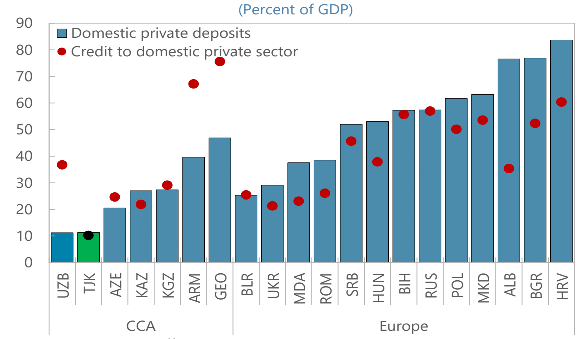
Real GDP and Real Credit Growth, 2015-20



- **Spillover effects on government and NBT balance sheets.** The government injected some 6 percent of GDP into the two banks in 2016, through the issuance of a hybrid security, with some collateral protections. The banks monetized the bonds by placing them at the NBT. Now, with final resolution pending, the government hopes to receive some funds from the liquidators, and to extinguish the debt which is maturing by end-2021. For its part, the NBT has provisioned nearly 50 percent of the TJS 3.2 billion bond on its balance sheet.

Banks Financial Intermediation, 2020

(Percent of GDP)

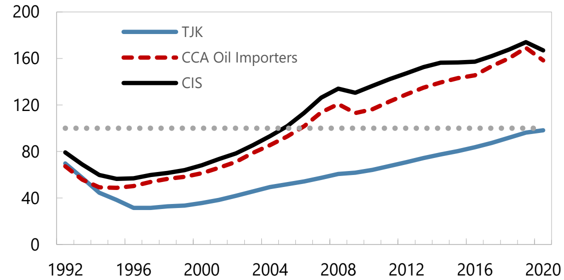


Sources: IMF staff estimates.

Figure 1. Tajikistan: Growth and Inflation

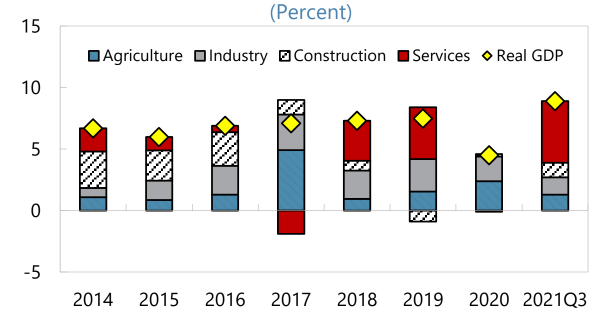
Recovery from the COVID-19 shock…

GDP per Capita in Constant Local Currency Terms
(Index: 1991=100)



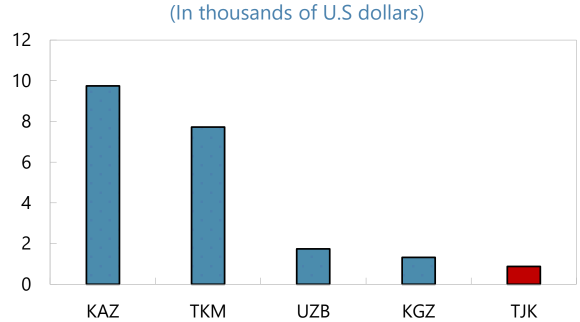
…was driven primarily by services, but also from industry (food processing, mining).

Contributions to GDP Growth
(Percent)



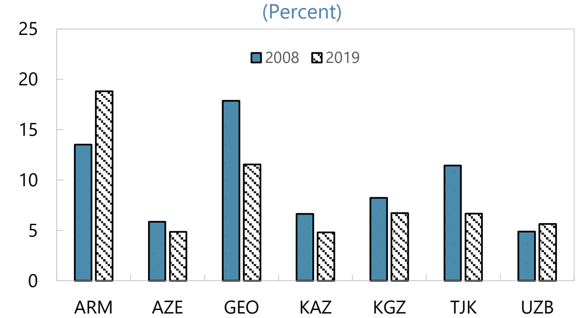
However, per capita income is still low…

2019 GDP per Capita
(In thousands of U.S dollars)



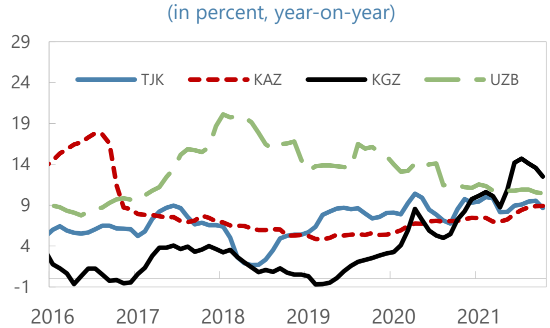
…and unemployment elevated.

Unemployment Rate
(Percent)



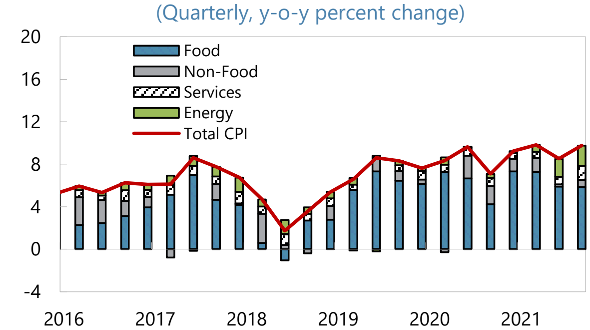
Inflation has trended upwards…

Central Asia CPI
(in percent, year-on-year)



…owing to higher (global) food prices.

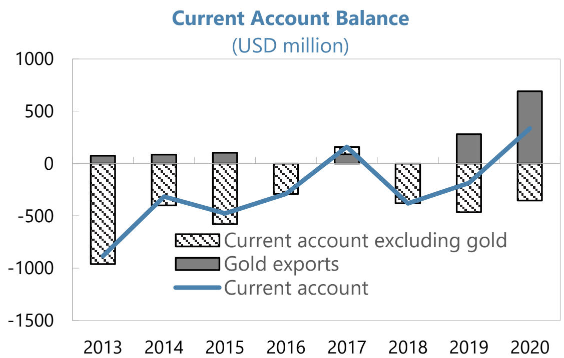
Contributions to CPI
(Quarterly, y-o-y percent change)



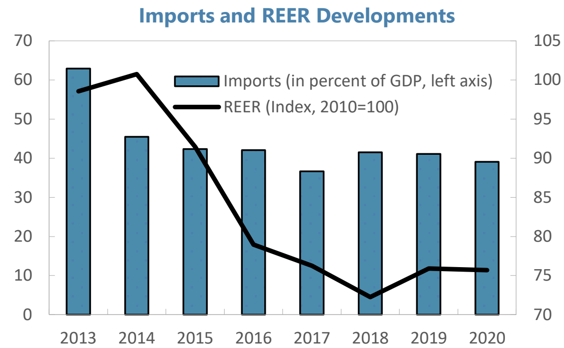
Sources: National authorities, IMF World Economic Outlook, International Labour Organization, Haver Analytics, and IMF staff estimates.

Figure 2. Tajikistan: External Sector Developments

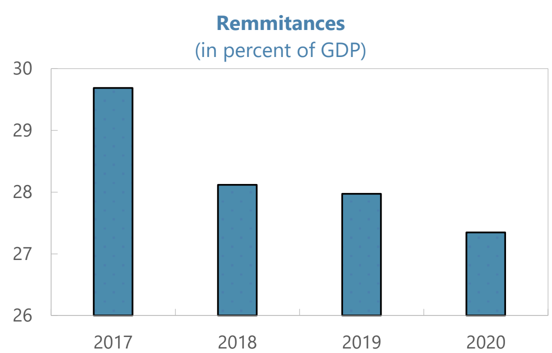
The current account balance has improved recently on the back of strong gold exports…



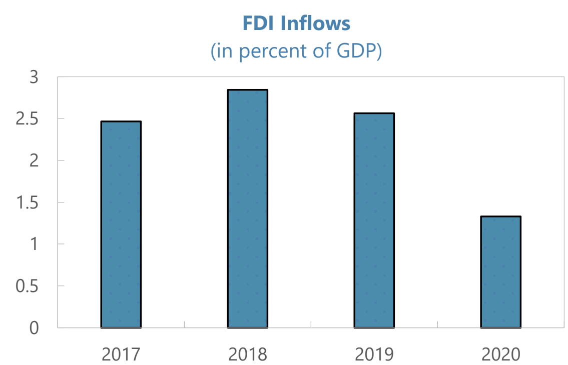
… and import compression and substitution effects from REER depreciation.



The importance of remittances in the economy has been on a downward trend in recent years…

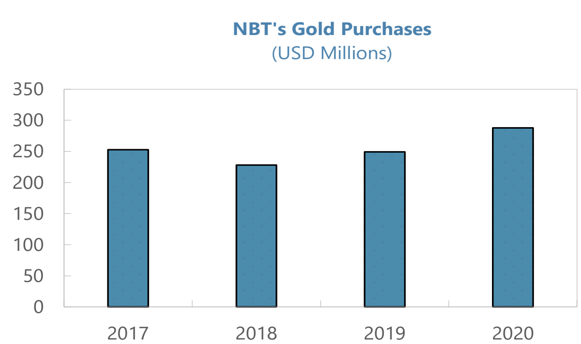


…and FDI inflows halved as a result of the pandemic.



Reserves are well above adequacy metrics…

…supported mainly by NBT's domestic gold purchases.

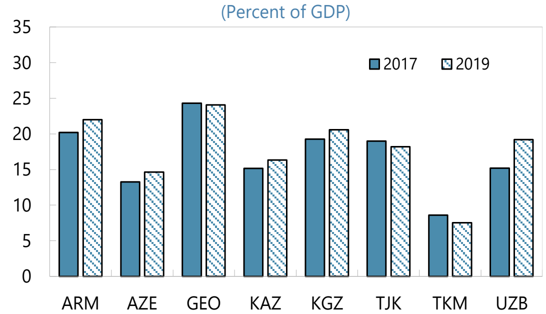


Sources: Tajikistan authorities, Haver Analytics, and IMF staff estimates.

Figure 3. Tajikistan: Fiscal Developments

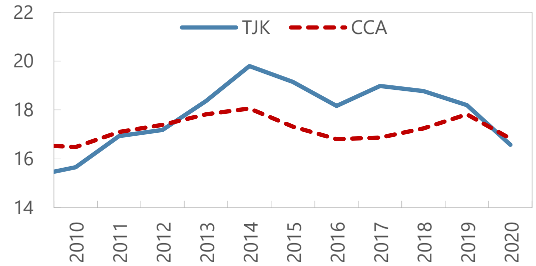
Tax revenues are close to the regional average…

Tax Revenue
(Percent of GDP)



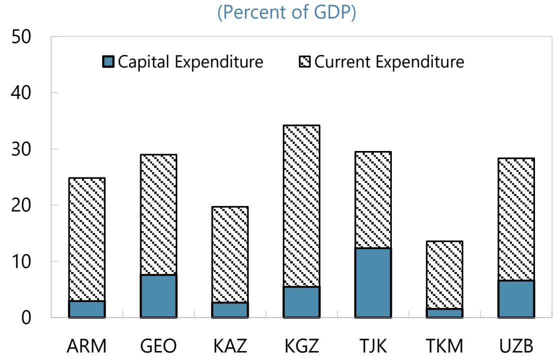
…but have been on a declining trend.

Tax Revenue Over Time
(Percent of GDP)



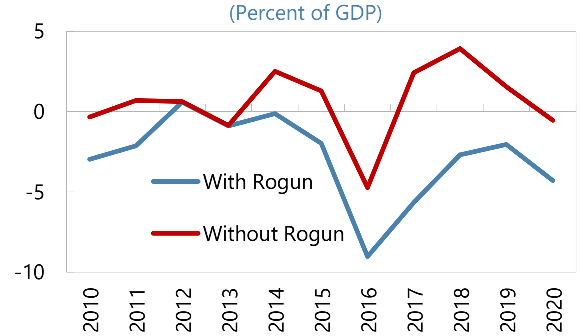
Capital expenditures are high relative to peers…

Current and Capital Expenditure, 2019
(Percent of GDP)



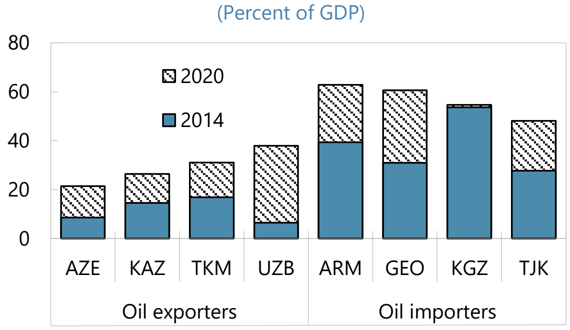
…and a major contributor to the recent deficits.

Overall Balance with and without Rogun
(Percent of GDP)



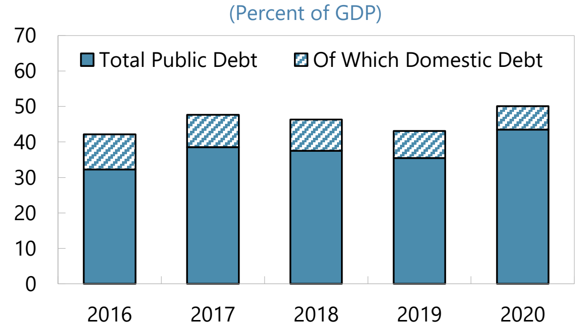
Debt is relatively high…

Total Public Debt
(Percent of GDP)



…and has increased more recently.

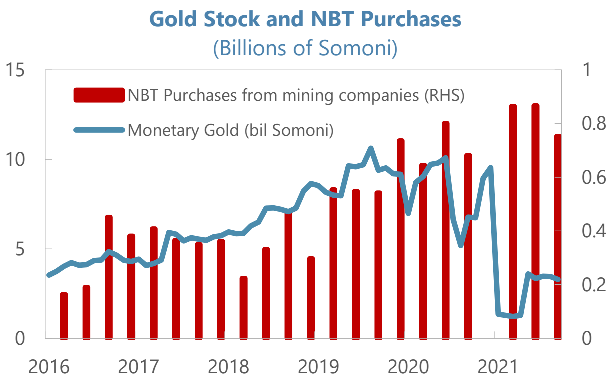
Domestic Debt as a Share of Total Public Debt
(Percent of GDP)



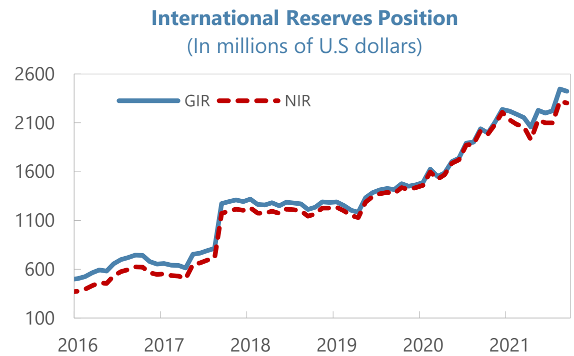
Sources: Tajikistan authorities, IMF World Economic Outlook, and IMF staff estimates.

Figure 4. Tajikistan: Monetary Developments

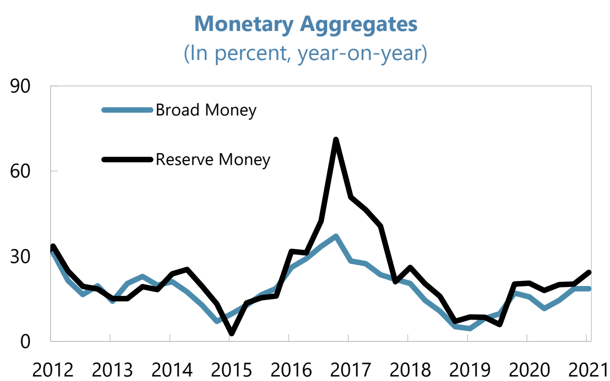
NBT gold purchases have increased…



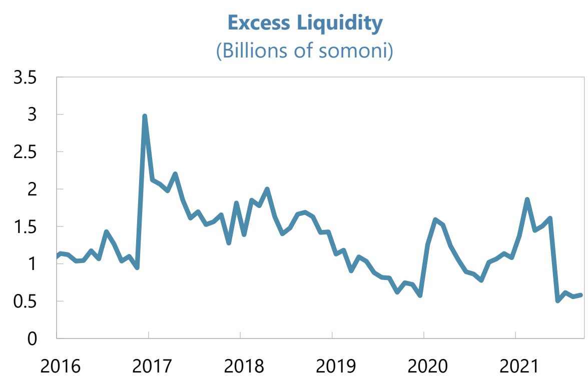
…and reserves have risen.



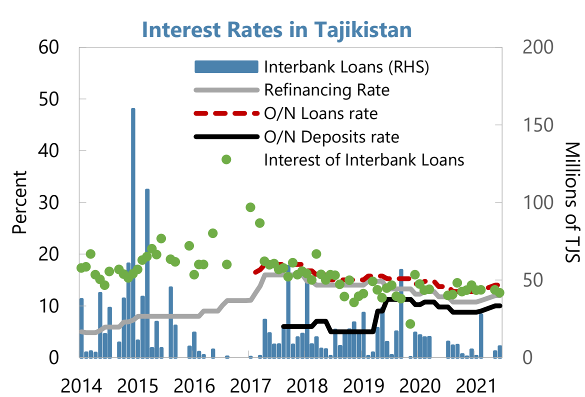
Fueling an increase in monetary aggregates…



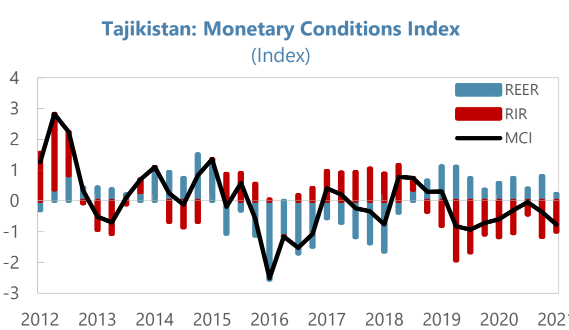
…amid excess liquidity.



Despite an increase in the refinancing rate…



…monetary conditions remain accommodative.

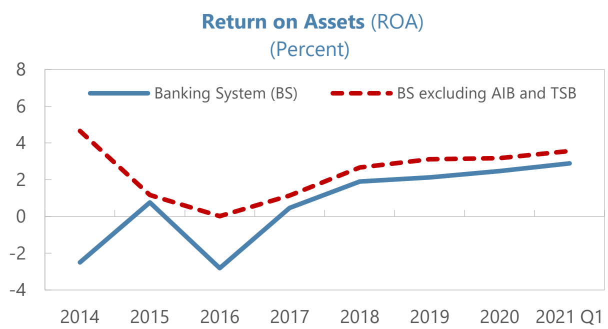


Note: Increase denotes tightening.

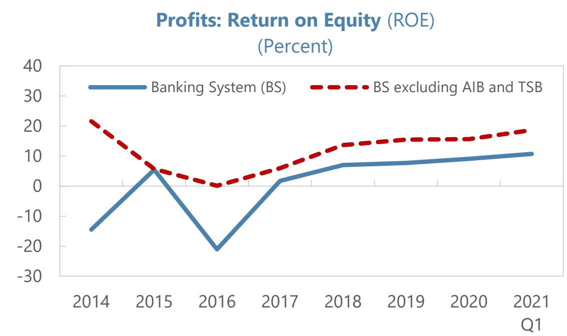
Sources: Tajikistan authorities, Haver Analytics, and IMF staff estimates.

Figure 5. Tajikistan: Financial Sector

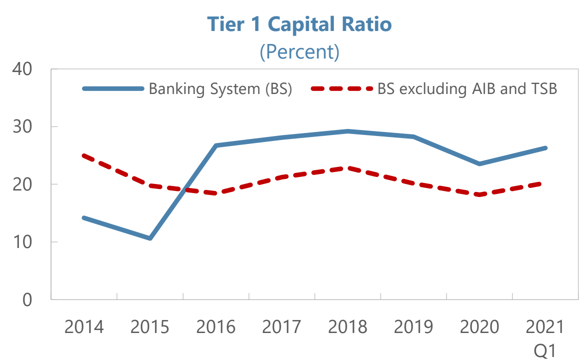
The banking system remains profitable …



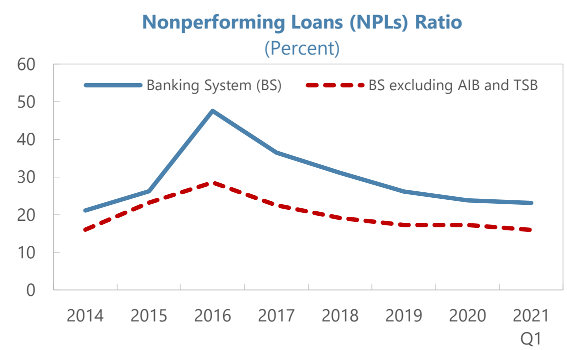
…as illustrated by ROA and ROE indicators…



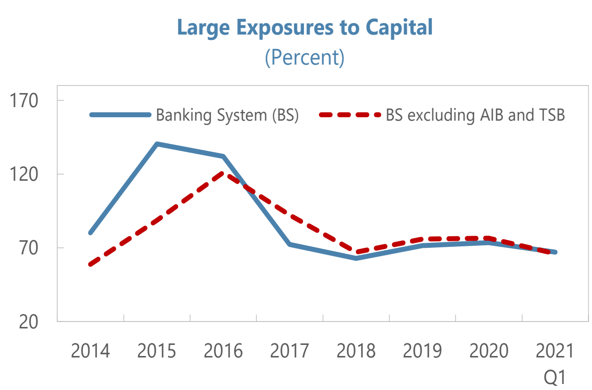
…allowing banks to shore up their capital buffers.



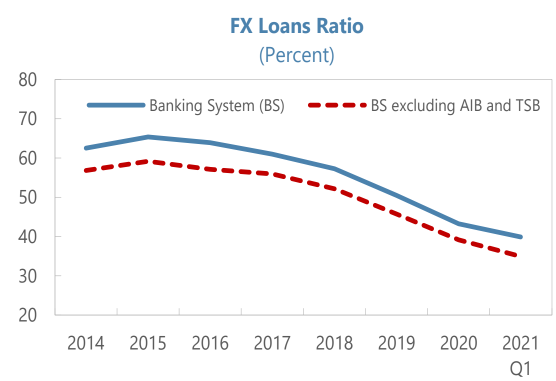
Despite a decrease, NPLs remain elevated.



Large exposures are also high…



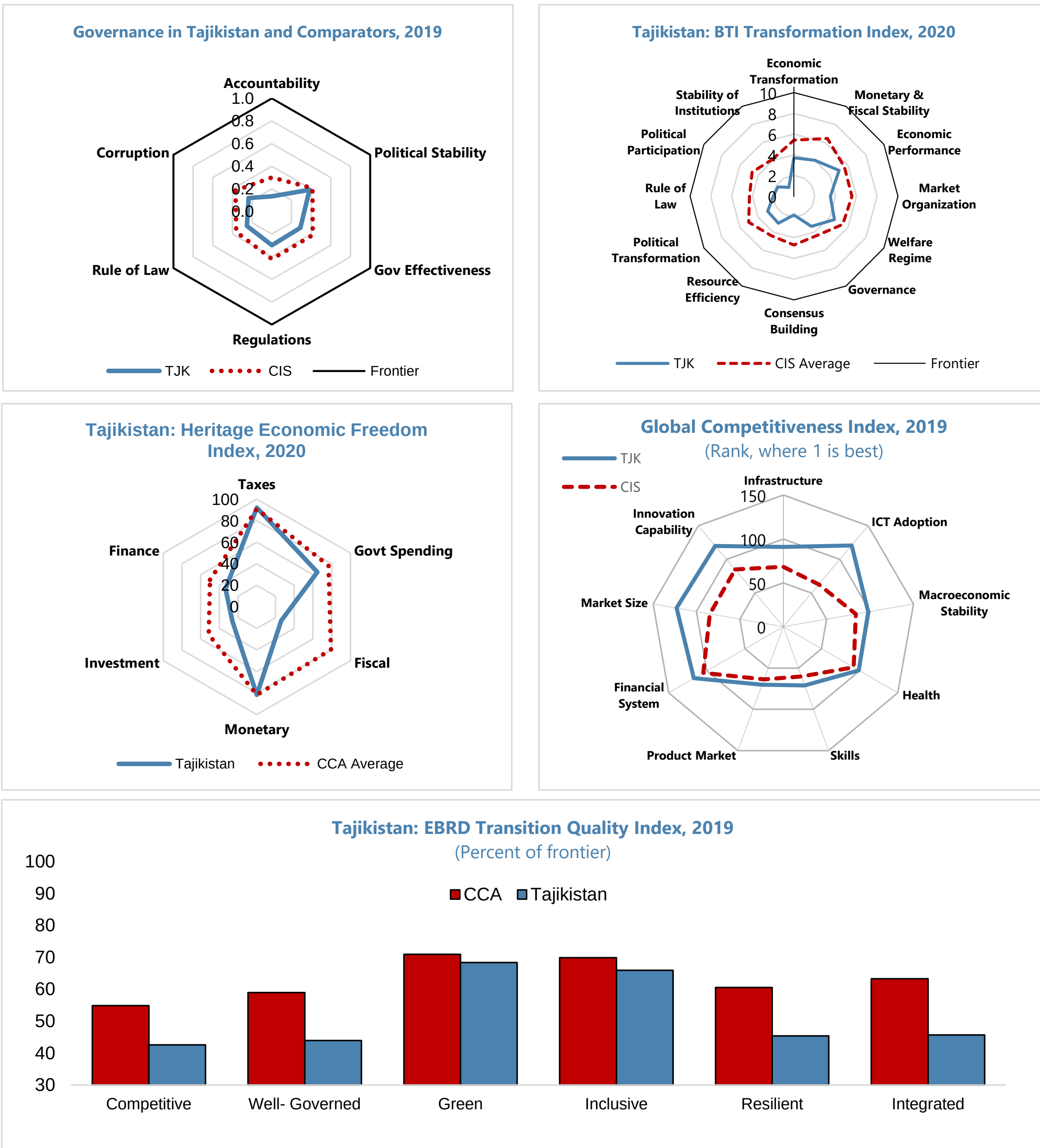
…as is the degree of financial sector dollarization.



Sources: Tajikistan authorities and IMF staff estimates.
Note: The two lines converge in 2021Q3 owing to the closures of AIB and TSB.

Figure 6. Tajikistan: Structural Characteristics

Despite some recent progress, Tajikistan still scores below peers on governance, business environment, competitiveness, and transition quality indicators.



Sources: World Governance Indicators, Bertelsmann Transformation Index, The Heritage Foundation, World Economic Forum, EBRD, and IMF staff estimates. Some of the indicators used in the figure are survey-based and hence reflect responders' perception rather than actual data (for example Global Competitiveness Index). Other partially contain expert judgment (for example, EBRD transition quality index) and reported with uncertainty bounds (for example, World Governance Indicators).

Table 1. Tajikistan: Selected Economic Indicators, 2018–26

(Quota: SDR 174 million)
(Population: 9.3 million; 2019)
(Per capita GDP: US$857; 2019)
(Poverty rate: 26 percent; 2019)
(Main exports: aluminum, gold, cotton)

	2018	2019	2020	2021	2022	2023	2024	2025	2026
				Est.	Proj.				
	(Annual percent change; unless otherwise indicated)								
National accounts									
Real GDP	7.6	7.4	4.5	7.0	5.5	4.5	4.0	4.0	4.0
GDP deflator (cumulative)	2.5	3.6	2.3	6.5	6.2	5.9	5.9	5.9	5.5
Headline CPI inflation (end-of-period)	5.4	8.0	9.4	8.2	7.0	6.5	6.5	6.5	6.5
Headline CPI inflation (period average)	3.8	7.8	8.6	8.8	7.6	6.7	6.5	6.5	6.5
	(In percent of GDP; unless otherwise indicated)								
General government finances									
Revenue and grants	28.2	26.8	24.6	25.0	25.6	25.0	25.3	25.5	25.6
Tax revenue	20.6	19.9	18.2	18.9	18.2	18.6	19.0	19.2	19.3
Expenditure and net lending	30.9	28.8	28.9	27.0	28.3	27.5	27.8	28.0	28.1
Current	16.7	16.7	16.9	16.5	17.6	17.6	17.7	17.7	17.6
Capital	14.2	12.1	12.0	10.5	10.7	9.9	10.1	10.3	10.5
Overall balance (excl. PIP and stat. discrepancy)	1.6	1.5	-2.1	0.3	0.4	1.8	1.0	2.8	2.7
Overall balance (incl. PIP and stat. discrepancy)	-2.7	-2.1	-4.3	-2.0	-2.7	-2.5	-2.5	-2.5	-2.5
Domestic financing	2.1	1.1	-2.1	1.2	0.0	0.0	0.0	0.0	0.0
External financing	0.9	0.6	5.6	0.8	2.7	2.5	2.5	2.5	2.5
Total public and publicly-guaranteed debt	46.3	43.1	50.1	46.5	43.5	42.0	40.7	40.3	40.0
Monetary sector									
Broad money (12-month percent change)	5.1	16.9	18.5	17.1	13.6	11.3	10.3	10.0	9.9
Reserve money (12-month percent change)	7.0	20.2	20.2	13.9	13.5	13.5	13.5	13.5	13.5
Credit to private sector (12-month percent change)	1.3	7.7	19.9	14.1	12.0	10.1	11.0	13.2	16.2
Velocity of broad money (eop)	3.8	3.6	3.1	...	...	...	...	...	...
Refinancing rate (in percent, eop/ latest value)	14.8	12.3	10.8	...	...	...	...	...	...
	(In percent of GDP; unless otherwise indicated)								
External sector									
Exports of goods and services (U.S. dollar, percent change)	-0.8	11.4	13.3	26.7	-26.7	6.5	5.7	6.4	4.6
Imports of goods and services (U.S. dollar, percent change)	16.6	5.8	-8.3	24.0	2.6	8.1	7.3	6.1	5.2
Current account balance	-4.9	-2.2	4.1	2.6	-1.0	-1.6	-2.0	-2.0	-2.0
Trade balance (goods)	-24.3	-23.1	-17.6	-21.0	-25.1	-25.6	-26.0	-25.9	-26.0
FDI (net)	3.2	2.3	0.4	1.4	1.4	1.4	1.4	1.4	1.4
Total public and publicly guaranteed external debt	37.5	35.5	43.5	39.1	38.2	37.2	36.4	35.1	34.0
Exports of goods and services, in millions of U.S. dollars	1,116	1,243	1,409	1,785	1,308	1,393	1,473	1,567	1,638
Imports of goods and services, in millions of U.S. dollars	-3,221	-3,409	-3,125	-3,874	-3,975	-4,297	-4,610	-4,893	-5,146
Current account balance, in millions of U.S. dollars	-380	-185	336	221	-91	-161	-210	-222	-235
Total public and publicly guaranteed external debt, in millions of U.S. dollars	2,828	2,897	3,255	3,302	3,475	3,616	3,744	3,819	3,897
Gross official reserves (in millions of U.S. dollars)	1,284	1,465	2,238	2,740	3,030	3,142	3,160	3,086	2,995
In months of next year's imports	4.5	5.6	6.9	8.3	8.5	8.2	7.7	7.2	6.6
In percent of broad money	63.9	64.0	96.3	101.6	102.9	99.5	94.3	87.1	80.1
Memorandum items:									
Nominal GDP (in millions of somoni)	71,059	79,110	84,579	96,382	107,948	119,513	131,614	144,955	159,044
Nominal effective exchange rate (Index 2010=100)	58.7	59.3	56.9	...	...	...	...	...	...
Real effective exchange rate (Index 2010=100)	72.2	75.8	74.1	...	...	...	...	...	...
Average exchange rate (somoni per U.S. dollar)	9.15	9.53	10.32	...	...	...	...	...	...

Sources: Data provided by the Tajikistan authorities, and Fund staff estimates.

Table 2. Tajikistan: General Government Operations, 2016–26
(In millions of somoni, unless otherwise indicated)

	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026
						Est.			Proj.		
Overall revenues and grants	16,295	18,124	20,025	21,180	20,842	24,127	27,647	29,911	33,245	37,021	40,773
Total revenues	14,951	16,523	18,042	19,453	19,025	21,593	23,475	26,923	30,591	34,267	37,910
Tax revenues	11,280	13,168	14,653	15,768	15,356	18,202	19,678	22,231	24,953	27,782	30,623
Income and profit tax	2,385	3,073	3,431	3,814	3,577	4,643	5,516	6,107	6,725	7,407	8,127
Payroll taxes	1,383	1,574	1,729	1,688	1,668	2,057	2,304	2,551	2,809	3,094	3,394
Property taxes	277	300	358	370	374	459	511	563	617	677	740
Taxes on goods and services	6,571	7,504	8,368	9,079	9,033	10,067	10,209	11,737	13,247	14,896	16,485
International trade and operations tax	665	717	766	816	704	977	1,138	1,274	1,555	1,708	1,877
Nontax revenues	3,671	3,355	3,389	3,686	3,669	3,390	3,797	4,692	5,638	6,485	7,287
Of which: Extra-budgetary funds	2,223	2,137	1,525	2,094	1,853	2,051	2,297	3,031	3,717	4,496	4,907
Grants	1,344	1,602	1,983	1,726	1,817	2,534	4,173	2,988	2,654	2,754	2,863
Of which: Public Investment Program (PIP) financing	1,344	1,432	1,882	1,726	1,817	2,534	3,603	2,629	2,259	2,319	2,386
Total expenditures and net lending	21,214	21,769	21,940	22,804	24,485	26,054	30,554	32,869	36,535	40,606	44,754
Current expenditures	9,292	10,372	11,860	13,224	14,322	15,925	19,023	21,009	23,298	25,627	27,975
Expenditures on goods and services	6,301	6,953	7,817	8,900	9,409	10,402	13,380	14,835	16,447	18,092	19,842
Wages and salaries	3,796	4,362	4,653	5,213	5,787	6,262	7,098	8,427	9,251	10,188	11,186
Others	2,505	2,591	3,164	3,687	3,622	4,140	6,282	6,408	7,196	7,904	8,656
Interest payments	376	281	769	663	775	928	887	909	933	1,017	981
External	321	268	629	594	635	828	882	902	926	982	904
Domestic	55	13	139	69	40	101	5	6	6	35	77
Transfers and subsidies	2,616	3,138	3,275	3,661	4,138	4,595	4,756	5,265	5,918	6,518	7,152
Capital expenditures	8,597	11,391	10,077	9,574	10,163	10,129	11,531	11,860	13,237	14,978	16,779
Externally financed (PIP and Rogun)	3,329	3,011	4,929	4,301	3,652	4,798	6,978	7,699	6,880	9,990	10,694
Of which: Rogun	…	…	1,348	1,166	0	0	722	1,133	639	2,274	2,378
Domestically financed	5,268	8,380	5,148	5,273	6,511	5,330	4,554	4,161	6,357	4,988	6,085
Of which: Rogun	2,353	5,202	3,352	1,674	3,182	2,198	2,389	2,708	2,938	2,599	2,717
Of which: Non-Rogun	2,915	3,179	1,796	3,599	3,329	3,132	2,165	1,453	3,419	2,389	3,368
Net lending	3,325	6	3	8	0	0	0	0	0	0	0
Unidentified measures (fiscal adjustment needs)	0	0	0	0	0	0	0	0	0	0	0
Statistical discrepancy ("+" = additional spending)	-105	-621	239	…	…	…	…	…	…	…	…
Overall balance (incl. PIP) 1/	-4,920	-3,644	-1,914	-1,624	-3,643	-1,928	-2,907	-2,958	-3,290	-3,585	-3,982
Overall balance (excl. PIP and PIP-related grants) 1/	-2,934	-2,066	1,133	1,221	-1,808	337	467	2,112	1,330	4,086	4,326
Overall balance (incl. PIP and excl. bank recapitalization)	-1,600	-3,644	-1,914	-1,624	-3,643	-1,928	-2,907	-2,958	-3,290	-3,585	-3,982
Total financing (incl. PIP)	4,815	3,023	2,153	1,354	2,946	1,928	2,907	2,958	3,290	3,585	3,982
Net external	962	4,762	658	482	4,741	760	2,907	2,958	3,290	3,585	3,982
Disbursements	1,985	5,916	1,699	1,941	6,087	2,265	4,818	5,069	5,572	7,671	8,308
Of which: the IMF's RCF	0	0	0	0	1,990	0	0	0	0	0	0
Of which: the WB	n/a	n/a	n/a	n/a	116.9	n/a	n/a	n/a	n/a	n/a	n/a
Of which: the ADB	n/a	n/a	n/a	n/a	1,032.2	n/a	n/a	n/a	n/a	n/a	n/a
Of which: other donors (including G20 DSSI)	n/a	n/a	n/a	n/a	472.6	n/a	n/a	n/a	n/a	n/a	n/a
Of which: PIP disbursement	n/a	n/a	n/a	n/a	1,960	n/a	n/a	n/a	n/a	n/a	n/a
Amortization	-1,023	-1,154	-1,041	-1,459	-1,346	-1,505	-1,911	-2,112	-2,282	-4,086	-4,326
Net domestic	3,853	-1,738	1,496	871	-1,795	1,168	0	0	0	0	0
Of which: Security of Roghun purchased by the Pension Fund 2/						-900	-810	-720	-630	-540	-450
Of which: Deposits with comercial banks	803	-106	-286	-38	-225	1,168	0	0	0	0	0
Of which: Deposits with the NBT	2,998	-2,308.8	1,324	324	-2,238	0	0	0	0	0	0
Of which: T-bills	0	0	0	0	100	0	0	0	0	0	0
Of which: Privatization proceeds/Sales of gold and pr. Mtl. to NBT	0	637	511	577	567	0	0	0	0	0	0
Memorandum items:											
Recapitalization bonds–NBT	120	120	…	…	…	…	…	…	…	…	…
Recapitalization bonds–commercial banks	3,319	…	…	…	…	…	…	…	…	…	…
Public Debt (Percent of GDP)	42.2	47.7	46.3	43.1	50.1	46.5	43.5	42.0	40.7	40.3	40.0

Sources: Tajikistan authorities, and Fund staff estimates.

1/ The 2016 overall balance includes TJS 3,320 million for bank recapitalization in addition to regular fiscal operations.

2/ Roghun OJSC has issued a security with 10 years maturity purchased by the Pension Fund.

Table 3. Tajikistan: General Government Operations, 2018–26
(In percent of GDP, unless otherwise indicated)

	2018	2019	2020	2021	2022	2023	2024	2025	2026
				Est.			Proj.		
Overall revenues and grants	28.2	26.8	24.6	25.0	25.6	25.0	25.3	25.5	25.6
Tax revenues	20.6	19.9	18.2	18.9	18.2	18.6	19.0	19.2	19.3
Income and profit tax	4.8	4.8	4.2	4.8	5.1	5.1	5.1	5.1	5.1
Payroll taxes	2.4	2.1	2.0	2.1	2.1	2.1	2.1	2.1	2.1
Property taxes	0.5	0.5	0.4	0.5	0.5	0.5	0.5	0.5	0.5
Taxes on goods and services	11.8	11.5	10.7	10.4	9.5	9.8	10.1	10.3	10.4
International trade and operations tax	1.1	1.0	0.8	1.0	1.1	1.1	1.2	1.2	1.2
Nontax revenues	4.8	4.7	4.3	3.5	3.5	3.9	4.3	4.5	4.6
Grants	2.8	2.2	2.1	2.6	3.9	2.5	2.0	1.9	1.8
Total expenditure and net lending	30.9	28.8	28.9	27.0	28.3	27.5	27.8	28.0	28.1
Current expenditures	16.7	16.7	16.9	16.5	17.6	17.6	17.7	17.7	17.6
Expenditures on goods and services	11.0	11.2	11.1	10.8	12.4	12.4	12.5	12.5	12.5
Wages and salaries	6.5	6.6	6.8	6.5	6.6	7.1	7.0	7.0	7.0
Others	4.5	4.7	4.3	4.3	5.8	5.4	5.5	5.5	5.4
Interest payments	1.1	0.8	0.9	1.0	0.8	0.8	0.7	0.7	0.6
Transfers and subsidies	4.6	4.6	4.9	4.8	4.4	4.4	4.5	4.5	4.5
Capital expenditures	14.2	12.1	12.0	10.5	10.7	9.9	10.1	10.3	10.5
Externally financed (PIP and Rogun)	6.9	5.4	4.3	5.0	6.5	6.4	5.2	6.9	6.7
Of which: Rogun	1.9	1.5	0.0	0.0	0.7	0.9	0.5	1.6	1.5
Domestically financed	7.2	6.7	7.7	5.5	4.2	3.5	4.8	3.4	3.8
Of which: Rogun	4.7	2.1	3.8	2.3	2.2	2.3	2.2	1.8	1.7
Of which: Non-Rogun	2.5	4.5	3.9	3.2	2.0	1.2	2.6	1.6	2.1
Overall balance	-2.7	-2.1	-4.3	-2.0	-2.7	-2.5	-2.5	-2.5	-2.5
Overall balance (excl. PIP and PIP-related grants)	1.6	1.5	-2.1	0.3	0.4	1.8	1.0	2.8	2.7
Overall balance (incl. PIP and excl. bank recapitalization)	-2.7	-2.1	-4.3	-2.0	-2.7	-2.5	-2.5	-2.5	-2.5
Total financing (incl. PIP)	3.0	1.7	3.5	2.0	2.7	2.5	2.5	2.5	2.5
Net external	0.9	0.6	5.6	0.8	2.7	2.5	2.5	2.5	2.5
Disbursements	2.4	2.5	7.2	2.3	4.5	4.2	4.2	5.3	5.2
Amortization	-1.5	-1.8	-1.6	-1.6	-1.8	-1.8	-1.7	-2.8	-2.7
Net domestic	2.1	1.1	-2.1	1.2	0.0	0.0	0.0	0.0	0.0
Of which: security of Roghun purchased by the Pension Fund 1 /				-0.9	-0.8	-0.6	-0.5	-0.4	-0.3
Of which : deposits with comercial banks	-0.4	0.0	-0.3	1.2	0.0	0.0	0.0	0.0	0.0
Of which : deposits with the NBT	1.9	0.4	-2.6	0.0	0.0	0.0	0.0	0.0	0.0
Memorandum items:									
Public debt to GDP	46.3	43.1	50.1	46.5	43.5	42.0	40.7	40.3	40.0
Nominal GDP (in millions of somoni)	71,059	79,110	84,579	96,382	107,948	119,513	131,614	144,955	159,044

Sources: Tajikistan authorities, and Fund staff estimates.

1/ Roghun OJSC has issued a security with 10 years maturity purchased by the Pension Fund.

Table 4. Tajikistan: Accounts of the National Bank of Tajikistan, 2016–26

(End-of-period stock, unless otherwise specified)

	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026
						Est.			Proj.		
					(In millions of somoni)						
Net foreign assets	3,306	9,480	10,397.9	13,118	24,245	27,327	31,925	34,499	36,095	36,837	37,636
Gross assets	5,143	11,400	12,110.5	14,604	25,781	31,458	36,180	38,913	40,683	41,347	41,776
Gross liabilities	1,837	1,920	1,712.6	1,486	1,536	4,131	4,255	4,415	4,589	4,510	4,141
Net international reserves 1/	2,770	9,080	9,437.7	13,049	24,967	29,624	34,093	36,678	38,347	38,968	39,364
Gross international reserves 1/	5,142	11,394	12,108.3	14,187	25,293	31,236	35,948	38,673	40,434	41,088	41,506
Gross reserve liabilities	2,371	2,313	2,671	1,138	326	1,612	1,855	1,996	2,086	2,120	2,142
Net domestic assets	8,742	5,093	5,196	5,628	-1,711	-1,671	-2,801	-1,437	1,436	5,766	10,726
Net claims on general government	2,261	-48	1,276	1,600	-638	-638	-638	-638	-638	-638	-638
Net claims on financial corporations	-452	-1,158	-1,688	-1,509	-1,628	-25,216	-42,268	-21,694	21,669	87,024	161,892
NBT's bills	-739	-1,335	-1,944	-1,759	-1,808	-1,812	-1,867	-1,924	-1,983	-2,043	-2,105
Credit to the private sector	566	506	395	411	725	776	831	890	952	1,019	1,091
Other items net	6,367	5,793	5,214	5,126	-171	23,379	39,189	20,114	-20,091	-80,686	-150,101
o/w Non-monetary gold and other precious metals	793	1,196	697	2,115	1,805	1,920	2,079	2,252	2,439	2,641	2,861
Reserve money	12,048	14,573	15,594	18,746	22,534	25,656	29,124	33,061	37,530	42,603	48,362
Reserve money in domestic currency	10,519	13,029	14,635	17,592	21,202	24,068	27,321	31,014	35,206	39,965	45,368
Currency in circulation	8,390	11,659	13,173	16,068	19,059	22,528	25,573	29,030	32,954	37,409	42,466
Bank reserves	3,465	2,706	2,334	2,513	3,206	2,977	3,379	3,836	4,354	4,943	5,611
Bank deposits in domestic currency	1,936	1,162	1,376	1,369	1,987	1,505	1,708	1,939	2,201	2,498	2,836
Bank deposits in foreign currency	1,529	1,543	958	1,144	1,219	1,472	1,671	1,897	2,154	2,445	2,775
Other deposits	193	208	87	165	269	151	172	195	221	251	285
Other deposits in domestic currency	192	207	86	155	155	35	40	45	51	58	66
Other deposits in foreign currency	1	1	1	10	113	116	132	150	170	193	219
					(12-month growth in percent)						
Reserve money	71.1	21.0	7.0	20.2	20.2	13.9	13.5	13.5	13.5	13.5	13.5
Net foreign assets	103.7	186.7	9.7	26.2	84.8	12.7	16.8	8.1	4.6	2.1	2.2
Gross international reserves	48.8	121.6	6.3	17.2	78.3	23.5	15.1	7.6	4.6	1.6	1.0
Net international reserves	72.3	227.8	3.9	38.3	91.3	18.7	15.1	7.6	4.6	1.6	1.0
Net domestic assets	61.4	-41.7	2.0	8.3	-130.4	-2.4	67.6	-48.7	-199.9	301.6	86.0
					(12-month growth in percent of reserve money)						
Reserve money (12-month percent change)	71.1	21.0	7.0	20.2	20.2	13.9	13.5	13.5	13.5	13.5	13.5
Net foreign assets	23.9	51.2	6.3	17.4	59.4	13.7	17.9	8.8	4.8	2.0	1.9
Gross international reserves	24.0	51.9	4.9	13.3	59.2	26.4	18.4	9.4	5.3	1.7	1.0
Net international reserves	16.5	52.4	2.5	23.2	63.6	20.7	0.0	0.0	0.0	0.0	0.0
Net domestic assets	47.2	-30.3	0.7	2.8	-39.1	0.2	-4.4	4.7	8.7	11.5	11.6
Net credit to general government	46.8	-19.2	9.1	2.1	-11.9	0.0	0.0	0.0	0.0	0.0	0.0
Credit to the private sector	0.0	-0.1	-0.1	0.0	0.4	0.5	0.0	0.0	0.0	0.0	0.0
NBT bills	-7.9	-5.0	-4.2	1.2	-0.3	0.0	0.0	0.0	0.0	0.0	0.0
Other items net	4.2	-4.8	-4.0	-0.6	-28.3	104.5	61.6	-65.5	-121.6	-161.5	-162.9
Memorandum items:											
Net international reserves (in millions of U.S.dollars)	351.7	1,029.6	1,000.9	1,347.1	2,209.5	2,598.6	2,873.9	2,979.7	2,997.1	2,926.5	2,840.8
Net international reserves (percent of broad money)	18.7	50.4	49.8	58.9	95.1	96.3	97.6	94.4	89.4	82.6	76.0
Official exchange rate (somoni/U.S. dollars; eop)	7.88	8.82	9.43	9.69	11.30	…	…	…	…	…	…

Sources: National Bank of Tajikistan, and Fund staff estimates.

1/ Excludes eurobond proceeds, nonmonetary gold and foreign assets denominated in non-convertible currencies. Projections include domestic purchases of monetary gold.

Table 5. Tajikistan: Monetary Survey, 2016–26

	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026
						Est.			Proj.		
					(In millions of somoni, end-of-period stock)						
Net foreign assets	1,791	8,378	9,200	12,104	23,857	26,963	31,558	34,143	35,750	36,513	37,332
National Bank of Tajikistan 1/	3,306	9,480	10,398	13,118	24,245	27,327	31,925	34,499	36,095	36,837	37,636
Commercial banks	-1,515	-1,101	-1,198	-1,015	-389	-364	-367	-356	-344	-325	-303
Net domestic assets	15,287	11,787	12,113	12,471	5,811	3,837	4,163	6,617	10,474	14,828	19,893
Net credit to general government (incl. Roghun OJSC)	1,400	-1,015	23	308	-2,154	-986	-986	-986	-986	-986	-986
National Bank of Tajikistan	2,261	-48	1,276	1,600	-638	-638	-638	-638	-638	-638	-638
Commercial banks	-861	-967	-1,253	-1,291	-1,516	-348	-348	-348	-348	-348	-348
Credit to the private sector	10,202	8,145	8,252	8,885	10,657	12,164	13,620	14,995	16,641	18,840	21,900
Net credit to other financial corporations	37	3	-1	-76	-185	-185	-185	-185	-185	-185	-185
Other items net	1,874	2,479	1,672	1,148	-4,639	5,425	5,426	5,907	7,641	8,182	12,595
Broad money	14,788	18,018	18,945	22,155	26,253	30,750	34,939	38,871	42,872	47,161	51,822
Somoni broad money	10,238	13,982	15,382	18,937	22,618	26,492	30,101	33,488	36,936	40,630	44,646
Currency outside banks	7,588	10,950	12,190	15,332	18,058	21,152	23,072	24,641	26,091	27,553	29,065
Deposits	2,650	3,031	3,192	3,604	4,559	5,340	7,029	8,847	10,844	13,077	15,581
Foreign currency deposits	4,550	4,036	3,563	3,218	3,635	4,258	4,838	5,383	5,937	6,531	7,176
					(12-month growth in percent of broad money)						
Broad money	37.1	21.8	5.1	16.9	18.5	17.1	13.6	11.3	10.3	10.0	9.9
Net foreign assets	18.8	44.5	4.6	15.3	53.0	23.1	15.3	7.7	4.5	2.1	2.0
National Bank of Tajikistan	15.6	41.7	5.1	14.4	50.2	11.7	15.0	7.4	4.1	1.7	1.7
Commercial banks	3.2	2.8	-0.5	1.0	2.8	0.1	0.0	0.0	0.0	0.0	0.0
Net domestic assets	12.6	-23.7	1.8	1.9	-30.1	-7.5	1.1	7.0	9.9	10.2	10.7
Net credit to general government	38.0	-16.3	5.8	1.5	-11.1	4.4	0.0	0.0	0.0	0.0	0.0
Credit to the private sector	-4.9	-13.9	0.6	3.3	8.0	5.7	4.7	3.9	4.2	5.1	6.5
Other items net	-22.0	4.1	-4.5	-2.8	-26.1	38.3	0.0	1.4	4.5	1.3	9.4
Memorandum items:											
Deposit dollarization (in percent)	63.2	57.1	52.7	53.3	52.0	50.4	…	…	…	…	…
Velocity	3.7	3.6	3.8	3.6	3.2	3.1	…	…	…	…	…
Credit to the private sector (percent of GDP)	18.6	12.6	11.6	11.2	12.6	12.6	…	…	…	…	…
Money multiplier	1.2	1.2	1.2	1.2	1.2	1.2	…	…	…	…	…

Sources: National authorities and Fund staff estimates.

1/ Excludes nonmonetary gold.

Table 6. Balance of Payments, 2016–26

	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026
						Est.			Proj.		
	(In millions of U.S. dollars, unless otherwise indicated)										
Current account	-291	159	-380	-185	336	221	-91	-161	-210	-222	-235
Balance on goods and services	-2,027	-1,639	-2,105	-2,165	-1,716	-2,089	-2,667	-2,904	-3,138	-3,327	-3,508
Balance on goods	-1,885	-1,517	-1,890	-1,920	-1,445	-1,789	-2,326	-2,523	-2,727	-2,886	-3,044
Exports	668	873	874	1,001	1,271	1,632	1,147	1,226	1,298	1,384	1,448
Imports	2,553	2,390	2,764	2,921	2,716	3,421	3,474	3,749	4,025	4,270	4,492
Balance on services	-142	-122	-216	-245	-271	-300	-340	-381	-411	-441	-464
Balance on income	1,164	1,215	1,226	1,331	1,364	1,429	1,639	1,752	1,887	2,000	2,113
Balance on transfers	572	583	500	650	688	881	936	991	1,041	1,104	1,160
Capital and financial account	488	515	380	531	768	12	337	234	189	109	106
Capital transfers	179	135	176	169	189	164	305	217	180	148	106
FDI	207	63	249	190	36	119	128	137	147	157	165
Portfolio Investment	0	500	0	-73	0	0	0	0	0	0	0
Other capital flows 1/	103	-183	-44	245	543	-271	-96	-120	-137	-196	-164
of which: CCRT					18	7	...	...	...	...	...
of which: RCF					194	...	...	...	...	-20	-41
Errors and omissions	-151	-143	-267	169	-151	...	...	...	...	...	...
Overall balance	46	531	-266	176	1254	233	246	73	-20	-113	-129
	(in percent of GDP, unless otherwise indicated)										
Current account	-4.2	2.1	-4.9	-2.2	4.1	2.6	-1.0	-1.6	-2.0	-2.0	-2.0
Balance on goods and services	-29.0	-21.8	-27.1	-26.1	-20.9	-24.5	-28.8	-29.4	-29.9	-29.8	-30.0
Balance on goods	-27.0	-20.1	-24.3	-23.1	-17.6	-21.0	-25.1	-25.6	-26.0	-25.9	-26.0
Exports	9.5	11.6	11.3	12.1	15.5	19.2	12.4	12.4	12.4	12.4	12.4
Imports	36.5	31.7	35.6	35.2	33.1	40.2	37.5	38.0	38.4	38.3	38.4
Balance on services	-2.0	-1.6	-2.8	-3.0	-3.3	-3.5	-3.7	-3.9	-3.9	-4.0	-4.0
Balance on income	16.6	16.1	15.8	16.0	16.6	16.8	17.7	17.8	18.0	17.9	18.1
Balance on transfers	8.2	7.7	6.4	7.8	8.4	10.3	10.1	10.0	9.9	9.9	9.9
Capital and financial account	7.0	6.8	4.9	6.4	9.4	0.1	3.6	2.4	1.8	1.0	0.9
Capital transfers	2.6	1.8	2.3	2.0	2.3	1.9	3.3	2.2	1.7	1.3	0.9
FDI	3.0	0.8	3.2	2.3	0.4	1.4	1.4	1.4	1.4	1.4	1.4
Portfolio Investment	0.0	6.6	0.0	-0.9	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other capital flows 1/	1.5	-2.4	-0.6	3.0	6.6	-3.2	-1.0	-1.2	-1.3	-1.8	-1.4
of which: CCRT					0.2	0.1	0.0	0.0	0.0	0.0	0.0
of which: RCF					2.4	0.0	0.0	0.0	0.0	-0.2	-0.3
Errors and omissions	-2.2	-1.9	-3.4	2.0	-1.8	0.0	0.0	0.0	0.0	0.0	0.0
Overall balance	0.7	7.1	-3.4	2.1	15.3	2.7	2.7	0.7	-0.2	-1.0	-1.1
Memorandum items:											
Nominal GDP (In millions of U.S. dollars)	6,994	7,535	7,762	8,301	8,194	8,512	9,265	9,867	10,487	11,153	11,706
Remittances, inflows (In millions of U.S. dollars)	1,867	2,237	2,183	2,322	2,187	2,627	2,831	3,015	3,204	3,408	3,578
(in percent of GDP)	26.7	29.7	28.1	28.0	26.7	30.9	30.6	30.6	30.6	30.6	30.6
Current account balance (In percent of GDP)	-4.2	2.1	-4.9	-2.2	4.1	2.6	-1.0	-1.6	-2.0	-2.0	-2.0
Net international reserves (In millions of U.S. dollars)	351.7	1029.6	1000.9	1347.1	2209.5	2598.6	2873.9	2979.7	2997.1	2926.5	2840.8
Gross reserves 2/	653	1032	1284	1465	2238	2740	3030	3142	3160	3086	2995
(in months of next year's imports of goods and services)	2.8	4.8	4.5	5.6	6.9	8.3	8.5	8.2	7.7	7.2	6.6
(in percent of IMF's Reserve Adequacy metric: Fixed)	70.1	113.7	110.5	113.6	179.0	198.2	215.8	218.0	220.1	235.9	222.1
(in percent of IMF's Reserve Adequacy metric: Floating)	85.2	139.5	136.8	137.2	219.9	241.2	256.2	259.6	261.9	287.4	269.8
Total Public and Publicly Guaranteed (PPG) external debt	2,243	2,815	2,828	2,897	3,255	3,302	3,475	3,616	3,744	3,819	3,897
(in percent of GDP)	32.2	38.5	37.5	35.5	43.5	39.1	38.2	37.2	36.4	35.1	34.0
Debt service on PPG external debt (In millions of U.S. dollars)	163	171	187	224	203	206	240	249	256	390	385
(in percent of exports of goods and services)	18.2	15.2	16.8	18.0	14.4	11.5	18.3	17.9	17.4	24.9	23.5

Sources: Tajik authorities; and Fund staff estimates.

1/ The large drop in other capital flows from 2019 to 2020 refelcts the postponement of a large construction loan.

2/ Excludes 2017 Eurobond proceeds. Projections include domestic purchases of monetary gold.

Table 7. Tajikistan: Net International Investment Position, 2017-2021Q2

	2017	2018	2019	2020	2021Q1	2021Q2
(In millions of U.S. dollars, unless otherwise indicated)						
Total IIP	-4884	-5103	-5568	-5066	-5174	-5151
Total Net FDI	-2547	-2731	-2894	-2891	-2858	-2886
Debt Instruments	-1332	-1425	-1508	-1467	-1420	-1420
Other	-1215	-1306	-1386	-1424	-1438	-1466
Total Portfolio	-586	-584	-512	-510	-511	-511
Debt Instruments	-499	-499	-499	-499	-500	-500
Other	-87	-85	-12	-11	-11	-11
Total Other	-3044	-3073	-3628	-3903	-3958	-3953
Loans	-3718	-3917	-4356	-4420	-4385	-4411
Other	674	844	727	517	427	459
Reserve Assets	1292	1284	1466	2238	2153	2199
Total Public Sector	-2817	-2828	-2779	-3107	-3136	-3145
Total Private Sector	-2068	-2275	-2788	-1959	-1959	-2039
(In percent of GDP, unless otherwise indicated)						
Total IIP	-68	-68	-69	-63		
Total Net FDI	-36	-36	-36	-36		
Debt Instruments	-19	-19	-19	-18		
Other	-17	-17	-17	-18		
Total Portfolio	-8	-8	-6	-6		
Debt Instruments	-7	-7	-6	-6		
Other	-1	-1	0	0		
Total Other	-43	-41	-45	-49		
Loans	-52	-52	-54	-55		
Other	9	11	9	6		
Reserve Assets	18	17	18	28		
Total Public Sector	-39	-38	-34	-39		
Total Private Sector	-29	-30	-34	-24		
Memorandum items:						
Nominal GDP (In millions of U.S. dollars)	7144	7520	8117	7997		

Sources: Tajik authorities; and Fund staff estimates.

Table 8. Tajikistan: Capacity to Repay the Fund, 2018-30 1/

	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030
Outstanding IMF credit													
In millions of SDRs	40.5	22.2	148.3	141.8	139.2	139.2	139.2	125.3	97.4	69.6	41.8	13.9	0.0
In millions of US dollars	56.0	30.6	205.4	197.1	193.4	193.4	193.4	174.1	135.4	96.7	58.0	19.3	0.0
In percent of exports of goods and services	5.0	2.5	14.6	11.0	14.8	13.9	13.1	11.1	8.3	5.6	3.2	1.0	0.0
In percent of external debt service	29.9	12.3	93.4	91.2	79.2	77.5	75.5	42.4	31.8	25.6	30.0	10.1	0.0
In percent of gross reserves	4.4	2.1	9.2	7.2	6.4	6.2	6.1	5.6	4.5	3.3	1.9	0.6	0.0
In percent of GDP	0.7	0.4	2.5	2.3	2.1	2.0	1.8	1.6	1.2	0.8	0.4	0.1	0.0
In percent of quota	23.2	12.7	85.2	81.5	80.0	80.0	80.0	72.0	56.0	40.0	24.0	8.0	0.0
Obligations to IMF based on existing and prospective credit													
In millions of SDRs	0.0	0.0	11.7	6.5	2.6	0.0	0.0	13.9	27.8	27.8	27.8	27.8	13.9
In millions of US dollars	0.0	0.0	16.3	9.1	3.6	0.0	0.0	19.3	38.7	38.7	38.7	38.7	19.3
In percent of exports of goods and services	0.0	0.0	1.2	0.5	0.3	0.0	0.0	1.2	2.4	2.2	2.1	2.0	0.9
In percent of external debt service	0.0	0.0	7.4	4.2	1.5	0.0	0.0	4.7	9.1	10.3	20.0	20.2	11.5
In percent of gross reserves	0.0	0.0	0.7	0.3	0.1	0.0	0.0	0.6	1.3	1.3	1.3	1.2	0.5
In percent of GDP	0.0	0.0	0.2	0.1	0.0	0.0	0.0	0.2	0.3	0.3	0.3	0.3	0.1
In percent of quota	0.0	0.0	6.7	3.7	1.5	0.0	0.0	8.0	16.0	16.0	16.0	16.0	8.0
Memorandum items:													
Gross reserves (in millions of US dollars)	1,284	1,465	2,238	2,740	3,030	3,142	3,160	3,086	2,995	2,897	3,054	3,281	3,576
Quota (in millions of SDRs)	174	174	174	174	174	174	174	174	174	174	174	174	174

Sources: Tajik authorities; and Fund staff estimates.

1/ Includes one disbursement of 80 percent of quota under the Rapid Credit Facility in 2020.

Table 9. Financial Soundness Indicators, 2019Q1-2021Q3

	2019Q1	2019Q2	2019Q3	2019	2020Q1	2020Q2	2020Q3	2020	2021Q1	2021Q2	2021Q3
Capital adequacy											
Regulatory capital to risk-weighted assets	23.0	22.9	22.0	21.4	20.0	19.7	19.5	18.2	20.7	22.6	23.0
Regulatory Tier 1 capital to risk-weighted assets	30.2	30.2	29.2	28.2	26.7	27.4	26.4	23.5	26.3	19.6	19.3
Asset quality 1/											
Nonperforming loans net of provisions to regulatory capital	20.9	18.1	27.3	17.0	22.1	21.6	18.2	16.2	13.8	4.3	3.6
Nonperforming loans to total gross loans	30.0	25.5	31.5	26.1	29.2	31.0	28.5	23.8	23.1	15.5	14.9
Earnings and profitability											
Return on assets (ROA) 2/	1.9	2.5	2.3	2.1	3.5	1.9	2.2	2.5	2.9	3.0	2.6
Return on equity (ROE) 2/	7.0	9.2	8.3	7.7	12.5	7.0	8.0	9.1	10.7	11.9	11.2
Interest margin to gross income	69.9	65.1	64.8	66.4	73.4	69.6	67.3	73.5	57.0	58.3	61.2
Noninterest expenses to gross income	60.4	58.4	59.0	60.3	41.5	52.8	55.7	61.9	53.8	56.8	61.9
Liquidity											
Liquid assets to total assets	29.8	26.4	25.7	27.7	28.2	26.6	28.9	30.0	28.7	37.4	33.7
Liquid assets to short-term liabilities	70.6	62.8	63.7	67.4	67.9	65.2	66.4	70.5	70.3	96.8	89.4
Sensitivity to market risk											
Net open position in foreign exchange to regulatory capital	-8.6	-5.3	-6.2	-1.7	-6.6	-6.0	-7.7	-11.5	-15.3	-0.4	2.0
Additional											
Capital to total assets	27.2	27.6	27.9	27.4	27.0	27.4	26.5	26.3	27.3	19.8	20.5
Large exposures to regulatory capital	57.5	59.2	63.3	71.4	66.7	68.0	69.4	73.5	67.1	67.9	64.9
Trading income to total income	13.2	15.2	16.3	14.4	13.3	12.9	11.8	6.1	6.7	7.4	7.5
Personnel expenses to noninterest expenses	60.1	60.3	61.1	60.0	59.4	59.8	60.3	58.6	59.2	60.3	60.5
Customer deposits to gross customer loans	114.6	111.1	105.2	102.5	102.6	102.2	107.7	107.6	99.1	90.2	88.2
Foreign-currency-denominated loans to total gross loans	55.9	52.1	51.0	50.5	50.7	50.9	48.8	43.2	39.9	34.8	33.7
Foreign-currency-denominated liabilities to total liabilities	51.0	49.4	49.4	46.7	47.2	47.9	47.9	48.2	49.0	47.4	48.7

Source: National Bank of Tajikistan.

Note: There is a statistical break starting from 2021Q2 when two large banks (AIB and TSB) were closed and removed from the banking system totals.

1/ Nonperforming loans include customer and interbank loans overdue more than 30 days.

2/ Annualized net income before tax to average assets or capital.

Table 10. Tajikistan: Inclusive Growth Indicators

	Indicator	LIC Average
Growth		
GDP per capita growth (percent; 2018-20 average)	4.3	1.1
Gross Fixed Capital Formation (percent of GDP; 2018-20 average)	30.8	24.3
Poverty and Inequality		
Poverty headcount ratio at $3.20/day (percent of population; 2015)	17.8	46.0
Multidimensional poverty (percent of population)	n.a.	n.a.
Prevalence of stunting (% of children under 5, 2017)	17.5	23.9
GINI Index (2015)	34.0	39.9
Child mortality (per 1,000, 2019)	33.8	57.7
Growth in mean consumption (growth, %, bottom 40th percentile)	n.a.	n.a.
Human Development and Access to Services		
Human Development Index (2018)	0.7	0.5
Life expectancy at birth (years, 2019)	71.1	64.9
Access to electricity (% of population, 2019)	99.6	58.6
Net school enrollment, secondary, total (% population, 2011)	83.2	38.2
Individuals using internet (% population, 2017)	22.0	22.7
Literacy rate (% population, 2014)	99.8	70.2
Government		
Commitment to reducing inequality index (2018)	0.41	0.33
Government spending on social safety net programs (percent of GDP, 2018)	0.8	1.3
Coverage of social safety net programs in poorest quintile (% population, 2011)	13.0	22.5
Government expenditure on education, total (% GDP, 2015)	5.2	4.3
Health expenditure, domestic general government (% of GDP, 2015)	2.0	1.8

	Indicator	LIC Average
Labor Markets (ILO estimates)		
Unemployment rate (% of total labor force, 2020)	7.5	6.3
Female (% of female labor force, 2019)	5.2	6.8
Youth (% of total labor force ages 15-24, 2019)	12.9	10.7
Labor force participation (% of total population ages 15+, 2020)	38.9	66.0
Female (% of female population ages 15+, 2019)	29.2	58.1
Youth (% of population ages 15-24, 2019)	25.8	47.0
Governance[1]		
Government Effectiveness (WGI, 2019)	-1.0	-0.8
Regulatory Quality (WGI, 2019)	-1.0	-0.7
Rule of Law (WGI, 2019)	-1.2	-0.7
Control of Corruption (WGI, 2019)	-1.3	-0.7
Corruption Perceptions Index (2020)	25.0	36.7
Gender Equity and Inclusion		
Account at a financial institution (female vs male, %, 2014)	80.9	76.8
Female employment to population ratio (%, 2019)	27.7	54.8
Literacy rate (female vs male, %, 2014)	n.a.	n.a.
Net school enrollment, secondary (female vs male, %, 2011)	90.1	101.2
Gender Gap Index (2020)	0.6	0.7
Female seats in Parliament (share of total seats, 2018)	23.8	20.3
Access to Finance		
Account at a financial institution (% age 15+, 2017)	47.0	36.5
Domestic credit to private sector (% GDP, 2020)	11.7	23.1

Better than LIC Average (green shading)   **Worse than LIC Average** (pink shading)

Improvement since previous observation (green border)   **Deterioration since previous observation** (red border)

Sources: IMF World Economic Outlook, World Bank, World Economic Forum, International Labour Organization, Transparency International, UNDP, Oxfam International.

1 / Indicators use official sources and surveys to summarize perceptions of the quality of governance and business environments.

Table 11. Tajikistan: Sustainable Development Goals, 2000-Latest

	2000	2005	2010	2015	Latest
Zero Hunger					
Prevalence of undernourishment (percent of population)	...	...	...	...	...
Good Health and Well-Being					
Maternal mortality ratio (modeled estimate, per 100,000 live births)	18	14	...	...	7
Mortality rate, under-5 (per 1,000 live births)	84	56	43	38	34
Incidence of tuberculosis (per 100,000 people)	219	196	128	86	83
Immunization, measles (percent of children ages 12-23 months)	88	85	94	97	98
Quality Education					
Primary completion rate, total (percent of relevant age group)	93	101	102	101	101
Lower secondary completion rate, total (percent of relevant age group)	84	86	94	98	98
Literacy rate, adult total (percent of people ages 15 and above)	99	...	...	...	99
Gender Equality					
School enrollment, primary (gross), gender parity index (GPI)	0.93	0.97	0.98	0.99	0.99
School enrollment, secondary (gross), gender parity index (GPI)	0.86	0.84	0.87	...	0.76
School enrollment, tertiary (gross), gender parity index (GPI)	0.45	0.47	0.53	0.67	0.76
Proportion of seats held by women in national parliaments (percent)	15	17	19	19	24
Clean Water and Sanitation					
People using at least basic drinking water services (percent of population)	56	63	70	78	81
People using at least basic sanitation services (percent of population)	90	92	94	96	97
Affordable and Clean Energy					
Access to electricity (percent of population)	98	99	99	98	100
Renewable electricity output (percent of total electricity output)	98	99	100	98	98
Decent Work and Economic Growth					
Employment in agriculture (percent of total employment) (modeled ILO estimate)	59	55	53	49	45
Wage and salaried workers, total (percent of total employment) (modeled ILO estimate)	52	56	60	65	71
Industry, Innovation, and Infrastructure					
CO2 emissions (metric tons per capita)	0.35	0.36	0.32	0.56	0.81
Researchers in R&D (per million people)	...	...	...	...	...
Sustainable Cities and Communities					
PM2.5 air pollution, mean annual exposure (micrograms per cubic meter)	51	49	50	48	46
Responsible Consumption and Production					
Total natural resources rents (percent of GDP)	1	1	1	2	3
Life on Land					
Forest area (percent of land area)	2.9	2.9	2.9	3.0	3.0
Technology					
Individuals using the Internet (percent of population)	0	0	12	19	22

Source: The World Bank

Table 12. Tajikistan: Key Recommendations of the 2019 Article IV Consultation

Recommendation	Status
Exchange Rate Policy and Monetary Operations	
Allow greater exchange rate flexibility to facilitate external adjustment.	In 2020, the NBT engineered a 16.6 percent depreciation of the currency vis-à-vis the US dollar. Tajikistan's de jure exchange rate arrangement is managed floating and its de facto arrangement is classified as stabilized.
Remove existing exchange restriction and multiple currency practices (MCPs).	The authorities hosted a TA mission to assist in efforts to improve FX market functioning. In particular, the authorities requested TA to gradually increase FX flexibility to better reflect demand and supply conditions, including improvements to FX auctions and other elements of market functioning, that could facilitate the removal of the existing exchange restriction and MCPs.
Strengthen NBT's financial position and independence including through an independent oversight board, NBT recapitalization, and diversification of reserves.	The NBT has recently undertaken policies that resulted in a positive equity balance and a significant diversification of international reserves (away from gold holdings).
Fiscal Policy	
Pursue fiscal consolidation to put debt decisively on a downward path to reduce the risk of debt distress including by broadening the tax base. Targeted social assistance (TSA) program should be expanded.	The authorities prepared the 2021 budget in consultation with IMF staff. The TSA was extended to all 68 districts. A new tax code has been approved in November 2021. Although the new code entails some positive features (e.g., taxpayer protections, administrative reforms), it also includes lower tax rates (without base broadening) and new tax incentives, which will likely result in revenue losses that would undermine development and social spending as well as rebuilding of buffers which is important given Tajikistan's debt-related vulnerabilities.
Strengthen the fiscal framework and transparency, including by revising the SOE law and publishing the financial statements of large SOEs.	Quarterly reports of the COVID-19 expenditures have been published on the MOF external website. Financial statements of the largest SOEs have been published (including BT, TALCO, Roghun) in accordance with international accounting standards. A revised SOE law to help strengthen oversight and accountability has been approved. Implementation of the law should proceed apace, focusing on disclosure of quasi-fiscal activities and the adoption of international reporting standards.

Table 12. Tajikistan: Key Recommendations of the 2019 Article IV Consultation (concluded)

Recommendation	Status
Financial Sector	
Liquidate two formerly systemic insolvent banks	The NBT recently revoked the licenses of the two formerly systemic banks (i.e. AIB and TSB) thereby commencing their liquidation.
Reduce related party lending, remove tax disincentives to NPL write-offs, and strengthen the AML/CFT regime.	To strengthen their AML/CFT regime, the authorities have enacted revisions to a number of related laws and have sought TA to address CBR pressures. The revised tax code includes a provision to remove tax disincentives to NPL write-offs.
Growth and Governance-Related Structural Reforms	
Strengthen governance of economic institutions and enhance anti-corruption policies to increase investment and growth.	Under the WB public sector modernization program, Tajikistan has made some progress in e-governance, and in implementing e-government procurement (e-GP) reforms. The new AML/CFT law, under preparation, is a key component of the anti-corruption agenda.
Economic Statistics	
Improvement in statistics to support economic decision making (in particular, national and fiscal accounts)	Recent technical assistance missions have focused on the improvement of quarterly estimates of GDP by expenditure

Table 13. Tajikistan: RCF Commitments and Status

Commitment	Status and Comments
Fiscal	
Preparation of quarterly reports on COVID19 spending and their publication on the Ministry of Finance external website.	Done. In addition to earlier reports, the report for the first nine months of 2021 was published (see here).
Ex-post audit by Chamber of accounts (COVID spending).	Done. March 31, 2021 (see here).
Fiscal consolidation and debt sustainability in line with the IMF recommendations. Detailed policies underpinning medium-term fiscal consolidation will be included to 2021-2022 budgets.	The 2021 budget was prepared in consultation with the Fund. Over the medium term, an operational fiscal anchor, which limits fiscal deficits to –2.5 percent of GDP, would foster fiscal discipline and be in line with RCF commitments.
Extending the TSA to all 68 districts.	Done (July 2020).
Broaden tax base in 2021, refraining from granting a new tax incentive, and phasing-out existing inefficient tax incentives. High tax rates will be rationalized only after broadening the tax base.	A new tax code has been approved in November 2021. Although the new code entails some positive features (e.g., taxpayer protections, administrative reforms), it also includes lower tax rates (without base broadening) and new tax incentives, which are not in line with RCF commitments.
Avoiding any other non-concessional borrowing until the Roghun power purchase agreements have been finalized and debt is on a sustainable path over the long term.	Ongoing.
Exchange rate policies	
Continue to allow greater exchange rate flexibility to facilitate external adjustment	A 16.6 percent depreciation of the currency vis-à-vis the US dollar was engineered in 2020.
Gradual removal of existing Article VIII restriction and multiple currency practices. Allow XR to reflect the FX supply and demand.	TA mission on these issues took place during Summer 2021. Reforms would be based on the TA recommendations.
Improve data collection regarding FX supply and demand, exchange rates in the official and non-official markets, and associated transaction volumes to help improve the functioning of the FX market.	
NBT Safeguards assessment	Safeguards mission took place in September 2020 (the implementation of recommendations is ongoing).
Governance	
Improving transparency of procurement process (RCF COVID related commitment).	Procurement law reform under consideration.

Annex I. Risk Assessment Matrix

Risk 1/	Description	Likelihood / Timeframe	Possible Impact (if realized) / Transmission Channels	Policy Advice
		External Risks and Spillovers		
Uncontrolled Covid-19 local outbreaks	Outbreaks, given low vaccination rates, force new lockdowns. The policy response to cushion the economic impact is constrained by lack of policy space.	**High** **Short-Term**	**High** Outbreak could trigger border closures, disrupting trade, migration, and remittance flows—putting pressure on the exchange rate and external and fiscal positions. New lockdowns would also lower domestic demand, increase unemployment, and delay key infrastructure projects, and lower growth.	Redouble vaccination rollout efforts. Slower fiscal consolidation with increased targeted spending to affected sectors and vulnerable households. Any fiscal loosening should ensure a declining medium-term debt path. Greater exchange rate flexibility to facilitate external adjustment. Seek additional donor support.
Global resurgence of the Covid-19 pandemic	Local outbreaks lead to a global resurgence of the pandemic, which requires costly containment efforts and prompts persistent behavioral changes, rendering many activities unviable.	**Medium** **Medium-Term**		
Intensified geopolitical tensions and security risks	Geopolitical tensions in the region boil over, causing economic/political disruption, disorderly migration, higher volatility in commodity prices, and lower confidence, with spillovers to other countries.	**High** **Short-Term**	**High** Confidence in economic prospects reduced. Adverse impact on fiscal (potential spending on security and refugees) and external positions (disorderly migration, reduced exports (including electricity), and cuts in foreign direct investment), lowering economic growth.	Expenditure reprioritization, targeted social spending and strengthened social safety nets. Moderate fiscal consolidation and mobilize donor support. Any fiscal loosening should ensure a declining medium-term debt path.

1/ The Risk Assessment Matrix (RAM) shows events that could materially alter the baseline path (the scenario most likely to materialize in the view of IMF staff). The relative likelihood is the staff's subjective assessment of the risks surrounding the baseline ("low" is meant to indicate a probability below 10 percent, "medium" a probability between 10 and 30 percent, and "high" a probability between 30 and 50 percent). The RAM reflects staff views on the source of risks and overall level of concern as of the time of discussions with the authorities. Non-mutually exclusive risks may interact and materialize jointly. "Short term" and "medium term" are meant to indicate that the risk could materialize within one year and three years, respectively.

Risk Assessment Matrix				
Risk	**Description**	**Likelihood / Timeframe**	**Possible Impact (if realized) / Transmission Channels**	**Policy Advice**
Higher frequency and severity of natural disasters related to climate change	Negative climate change events damage infrastructure, disrupt trade, and accelerate emigration. Global GDP declines, prompting a reassessment of risk and growth prospects. Commodity prices, inflation rates, and volatility surge.	**Medium** **Medium-Term**	**Medium-High** Tajikistan is susceptible to climate change. The agriculture sector—the main employer and key driver of recent growth—is especially exposed to climate-related risks.	Advance National Climate Change Adaptation Strategy which emphasizes the needed for diversification to increase rural resilience and reduce food insecurity. Ramp up multilateral support for adaptation financing.
Domestic Risks				
Fiscal slippages and a rise in debt	Implementation of the new tax code and a predilection for tax exemptions results in lower tax revenues. Bank resolution costs (AIB/TSB), higher COVID spending, new quasi-fiscal activities, poor SOE fiscal controls, and Roghun demands results in higher expenditures.	**Medium** **Medium-Term**	**High** The loss in revenues coupled with increased spending demands would result in higher deficits and a need for more budgetary financing. Higher debt service could squeeze out needed expenditures (e.g. investment and social spending). Alternatively, fiscal consolidation could slow, raising concerns about debt sustainability.	Additional revenue and expenditure measures to ensure deficits are consistent with declining medium-term debt path. Strengthen fiscal framework and transparency, implement PFM reforms. Progress on SOE reforms to raise efficiency and governance.
Financial sector risks materialize	Vulnerabilities have increased with the pandemic. The relaxation of prudential measures provided some relief to banks, but asset quality could deteriorate, and restructured loans could turn out to be nonperforming, weakening banking sector soundness.	**Medium** **Medium-Term**	**High** Given elevated SOE concentration risks, excessive related-party lending, and COVID pressures, NPLs may rise, reducing bank profitability and raising solvency concerns. With a large SOB and SOE sector, contingent fiscal liabilities could increase.	Stand ready to provide liquidity to solvent banks. Strengthen accounting, reporting, and provisioning standards. Engage in more intrusive supervision including for unwinding any excessive related-party lending and for timely NPL resolution.

Risk Assessment Matrix				
Risk	**Description**	**Likelihood / Timeframe**	**Possible Impact (if realized) / Transmission Channels**	**Policy Advice**
SOE reforms are delayed or poorly implemented	SOE performance continues to be weak and reforms on governance are not implemented.	**High** **Short-Term**	**Medium** A slowdown in reforms could result in lower investment and productivity and slower growth. Popular frustration could grow.	Stress the need for SOE reform and market liberalization. Focus on the highest priority reforms (price liberalization, SOE and banking sector governance, and improvements to the social protection system and business environment).

Annex II. External Sector Assessment

The external position in 2021 was broadly in line with the level implied by medium-term fundamentals and desirable policies. However, this assessment is highly uncertain given the lack of full-year data for 2021 and the still ongoing COVID-19 crisis. The current level of reserves is above the range suggested by reserve adequacy metrics. The country's external risks are high but they are mitigated by the large FX reserves and the concessional nature of external debt.

A. Current Account (CA)

1. Background. The current account is projected to reach a surplus of 2.6 percent of GDP in 2021 (1.6 percentage points lower than in 2020) because of high gold exports which together with a recovery in other exports, helped to offset the import rally.[1] Exports of goods, denominated in USD, are expected to grow by 28.4 percent in 2021 reflecting a recovery in traditional exports as gold exports remained broadly at the same high level as in 2020. Imports of goods increased by 26.0 percent in line with the recovery. The expansion of trade reflects a low 2020 base as the pandemic adversely affected non-mineral exports, and remittances fell as borders were closed and activity declined in source countries. In 2021, remittance inflows from Russia have fully recovered and the remittances-to-GDP ratio is projected to surpass its pre-pandemic levels. Over the medium term, external imbalances are expected to reemerge due to strong public investment (i.e., Roghun) which would be externally financed.

2. Assessment. The EBA-Lite Current Account (CA) model, applied to 2021 data, estimates a CA norm of –3.5 percent of GDP against an adjusted CA of –4.2 percent of GDP (text table).[2] This implies a very moderate gap of –0.7 percent of GDP under current policies. Given the range of the CA norm (–2.5 to –4.5 percent of GDP), the external position in 2021 is assessed to be broadly consistent with fundamentals and desirable policy settings. Using standard trade elasticities, the REER gap would be only 3.7 percent, implying the REER is not far from its equilibrium. Other cost competitiveness indicators for 2020

Tajikistan: Model Estimates for 2021 (in percent of GDP)

	CA model		REER
CA-Actual	**2.6**		
Cyclical contributions (from model) (-)	0.9		
COVID-19 adjustor (+) 1/	0.0		
Additional temporary/statistical factors (-) 2/	4.8		
Natural disasters and conflicts (-)	1.2		
Adjusted CA	**-4.2**		
CA Norm (from model) 3/	**-3.5**	**± 1**	
CA Gap	**-0.7**		**5.5**
o/w Relative policy gap	8.4		
Elasticity	-0.19		
REER Gap (in percent)	**3.7**		**-29.0**

1/ Additional required cyclical adjustment to account for the temporary impact of the tourism is less than 0.1 percent of GDP.
2/ Reflects deviations of gold exports from domestic gold purchases (4¾ percent of GDP)
3/ Cyclically adjusted, including multilateral consistency adjustments.

[1] Most of the gold exported in 2021 and 2020 reflects NBT conversion of monetary gold reserves into FX, as the authorities took advantage of the elevated global price of precious metals.

[2] See Box 1 for an explanation of the adjustments made to the current account.

such as Tajikistan's wages in U.S. dollars relative to regional peers (Figure 1, panel 1) or Tajikistan's real exchange rate measured as the ratio of the nominal exchange rate to the PPP-exchange rate (Figure 1, panel 2), are consistent with an assessment of no significant deviations.

B. Foreign Assets and Liabilities: Position and Trajectory

3. Background. As of 2021Q2, the net international investment position (NIIP) was –61 percent of GDP, increasing steadily after being broadly stable at -69 percent of GDP in 2015-19, mostly reflecting the reserve assets buildup (by 8 percent of GDP). Direct investments (37 percent of GDP, 56 percent of which was from China), and government borrowing (39 percent of GDP, 35 percent of which are bilateral loans from China), dominate the liability structure of the NIIP. Multilateral and bilateral loans are at concessional rates. Excluding reinvested earnings, direct investment liabilities flows have remained anemic in 2021H1, even below 2020 levels in annualized rates, even though in 2020 they halved from 2019 levels following the COVID-19 shock. On the other hand, concessional borrowing picked up significantly as a result of sizeable COVID-19 related support from development partners, including the IMF. Gross liabilities stood at 95.9 percent of GDP in 2021Q2.

4. Assessment. The large negative NIIP comes with external vulnerabilities, including from prospective large gross financing needs related to infrastructure projects and potentially adverse valuation effects. A fast expansion of external borrowing on market-terms by the government and/or SOEs would further raise medium-term risks.

C. FX Reserve Adequacy

5. Background. In 2021, reserves are expected to increase by about USD 500 million (compared to USD 1.2 billion in 2020) on the back of the NBT's domestic purchases of gold and support from international partners, including the SDR allocation. As the price of gold has reached an all-time high following the economic fallout of the COVID-19 pandemic, the NBT is diversifying its portfolio by reducing the share of monetary gold in reserve assets (Figure 1, panel 3) and realizing significant gains. Given the increased size and complexity of foreign reserves, the NBT joined the World Bank's Reserve Advisory and Management Partnership (RAMP), to enhance its reserve management and governance framework, and to build the capacity. This would also help optimizing the level of reserve holdings over time.

6. Assessment. The assessment of reserve adequacy (ARA) approach for credit-constrained economies, which compares the marginal benefits and costs of holding reserves with that of spending them, estimates an adequate reserves adequacy in the range 5.5 to 6.3 months for Tajikistan's reserve import cover (depending on the assumption for the marginal productivity of capital). While the current level of reserves (about 8 months of import cover) seems to be well above this metric, staff assesses Tajikistan's FX reserves are adequate for precautionary and operational purposes. This assessment also takes into consideration the large debt servicing needs coming due (that is, the Eurobond repayments in 2025-27) and the adequacy of FX reserves in ensuring that

Tajikistan has access to needed imports and has buffers against shocks. They are also needed for operational purposes, including smoothing volatility in the FX market, while allowing the exchange rate to adjust in line with market forces, especially in the context of adopting recommendations on FX markets modernization.

D. Real Exchange Rate

7. Background. The official market exchange rate against the US dollar has been essentially unchanged in 2021, compared to 2020 when the NBT engineered a 16.6 percent depreciation against the USD in response to pressures stemming from COVID-19. In 2021H1 FX shortages in the NBT's official FX auctions continued but to a smaller extent. Apart from FX interventions in April-May, the pressures were also ameliorated by the rebound in remittances inflows and higher reserves boosted by monetary gold sales and the SDR allocation. As of August 2021, the real effective exchange rate was about 3.5 percent more depreciated than the 2020 average.

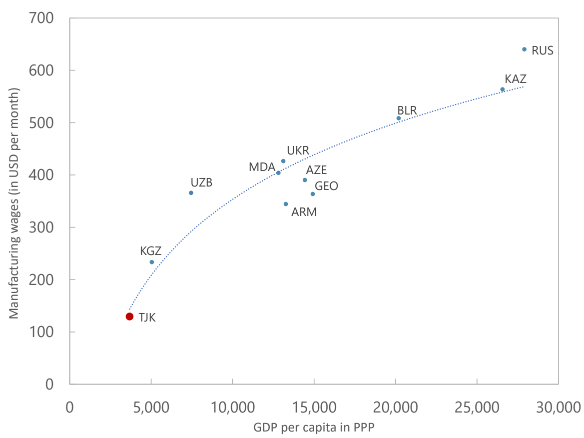
8. Assessment. The EBA-Lite's Index Real Effective Exchange Rate (IREER) model finds a misalignment of the REER with an undervaluation of 29 percent (see text table). Staff assesses that this approach is not informative for Tajikistan due to the large structural break since 2015 (Figure 1, panel 4).[3] The IREER depends on the historical trend of the real exchange rate, but the sharp structural breaks complicate the assessment. Furthermore, the IREER approach suggests that the real exchange rate is significantly weaker than implied by fundamentals and desired policies. Such result seems unfeasible for Tajikistan's economy, which in 2021 ran a CA surplus above 2.6 percent of GDP. Nevertheless, staff considers that there is some scope for greater exchange rate flexibility at the current juncture. The recent FX TA mission provided a comprehensive set of recommendations to gradually transition to a more flexible exchange rate, achieve market clearing through the introduction of a price-based mechanism, and other measures to reform the FX market. These reforms could also facilitate the removal of the existing exchange restriction and multiple currency practices.[4] Although Tajikistan is mainly an exporter of primary commodities and minerals (priced in USD), greater exchange rate flexibility is important for import compression as well as substitution effects to facilitate external adjustment to shocks, including COVID-19.

[3] This estimation assumes the REER was in equilibrium on average during 2011–2019.

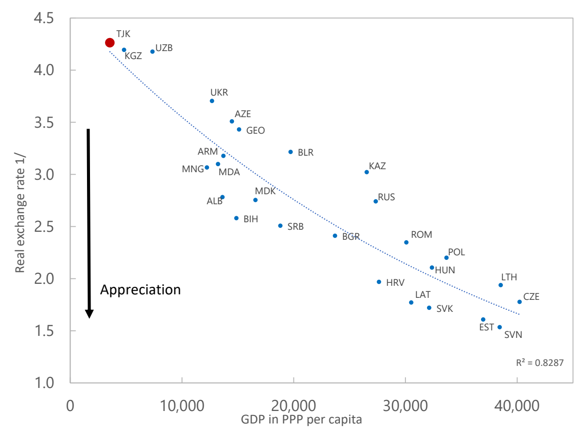
[4] The authorities received in June 2021 IMF TA to improve FX auctions and other elements of FX market functioning.

Figure 1. Tajikistan: External Sector Assessment

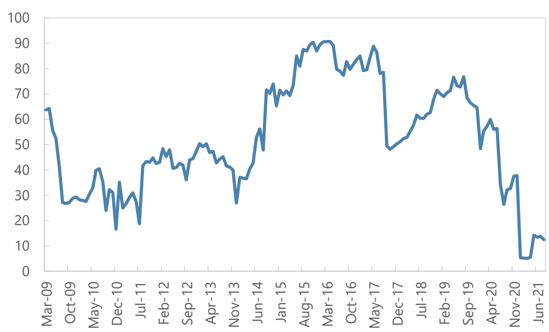
1. Manufacturing Wages and GDP per Capita, 2020



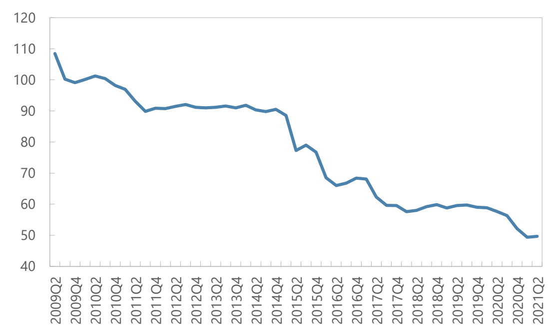
2. Real Exchange Rate (Ratio FX to PPP_{FX}), 2020



3. Share of Monetary Gold in Total Reserves (in percent)



4. Real Effective Exchange Rate (Index; 2010=100)



Sources: Country authorities, Haver Analytics, INS, and IMF staff estimates.
Notes: Real exchange = 4 means Nominal FX vs USD is 4 times the PPP-FX. REER based on CPI.

Box 1. Adjusting the Current Account for Temporary Factors

The adjusted CA deficit in 2021—which corrects the CA for temporary and cyclical factors— is estimated at -4.2 percent of GDP. In addition to the standard cyclical correction for terms of trade and output gap (0.9 percent of GDP), three additional adjustments are needed. The first adjustment addresses additional one-off temporary effects due to the pandemic on remittances and is required for all countries in 2021. It is negligible for Tajikistan. The second adjustment reflects the NBT's decision on how much of its annual purchase of gold it exports during the year. Finally, the third adjustment talks to the security situation in Afghanistan.

- **Adjusting for the temporary effect of the pandemic on remittances:** Standard cyclical adjustments may be insufficient to account for the exceptionally sharp contractions in remittances in 2021. The adjustment is estimated with the formula below. The change in the remittances flows in 2021 is estimated by comparing the change in the projected remittances flows for 2021 and 2025 in the baseline scenario with the projected remittances flows for 2021 and 2025 in the January 2020 WEO (before the COVID-19 shock). Because remittances in 2021 are already close to pre-pandemic levels, the implied adjustment is less than 0.1 percent of GDP.

$$CA\ adjustment\ = elasticity_{Rem}^{CA}\left(\left(Rem_{2021}^{Forecast} - Rem_{2021}^{Jan\ 2020\ WEO}\right) - \left(Rem_{2025}^{Forecast} - Rem_{2025}^{Jan\ 2020\ WEO}\right)\right).$$

- **Adjusting for NBT's gold exports deviation from the gold purchases:** The reason for correcting for gold purchases is that the NBT's gold purchases from domestic producers affects FX reserves but do not affect the rest of the BOP. If all gold purchased is exported, the export is registered as a CA credit that fully matches the FX reserve buildup. But if exports of gold exceed the purchases during the year, the CA surplus (deficit) is overestimated (underestimated). In 2021 exports of gold are projected to exceed NBT purchases of gold by 4¾ percent of GDP.[1]

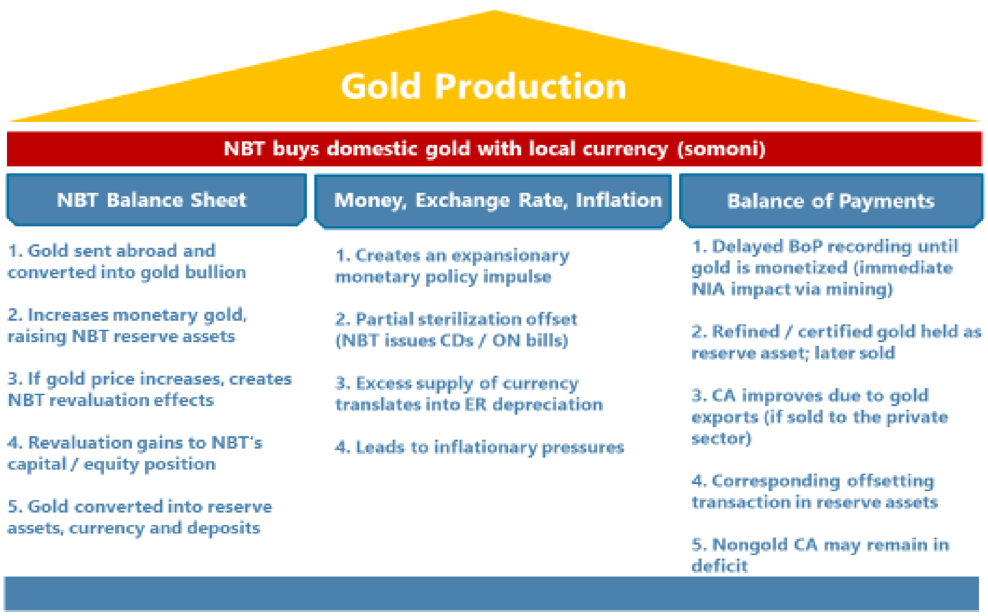
- **Adjusting for natural disasters and militarized conflicts:** This adjustment reflects the flood, mudflow, and mass movement disaster that occurred in May 2021 following extreme precipitation that damaged transport infrastructure and partially destroyed flood defense structures. Preliminary estimated suggest that the disaster adversely affected over 25,000 people, making it one of the worst such disasters over the last decade. Given Tajikistan's financial account openness, the estimated effect on the current account openness of a disaster of this size is estimated to be about 1.2 percent of GDP. The security situation in Afghanistan may also discourage investment in the second half of 2021 potentially increasing the needed adjustment, although this effect is harder to quantify.

1/ In 2021, NBT purchases of domestically produced gold are expected to reach 3.6 percent of GDP, while gold exports are projected at 8.3 percent of GDP. The observed current account surplus was therefore corrected (decreased) by 4¾ percentage points of GDP.

Annex III. The Role of Gold in Tajikistan's Macroeconomy

The role of gold in Tajikistan's economy has been increasing in recent years. This annex provides an overview of recent sectoral developments, traces out the main macroeconomic implications of greater gold production, and presents policy recommendations, including some which could be considered over the medium term.

1. Gold sector activities in Tajikistan affect the macroeconomy through several different channels. Most domestic gold production is purchased by the NBT in local currency, sent abroad for secondary refining, and then at some point converted into NBT reserves. The authorities determine how much of this local currency to sterilize, either through the repatriation and sale of FX or via issuance of central bank paper. This process impacts the NBT's balance sheet, monetary and exchange rate aggregates, inflation, and the balance of payments.



2. Gold production, which totaled 8.5 tons in 2020 (approximately $450 million) has quadrupled over the last decade. Presently, there are 14 gold mining companies, of which two Chinese firms account for 83 percent of total production. CSJC TALCO-Gold, a joint venture between Tajikistan's state-owned aluminum smelter TALCO and China's Tibet Huayu Mining Co. are set to produce an additional of 0.5 to 2.0 tons of gold per year starting in 2021-22. Estimates of proven gold reserves range from 450-500 tons, equivalent to 360-400 percent of 2020 GDP.

Gold is only extracted by a few firms in Tajikistan.

Gold Production by Company, 2020.

	Production, tons	Production Share (%)	Government Share (%)
LLC JV Zarafshon 1/	6.0	70	30
LLC Pakrut 1/	1.1	13	0
LLC JV Aprelevka	0.3	4	51
SOE Tilloi Tojik	0.3	4	100
TBEA	0.3	3	0
Others 2/	0.5	6	...

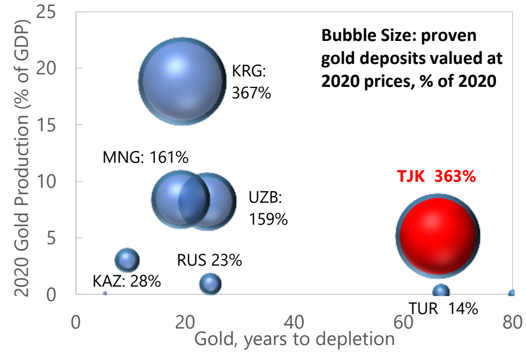
Source: Tajik Authorities.

1/ Chinese owned or majority owned.

2/ Includes small scale mines.

Gold resources are abundant—and could be long lasting at current extraction rates.

Gold: Production, Proven Deposits, Depletion



3. By law, the right of first purchase of refined gold in Tajikistan is given to the NBT and Ministry of Finance (MoF). In 2020, the NBT purchased most of the gold produced domestically (while the rest was acquired by the MoF). Gold is sent to Switzerland by NBT for secondary refinement for conversion to monetary gold. This applies, as well, to gold received from the MoF.[1] In the interim, gold procurements by NBT (in TJS) from domestic mining companies do not translate into gross international reserves until they have been refined abroad and sold (with a change in ownership) to nonresident nonmonetary entities.

Key Definitions

- **Monetary gold** qualifies as a reserve asset. It includes both gold held in specific *allocated accounts* as well as *unallocated gold accounts* with nonresidents (that give title claim to delivery of gold). Monetary gold can take the form of coins, ingots, or bars with a purity of at least 995 parts per 1000. Gold bullion included in monetary gold is a financial asset.
- **Nonmonetary gold** is physical gold bullion that is not part of reserve assets and is classified as a good. Non-monetary gold covers all gold other than monetary gold.
- **Monetization (demonetization) of gold** is a change in the classification of gold bullion from nonmonetary to monetary gold (from monetary to nonmonetary gold).

Accounting Transactions

- **Gold bullion included as part of reserve assets** (i.e., monetary gold) sold by the NBT to nonresident entities, other than a monetary authority or international financial organization, is recorded as a nonmonetary transaction in the **goods and services account** of the BoP (i.e., an export of nonmonetary gold). A corresponding entry is recorded in **other assets and liabilities** (or reserve assets) account of the NBT.
- **Demonetization of gold** is shown in other changes in volume in **the International Investment Position (IIP).** Historically, NBT has sold its gold primarily to UBS and Commerzbank (both entities being nonresident, nonmonetary authorities).

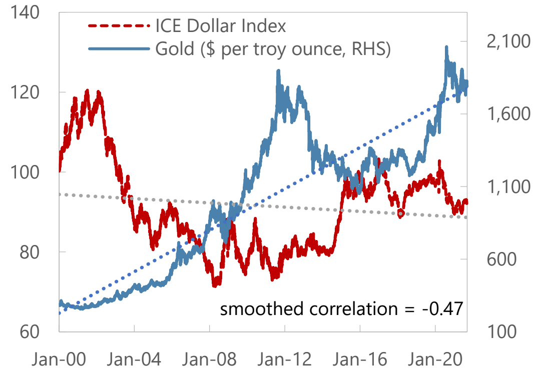
4. Gold prices and the US dollar tend to move in opposite directions, making gold holdings a natural counter-cyclical hedge for the NBT. Revaluation gains on a central bank's gold portfolio can offset losses suffered on its dollar portfolio and help to maintain its equity. By

[1] The MoF buys domestic gold from a local SOE gold producer, sells it to the NBT, and uses the proceeds to pay for a small portion of the Roghun project. NBT settles its acquisitions of gold from MoF in two legs, an advance payment equivalent to 80 percent of the value of gold, followed by a final payment (for remaining balance) on completion of the gold refinement process (i.e. when the gold is readily available for sale to NBT).

taking advantage of their natural resource endowments, the NBT has increase reserves by adding monetary gold. This process has been part of a de-dollarization strategy, which also helps to avoid consequences of any negative spillovers from sanctions against strategic partners, low US dollar yields, and persistent negative shocks (e.g., global financial crisis, oil prices).

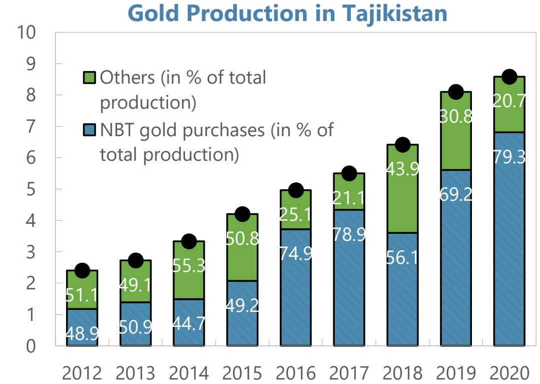
Holding gold can be a natural hedge against dollar volatility.

Gold Price and Dollar Index



NBT gold purchases have increased with domestic production.

Gold Production in Tajikistan

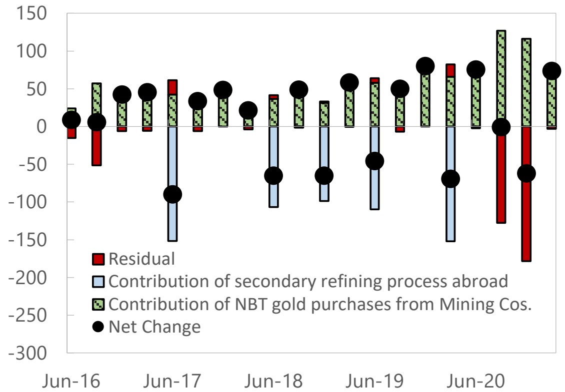


5. The flows in the NBT's (non)monetary gold accounts reflect the monetization-demonetization process. The nonmonetary inflows record the NBT's original domestic purchases while outflows show refined gold becoming monetized (along with a residual valuation and timing effect). On the other hand, the monetary gold account reports these corresponding inflows, as well as purchases of gold from the MoF. Outflows reflect conversion of gold into FX. A mostly positive residual contains revaluation effects from recent gold price increases. The activity in 2020 shows a high level of NBT domestic gold purchases, a subsequent shift to monetary gold, and conversion or demonetization of monetary gold to FX deposits of the NBT. As noted above, these transactions were motivated by high gold prices, and allowed the NBT to not only build and diversify their FX reserves but to also strengthen their capital base without a financial infusion from the MoF budget.

6. The NBT's domestic gold purchase program, however, adds to liquidity pressures and requires offsetting sterilization measures. Buying gold in local currency not only increases gross international reserves, but if left unsterilized, also leads to money growth that may result in inflation. Finding the balanced trade-off between increased sterilization costs and a more gradual pace of reserve accumulation may be warranted. As an alternative, the authorities could follow a "neutrality principle", whereby the central bank repatriates and auctions off most of the US dollars they receive from gold sales. This would provide much needed FX liquidity and depth to the domestic market and reduce pressure on open market operations.

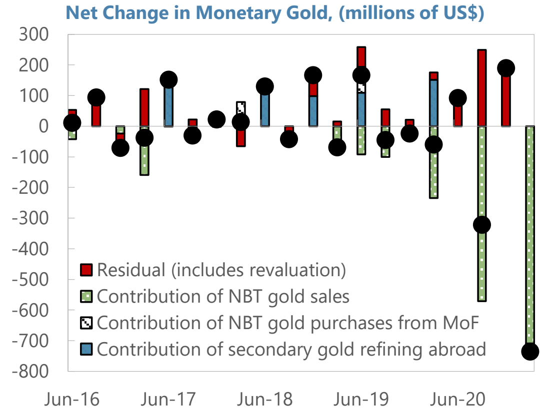
NBT purchases, refinement, and sale of gold have resulted in nonmonetary…

Net Change in Nonmonetary Gold (US$, millions)



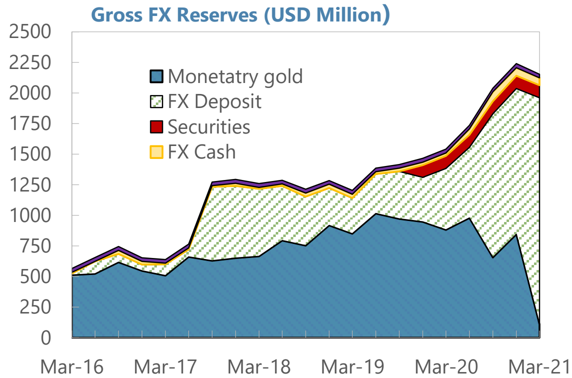
…and monetary flows.

Net Change in Monetary Gold, (millions of US$)



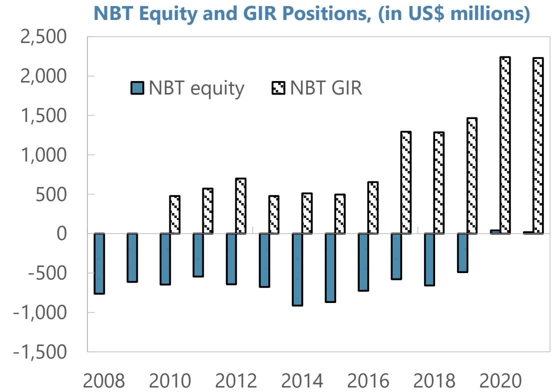
The NBT used monetary gold to raise reserves and convert into FX.

Gross FX Reserves (USD Million)



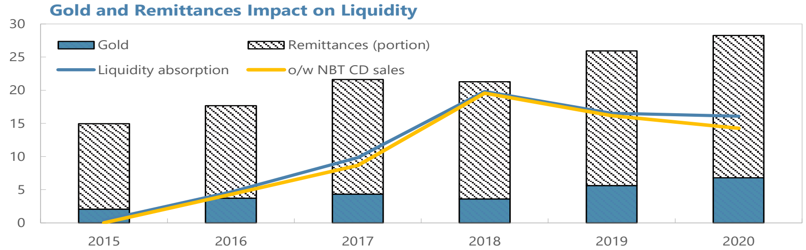
Revaluation effects from price increases were booked into NBT equity.

NBT Equity and GIR Positions, (in US$ millions)



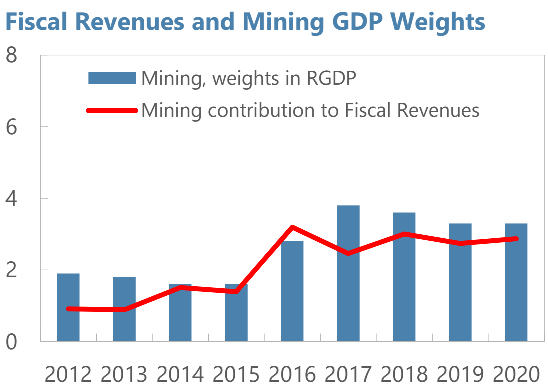
Domestic gold purchases in local currency (and remittance flows) raise liquidity and demands on sterilization operations.

Gold and Remittances Impact on Liquidity

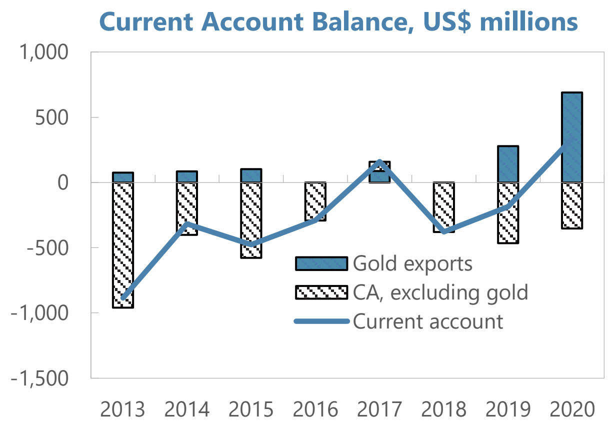


7. Gold activities have had a positive impact on economic growth, as well as on internal and external balances. Preliminary estimates suggest that gold mining, on average has added around a ½ percentage point (pp) per year to economic growth over the last five years. Mining contributions to fiscal revenues, while low, have doubled since 2016 to about 3 pps of GDP per year. Moreover, the current account has turned positive in 2019-20, largely by virtue of the NBT converting its monetary gold into FX reserves. By balance of payments accounting rules, monetary gold exports are not recorded in trade exports until they are demonetized (e.g., sold to a commercial bank for FX). For example, while gold production increased by 6 percent in 2019, NBT's gold sales to nonresident, nonmonetary entities increased by more than 50 percent—reflecting the buildup of past gold flows.

Gold sector activity contributes to fiscal revenues and real GDP.



The current account has turned positive given increased gold exports.



8. Looking ahead, a revision in the government's gold management strategy, in line with an overall assessment of natural resource management, could be considered over the medium term.

- The NBT has signaled its intention to continue to buy a certain share of domestic gold production, and to buy back some gold in the international market on price dips.[2] This will add to liquidity and inflation pressures, slow the development of the domestic FX market, and limit resources for investment. Moreover, these revaluation effects are one-off events, and will not eliminate NBT's high structural cost of implementing monetary policy.

- At the same time, the MoF should review its tax policy on mineral resources. Tajikistan is a country rich in natural resources, but currently receives a relatively low level of natural resource

[2] In 2021, the NBT issued permission to gold mining companies to independently sell 50 percent of their gold output in the international market.

rents as a percentage of GDP.   Gold resources, along with other mineral wealth, could be used for economic development purposes or saved for future generations.

- A more wholistic and transparent fiscal management of natural resources is needed. This could include the use of a rule based fiscal framework and sovereign wealth fund. In this context, continued engagement with the *Extractive Industries Transparency Initiative (EITI)* would prove useful.

Annex IV. Social Spending in Tajikistan[1]

Despite significant progress, Tajikistan is still lagging peers in terms of poverty, inequality, and human development. Tajikistan is facing a policy challenge on how to increase social spending amid limited fiscal space. Prioritization and improving efficiency of spending are key and should be complemented by reforms in revenue mobilization and governance reforms. These measures would help to improve resource allocation and thereby boost medium-term growth, but also raise revenues that can be dedicated to health, education, and other social spending areas.

A. Why is social spending important?

1. Social spending is one of the key policies to promote inclusive growth and economic resilience. There is widespread consensus that adequate level of spending on health, education, and social protection, together with the effectiveness deployment of such outlays, are important for reducing poverty and inequality and fostering a healthy and a more qualified workforce (e.g., Rossi, 2018, Coady and Dizioli, 2018; IMF, 2019). Empirical analysis suggests that social spending has a significant impact on the Human Development Index (HDI)—a summary measure of average achievement in key dimensions of human development: a long and healthy life, being knowledgeable, and having a decent standard of living.[2] Importantly, studies indicate that increasing social spending by 10 percent leads to the closing of HDI gaps by 20-65 percent between countries in the region (IMF, 2020).

2. Overall social spending in Tajikistan is the lowest in the Caucasus and Central Asia (CCA) region. While the CCA region itself needs to increase social spending by 7.6 percent of GDP per year to meet 2030 Sustainable Development Goals (SDG), for Tajikistan, this estimate is even larger. In particular, social spending should be increased by 10.5 percent of GDP per year for Tajikistan to achieve five critical SDGs covering human, social, and physical capital.[3] The importance of social spending was heightened with the onset of the COVID-19 pandemic given the pressing needs associated with health, unemployment, and social safety net.

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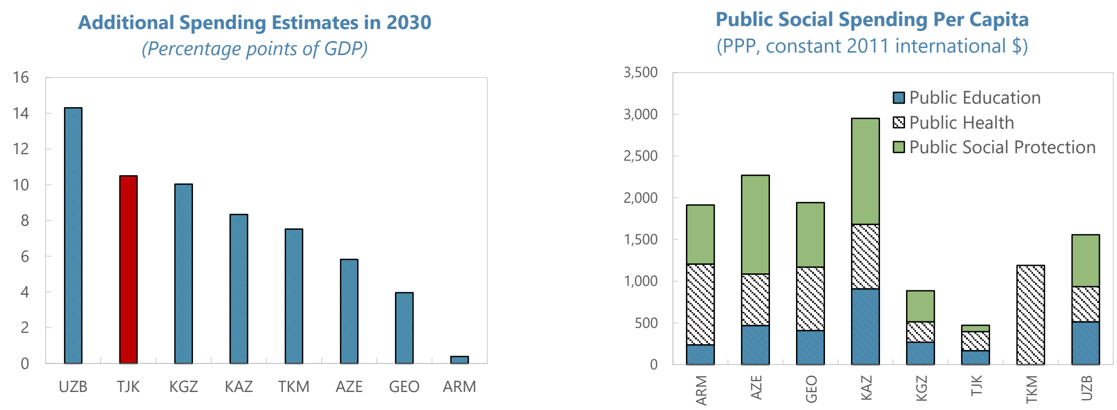
[1] Prepared by Farid Talishli.

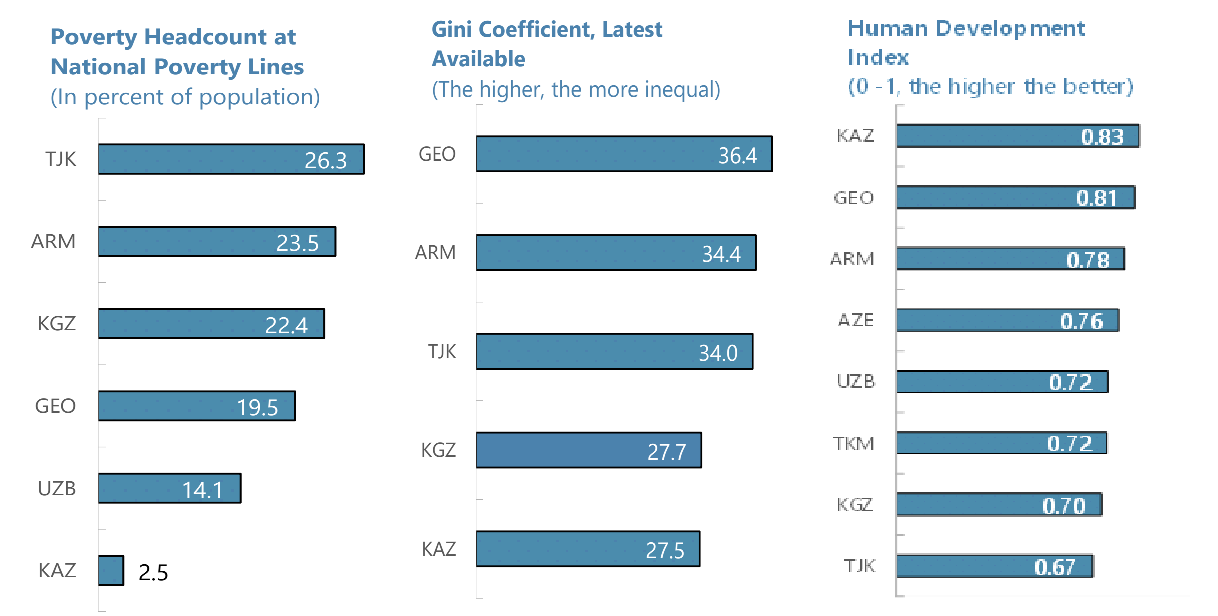
[2] The Human Development Index (HDI) is a statistic composite index of life expectancy, education, and per capita income indicators, which are used to rank countries into four tiers of human development (UN HDI, 2020). The HDI is a commonly used indicator for economic development. It offers a relatively rich time series and is constructed in a transparent two-step process. The HDI methodology note is publicly available. However, as the methodology note acknowledges, there could be potential discrepancies between national and international estimates. Moreover, research indicates that some dimensions of human development (access to broad public services, fertility issues, environmental sustainability) are not part of the indicator.

[3] Gaspar and others (2019).



Source: Authors' calculations based on Gaspar and others (2019) and IMF staff estimates.

3. Tajikistan is lagging its peers in terms of poverty, inequality, and HDI. Despite a significant effort made by Tajikistan in poverty reduction, its poverty level is one of the highest in the region. Inequality measured by the Gini coefficient is also high while HDI is the lowest in the region.

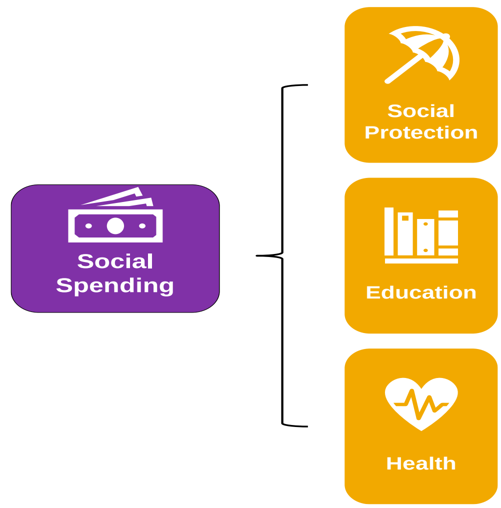


Sources: The World Bank, UNDP, and IMF Staff Calculations.

4. **The policy challenge in Tajikistan is to gradually increase social spending amid tight resource constraints and high debt.** Increasing social expenditures will require prioritization efforts and ensuring sustainable financing which should be conducted in a way to preserve macroeconomic stability. This balance is especially important given Tajikistan's high risk of debt distress.

E. Definition of social spending

5. **This annex uses a traditional definition of social spending that is defined as on-budget government spending on education, health, and social protection.** Although this annex will mainly focus on social protection, it is useful to provide brief definitions of the other types of social spending. In many low-income countries, spending on education primarily covers primary and secondary education services. Likewise, spending on health includes basic health care packages provided by primary, secondary, and hospital service providers.[4] Other forms of government spending including subsidies or the public wage bill also have social component, but these types of spending are usually seen as inferior to well-designed public spending program and not covered in this analysis (IMF, 2020).



6. **Social protection spending is an important aspect of a country's development objectives and aims to protect vulnerable individuals and households from poverty and income and employment shocks.** Studies provides evidence that well-designed social protection spending programs can also improve human capital and raises productivity (World Bank, 2012). Social protection spending consists of the three main components:

- Social Insurance Programs: Contributory transfer programs to help households insure themselves against sudden reductions in income caused by old age (pensions), ill health, disability, or loss of breadwinner.

- Social Assistance Programs (also referred as the Social Safety Net): Non-contributory transfer programs with the main objective being poverty reduction, which include assistance through cash and in-kind transfers. These programs often target the poor and vulnerable segments of society to alleviate poverty and mitigate the impact of shocks. In this regard, social assistance can have an immediate impact on reducing inequality and extreme poverty.

[4] The appropriate definition of basic education and health spending is country specific. It will vary by level of development and existing level of access. For example, for Low-Income Developing Countries, basic education may include primary and secondary education, while basic health often refers to a nationally defined basic health care package. For Advanced Economies, basic may include further training and a more comprehensive package of health services (IMF, 2019).

- Labor Market programs: Active (job search assistance or job training programs) and passive schemes (unemployment benefit, cash transfers, and enterprise support measures) to support employment.

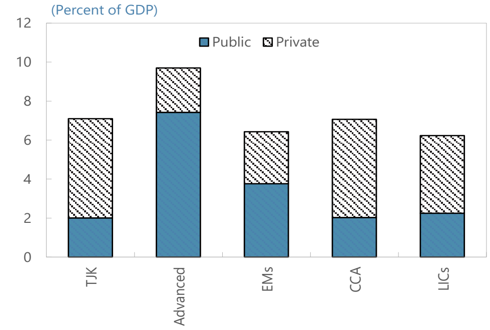
Although beyond the scope of this annex, the role of private transfers needs to be recognized. In many low-income countries, such transfers constitute a substantial source of income for households and thereby play an important role in reducing poverty. Private transfers include remittances which is especially relevant in the case of Tajikistan, support from charities, in-kind transfers, and alimony. However, these types of transfers are not included in social protection policy since they are private and not public transfers.

F. The level of social spending in Tajikistan

7. Motivated by the COVID shock, this section will concentrate on health and social insurance spending in Tajikistan.[5] The COVID shock put enormous pressure on health and social protection systems around the world, including in Tajikistan. The revised budget for 2020 envisaged increasing health and social protection policies spending by an additional 2.1 percent of GDP that has been mainly financed by donors.

8. In terms of health expenditures, Tajikistan is in line with other CCA countries and LICs. Private health expenditures constitute the biggest part of health expenditures. Big private expenditures in overall health spending suggests that quality of public health system may be lagging behind its private-sector counterpart. At the same time, this suggests that poor and vulnerable households have limited access to the better health system.

Total Health Expenditure
(Percent of GDP)



Sources: World Bank Atlas of Social Protection, and IMF staff estimates.

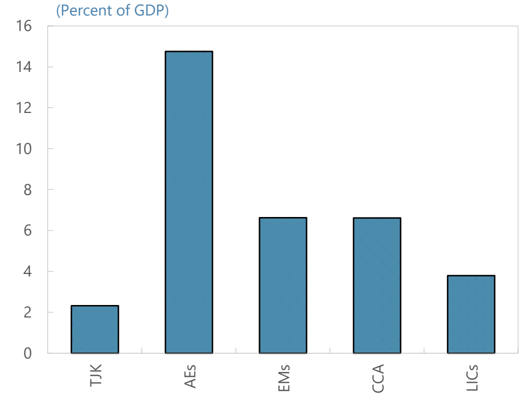
9. The quality of health services needs to be improved. While the life expectancy in Tajikistan is comparable to peers across the region, Tajikistan has one of the highest infant mortality rates in the region. According to the World Bank, the probability of dying between ages 30 and 70 from cardiovascular disease, cancer, diabetes, or chronic respiratory diseases is 25 percent (2016). This is higher than both the average for the region (17 percent) and the average for its income group (23 percent).[6] This suggests that health expenditures could be deployed more efficiently.

[5] Education sector is not covered in this analysis.

[6] Human Capital Index 2020, The World Bank.

10. Turning to social protection programs, this type of spending in Tajikistan is one of the lowest in the region. A key reason for such low spending in Tajikistan can be explained by the large informal sector as people working in the informal sector do not pay the social tax and are not covered by the government's social protection system. This lack of coverage has been somewhat mitigated by remittances that corresponded to 29 percent of GDP in 2019. Although remittances play a significant role in reducing poverty in Tajikistan, these types of flows can be volatile and plummet at times when they are most needed. For example, remittance flows declined markedly during the early months of the COVID-19 pandemic. It once again highlights the importance of sustainable public social protection programs, including to increase economic resilience.

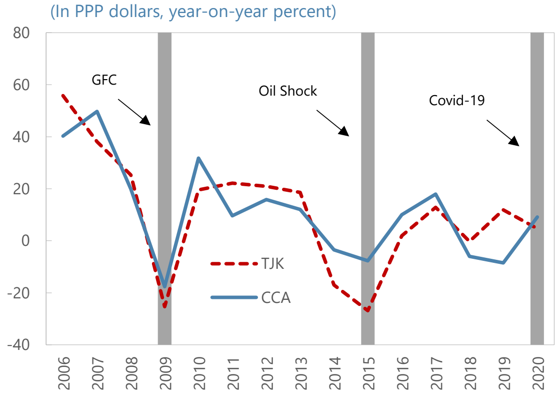
Public Social Protection Spending
(Percent of GDP)



Sources: World Bank Atlas of Social Protection, and IMF staff estimates.

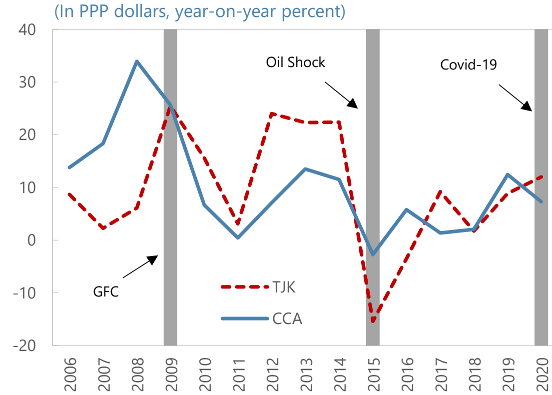
Remittance Flows and Social Spending[1/]

Workers Remittances - TJK vs CCA Average
(In PPP dollars, year-on-year percent)



Sources: IMF World Economic Outlook, National Authorities, and IMF staff estimates.

General Government Social Expense - TJK vs CCA Average
(In PPP dollars, year-on-year percent)



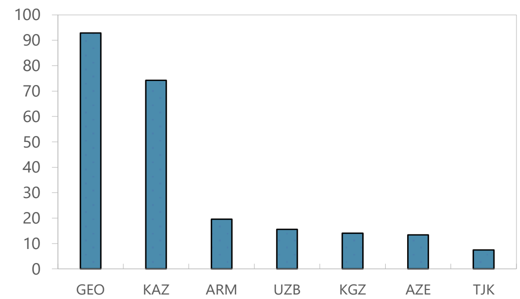
Sources: IMF World Economic Outlook, and IMF staff estimates.

1/ Shaded bars indicate periods of economic crisis.

11. Social protection in Tajikistan is provided by three institutions: The Agency of Social Insurance and Pension (ASIP), the State Agency of Social Protection (SASP), and the Ministry of Labor. Social Insurance is mainly provided by the Agency of Social insurance and Pension (ASIP). Beside pensions to retirees, the ASIP provides assistance to people with disabilities, survivor pensions, unemployment benefits, and other social allowances. Pensions to retirees is the biggest expenditure item in overall social insurance envelop. The social insurance is financed by social tax as well as by annual transfer from budget.[7]

12. Social assistance is provided by the Targeted Social Assistance (TSA) system and is used to provide targeted transfers to vulnerable groups. In recent years, Tajikistan has made good progress in improving its TSA program. Electricity compensation benefit, that used to be paid separately to vulnerable households, was included to the TSA.[8] The yearly indexation was established to adjust the TSA to inflation. In 2020 TSA coverage was extended to all 68 districts of country. The social assistance is financed by transfers from the central budget. Notwithstanding the progress achieved in TSA program, the size of transfers as well as coverage of vulnerable households is one of the lowest among peers.

Vulnerable Persons Covered by Social Assistance
(In percent)1/



Sources: ILO World Social Protection Database.
1/ This is the ratio of social assistance recipients to the total number of vulnerable persons (defined as all children plus adults not covered by contributory benefits and persons above retirement age not receiving contributory benefits).

13. Labor market policies are underdeveloped in Tajikistan. According to the International Labor Organization, the unemployment rate in Tajikistan is 10.9 percent which is higher relative to peers. Though unemployment benefits are being provided, they cover only around 20.8 percent of unemployed people. Labor market policies are limited and include a range of small-scale and fractional employment related services such as vocational training, job search assistance, and support to entrepreneurship.

G. Policy recommendations

14. Structural reforms are necessary to increase social spending. Despite pressing needs, Tajikistan has limited fiscal space for social spending, including because of its high stock of debt. This annex emphasizes reforms aimed at improved revenue mobilization, better public expenditures, and governance, which are discussed below.

15. Tajikistan needs to strengthen revenue mobilization that could be used to support priority social spending programs. Over the medium term it is important to reverse the downward trend in revenues as a share of GDP that has been ongoing since 2017. Broadening the tax base by phasing out inefficient tax incentives is key. According to the World Banks, the estimated tax incentives account for nearly 10 percent of 2018 GDP (WB 2019). Ongoing tax administration reform

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[7] Annual transfer to ASIP from the republican budget is aimed to cover ASIP's deficit and suggests that ASIP's financial position is not sustainable.

[8] This helped to mitigate the impact of higher electricity tariffs that were necessary to shore up the financial situation of the state-owned energy/electricity company, Barki Tojik. At the same time, it reduced fragmentation of assistance to vulnerable people.

that aims increasing compliance level and reducing informalities should also contribute to better revenue performance in the medium term.

16. Better prioritization of public expenditures together with improvements in spending efficiency is another area of important reforms needed in the environment of binding resource constraints. Reforms aimed at strengthening of public finance management would help fostering efficiency of public spending. It is important to carefully balance expenditures on physical infrastructure, where Tajikistan also has needs, with those dedicated to social spending. Social spending should be better targeted with more outcome-based targets that would result in improved quality and accessibility of education and health as well as in better coverage of vulnerable people.[9]

17. Strengthening governance would support more effective resource allocation and would create a space to increase social spending. Reforms in public procurement, improving fiscal transparency and accountability, as well as promoting anti-corruption agenda should be important parts of governance reforms.

[9] This annex does not discuss reforms needed in education, health, and social protection sectors which are described in the World Bank researches (see references).

Annex V. Climate-Related Risks in Tajikistan[1]

Tajikistan faces fundamental adaptation challenges, given its high susceptibility to climate-related risks which disproportionately threaten the agricultural sector and vulnerable households. Tajikistan's National Adaptation Plan focuses on four areas: energy, agriculture, water management and transportation. Going forward, Tajikistan should follow through with its adaptation strategies, which include capitalizing on stakeholder collaborations, strengthening institutional capacity, and fostering economic diversification and regional cooperation.

Background

1. Despite being predominantly mountainous and landlocked, Tajikistan's diverse topography produces a varied climate.[2] The country comprises continental, subtropical, and semiarid zones (with some deserts). However, the wide range in elevation across Tajikistan significantly modulates climate patterns in general, and across seasons in particular. Mountains shield the lowlands (including the Fergana Valley) from Arctic air masses but temperatures still drop below freezing for more than 100 days a year. Glaciers occupy about six percent of the total area, and fulfill the important functions of retaining water, controlling flows, and regulating the climate. While precipitation is generally higher than in other Caucasus and Central Asia (CCA) countries and occurs mainly in winter and spring, glaciers and permafrost provide the main source of water, recharging the Aral Sea river basins.

2. Weather-related shocks have been increasing in frequency and intensity:

- ***Past experience***. Tajikistan has seen an increasing trend in temperatures, fluctuating levels of precipitation, and extreme climate disasters with sizable absolute damages since the turn of the millennium: 43 events and 17 disruptive disaster years have caused US$1.2 billion in material damages (mainly from crop losses) and left more than 6.3 million people affected and resulted in 301 deaths (EM-DAT 2021). Relative to the CCA total, this corresponds to 40 percent of all events and more than one third of disruptive years, almost 60 percent of material damages and people affected, and almost half of the fatalities. These outcomes mainly reflect the impact of climatological, meteorological and hydrological hazards, as well as extreme climate events, such as: (i) extreme cold winters—for instance, the winter of 2007-08, which was the coldest since 1969, was also the costliest in the entire CCA region and resulted in material damage of 16.4 percent of GDP. In particular, the increased demand for electricity—coupled with higher food and fuel prices—led to the so-called 2008 Central Asia energy crisis (UNDP 2009); (ii) flooding—including the 2020 floods in Khuroson District and the severe floods regularly impacting the capital, Dushanbe and the Varzob District; and (iii) droughts—which occur during the main agricultural seasons (Kayumov et al. 2008). In May 2021, torrential rains triggered a severe cascade of floods, landslides, and mudflows, which according to estimates, adversely affected

[1] Prepared by Faten Saliba.

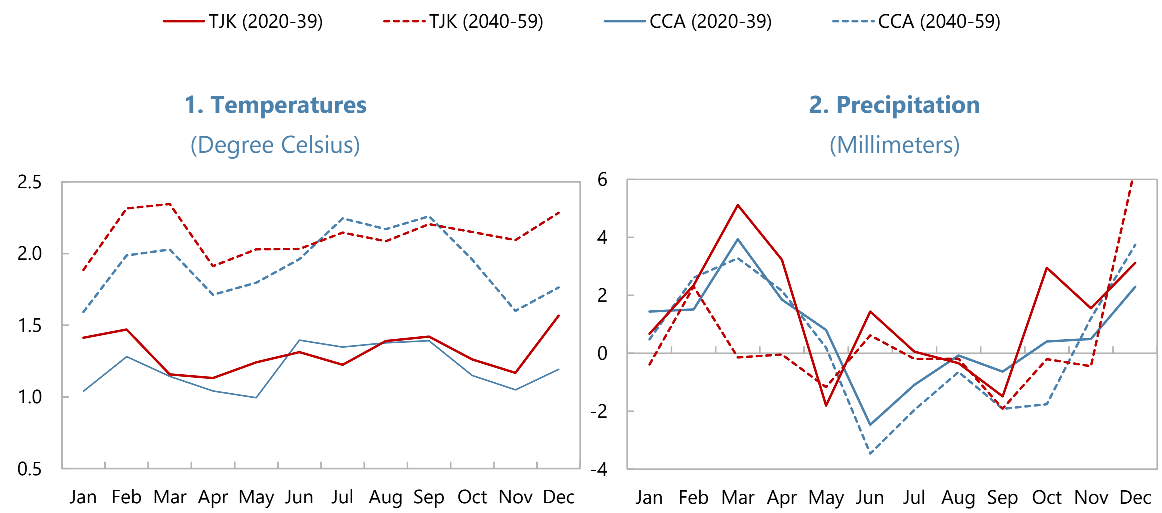
[2] See e.g., Library of Congress (2015), Zoi (2020), and UNDP (2021c).

the over 25,000 people, making is one of the worst such disasters over the last decade. Furthermore, glacial retreat is on the rise, with a volume loss of 2.5 percent during the twentieth century already (UNDP 2021).

- ***Prospects***. Climate change is set to aggravate such extreme weather patterns (Figure 1.B.1). In particular, temperatures are set to further increase in the range of 1.8–2.9°C by 2050 (UNFCCC 2014), combined with large variations in precipitations (Zoi 2020). At the same time, climate-related disasters would become even more frequent and severe, particularly winter avalanches, spring floods, and summer dust storms. Absent adaptation, their economic cost could reach 20 percent of GDP (WFP 2017).

Figure 1.B.1. Tajikistan: Projected Change in Weather Patterns, 2020–59

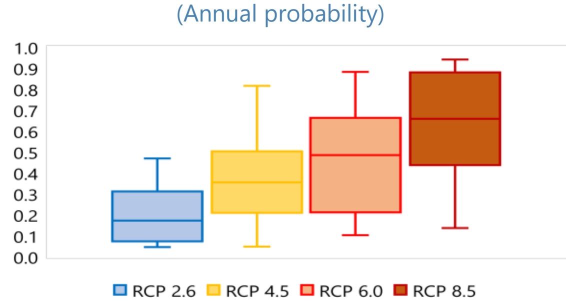
(Median change in RCP 4.5 models relative to 1986–2005 mean)



Sources: World Bank and IMF staff calculations.

Figure 1.B.2. Tajikistan: Severe Droughts, 2080-99

(Annual probability)



Source: World Bank Climate Change Knowledge Portal and IMF staff calculations

3. **Higher drought frequency and intensity caused by climate change pose especially significant threats to Tajikistan.** Currently, the likelihood that Tajikistan will suffer an severe drought in any given year is 3 percent.[3] However, severe droughts, which were rare occurrences in the past, are becoming more common as they are occurring every 15 years. Looking ahead, the World Bank Climate Change Knowledge Portal model indicates a significant rise in

[3] WBG Climate Change Knowledge Portal (CCKP, 2020). Climate Data: Projections.

the probability of climate-induced droughts, suggesting a rise from the current 3 percent per year to over 30 percent by 2080-2099 under the mid-low emission scenario (RCP 4.5)

4. Agriculture, the country's main employment sector and source of food, is especially exposed to climate-related risks. More than 75 percent of the Tajik population resides in rural regions, with agriculture as the main source of jobs in the country (about 75 percent of women and 42 percent of men work in agriculture). Agriculture and agricultural products accounts for approximately 20 percent of Tajikistan's GDP. At the same time, 97 percent of the land surface is prone to degradation (Khakimov et. al. 2020; WFP 2017). Water-intensive wheat and cotton cultivation, inefficient water management, and fragile land rights all exacerbate the vulnerability of the agricultural sector to erosion, deforestation, swamping, and salination (Asian Development Bank 2013). Climate change will hit hard Tajik agriculture owing to considerable variations in precipitation, increasing water scarcity, and heat stress on vegetation. Considering current climate trends, water needs for agriculture are estimated to rise by 20-30 percent (FAO 2019), which will endanger food supply. Likewise, climate-related shocks are estimated to potentially reduce crop yields by 5–30 percent by 2050 (WFP 2017), further exacerbating food insecurity and dependence on food imports (which already corresponds to 50 percent of the population's needs).[4]

5. High vulnerability compounds the effect of climate hazards and exposure. Despite gains in poverty reduction and growth over the last two decades, Tajikistan ranks relatively low for financial market development and for infrastructure. The top disincentivizing factors are foreign currency regulations, inflation, taxation, and access to financing, which is partly survey based and hence reflects investors' perceptions.

- ***Weak macroeconomic buffers***. Tajikistan has limited fiscal space and is assessed to be at a high risk of debt distress resulting in limited buffers to increase resilience to climate change or respond to major climate-related disasters (in additional to commodity price fluctuations and adverse regional spillovers, including from trading partners).

- ***Low socioeconomic and structural development.*** Despite progress over the last two decades, poverty is prevalent and acute in rural areas. Climate change risks will disproportionately impact the poorest groups in Tajikistan including communities which are least able to afford technologies for adaptation. Access to basic utilities remains a challenge, with approximately 70 percent of the Tajik people suffering from extensive shortages of electricity during the winter and still low access to electricity in rural areas.[5]

- ***Weak institutions and governance.*** Institutional and governance weaknesses increase vulnerabilities to corruption and impede the efficient allocation of resources, which, in turn, weakens preparedness and the response capacity to climate disasters. Efforts should be made to improve transparency and accountability which can provide a better allocation of resources

[4] Wheat ranks high on the imports' list and constitutes a staple in Tajik diets.

[5] Rural communities often still use forest wood for cooking and heating, which increase GHG emissions and erosion, and adversely affects biodiversity (Fields et al., 2013).

towards climate change adaptation policies. Therefore, Tajikistan must strive to strengthen its institutional, organizational, and human resources capacities (Asian Development Bank, 2014).

Adaptation Strategies and Progress

6. **Tajikistan has consistently committed to combat climate change**. In 2002, it launched the Initial National Communication aimed at reviewing the climate change evolution, greenhouse gas emissions, Tajikistan's vulnerability to climate change, as well as sectoral solutions. A year later, it established the National Action Plan for Climate Change Mitigation which investigates challenges and determines climate priorities. In 2003, a National Action Plan on Climate Resilience was developed to assess climate change and its associated risks. It serves to facilitate disaster risk reduction and incorporates adaptation measures. More recently, the Third National Communication under the United Nations Framework Convention on Climate Change (UNFCCC) in 2014 reassessed climate change and its impact on resources in Tajikistan. It was followed by the 2015 Intended Nationally Determined Contribution (INDC) aligned with the UNFCCC. The INDC emphasizes greenhouse gas emission reductions, combating weather fluctuations, streamlining climate resilience into various Tajik sectors (agriculture, transportation), disaster risk reduction, glacier preservation, and protecting vulnerable populations.

7. **Tajikistan has launched a 2017 National Climate Change Adaptation Strategy (NCCAS) targeting energy, agriculture, water management, and transportation**. The strategy emphasizes cooperation between the Committee on Environmental Protection, ministries, departments, and localities to implement the strategy by 2030. The government noted its climate vulnerability, ranking first among European countries and Central Asian countries on the "settlement simplified vulnerability index to climate change" (WFP 2017). It also noted the urgency for livelihood diversification to increase rural resilience and reduce food insecurity. The strategy also defined intersectoral fields weaved into the four main priority areas. Prior to this, Tajikistan had ratified the Paris Agreement and launched national plans for climate mitigation and resilience.

8. **Going forward, Tajikistan plans to implement its 2020 Readiness and Preparatory Report for Adaptation Planning jointly with the UNDP**. The proposal focuses on three main outcomes: (i) strengthening governance and institutions; (ii) mainstreaming adaptation within main priority sectors; and (iii) solidifying foundations and the increase of subnational abilities for implementing the National Adaptation Planning. It calls for the inclusion of the private sector in development efforts. The government requested technical support from UNDP and Green Climate Fund (GCF) corresponding to approximately US$3 million for a period of 36 months (GCF, 2020). It also emphasizes monitoring and reporting through inter-ministerial coordination. This includes the development of proper monitoring and evaluation strategies and a "financing mechanism" for the National Adaptation Planning.

Adaptation Policy Recommendations and Financing

9. **Overall, to bolster resilience to climate-related risks, the authorities should follow through with their adaptation strategies.** Tajikistan continues to face economic, social, and

environmental challenges despite progress in developing the economy, reducing poverty, and designing adaptation plans to reduce climate change risks. Going forward, Tajikistan should continue to capitalize on intersectoral and multi-stakeholder collaborations, while further localizing its adaptation financing and improving monitoring and evaluation processes. It should also focus on strengthening institutional capacity (particularly on disaster prevention and response abilities) and reducing red tape (particularly to facilitate investment, including in adaptation). In addition, fostering economic diversification would increase resilience in the face of climate change and other adversities, and regional cooperation would support both trade expansion and energy security.

10. Several multilateral partners are ramping up support for adaptation financing.

- ***Green Climate Fund (GCF)***. It currently finances five projects in Tajikistan for a total of US$85 million. The GFC also approved three readiness activities with US$4 million, of which it already disbursed US$1.2 million (Green Climate Fund 2021). Tajikistan is currently working on institutionally developing its hydrometeorology agency and on scaling up its hydropower sector to become more climate resilient. It is also emphasizing livelihood diversification and capacity building to combat food insecurity and reduce community vulnerabilities.

- ***World Food Program (WFP).*** Tajikistan signed an MoU with WFP to improve government capacity for climate change adaptation in April 2021. The focus was on forestry management, tree selection training, preservation, and other bilateral avenues for cooperation to increase food security. WFP supported 27,000 cash-for-work initiatives during the COVID-19 pandemic in the GBAO province and Rasht Valley (WFP 2021).

- ***World Bank***. Its programs include the "Climate Adaptation and Mitigation Program for the Aral Sea Basin with IBRD and the Global Climate Fund (GCF)" and the "Strengthening Critical Infrastructure against Natural Hazards".

- ***Others***. Another notable program is "Scaling Up Hydropower Sector Climate Resilience" by the EBRD, Tajikistan Ministry of Finance, and GCF. Lastly, WFP and GCF also have a joint program titled "Building Climate Resilience of Vulnerable and Food Insecure Communities Through Capacity Strengthening and Livelihood Diversification in Mountainous Regions of Tajikistan."

INTERNATIONAL MONETARY FUND

REPUBLIC OF TAJIKISTAN

January 3, 2022

STAFF REPORT FOR THE 2021 ARTICLE IV CONSULTATION—INFORMATIONAL ANNEX

Prepared By

The Middle East and Central Asia Department
(In Consultation with Other Departments)

CONTENTS

FUND RELATIONS

(As of October 31, 2021)

Membership Status: Joined April 27, 1993; Article VIII

General Resources Account

	SDR Million	Percent Quota
Quota	174.00	100.00
Fund Holdings of Currency	174.00	100.00
Reserve position in Fund	0.00	0.00

SDR Department

	SDR Million	Percent Allocation
Net Cumulative allocation	248.85	100.00
Holdings	189.02	75.95

Outstanding Purchases and Loans:	SDR Million	Percent of Quota
RCF Loans	139.20	80.00
ECF Arrangements	2.61	1.50

Latest Financial Arrangements

Type	Approval Date	Expiration Date	Amount Approved (SDR Million)	Amount Drawn (SDR Million)
ECF[1]	Apr. 21, 2009	May 09, 2012	104.40	104.40
ECF	Dec. 11, 2002	Feb.10, 2006	65.00	65.00
ECF	Jun. 24, 1998	Dec.24, 2001	100.30	78.28

Outright Loans:

Type	Date of Commitment	Date Drawn	Amount Approved (SDR Million)	Amount Drawn (SDR Million)
RCF	May 06, 2020	May 08, 2020	139.20	139.20

[1] Formerly PRGF.

Projected Payments to the Fund[2]

	Forthcoming				
	2021	2022	2023	2024	2025
Principal		2.61			13.92
Charges/Interest	0.01	0.03	0.03	0.03	0.03
Total	0.01	2.64	0.03	0.03	13.95

Implementation of HIPC Initiative:

Not applicable

Implementation of Multilateral Debt Relief Initiative (MDRI):

MDRI-eligible debt (SDR Million)[3]		69.31	
Financed by: MDRI Trust		69.31	
Remaining HIPC resources		--	
Debt Relief by Facility (SDR Million)			
	Eligible Debt		
Delivery Date	**GRA**	**PRGT**	**Total**
January 2006	N/A	69.31	69.31

Implementation of Catastrophe Containment and Relief (CCR)[4]**:**

Date of Catastrophe	Board Decision Date	Amount Committed (SDR million)	Amount Disbursed (SDR million)
N/A	Apr 13, 2020	7.83	7.83
N/A	Oct 02, 2020	5.22	5.22
N/A	Apr 01, 2021	3.91	3.91
N/A	Oct 06, 2021	1.30	1.30

[2] When a member has overdue financial obligations outstanding for more than three months, the amount of such arrears will be shown in this section.

[3] The MDRI provides 100 percent debt relief to eligible member countries that qualified for the assistance. Grant assistance from the MDRI Trust and HIPC resources provide debt relief to cover the full stock of debt owed to the Fund as of end-2004 that remains outstanding at the time the member qualifies for such debt relief.

[4] As of February 4, 2015, the Post-Catastrophe Debt Relief Trust has been transformed to the Catastrophe Containment and Relief (CCR) Trust.

Safeguards Assessment

The 2021 updated assessment of the National Bank of Tajikistan (NBT) found progress in improving the NBT's institutional framework and noted that essential reforms are progressing well, including in reserves management. Nevertheless, key vulnerabilities remain in the legal framework and governance arrangements. In particular, the NBT Board lacks a non-executive majority that would enable full independent oversight of the central bank's operations. Audited IFRS financial statements are published on the NBT website, albeit with some delays. Key safeguards risks should be mitigated by amending the NBT Law and implementing ongoing control improvements.

Exchange Rate Arrangements

Tajikistan's de jure exchange rate arrangement is managed floating and its de facto exchange rate arrangements is classified as stabilized. The official exchange rate is based on all interbank and intrabank transactions in foreign exchange. It is calculated and announced daily and is effective from the next business day.

With effect from December 9, 2004, the Republic of Tajikistan accepted the obligations of Article VIII, Sections 2, 3, and 4 of the Articles of Agreement. The Republic of Tajikistan maintains one exchange restriction and two multiple currency practices subject to Fund approval under Article VIII, Section 2(a) and Section 3 of the IMF`s Articles of Agreement.  Foreign exchange shortages, evidenced by market participants` reports of undue delays in obtaining foreign exchange and external payment arrears, persist in the commercial foreign exchange market as a result of the setting of exchange rates by commercial banks used in foreign exchange transactions, due to informal guidance by the NBT, which do not reflect market conditions. As a consequence of this, not all demand for bona fide foreign exchange for current international transactions is satisfied, giving rise to an exchange restriction. One multiple currency practice arises because of the absence of a mechanism to prevent a potential deviation of more than 2 percent between: (i) the prevailing market exchange rate and (ii) the official exchange rate, which is required to be used for converting domestic currency (somoni) to foreign currency, and vice-versa, between accounts of individuals and legal entities opened within the same commercial bank. The second multiple currency practice arises because of the absence of a mechanism to prevent a potential deviation of more than 2 percent between: (i) the somoni-Russian ruble exchange rate (calculated as a cross-rate using the official exchange rate of the USD to somoni), which is required to be used for mandatory ruble surrender transactions and for the purchase/sale in the interbank market of rubles derived from the mandatory surrender and (ii) the market exchange rate banks may use for purchase/sale of Russian rubles derived from other sources. The Republic of Tajikistan also maintains exchange restrictions imposed for security reasons that have been notified to the Fund pursuant to Executive Board decision No. 144–(52/51) Fund.

FSAP Participation

Tajikistan participated in the Financial Sector Assessment Program during 2007–08, and the FSSA report was published at http://www.imf.org/external/country/TJK/index.htm. An FSAP Update mission was held in January-February 2015 and the associated FSSA was discussed by the Executive Board at the time of the 2015 Article IV consultation.

Article IV Consultation

The 2019 Article IV consultation with Tajikistan was concluded on January 13, 2020.

Technical Assistance

The following table summarizes the Fund's technical assistance (TA) to Tajikistan since 2006.

Tajikistan: Technical Assistance, 2006-21		
Fund Department	**Area of Assistance**	**Mission Dates**
MCM	Financial Sector Stability Review	December 2021
LEG	Legal Drafting Mission	October 2021
LEG	Central Banking Law	August 2021
CCAMTAG	Strengthening Fiscal Risks Management and Disclosure	June 2021
MCM	Improving the Functioning of the FX Market	May 2021
STA	Government Financial Statistics	May 2021
FAD	Second SOE Fiscal Risk Management Strategy	February 2021
CCAMTAG	Tax Administration	February 2021
STA	National Accounts Mission	January 2021
FAD	SOE Fiscal Risks	August 2020
STA	National Accounts Statistics	June 2019
MCM	Bank Supervision TA and Project Assessment Mission	May 2019
MCM	Bank Resolution	April 2019
MCM	Monetary policy modernization, Reserve Requirement Averaging, and liquidity management	April 2019
MCM	Strengthening Monetary and Exchange Rate Policy	March 2019
STA	Government Finance Statistics	November 2018
MCM	Central Bank Governance, independence, and Recapitalization	November 2018
STA	Balance of Payment Statistics	October 2018
STA	National Accounts Statistics	June 2018
MCM	Bank Supervision and Regulation Assessment	March 2018
MCM	Liquidity Forecasting and Emergency Assistance	March 2018
STA	Government Finance Statistics	October 2017
STA	National Accounts Statistics	September 2017
MCM	Medium-Term Debt Management Strategy	August 2017

Tajikistan: Technical Assistance, 2006-21 (continued)		
MCM MCM	Banking Supervision Banking Supervision	August 2017 April 2017
MCM	Monetary Policy Framework and Implementation	April 2017
LEG	Bank Resolution Framework	October 2016
STA	National Accounts Statistics	July 2016
MCM	Monetary and Foreign Exchange Operations	April 2016
FAD	Accounting and Financial Reporting, Treasury Management, and Fiscal Oversight of State-Owned Enterprises	March 2016
STA	Monetary and Financial Statistics	October 2015
MCM	Financial Stability	October 2015
MCM	Reserve Management	September 2015
FAD	Improving Tax Disputes Resolution Processes in the Tax Committee	June 2015
MCM	Improving Accounting Controls at NBT	April 2015
STA	BOP	April 2015
FAD	Tax Administration	March 2015
STA	Monetary and Financial Statistics	December 2014
MCM	Bank Resolution	May 2014
FAD	PFM Reform	April 2014
FAD	Tax Administration	April/July/November 2014
STA	BOP	April 2014
STA	Monetary and Financial Statistics	December 2013
MCM	Improving Accounting Controls at NBT	October 2013
FAD	PFM Reform	August/November 2013
FAD	Tax Administration	June/November 2013
MCM	Banking Supervision	March 2013
FAD	Tax Administration	March 2013
MCM	Improving Accounting Controls at NBT	February 2013
STA	BOP	December 2012
STA	Monetary and Financial Statistics	November 2012
MCM	Improving Accounting Controls at NBT	November 2012
FAD	Tax Administration	June/August/Oct 2012
STA	National Accounts Statistics	May 2012
STA	Monetary and Financial Statistics	April 2012
FAD	Tax Policy Review	April 2012
FAD	Financial Monitoring of SOEs	March 2012
MCM	Improving Accounting Controls at NBT	February 2012
FAD	Tax Policy Review	May 2011
MCM	NBT Internal Audit	April 2011
MCM	BOP	March 2011

Tajikistan: Technical Assistance, 2006-21 (concluded)		
MCM	Improving Accounting Controls at NBT	January 2011
FAD	Public Financial Management (Regional Advisor)	November 2010
LEG	NBT Law	October 2010
MCM	NBT Recapitalization Strategy	September 2010
FAD	Public Financial Management Reforms	June 2010
FAD	Tax Policy and Administration	February/July 2010
MCM	NBT Recapitalization Strategy	October/Dec 2009
FAD	Public Financial Management (Budget Classification)	May 2007
STA	Report on Monetary and Financial Statistics National Accounts and Price Statistics (Regional Advisor)	June 2006
FAD	Fiscal ROSC	August 2006
MCM	Strengthening the Monetary Policy Framework and Liquidity Management	May 2006
LEG	AML/CFT	2006

RELATIONS WITH OTHER INTERNATIONAL FINANCIAL INSTITUTIONS

The World Bank work program on Tajikistan can be found on the following website:

https://www.worldbank.org/en/country/tajikistan

The Asian Development Bank work program on Tajikistan can be found on the following website:

https://www.adb.org/countries/tajikistan/main

The European Bank for Reconstruction and Development work program on Tajikistan can be found on the following website:

https://www.ebrd.com/tajikistan.html

STATISTICAL ISSUES

(As of December 7, 2021)

Assessment of Data Adequacy for Surveillance
General: Data provision has some shortcomings in the areas of national accounts, price statistics, and monetary statistics, but is broadly adequate for surveillance.
1. National accounts statistics: Technical assistance (TA) missions were conducted during 2016-19 under the Enhanced Data Dissemination Initiative 2 (EDDI 2) sponsored by the Department for International Development of the United Kingdom (DFID). Following these missions, the National Statistical Agency (Tajstat) has started compiling new estimates of quarterly GDP since 2019, based on updated source data. The National Statistical Agency also compiles monthly estimates of economic growth, but weaknesses remain in monthly data sources. In January 2021, a TA mission led by the IMF's Statistics Department (STA) reviewed the quarterly GDP estimates and provided recommendations for further improvement. The mission also reviewed and assessed the adequacy of monthly data sources for the compilation of higher-frequency indicators and provided recommendations for improvement.
2. Price statistics: The consumer price index (CPI) for Tajikistan is published monthly by the Tajstat. The index has national coverage. Expenditure weights, which include the value of consumption from own production, are updated annually. At the elementary index level, the Dutot formulation is used. This formulation is problematic in that it fails the commensurability test meaning that it does not perform well when items selected for pricing are of significantly different product sizes. Instead, the Jevons formulation is recommended. At the higher level of aggregation, the modified Laspeyres formulation is used, in line with international recommendations. Seasonally unavailable prices are proxied by the carry forward of last observed prices. This treatment can introduce a downward bias in the CPI and should be replaced by appropriate imputation techniques. The producer price index (PPI) for Tajikistan is also published monthly. Prices are collected for about 200 enterprises, which account for about 75-80 percent of total production. Indexes are published for nine different activities with annually updated weights. The Tajstat has previously noted the need to introduce international classifications for goods and services and to improve the index's coverage and weighting structure.
3. Government finance statistics: Fiscal accounts are based on cash transactions as recommended in the 1986 Manual on Government Finance Statistics. In 2010, the authorities introduced an administrative classification of the budget. To move towards the implementation of the GFSM 2014 framework, the country participated in a three-year regional project on GFS funded by the Swiss State Secretariat for Economic Affairs (SECO), which was completed in 2020. The authorities have compiled annual fiscal data for the general government for the period 2015 to 2019 aligned with the GFSM 2014. However, the data have yet to be disseminated to IMF's GFS Database. In November 2020, the authorities submitted for the first- time quarterly debt data, for the period 2018-2020Q3, to the WB/IMF Quarterly Public Sector Debt Statistics Database, and in November 2021 this time series was extended to 2021Q3. STA provided technical assistance on GFS in 2020.
4. Monetary and financial statistics: STA provided technical assistance in the area of monetary and financial statistics (MFS) to the NBT in 2002, 2006, 2012, and 2015 with the main objective to improve the quality of statistics. The NBT reports to STA monthly MFS data using the IMF's standardized report forms (SRFs) for the central bank, other depository corporations, and other financial corporations that are published in the "International Financial Statistics." However, the timeliness needs improvement.

5. Financial sector surveillance: Tajikistan used to report all the 12 core FSIs and 9 of the 13 encouraged FSIs for deposit takers, and one of the four FSIs for real estate markets on a quarterly basis for posting on the IMF's FSI website. However, the latest submitted FSIs are for the period 2015Q3. Tajikistan reports data on some key series and indicators of the FAS, including the two indicators (commercial bank branches per 100,000 adults and ATMs per 100,000 adults) adopted by the UN to monitor Target 8.10 of the Sustainable Development Goals (SDGs).	
6. External sector statistics (ESS): Tajikistan compiles and publishes the balance of payments, international investment position (IIP) and external debt indicators based on Sixth Edition of the IMF's Balance of Payments and International Investment Position Manual (BPM6) and External Debt Statistics: Guide for Compilers and Users (2013 EDS Guide). Tajikistan participated in a 20-month project on improving ESS in three Central Asian countries. Considerable improvements were made in coverage, periodicity, and timeliness of ESS. The balance of payments, IIP, and external debt statistics are currently compiled and disseminated quarterly and based on updated estimation methods. Tajikistan participates in the IMF's Coordinated Direct Investment Survey. Tajikistan also compiles the full set of tables on external debt as part of Quarterly External Debt Statistics (QEDS) in the format required for countries that subscribe to the Special Data Dissemination Standard. The balance of payments and IIP data are regularly reported to the IMF and external debt data are submitted to the World Bank. Further improvements are needed in estimation of remittances, services and foreign investments statistics.	
Data Standards and Quality	
Tajikistan began participating in the General Data Dissemination System in November 2004 and in March 2020 launched its National Summary Data Page. Metadata is updated regularly.	A Data ROSC was published on March 30, 2005.
Reporting to STA	
Country page in the International Financial Statistics (IFS) has been published since February 2003.	

Tajikistan: Table of Common Indicators Required for Surveillance

(as of December 7, 2021)

	Date of latest observation	Date received	Frequency of data[6]	Frequency of reporting[6]	Frequency of publication[6]	Memo Items: Data Quality – *Methodological soundness*[7]	Memo Items: *Data Quality Accuracy and reliability*[8]
Exchange Rates	October 2021	11/4/2021	M	M	M		
International Reserve Assets and Reserve Liabilities of the Monetary Authorities[1]	August 2021	10/19/2021	M	W	W		
Reserve/Base Money	August 2021	10/19/2021	M	M	W	O, O, LO, O	LO, O, O, O, NO
Broad Money	August 2021	10/19/2021	M	M	M		
Central Bank Balance Sheet	August 2021	10/19/2021	M	M	W		
Consolidated Balance Sheet of the Banking System	August 2021	10/19/2021	M	M	M		
Interest Rates[2]	September 2021	10/11/2021	M	M	I		
Consumer Price Index	October 2021	12/1/2021	M	M	M	LO, LO, LNO, O	LO, LO, LO, O, O
Revenue, Expenditure, Balance and Composition of Financing[3]—General Government[4]	September 2021	10/22/2021	M	M	M	LO, LO, O, O	O, O, O, LO, LO
Revenue, Expenditure, Balance and Composition of Financing[3]—Central Government	September 2021	10/22/2021	M	M	M		
Stocks of Central Government and Central Government-Guaranteed Debt[5]	June 2021	10/19/2021	Q	Q	I		
External Current Account Balance	June 2021	10/20/2021	Q	Q	Q	LNO, LNO, O, O	LO, O, O, O, O
Exports and Imports of Goods and Services	June 2021	10/20/2021	Q	Q	Q		
International Investment Position	June 2021	10/20/2021	Q	Q	Q		
GDP/GNP[9]	October 2021	11/15/2021	M/Q/A	M	Q	O, LNO, LNO, LNO	LO, LO, LNO, O, O
Gross External Debt	June 2021	10/19/2021	Q	Q	I		

[1] Includes reserve assets pledged or otherwise encumbered as well as net derivative positions.
[2] Both market-based and officially determined, including discount rates, money market rates, rates on treasury bills, notes and bonds.
[3] Foreign, domestic bank, and domestic nonbank financing.
[4] The general government consists of the central government (budgetary funds, extra budgetary funds, and social security funds) and state and local governments.
[5] Including currency and maturity composition.
[6] Daily (D); Weekly (W); Monthly (M); Quarterly (Q); Annually (A); Irregular (I); Not Available (NA).
[7] Reflects the assessment provided in the data ROSC published in April 2005 and based on the findings of the mission that took place during April 2004 for the dataset corresponding to the variable in each row. The assessment indicates whether international standards concerning (respectively) concepts and definitions, scope, classification/sectorization, and basis for recording are fully observed (O), largely observed (LO), largely not observed (LNO), or not observed (NO).
[8] Same as footnote 7, except referring to international standards concerning (respectively) source data, statistical techniques, assessment and validation of source data, assessment and validation of intermediate data and statistical outputs, and revision studies.
[9] Quarterly nominal GDP for the period 2019-20 is published on Tajstat’s website while monthly estimates are provided in a statistical bulletin.

REPUBLIC OF TAJIKISTAN

STAFF REPORT FOR THE 2021 ARTICLE IV CONSULTATION—DEBT SUSTAINABILITY ANALYSIS

January 3, 2022

Approved By
Subir Lall and Daria Zakharova (IMF) and Lalita M. Moorty and Marcello Estevão (IDA)

Prepared by staffs of the International Monetary Fund and the International Development Association.

Tajikistan: Joint Bank-Fund Debt Sustainability Analysis	
Risk of external debt distress	High
Overall risk of debt distress	High
Granularity in the risk rating	Sustainable
Application of judgment	No

This joint World Bank/IMF Debt Sustainability Analysis (DSA) indicates that Tajikistan's debt is sustainable while the overall risk of debt distress remains high (unchanged from the May 2020 DSA)[1]. Public debt jumped to 50.1 percent of GDP in 2020 from 44 percent of GDP in 2019, reflecting the fallout from the COVID-19 shock on growth and revenues, notwithstanding emergency financing provided by the IMF and international donors. However, based on the authorities' adherence to fiscal discipline, the debt-to-GDP ratio declines to 39.8 percent in 2026 and is assessed as sustainable. Likewise, the DSA indicates that the present value of the public debt-to-GDP ratio declines over the same period to 30.3 percent.

Under the baseline, one debt indicator temporarily breaches its threshold, leading to a high external risk rating. In addition to the estimated fiscal adjustment of 1.8 percent of

[1] Tajikistan's debt carrying capacity has been upgraded to strong since the last DSA. The CI for Tajikistan is estimated at 3.10, based on October 2021 WEO and 2020 WB CPIA, indicating a strong Debt Carrying Capacity (DCC).

GDP from 2020-2022, the authorities' plan to limit fiscal deficits to -2.5 percent of GDP over the medium term, and the commitment to avoid non-concessional borrowing, the key debt indicators are projected to stabilize below their respective sustainability thresholds by 2031.

Tajikistan's public debt is vulnerable, especially to export shocks and contingent fiscal liabilities. A more severe or prolonged COVID-19 shock could heighten vulnerabilities. Maintaining fiscal discipline, avoiding non-concessional external borrowing, expanding and diversifying exports, and containing contingent liabilities from SOEs would help reduce vulnerabilities and stabilize debt.

COVERAGE AND BACKGROUND ON PUBLIC DEBT

A. Background on Debt and Debt Coverage

1. **In recent years, external and financial sector vulnerabilities have contributed to an increase in debt**. Tajikistan's external public-and-publicly-guaranteed (PPG) debt rose from 24 percent of GDP in 2014 to 43.5 percent of GDP at end-2020 mainly as a consequence of a sizable depreciation of the somoni, large financing needs related to the construction of Roghun, and the fallout of the COVID-19 shock. This increase was driven by both commercial debt (the issuance of a $500 million sovereign bond in 2017)[2] and concessional debt (emergency borrowing from development partners during the COVID-19 shock). Domestic PPG debt also increased from 3½ percent of GDP at end-2014 to 6.7 percent of GDP at end-2020, partly reflecting a 6 percent of GDP recapitalizationof banks in December 2016. As a result, the total PPG debt increased from 27.9 percent of GDP in 2014 to 50.1 percent of GDP in 2020. Tajikistan has participated in the 2020 DSSI but does not plan to join further phases[3].

Tajikistan: Composition of External Public Debt, 2017-2020

	2017	2018	2019	2020
External Public Debt (US$ billion)	2.72	2.76	2.78	2.94
Bilateral	1.38	1.37	1.33	1.33
of which: China	1.20	1.21	1.16	1.12
Multilateral	0.84	0.90	0.95	1.11
Bonds	0.50	0.50	0.50	0.50

Source: Country authorities.

2. **External debt made up the bulk of the total of PPG debt in 2020.** External PPG debt accounted for about 87 percent of total PPG debt. Over 80 percent of external PPG debt was owed to multilateral and bilateral creditors. The single largest creditor was China, which held over 34 percent of the total PPG external debt.

[2] The Eurobond of USD 500 million issued in September 2017, with a maturity of 10 years, carried an interest rate of 7.125 percent.

[3] USD 49.8 mn of 2020 external debt was temporarily suspended.

3. The National Bank of Tajikistan (NBT) is the main creditor and holder of largely non-marketable domestic government debt. Most of the government securities held by the NBT were issued at significantly below-market terms, with some interest rates as low as 2 percent. Since 2016, the government has been accumulating interest and principal arrears to the NBT. In 2019, the arrears on domestic government securities issued for the NBT recapitalization were cleared after the NBT extended new credit to the government at a 2 percent interest rate with a one-year maturity. However, the government continues to run arrears against the NBT on bonds issued to recapitalize commercial banks during the 2015-16 shocks[4].

4. This DSA covers the central government, central bank, and government-guaranteed external and domestic debt. Debt coverage includes duly consolidated overall external and domestic debt and guarantees of the Central Government (CG), including extrabudgetary funds, and the social security fund. As debt recording and monitoring capacity is weak, this DSA does not include in its baseline: i) non-guaranteed liabilities of state-owned enterprises (SOEs), including liabilities associated with the modernization of an aluminum plant and the construction of a gas pipeline,[5] (ii) contingent liabilities/fiscal costs associated with liquidation of two large and troubled financial institutions, and iii) demand or guarantees triggered from any existing PPP agreements.

	Subsectors of the public sector	Check box
1	Central government	X
2	State and local government	
3	Other elements in the general government	X
4	o/w: Social security fund	X
5	o/w: Extra budgetary funds (EBFs)	X
6	Guarantees (to other entities in the public and private sector, including to SOEs)	X
7	Central bank (borrowed on behalf of the government)	X
8	Non-guaranteed SOE debt	

BACKGROUND ON MACRO FORECASTS

5. The assumptions in the baseline scenario are consistent with macroeconomic framework presented in the staff report.[6] The main assumptions are:

External. The current account surplus is expected to decline in 2021 and switch to a moderate deficit over the medium term, reflecting an increase in infrastructure investment. Remittances rebounded to pre-pandemic levels (32 percent of GDP) in 2021 but will most likely remain volatile.

[4] These arrears do not trigger debt distress as they are technical due to weak debt management capacity. The corresponding instruments are domestic and non-marketable, reflecting internal operations between the Treasury and the Central Bank only.

[5] The Ministry of Finance does not record non-guaranteed debt of SOEs. In 2019, the Tajik Aluminum Company, a loss-making SOE, was allowed to borrow without a government guarantee. Subsequently, the company has signed a MOU to borrow USD 545 million from China to modernize its plant. The finalization of contract and associated disbursement are uncertain due to COVID crisis. Separately, Tajiktransgaz has borrowed USD 300 million from Chinese entities for the construction of the Tajikistan section of the Turkmenistan-China gas pipeline.

[6] The baseline includes SDR allocation of USD 238 million in August 2021.

International reserves are supported by domestic purchases of monetary gold[7] despite some pressures from the balance of payments. The recent SDR allocation has also helped raise reserves above adequacy metrics threshold.

Interest rates. Effective average interest rates on external debt are projected to rise gradually over the medium term as concessional financing is likely to be constrained and the authorities gradually increase reliance on non-concessional external borrowing (after Roghun power purchase agreements are signed and debt remains sustainable). Interest rates on domestic public debt, some of which are highly negative in real terms at present, are expected to remain below market rates.

Fiscal. The fiscal deficit is expected to narrow in 2021 owing to higher revenues and lower capital expenditures. Over the medium term, in line with authorities' plans for fiscal discipline, the fiscal deficit is expected to hover around 2.5 percent of GDP. Spending on Roghun and other large infrastructure projects is expected to be accommodated by cuts to other non-priority spending.

Growth. Growth is expected to be around seven percent in 2021. Over the medium term, a weak global environment, and uneven structural reforms are expected to weigh on growth. Inflation is expected to remain moderate.[8]

6. Macroeconomic assumptions under the current baseline scenario project a broadly similar fiscal deficit over the medium term as in the 2020 DSA. Real GDP growth estimate for the current year is lower in the 2021 DSA, while medium-term growth rate projections are broadly similar. The projected fiscal deficit in 2021 is also lower relative to 2020 DSA reflecting lower capital expenditures. The projections also incorporate the government's commitment on fiscal discipline, which is to be incorporated in the government's budgets in 2022-23. The fiscal deficit is expected to be around 2 percent of GDP in 2021 and 2.7 percent of GDP in 2022. The external position is projected to weaken in the 2021 DSA before stabilizing with moderate deficits in the medium term. International reserves (in months of imports) are higher in the current DSA owing to domestic purchases of gold.

Tajikistan: Baseline DSA Assumptions, 2017-24

(In percent of GDP)

	2017	2018	2019	2020	2021	2022	2023	2024
Real GDP growth, percent								
2021 DSA	7.1	7.6	7.4	4.5	7.0	5.5	4.5	4.0
2020 DSA	7.1	7.3	7.5	-2.0	7.5	4.5	4.0	4.0
2019 DSA	7.1	7.3	5.5	4.8	4.5	4.5	4.0	4.0
Overall fiscal balance (incl. PIP)								
2021 DSA	-5.7	-2.7	-2.1	-4.3	-2.0	-2.7	-2.5	-2.5
2020 DSA	-6.0	-2.8	-2.1	-7.7	-4.4	-2.6	-2.5	-2.5
2019 DSA	-6.0	-2.8	-3.8	-4.3	-4.3	-4.3	-4.3	-4.3
Current account balance								
2021 DSA	2.1	-4.9	-2.2	4.1	2.6	-1.0	-1.6	-2.0
2020 DSA	2.2	-5.0	-2.3	-7.8	-4.7	-4.6	-4.4	-4.3
2019 DSA	2.2	-5.0	-4.5	-5.2	-5.3	-5.3	-5.4	-5.5

Sources: National authorities and IMF staff estimates

[7] Monetary gold is a reserve asset that includes both gold held in specific allocated accounts as well as unallocated gold accounts with nonresidents. Monetary gold takes the form of coins, ingots, or bars with a purity of at least 995 parts per 1000.

[8] There are weaknesses in national accounts statistics.

7. The baseline scenario assumes that fiscal financing needs will be met from external concessional sources in the near term, and non-concessional financing will be avoided until Roghun power purchase agreements are signed. During 2021-23, fiscal financing needs are expected to be met mostly from concessional loans and grants, provided by international finance institutions, export credit agencies, and traditional bilateral partners. There is uncertainty on the terms of future borrowing. For the purposes of this DSA, staff assume concessional borrowing after 2023 in line with the levels of recent years. Under 2020 RCF the authorities are committed to avoid non- concessional borrowing until the Roghun power-purchase agreements are finalized.[9] Therefore, residual financing needs could be met from non-concessional borrowing starting only after 2023. Staff projections assume no new domestic financing at market determined rates, in line with the recent experience (see paragraph 3) and authorities' financing plans.

8. The realism tools largely suggest that staff forecasts are realistic. Under the baseline, debt accumulation over the projection horizon is smaller than in recent years. The contribution of primary deficits to future debt accumulation is expected to be lower compared to the past few years due to maintaining fiscal discipline in medium and long-term. Another important reason for the difference is that the contribution of exchange rate depreciation to external and public debt accumulation is lower than in recent years. This is appropriate as the COVID-19 shock is expected to be temporary and the exchange rate adjustment is expected to be smaller.

COUNTRY CLASSIFICATION AND DETERMINATION OF SCENARIO STRESS TESTS

9. Tajikistan's debt-carrying capacity was upgraded, and is currently assessed to be strong. Two consecutive signals are needed to change the debt-carrying capacity (DCC) assessment. The previous DSA vintage had already signaled an upgrade. Given the revised CI Index from the October 2021 WEO and the World Bank's 2020 CPIA rating, Tajikistan's DCC is currently assessed to be strong.

Debt Carrying Capacity	Strong

Final	Classification based on current vintage	Classification based on the previous vintage	Classification based on the two previous vintages
Strong	Strong 3.10	Strong 3.09	Medium 3.03

[9] In the RCF Letter of Intent (LOI), the authorities committed to avoiding any additional non-concessional borrowing until the Roghun power purchase agreements have been finalized and debt is on a sustainable path over the long term. Likewise, the total Roghun financing envelope over a three-year period should be around USD 1.1 billion (or on average approximately USD 375 million per year).

APPLICABLE	
EXTERNAL debt burden thresholds	
PV of debt in % of	
Exports	240
GDP	55
Debt service in % of	
Exports	21
Revenue	23

APPLICABLE	
TOTAL public debt benchmark	
PV of total public debt in percent of GDP	70

10. Stress tests for PPPs' agreements, potential size of a rescue of the financial sector, and a commodity price shock are set at default levels. Stress test for PPPs' demand and guarantees is set at a default 1.73 percent of GDP. Stress test for the banking sector is set at default 5 percent of GDP. Default tailored tests for commodity prices are also applied since non-fuel commodity exports constitute an important part of Tajikistan's exports.

11. A tailored contingent liability stress test is designed to incorporate contingent liabilities from potential non-guaranteed debt of SOEs. The debt coverage for Tajikistan excludes non-government guaranteed debt of non-financial public corporations (NFPC) under the baseline given uncertainties on the nature of the debt and lack of full financial information on SOEs. To illustrate the effects of contingent liabilities associated with large SOE debt that might have significant implications for debt sustainability, the size of shock is set at 10 percent of GDP. The shock reflects: (i) 5.5 percent of GDP based on available information on Barki Tojik arrears[10], which could be transferred onto the government's balance sheet; (ii) 3.5 percent of GDP based on the loan agreements of Tajiktransgaz, and (iii) 1 percent of GDP Roghun HPP's security placed in the Pension Fund. Planned borrowings related to the modernization of the TALCO aluminum plant could pose additional contingent liability risks (6½ percent of GDP). However, it is not clear at this stage if the contract to finance the aluminum plant will materialize and what the contract would look like, including whether it would be considered debt, so it is not included in this DSA.

1 The country's coverage of public debt	The central government plus social security and extra budgetary funds, central bank, government-guaranteed debt			
	Default	Used for the analysis	Reasons for deviations from the default settings
2 Other elements of the general government not captured in 1.	0 percent of GDP	0	Great uncertainty about the true size of liabilities and weak financial position and performance of SOEs
3 SoE's debt (guaranteed and not guaranteed by the government) 1/	2 percent of GDP	10	
4 PPP	35 percent of PPP stock	1.73	
5 Financial market (the default value of 5 percent of GDP is the minimum value)	5 percent of GDP	5	
Total (2+3+4+5) (in percent of GDP)		16.7	

[10] Barki-Tojik is a state-owned energy company in Tajikistan.

DEBT SUSTAINABILITY

B. External Debt Sustainability Analysis

12. **Under the baseline scenario, external debt indicators improve in comparison to the 2020 DSA.** External debt stabilizes in the medium term.

13. **One external debt indicator breaches its threshold in the earlier years of the projections and then falls below the threshold over the longer term (Figure 1).** More specifically, the baseline of debt-service-to-exports ratio breaches its respective threshold during 2025-27. After a jump in 2025, the flow/liquidity indicator remains elevated throughout 2027 and then falls below the threshold after 2028. The three-year pick up starting in 2025 is due to the Eurobond and the RCF principal repayments.[11] The other flow indicator, debt service-to-revenue ratio, remains below the threshold under the baseline. Both solvency indicators are stable throughout the projection horizon.

14. **Under the stress scenarios, two external debt indicators breach their respective thresholds**. Breaches in the debt-to-exports and debt-service-to exports ratios are significant and point to debt vulnerabilities. Shocks to exports are the most extreme and impactful. Under a shock to exports, the PV of the debt-to-exports ratio reaches 378.5 percent (versus 250 percent threshold), while the PV of debt service-to-exports ratio reaches 43.8 percent (versus 21 percent threshold). The contingent liability shock also causes a deterioration in external debt sustainability. This suggests the need for the government to improve debt recording and management practices (especially for SOEs) and rebuild fiscal buffers to address the rising contingent liabilities.

15. **The market-financing risk indicator tool is moderate**. Recent tightening of global financial conditions due to the COVID19 pandemic has pushed the spread on Tajikistan's sovereign bond (921bps) further beyond the benchmark (570bps) under the market module. The authorities' commitment to avoid non-concessional borrowing and commitment to fiscal discipline should allow the market financing risk to be moderate or low in the medium term.

C. Public Sector Debt Sustainability Analysis

16. **Under the baseline, the public debt-to-GDP ratio does not breach its threshold and points to lower risk in comparison to the 2020 DSA. However, public debt is assessed to be at high risk of distress due to baseline breaches on the external debt indicators**. The public debt burden indicator (PV total debt-to-GDP) ratio stabilizes and remains below the 55 percent benchmark throughout the projection horizon.

17. **The standardized sensitivity analysis shows lower risks in comparison to the 2020 DSA.** Shocks to combined contingent liabilities in the most extreme and historical scenarios adversely affect all public

[11] Eurobond principal will be repaid in three equal instalments from September 2025 to September 2027. The IMF's RCF will be repaid from June 2025 to June 2030. These are the main reason for breaching the debt service-to-export threshold.

debt indicators. The shock in the most extreme scenario causes a 9.8 percent deterioration in comparison to baseline debt ratio by 2031. This highlights the need for strengthened SOE oversight and streamlined borrowing policies at a time when the government is already financing a large infrastructure project.

RISK RATING AND VULNERABILITIES

18. The debt sustainability analysis under the new LIC DSF framework suggests that Tajikistan's risk of external and overall public debt distress is high. These results are similar to the 2020 DSA findings, but debt stabilizes under the baseline.

19. Tajikistan's risk of external debt distress remains high. One external debt-burden (debt service-to-exports ratio) indicator breaches its threshold under the baseline for three years (2025-27). The indicator stabilizes after the Eurobond repayment is completed and falls below the threshold by 2028. The PV of debt-to-exports ratio is stable under the baseline and stays slightly below the threshold by the end of the horizon. All other debt burden ratios are stabilized during the projection horizon. External debt is most vulnerable to exports shocks and contingent liabilities. The baseline scenario and standardized stress tests indicate the importance of containing contingent liabilities and broadening the export base.

20. The overall risk of public debt distress is high under the baseline due to a breach of an external debt indicator. A contingent liability shock has the largest impact on public debt sustainability.

21. Under the baseline, Tajikistan's public debt is sustainable. The external debt indicator that breaches its threshold under the baseline falls below the threshold in 2028. All stock and flow indicators are on a stable trajectory during the projection horizon. It is also worth noting that while external debt risks are high, total public debt levels do not breach thresholds in both the baseline and stress tests. Debt is assessed to be sustainable based on the authorities' commitments to fiscal discipline and to avoiding non-concessional borrowing. The authorities plan to adopt a new Tax Code which envisages reduction of some tax rates. This may lead to lower tax revenues in the medium term. If tax revenues do not recover quickly, more aggressive expenditure measures should be implemented to follow the agreed fiscal consolidation path. In case fiscal adjustment falls short or the authorities resort to non-concessional borrowing, the debt path may deteriorate, putting debt sustainability under pressure. A more severe or prolonged COVID-19 shock could heighten debt vulnerabilities. On the other hand, greater-than-expected progress with economic diversification or higher energy and non-energy exports would improve debt sustainability over the longer term.

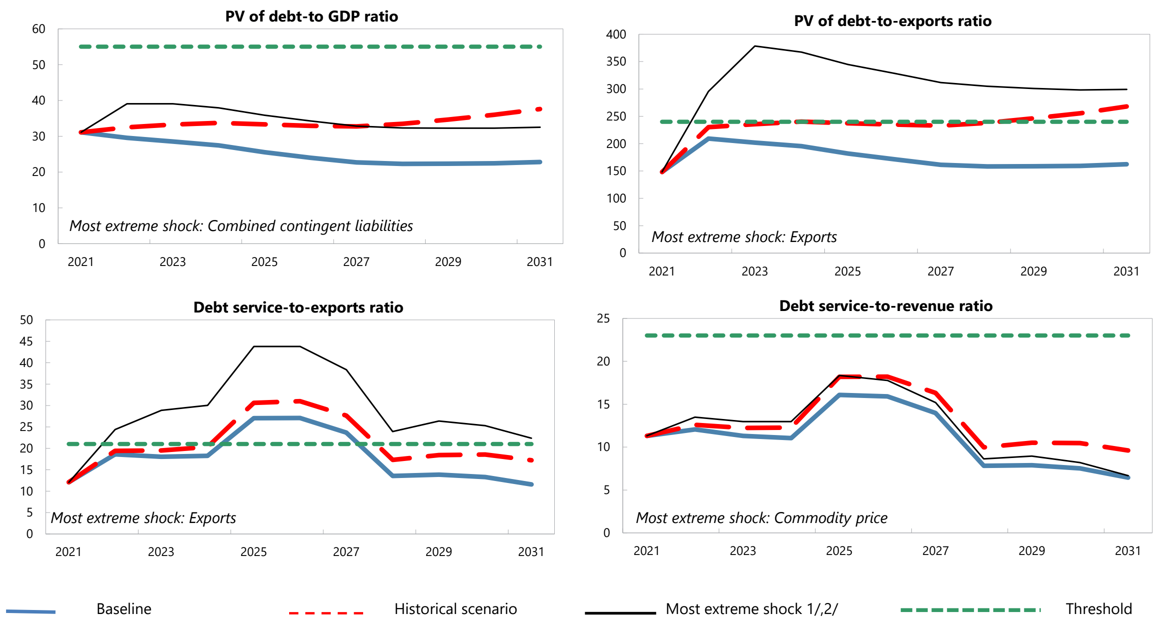
22. Other measures should also be taken to reduce debt vulnerabilities. Diversifying exports and containing contingent liabilities will reduce the vulnerabilities of public debt to shocks. Improving debt management practices, including by smoothing the repayment profile could help address large medium-term breaches in the debt service-to-exports ratio. Further upgrading the debt recording and reporting practices and enhancing the linkages between the medium-term debt management strategy and the government's borrowing plans would further help to contain debt vulnerabilities.

AUTHORITIES' VIEWS

23. The authorities concurred with staff that debt vulnerabilities need to be prudently managed. They agreed with staff that non-concessional borrowing would weaken debt sustainability and would continue to explore options to attract concessional financing or grants. Staff emphasized the need to adhere to fiscal discipline to ensure debt sustainability.

24. There was broad agreement that better SOE oversight is needed to contain contingent liabilities. However, the authorities maintained that debt contracted by SOEs—including TALCO, Tajiktransgaz, and Roghun OJSC—do not pose immediate fiscal risks, as these companies are considered as financially viable.

Figure 1. Tajikistan: Indicators of Public and Publicly Guaranteed External Debt under Alternative Scenarios, 2021-2031



Customization of Default Settings		
	Size	Interactions
Tailored Stress		
Combined CL	Yes	
Natural disaster	n.a.	n.a.
Commodity price	No	No
Market financing	No	No

Note: "Yes" indicates any change to the size or interactions of the default settings for the stress tests. "n.a." indicates that the stress test does not apply.

Borrowing assumptions on additional financing needs resulting from the stress tests*		
	Default	User defined
Shares of marginal debt		
External PPG MLT debt	100%	
Terms of marginal debt		
Avg. nominal interest rate on new borrowing in USD	1.6%	1.6%
USD Discount rate	5.0%	5.0%
Avg. maturity (incl. grace period)	24	24
Avg. grace period	5	5

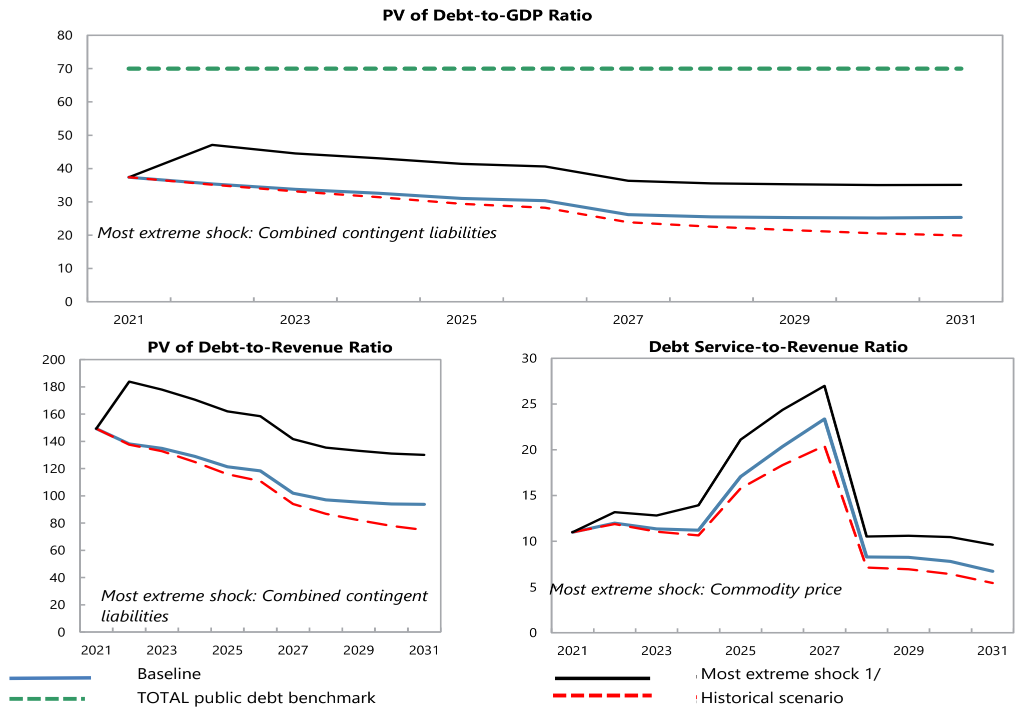
* Note: All the additional financing needs generated by the shocks under the stress tests are assumed to be covered by PPG external MLT debt in the external DSA. Default terms of marginal debt are based on baseline 10-year projections.

Sources: Country authorities; and staff estimates and projections.

1/ The most extreme stress test is the test that yields the highest ratio in or before 2031. The stress test with a one-off breach is also presented (if any), while the one-off breach is deemed away for mechanical signals. When a stress test with a one-off breach happens to be the most exterme shock even after disregarding the one-off breach, only that stress test (with a one-off breach) would be presented.

2/ The magnitude of shocks used for the commodity price shock stress test are based on the commodity prices outlook prepared by the IMF research department.

Figure 2. Tajikistan: Indicators of Public Debt Under Alternative Scenarios, 2021-2031



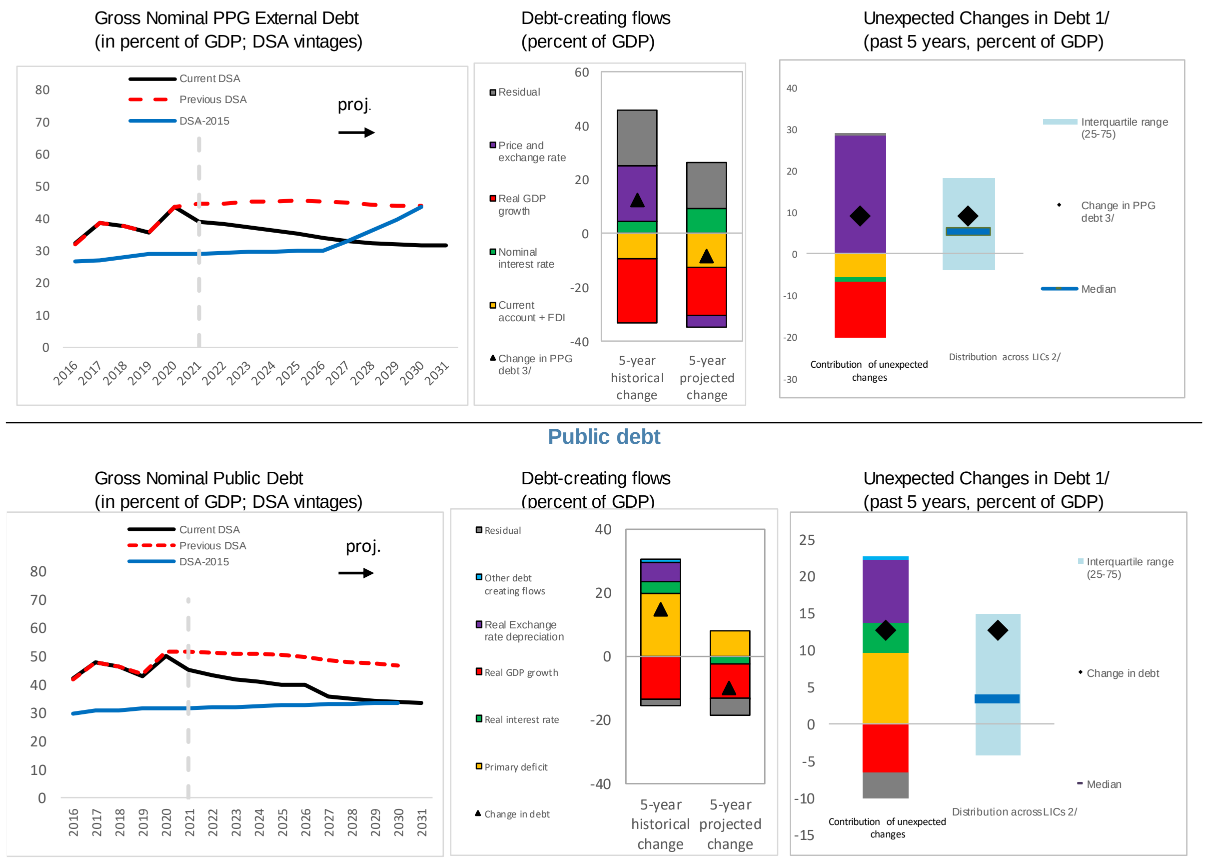
Borrowing assumptions on additional financing needs resulting from the stress tests*	Default	User defined
Shares of marginal debt		
External PPG medium and long-term	86%	86%
Domestic medium and long-term	0%	0%
Domestic short-term	14%	14%
Terms of marginal debt		
External MLT debt		
Avg. nominal interest rate on new borrowing in USD	1.6%	1.6%
Avg. maturity (incl. grace period)	24	24
Avg. grace period	5	5
Domestic MLT debt		
Avg. real interest rate on new borrowing	0.0%	0.0%
Avg. maturity (incl. grace period)	1	1
Avg. grace period	0	0
Domestic short-term debt		
Avg. real interest rate	1.8%	1.8%

* Note: The public DSA allows for domestic financing to cover the additional financing needs generated by the shocks under the stress tests in the public DSA. Default terms of marginal debt are based on baseline 10-year projections.

Sources: Country authorities; and staff estimates and projections.

1/ The most extreme stress test is the test that yields the highest ratio in or before 2031. The stress test with a one-off breach is also presented (if any), while the one-off breach is deemed away for mechanical signals. When a stress test with a one-off breach happens to be the most exterme shock even after disregarding the one-off breach, only that stress test (with a one-off breach) would be presented.

Figure 3. Tajikistan: Drivers of Debt Dynamics – Baseline Scenario



1/ Difference between anticipated and actual contributions on debt ratios.

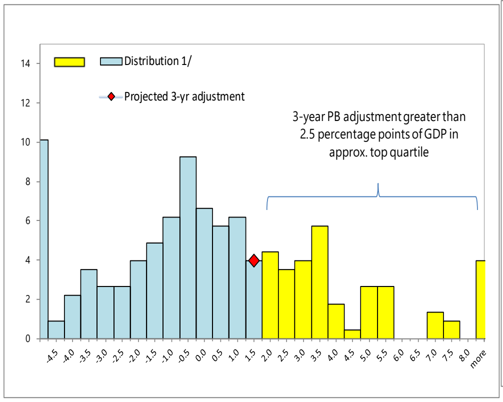
2/ Distribution across LICs for which LIC DSAs were produced.

3/ Given the relatively low private external debt for average low-income countries, a ppt change in PPG external debt should be largely explained by the drivers of the external debt dynamics equation.

Note: Relatively high residual in debt carrying flow in part explained by price and exchange rate movements.

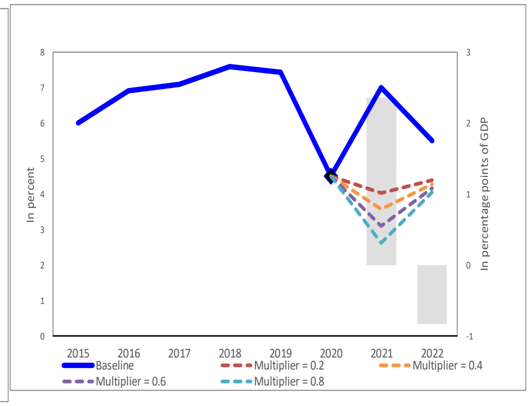
Figure 4. Tajikistan: Realism Tools

3-Year Adjustment in Primary Balance
(Percentage points of GDP)



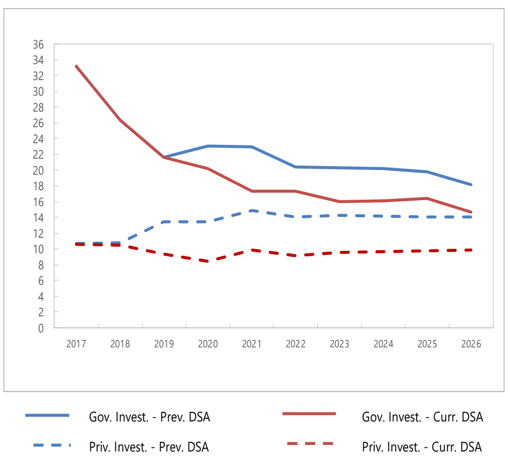
1/ Data cover Fund-supported programs for LICs (excluding emergency financing) approved since 1990. The size of 3-year adjustment from program inception is found on the horizontal axis; the percent of sample is found on the vertical axis.

Fiscal Adjustment and Possible Growth Paths 1/



1/ Bars refer to annual projected fiscal adjustment (right-hand side scale) and lines show possible real GDP growth paths under different fiscal multipliers (left-hand side scale).

Public and Private Investment Rates
(percent of GDP)



Contribution to Real GDP growth
(percent, 5-year average)

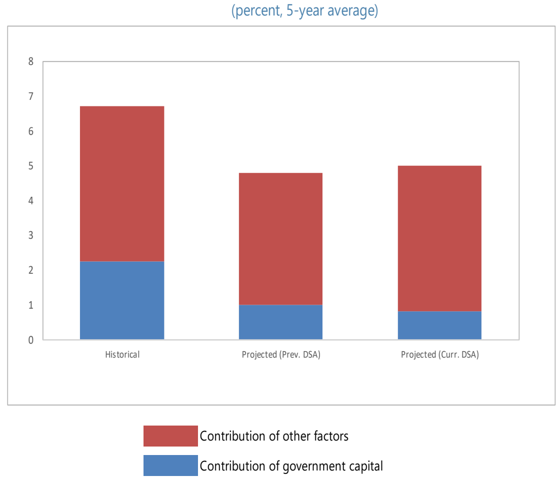
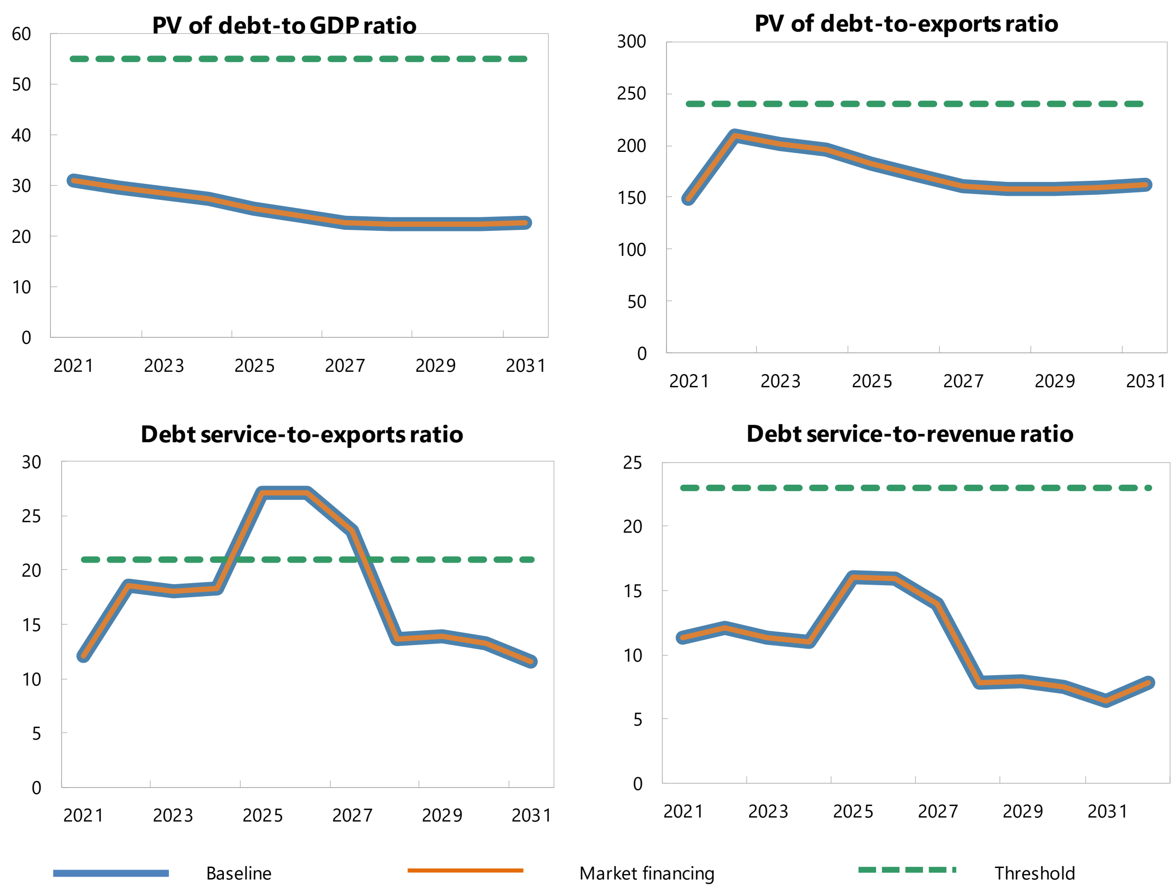


Figure 5. Tajikistan: Market-Financing Risk Indicators

	GFN 1/	EMBI 2/
Benchmarks	14	570
Values	5	921
Breach of benchmark	No	Yes
Potential heightened liquidity needs	Moderate	

1/ Maximum gross financing needs (GFN) over 3-year baseline projection horizon.
2/ EMBI spreads correspond to the latest available data.



Sources: Country authorities; and staff estimates and projections.

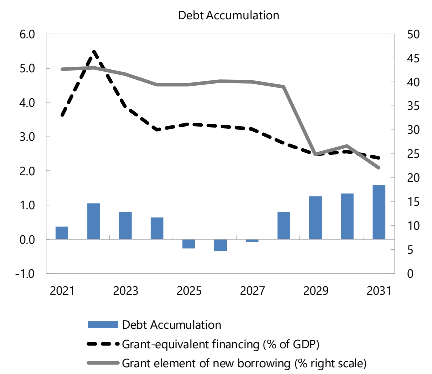
Table 1. Tajikistan: External Debt Sustainability Framework, Baseline Scenario, 2020-41

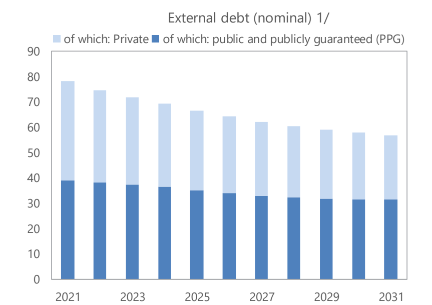
(In percent of GDP, unless otherwise indicated)

(In percent of GDP, unless otherwise indicated)

	Actual	Projections								Average 8/	
	2020	2021	2022	2023	2024	2025	2026	2031	2041	Historical	Projections
External debt (nominal) 1/	83.9	78.3	74.6	71.8	69.3	66.4	64.2	56.7	48.5	**66.3**	**65.5**
of which: public and publicly guaranteed (PPG)	43.5	39.1	38.2	37.2	36.4	35.1	33.9	31.4	28.5	**33.0**	**34.5**
Change in external debt	4.8	-5.6	-3.7	-2.8	-2.5	-2.9	-2.2	-1.0	0.4		
Identified net debt-creating flows	-3.5	-9.6	-4.4	-2.9	-2.1	-2.0	-1.9	-2.2	-4.4	**-0.5**	**-3.1**
Non-interest current account deficit	-5.2	-4.5	-0.9	-0.2	0.1	0.1	0.1	0.0	-2.3	**3.0**	**-0.4**
Deficit in balance of goods and services	20.9	24.5	28.8	29.4	29.9	29.8	30.0	29.5	26.3	**33.9**	**29.2**
Exports	17.2	21.0	14.1	14.1	14.0	14.0	14.0	14.0	15.2		
Imports	38.1	45.5	42.9	43.6	44.0	43.9	44.0	43.5	41.5		
Net current transfers (negative = inflow)	-8.4	-10.3	-10.1	-10.0	-9.9	-9.9	-9.9	-9.7	-9.4	**-8.8**	**-9.9**
of which: official	-1.1	-0.3	-0.3	-0.3	-0.3	-0.3	-0.3	-0.3	0.0		
Other current account flows (negative = net inflow)	-17.8	-18.7	-19.6	-19.6	-19.9	-19.9	-19.9	-19.7	-19.2	**-22.1**	**-19.7**
Net FDI (negative = inflow)	-0.4	-1.4	-1.4	-1.4	-1.4	-1.4	-1.4	-1.7	-2.2	**-2.8**	**-1.5**
Endogenous debt dynamics 2/	2.2	-3.8	-2.1	-1.3	-0.8	-0.7	-0.6	-0.6	0.1		
Contribution from nominal interest rate	1.1	1.9	1.9	1.9	1.9	1.9	1.9	1.6	1.9		
Contribution from real GDP growth	-3.6	-5.7	-4.0	-3.2	-2.7	-2.6	-2.5	-2.2	-1.8		
Contribution from price and exchange rate changes	4.6	...	...	...	...	...	...	...	...		
Residual 3/	8.3	4.0	0.7	0.1	-0.4	-0.9	-0.3	1.2	4.8	**5.4**	**0.6**
of which: exceptional financing	-0.6	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Sustainability indicators											
PV of PPG external debt-to-GDP ratio	32.0	31.1	29.6	28.5	27.4	25.6	24.0	22.8	23.7		
PV of PPG external debt-to-exports ratio	185.9	148.4	209.4	202.0	195.5	181.9	171.6	162.5	156.1		
PPG debt service-to-exports ratio	13.1	12.1	18.6	18.0	18.3	27.1	27.1	11.6	17.0		
PPG debt service-to-revenue ratio	10.0	11.3	12.1	11.3	11.0	16.1	15.9	6.4	10.2		
Gross external financing need (Million of U.S. dollars)	1731.2	1397.8	2044.0	2344.5	2373.9	2371.1	2472.5	2511.2	2982.0		
Key macroeconomic assumptions											
Real GDP growth (in percent)	4.5	7.0	5.5	4.5	4.0	4.0	4.0	4.0	4.0	**6.9**	**4.5**
GDP deflator in US dollar terms (change in percent)	-5.5	-2.9	3.2	1.9	2.2	2.3	0.9	1.4	1.4	**-2.4**	**1.3**
Effective interest rate (percent) 4/	1.4	2.3	2.6	2.6	2.9	2.9	3.0	2.9	4.1	**1.8**	**2.7**
Growth of exports of G&S (US dollar terms, in percent)	13.3	26.7	-26.7	6.5	5.7	6.4	4.6	5.0	7.0	**6.7**	**4.6**
Growth of imports of G&S (US dollar terms, in percent)	-8.3	24.0	2.6	8.1	7.3	6.1	5.2	5.1	3.8	**0.6**	**7.2**
Grant element of new public sector borrowing (in percent)	...	42.7	42.9	41.6	39.4	39.4	40.1	22.1	16.2	**...**	**36.3**
Government revenues (excluding grants, in percent of GDP)	22.5	22.4	21.7	22.5	23.2	23.6	23.8	25.2	25.2	**25.0**	**23.7**
Aid flows (in Million of US dollars) 5/	176.0	378.4	612.4	453.5	377.3	427.4	447.5	407.9	578.5		
Grant-equivalent financing (in percent of GDP) 6/	...	3.6	5.5	3.9	3.2	3.4	3.3	2.4	2.3	**...**	**3.3**
Grant-equivalent financing (in percent of external financing) 6/	...	73.0	71.7	66.8	63.6	59.9	59.6	53.6	48.5	**...**	**62.0**
Nominal GDP (Million of US dollars)	8,194	8,512	9,265	9,867	10,487	11,153	11,706	15,247	25,864		
Nominal dollar GDP growth	-1.3	3.9	8.8	6.5	6.3	6.4	5.0	5.4	5.4	**4.3**	**5.8**
Memorandum items:											
PV of external debt 7/	72.4	70.3	66.0	63.1	60.4	56.9	54.2	48.1	43.7		
In percent of exports	420.9	335.4	467.3	446.8	429.8	405.1	387.6	342.7	287.9		
Total external debt service-to-exports ratio	155.9	106.3	172.3	179.7	170.7	160.8	160.2	128.9	105.2		
PV of PPG external debt (in Million of US dollars)	2619.4	2649.3	2739.3	2814.5	2878.4	2850.1	2810.2	3476.9	6130.2		
(PVt-PVt-1)/GDPt-1 (in percent)		0.4	1.1	0.8	0.6	-0.3	-0.4	1.6	1.1		
Non-interest current account deficit that stabilizes debt ratio	-10.0	1.2	2.8	2.6	2.6	3.0	2.4	1.1	-2.7		

Definition of external/domestic debt	**Residency-based**
Is there a material difference between the two criteria?	**No**





Sources: Country authorities; and staff estimates and projections.

1/ Includes both public and private sector external debt.

2/ Derived as [r - g - ρ(1+g) + Εα (1+r)]/(1+g+ρ+gρ) times previous period debt ratio, with r = nominal interest rate; g = real GDP growth rate, ρ = growth rate of GDP deflator in U.S. dollar terms, Ε=nominal appreciation of the local currency, and α= share of local currency-denominated external debt in total external debt.

3/ Includes exceptional financing (i.e., changes in arrears and debt relief); changes in gross foreign assets; and valuation adjustments. For projections also includes contribution from price and exchange rate changes.

4/ Current-year interest payments divided by previous period debt stock.

5/ Defined as grants, concessional loans, and debt relief.

6/ Grant-equivalent financing includes grants provided directly to the government and through new borrowing (difference between the face value and the PV of new debt).

7/ Assumes that PV of private sector debt is equivalent to its face value.

8/ Historical averages are generally derived over the past 10 years, subject to data availability, whereas projections averages are over the first year of projection and the next 10 years.

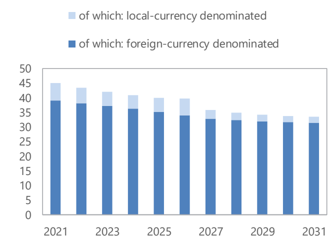
Table 2. Tajikistan: Public Sector Debt Sustainability Framework, Baseline Scenario, 2020-41

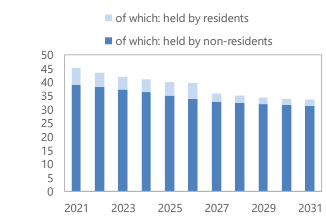
(In percent of GDP, unless otherwise indicated)

	Actual	Projections								Average 6/	
	2020	2021	2022	2023	2024	2025	2026	2031	2041	Historical	Projections
Public sector debt 1/	**50.1**	**45.1**	**43.5**	**42.0**	**41.0**	**39.9**	**39.8**	**33.5**	**29.3**	**39.0**	**38.5**
of which: external debt	**43.5**	**39.1**	**38.2**	**37.2**	**36.4**	**35.1**	**33.9**	**31.4**	**28.5**	**33.0**	**34.5**
Change in public sector debt	7.0	-5.0	-1.6	-1.5	-1.0	-1.1	-0.1	-0.3	-0.5		
Identified debt-creating flows	**5.2**	**-2.5**	**-1.1**	**-0.8**	**-0.3**	**-0.3**	**-0.1**	**1.2**	**2.8**	**0.9**	**-0.1**
Primary deficit	**3.4**	**1.0**	**1.9**	**1.7**	**1.8**	**1.8**	**1.9**	**3.0**	**4.1**	**2.1**	**2.2**
Revenue and grants	24.6	25.0	25.6	25.0	25.3	25.5	25.6	27.0	27.0	**27.3**	**25.8**
of which: grants	2.1	2.6	3.9	2.5	2.0	1.9	1.8	1.8	1.8		
Primary (noninterest) expenditure	28.0	26.1	27.5	26.7	27.1	27.3	27.5	30.0	31.1	**29.4**	**28.0**
Automatic debt dynamics	**3.3**	**-3.5**	**-3.0**	**-2.5**	**-2.1**	**-2.1**	**-2.0**	**-1.9**	**-1.3**		
Contribution from interest rate/growth differential	-0.9	-3.5	-3.0	-2.5	-2.1	-2.1	-2.0	-1.9	-1.3		
of which: contribution from average real interest rate	0.9	-0.2	-0.6	-0.6	-0.5	-0.5	-0.5	-0.6	-0.1		
of which: contribution from real GDP growth	-1.9	-3.3	-2.4	-1.9	-1.6	-1.6	-1.5	-1.3	-1.1		
Contribution from real exchange rate depreciation	4.2	...	...	...	...	...	...	...	...		
Other identified debt-creating flows	**-1.5**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**-0.1**	**0.0**
Privatization receipts (negative)	-0.7	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Recognition of contingent liabilities (e.g., bank recapitalization)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Debt relief (HIPC and other)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Other debt creating or reducing flow (please specify)	-0.8	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Residual	**1.8**	**-2.5**	**-0.5**	**-0.7**	**-0.7**	**-0.8**	**0.0**	**-1.5**	**-3.3**	**0.4**	**-1.4**
Sustainability indicators											
PV of public debt-to-GDP ratio 2/	**41.6**	**37.4**	**35.4**	**33.8**	**32.6**	**31.0**	**30.3**	**25.3**	**25.0**		
PV of public debt-to-revenue and grants ratio	**168.7**	**149.3**	**138.1**	**134.9**	**128.9**	**121.4**	**118.3**	**93.8**	**92.6**		
Debt service-to-revenue and grants ratio 3/	**9.9**	**11.0**	**12.0**	**11.4**	**11.2**	**17.1**	**20.4**	**6.7**	**9.9**		
Gross financing need 4/	4.3	3.8	4.9	4.6	4.6	6.1	7.1	4.8	6.8		
Key macroeconomic and fiscal assumptions											
Real GDP growth (in percent)	4.5	7.0	5.5	4.5	4.0	4.0	4.0	4.0	4.0	**6.9**	**4.5**
Average nominal interest rate on external debt (in percent)	1.3	1.9	2.0	1.9	2.2	2.2	2.2	1.5	2.6	**0.2**	**1.7**
Average real interest rate on domestic debt (in percent)	-1.4	-4.4	-5.7	-5.5	-5.4	-5.4	-4.7	-5.0	-5.0	**-0.7**	**-5.1**
Real exchange rate depreciation (in percent, + indicates depreciation)	12.0	...	...	...	...	...	...	...	...	**4.2**	**...**
Inflation rate (GDP deflator, in percent)	2.3	6.5	6.2	5.9	5.9	5.9	5.5	5.5	5.5	**5.9**	**5.8**
Growth of real primary spending (deflated by GDP deflator, in percent)	4.7	-0.5	11.2	1.7	5.2	5.0	4.8	4.9	4.0	**8.4**	**5.1**
Primary deficit that stabilizes the debt-to-GDP ratio 5/	-3.6	6.0	3.5	3.2	2.8	2.9	2.0	3.4	4.6	**1.3**	**3.7**
PV of contingent liabilities (not included in public sector debt)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		

Definition of external/domestic debt	**Residency-based**
Is there a material difference between the two criteria?	**No**

Public sector debt 1/





Sources: Country authorities; and staff estimates and projections.

1/ Coverage of debt: The central government plus social security and extra budgetary funds, central bank, government-guaranteed debt . Definition of external debt is Residency-based.

2/ The underlying PV of external debt-to-GDP ratio under the public DSA differs from the external DSA with the size of differences depending on exchange rates projections.

3/ Debt service is defined as the sum of interest and amortization of medium and long-term, and short-term debt.

4/ Gross financing need is defined as the primary deficit plus debt service plus the stock of short-term debt at the end of the last period and other debt creating/reducing flows.

5/ Defined as a primary deficit minus a change in the public debt-to-GDP ratio ((-): a primary surplus), which would stabilizes the debt ratio only in the year in question.

6/ Historical averages are generally derived over the past 10 years, subject to data availability, whereas projections averages are over the first year of projection and the next 10 years.

Table 3. Tajikistan: Sensitivity Analysis for Key Indicators of Public and Publicly Guaranteed External Debt, 2021-2031

	Projections 1/										
	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031
PV of debt-to GDP ratio											
Baseline	31	30	29	27	26	24	23	22	22	22	23
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2021-2031 2/	31	33	33	34	33	33	33	33	35	36	38
B. Bound Tests											
B1. Real GDP growth	31	30	29	28	26	25	23	23	23	23	23
B2. Primary balance	31	31	35	34	32	30	29	28	28	28	28
B3. Exports	31	34	37	36	34	32	30	30	29	29	29
B4. Other flows 3/	31	33	35	33	31	30	29	28	28	27	27
B5. Depreciation	31	30	29	27	26	24	23	22	22	22	23
B6. Combination of B1-B5	31	36	35	34	32	30	29	28	28	28	28
C. Tailored Tests											
C1. Combined contingent liabilities	31	39	39	38	36	34	33	32	32	32	33
C2. Natural disaster	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C3. Commodity price	31	32	33	31	28	26	23	21	20	19	18
C4. Market Financing	31	30	29	27	26	24	23	22	22	22	23
Threshold	55	55	55	55	55	55	55	55	55	55	55
PV of debt-to-exports ratio											
Baseline	148	209	202	195	182	172	161	158	159	159	162
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2021-2031 2/	148	230	236	**240**	237	235	233	238	**246**	**256**	**268**
B. Bound Tests											
B1. Real GDP growth	148	209	202	195	182	172	161	158	159	159	162
B2. Primary balance	148	222	**246**	240	225	214	203	199	198	197	199
B3. Exports	148	**295**	**378**	**367**	**345**	**328**	**312**	**305**	**301**	**298**	**299**
B4. Other flows 3/	148	232	**246**	239	224	214	203	198	195	193	194
B5. Depreciation	148	209	202	195	182	172	161	158	159	159	162
B6. Combination of B1-B5	148	**267**	226	**270**	**253**	**240**	227	221	220	219	221
C. Tailored Tests											
C1. Combined contingent liabilities	148	**277**	**277**	**270**	**255**	**245**	234	230	229	229	232
C2. Natural disaster	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C3. Commodity price	148	**272**	**271**	**251**	221	195	169	156	145	136	130
C4. Market Financing	148	209	202	195	182	172	161	158	159	159	162
Threshold	240	240	240	240	240	240	240	240	240	240	240
Debt service-to-exports ratio											
Baseline	12	19	18	18	27	27	24	14	14	13	12
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2021-2031 2/	12	19	20	20	31	31	28	17	18	19	17
B. Bound Tests											
B1. Real GDP growth	12	19	18	18	27	27	24	14	14	13	12
B2. Primary balance	12	19	19	20	29	29	26	16	17	16	15
B3. Exports	12	24	29	30	44	44	38	24	26	25	22
B4. Other flows 3/	12	19	19	19	28	28	25	16	17	16	15
B5. Depreciation	12	19	18	18	27	27	24	14	14	13	12
B6. Combination of B1-B5	12	21	23	23	34	34	30	19	19	18	16
C. Tailored Tests											
C1. Combined contingent liabilities	12	19	20	20	29	29	25	15	15	15	13
C2. Natural disaster	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C3. Commodity price	12	23	22	22	32	31	26	15	16	15	12
C4. Market Financing	12	19	18	18	27	27	24	14	14	13	12
Threshold	21	21	21	21	21	21	21	21	21	21	21
Debt service-to-revenue ratio											
Baseline	11	12	11	11	16	16	14	8	8	8	6
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2021-2031 2/	11	13	12	12	18	18	16	10	11	10	10
B. Bound Tests											
B1. Real GDP growth	11	12	12	11	17	16	14	8	8	8	7
B2. Primary balance	11	12	12	12	17	17	15	9	10	9	8
B3. Exports	11	13	13	13	18	18	16	10	10	10	9
B4. Other flows 3/	11	12	12	12	17	16	14	9	10	9	8
B5. Depreciation	11	12	11	11	16	16	14	8	8	8	6
B6. Combination of B1-B5	11	13	13	13	18	18	16	10	10	9	8
C. Tailored Tests											
C1. Combined contingent liabilities	11	12	12	12	17	17	15	9	9	8	7
C2. Natural disaster	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C3. Commodity price	11	13	13	13	18	18	15	9	9	8	7
C4. Market Financing	11	12	11	11	16	16	14	8	8	8	6
Threshold	23	23	23	23	23	23	23	23	23	23	23

Sources: Country authorities; and staff estimates and projections.
1/ A bold value indicates a breach of the threshold.
2/ Variables include real GDP growth, GDP deflator (in U.S. dollar terms), non-interest current account in percent of GDP, and non-debt creating flows.
3/ Includes official and private transfers and FDI.

Table 4. Tajikistan: Sensitivity Analysis for Key Indicators of Public Debt, 2021-2031

	Projections 1/										
	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031
	PV of Debt-to-GDP Ratio										
Baseline	37	35	34	33	31	30	26	25	25	25	25
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2021-2031 2/	37	35	33	31	29	28	24	23	21	21	20
B. Bound Tests											
B1. Real GDP growth	37	36	35	35	33	33	29	29	29	30	30
B2. Primary balance	37	38	40	39	37	36	32	31	31	31	31
B3. Exports	37	38	39	38	36	36	31	31	30	30	29
B4. Other flows 3/	37	39	40	39	37	36	32	31	31	30	30
B5. Depreciation	37	42	38	35	32	29	24	22	21	19	19
B6. Combination of B1-B5	37	35	35	34	32	31	26	25	24	24	24
C. Tailored Tests											
C1. Combined contingent liabilities	37	47	45	43	41	41	36	36	35	35	35
C2. Natural disaster	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C3. Commodity price	37	37	38	39	39	40	36	35	35	36	36
C4. Market Financing	37										
TOTAL public debt benchmark	70	70	70	70	70	70	70	70	70	70	70
	PV of Debt-to-Revenue Ratio										
Baseline	149	138	135	129	121	118	102	97	95	94	94
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2021-2031 2/	149	138	133	125	116	111	94	87	82	78	75
B. Bound Tests											
B1. Real GDP growth	149	141	141	137	131	129	114	111	111	111	112
B2. Primary balance	149	147	161	154	146	142	125	119	117	114	113
B3. Exports	149	147	157	151	143	139	123	117	113	111	109
B4. Other flows 3/	149	151	160	153	145	142	125	119	115	112	110
B5. Depreciation	149	164	154	141	126	115	93	84	78	73	69
B6. Combination of B1-B5	149	138	141	133	124	120	102	96	93	90	88
C. Tailored Tests											
C1. Combined contingent liabilities	149	184	178	171	162	158	142	135	133	131	130
C2. Natural disaster	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C3. Commodity price	149	158	165	168	162	160	142	134	133	132	132
C4. Market Financing	149										
	Debt Service-to-Revenue Ratio										
Baseline	11	12	11	11	17	20	23	8	8	8	7
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2021-2031 2/	11	12	11	11	16	18	20	7	7	6	5
B. Bound Tests											
B1. Real GDP growth	11	12	12	12	18	21	25	9	9	9	8
B2. Primary balance	11	12	14	14	19	22	25	10	10	10	9
B3. Exports	11	12	12	12	18	21	24	9	10	9	8
B4. Other flows 3/	11	12	12	12	18	21	24	9	10	9	8
B5. Depreciation	11	13	14	14	21	24	26	10	9	9	7
B6. Combination of B1-B5	11	12	12	13	17	21	23	9	9	8	7
C. Tailored Tests											
C1. Combined contingent liabilities	11	12	21	13	18	21	24	9	9	9	8
C2. Natural disaster	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C3. Commodity price	11	13	13	14	21	24	27	11	11	10	10
C4. Market Financing											

Sources: Country authorities; and staff estimates and projections.
1/ A bold value indicates a breach of the benchmark.
2/ Variables include real GDP growth, GDP deflator and primary deficit in percent of GDP.
3/ Includes official and private transfers and FDI.

Statement by Mr. Trabinski on Republic of Tajikistan
January 21, 2022

On behalf of our Tajik authorities, we thank staff for their insightful and well-written papers. Their thanks extend to the MCD mission team as well as to the TA missions for the invaluable support they have been providing to the authorities lately since the last Article IV consultation. Engagement with the Fund is a critical and highly valued contribution to the authorities' ongoing efforts to maintain economic and financial stability and to implement important structural reforms under challenging economic and geopolitical circumstances.

Economic developments and outlook

Tajikistan, like other countries in the CCA region, was hard hit by the pandemic and the related global shock. Currently, the health situation is under control, with up to 30 thousand vaccine doses administered daily. 57 percent of the total population is fully vaccinated. Tajikistan received vaccine support from the international community under the COVAX program and from the United States, Russia, China, and the European Union. Additionally, support from the IMF under the Rapid Credit Facility (RCF) helped sustain the country's response to the challenges posed by the global shock.

In 2021, Tajikistan's economy started to recover, with GDP growth projected to be 9.2 percent, driven by construction, industrial activity, retail trade, services, and agriculture. Inflation reached 8 percent, which remains within the target range of the National Bank of Tajikistan (NBT). Foreign reserve coverage is adequate, and the public debt-to-GDP-ratio gradually declined. The authorities are confident that continued public sector investment and the implementation of industrial policies and structural reforms in line with their National Development Strategy will allow for continued robust growth going forward. While the authorities' growth projections are thus more optimistic than staff's, they agree with staff that stability and growth would benefit from reforms to increase resilience to economic shocks, further improve the business environment, and strengthen economic governance more broadly.

Fiscal policy

The Government of the Republic of Tajikistan took a commitment to a prudent fiscal policy and plans to further decrease the public-debt-to-GDP ratio. The new tax code has become effective on January 1, 2022. It includes reforms and the introduction of electronic accounting which will have a positive impact on tax collection. Moreover, it will aim to ensure greater business competitiveness, improve the business environment, attract additional investment, and help address the relocation of businesses to more attractive tax jurisdictions. The new tax code not only includes taxpayer protections and administrative reforms, as mentioned in the staff report, but it also introduces new taxes, increases some existing taxes, and provides additional incentives to encourage growth and development of new businesses. Moreover, it will contribute to maintaining fiscal sustainability.

The authorities are focusing their efforts on mobilizing additional revenue to the budget and on containing the budget deficit, in line with the recommended limit of -2.5 percent of GDP and the commitments under the RCF arrangement. This strategy will also allow the authorities to meet their financial commitments associated with the construction of the Rogun dam.

The authorities are taking appropriate measures to monitor the sustainability of external debt. They are also committed to addressing existing vulnerabilities stemming from state-owned enterprises (SOEs). To this end, the authorities have requested Fund support to develop a fiscal risk management strategy for SOEs for the period of 2022–2026.

Monetary policy

The NBT continues its reforms of monetary policy and the banking system through the implementation of the Monetary Policy Strategy 2021–2025 and the creation of favorable conditions for moving toward an inflation targeting regime. The NBT is completing the proposed modifications to the NBT law to increase central bank operational autonomy and control with the help of TA from the Fund.

Given the significant uncertainty around global financial conditions and growth prospects, and taking into account global and domestic inflationary pressures, the NBT tightened the monetary policy stance by raising the refinancing rate by 250 basis points to 13.25 percent in four steps over the course of 2021. Moreover, the reserve requirement ratio has been increased to its pre-pandemic level of 3 percent for deposits in national currency and to 9 percent for deposit in foreign currency (in 2020, these ratios were set at 1 percent and 5 percent, respectively). By the end of 2021, annual inflation reached 8.0 percent, which remains within the NBT's target range of 6 percent +/- 2 percent.

The government opted to save the newly allocated SDRs and, hence, increase the international reserves to maintain a buffer against future risks and shocks. The NBT is also no longer offering any additional loans to the government at below-market interest rates as a result of the recommendations provided by the safeguards assessment conducted in September 2020.

Financial sector

The authorities have achieved significant progress in strengthening the financial sector and ensuring its sustainability. Several reforms have been implemented, including a restructuring of the banking sector, ensuring transparency of financial statements, and strengthening regulatory requirements for corporate governance and risk management. As a result, in the last 5 years, the licenses of 69 credit institutions that engaged in non-transparent activities in the market were revoked and the level of non-performing loans declined from 47.6 percent to 13.7 percent.

To ensure financial stability and the further development of the banking system, the NBT will continue the implementation of financial sector reforms and the harmonization of the regulatory and supervisory framework in line with international standards. The NBT revoked the licenses of five distressed banks in 2021, particularly of OJSC *Agroinvestbank* (AIB) and OJSC *Tojiksodirotbank* (TSB), and initiated their liquidation. With this decision, the NBT has taken a decisive step toward (i) concluding the post-2016 bank crisis response operations, (ii) strengthening the banking sector reputation, (iii) enhancing the resilience to external shocks, and (iv) removing one of the most critical obstacles to a potential successor arrangement with the IMF. The liquidation procedures are carried out in strict accordance with the law of the Republic of Tajikistan "On the liquidation of credit institutions."

Recognizing the importance of upgrading the AML/CFT framework, including in the context of addressing pressures on correspondent bank relations, the NBT is prioritizing efforts to adopt a new AML/CFT law, with technical assistance from the Fund.

Structural reforms

The authorities are committed to improving governance and transparency to comply with international best practices. They took measures to reduce the risk of contingent liabilities and increase transparency in the largest SOEs, including through a government decree that requires the 27 major SOEs to provide quarterly and annual financial reports to the ministry of finance. In April 2021, the 10 largest SOEs, including OJSC Rogun HPP, released audited financial reports for the first time. To increase transparency, strengthen governance, and fight corruption, the authorities established a national anti-corruption policy for the years 2021–2030.

Tajikistan, as a member of the international community, has approved a national climate change adaptation policy and created and submitted an Intended Nationally Determined Contribution. On a national and regional level, the authorities are addressing climate change by pushing toward the decarbonization of the economy.

Conclusion

The authorities are grateful to Fund staff for the engagement during the past two years. Going forward, they are interested in further intensifying this engagement. During the recent Annual Meetings, they have thus expressed their interest in a new ECF arrangement. With the reforms undertaken over the past two years, they are confident that they have laid a solid basis for starting program discussions, which they look forward to host in Dushanbe at staff's earliest convenience.