



REPUBLIC OF TAJIKISTAN

March 2023

2022 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 2022 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 February 27, 2023 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 February 27, 2023 following discussions that ended on December 16, 2022, 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 February 10, 2023.
- 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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Washington, D.C.



IMF Executive Board Concludes 2022 Article IV Consultation with the Republic of Tajikistan

FOR IMMEDIATE RELEASE

Washington, DC – March 27, 2023: On February 27, 2023, the Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation¹ with the Republic of Tajikistan.

Tajikistan continued to experience strong growth in 2022, with minimal disruption from the war in Ukraine as strong financial inflows supported domestic demand and liquidity. Real GDP increased by 8 percent in 2022, while higher remittances kept the current account in surplus and helped increase FX reserves to around 8 months' import coverage. Twelve-month inflation remained well-contained at 4.2 percent in December, below the mid-point of the NBT's medium-term target range of 6 (± 2) percent. The fiscal deficit is estimated at 1.4 percent of GDP in 2022, implying a modest expansion due to increased capital spending, but remained below the 2.5 percent of GDP deficit target, helping to anchor a projected decline in public debt to 35 percent of GDP. Financial soundness indicators continued to improve as the resolution of two large banks in 2021 has helped clean up legacy loans in the banking system.

Significant uncertainty remains over the near-term outlook. While Tajikistan proved to be resilient to weaker economic activity in Russia in 2022, it remains vulnerable to spillover risks from a protracted slowdown. Real GDP growth is projected to decelerate to 5 percent in 2023 as remittances return to historical levels after the increase in 2022, but with downside risks in the event of a more adverse impact on Tajik migrants as the war in Ukraine continues. Over the medium-term, growth is expected to converge to its potential of about 4 percent, with inflation staying within the NBT's target range and FX reserves remaining at around 8 months of imports.

Far-reaching structural reforms are critical to achieve stronger and more inclusive medium-term growth. Reform efforts should continue to focus on improving SOE governance, supporting private sector development, enhancing social protection and combating corruption. Reducing climate-related vulnerabilities can also raise the economy's growth potential.

Executive Board Assessment²

Executive Directors agreed with the thrust of the staff appraisal. They commended the Tajik authorities for achieving continued macroeconomic resilience despite the spillovers from Russia's war in Ukraine. However, risks to the outlook remain significant, as the war continues

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.

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>.

and remittances from Tajik migrants working in Russia remain large. In this context, Directors encouraged the authorities to continue with prudent macroeconomic policies, while implementing structural reforms necessary to promote inclusive growth, improve governance and transparency, and address climate-related vulnerabilities.

Directors welcomed the authorities' commitment to a medium-term fiscal deficit target of 2.5 percent of GDP to keep public debt on a downward trajectory. Noting the budget constraints imposed by the sizable expenditures related to the Rogun Hydropower Project, they emphasized the need for improved spending efficiency and increased domestic revenue mobilization, including by phasing out tax exemptions, to create space for critical development and social spending. Directors stressed the importance of transparency and governance reforms to address fiscal risks related to state-owned enterprises (SOE), including efforts to reduce the financial deficit of the electricity sector. They also encouraged the authorities to develop the domestic debt market to reduce reliance on external financing.

Directors noted that inflation remains well-contained below the mid-point of the National Bank of Tajikistan's (NBT) medium-term target range. However, they emphasized that rapid monetary growth warrants caution and suggested considering quantitative measures to mop up excess liquidity and macroprudential controls to mitigate potential risks from overheating. Directors underscored the importance of enacting the amendments to the NBT law to strengthen the central bank's operational autonomy and independence. They also stressed that exchange rate flexibility remains essential to absorb external shocks.

Directors underscored that further strengthening banking supervision is essential to bolster resilience to shocks and improve confidence in the banking system. They emphasized that efforts should continue to implement the recommendations of the 2022 Financial Sector Stability Review.

Directors emphasized that a transition to more market-oriented resource allocation is needed to unlock the economy's full potential and support more inclusive growth. They encouraged the authorities to accelerate reforms to reduce the state footprint in the economy and stressed the need to focus on SOE reform, the central bank institutional framework, the AML/CFT regime, and anti-corruption. Directors also welcomed the authorities' green development strategy for climate change mitigation and adaptation, which would help reduce Tajikistan's climate-related vulnerabilities and open new opportunities for more sustainable growth. Some Directors looked forward to deepening Fund engagement, including on a possible program.

Table 1. Selected Economic Indicators, 2019–24

(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)

	2019	2020	2021	2022	2023	2024
				Est.	Proj.	
National accounts	(Annual Percent Change, unless otherwise indicated)					
Real GDP	7.4	4.4	9.4	8.0	5.0	4.5
Headline CPI inflation (end-of-period)	8.0	9.4	8.0	4.2	6.5	6.5
General government finances	(Percent of GDP, unless otherwise indicated)					
Revenue and grants	26.8	24.8	27.0	27.5	28.2	26.2
Tax revenue	19.9	18.3	19.5	19.5	19.6	19.8
Expenditure and net lending	28.8	29.2	27.6	28.9	30.7	28.7
Current	16.7	17.1	16.4	16.4	16.0	16.0
Capital	12.1	12.1	11.3	12.5	14.7	12.7
Overall balance (excl. PIP and stat. discrepancy)	1.7	-2.2	0.0	1.5	1.4	1.1
Overall balance (incl. PIP and stat. discrepancy)	-2.1	-4.3	-0.7	-1.4	-2.5	-2.5
Total public and publicly-guaranteed debt	43.5	49.8	42.5	34.6	32.3	31.3
Monetary sector						
Broad money (12-month percent change)	17.0	18.4	8.2	38.1	11.6	11.3
Reserve money (12-month percent change)	20.2	20.2	11.6	48.8	18.3	11.2
Credit to private sector (12-month percent change)	7.7	19.9	-5.2	23.4	13.5	9.2
Refinancing rate (in percent, eop/ latest value)	12.3	10.8	13.3	13.0	...	...
External sector						
Current account balance	-2.2	4.1	8.2	6.4	-1.6	-2.4
Trade balance (goods)	-23.1	-17.8	-19.2	-27.1	-27.8	-27.9
FDI (net)	2.3	0.4	0.4	3.9	1.8	3.2
Total public and publicly guaranteed external debt	35.1	44.2	37.5	30.6	29.1	28.5
Memorandum items:						
Nominal GDP (in millions of somoni)	79,110	83,958	101,076	115,739	129,183	143,770
Average exchange rate (somon per U.S. dollar)	9.53	10.32	11.31	11.03	...	...

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



REPUBLIC OF TAJIKISTAN

STAFF REPORT FOR THE 2022 ARTICLE IV CONSULTATION

February 10, 2023

KEY ISSUES

Context: Strong growth continued in 2022 with minimal disruption from the war in Ukraine, while strong financial inflows supported domestic demand and liquidity. Although negative spillovers from the war have not materialized, it remains unclear to what extent Tajikistan will continue to be relatively unaffected by weaker economic activity in Russia.

Policy recommendations

- Fiscal space remains limited due to debt sustainability concerns, and the fiscal deficit target of 2.5 percent of GDP is an important anchor to keep public debt on a downward trajectory. Sizable expenditures related to the Rogun Hydropower Project present a significant constraint on the budget, and improved domestic revenue mobilization is needed to create space for critical development spending.
- Inflation remains well-contained, but strong monetary growth in 2022 warrants caution and macroprudential controls could help mitigate potential risks. Enhancing exchange rate flexibility is also an important part of the policy toolkit to absorb external shocks. A transition to inflation targeting will require sustained efforts to improve monetary policy transmission. Emerging risks call for further strengthening banking supervision in line with the 2022 Financial Sector Stability Review.
- Far-reaching structural reforms are critical to unlock the economy's long-term potential and support more inclusive growth. Reform efforts should continue to focus on improving SOE governance, supporting private sector development, enhancing social protection and combating corruption. Reducing climate-related vulnerabilities can also raise the economy's growth potential.

Approved By
**Subir Lall (MCD) and
 Eugenio Cerutti (SPR)**

Discussions with the authorities were held in Dushanbe during December 5-16, 2022. The staff team comprised Matthew Gaertner (head), Kady Keita, Farid Talishli, and Kalin Tintchev (all MCD); Dmitry Plotnikov (SPR); Sergei Dodzin (MCM, remotely); and Jami Chiniev and Nailya Menlasheva (both Resident Representative office). Marcel Peter and Ilhomjon Rajabov (OED) attended some meetings. The mission was supported by Svetlana Zolotareva (IMF-HQ).

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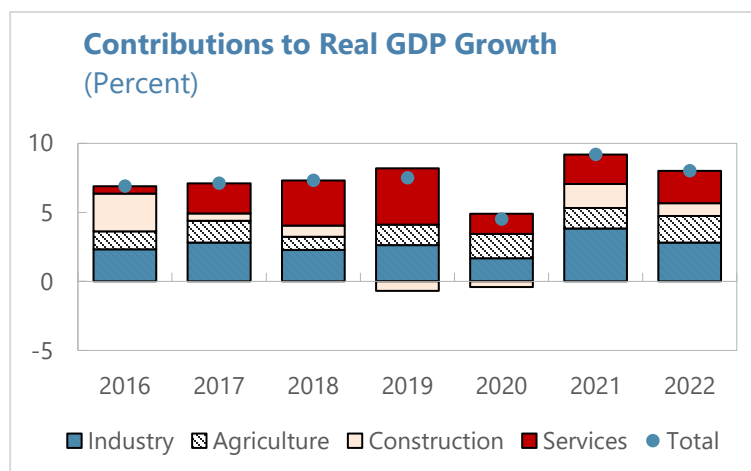
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CONTEXT

- 1. Tajikistan's strong economic recovery from the pandemic is facing challenges from Russia's war in Ukraine.** As with other countries in the Caucasus and Central Asia, Tajikistan's economic linkages with Russia leave it vulnerable to spillover risks, with remittances from Russia historically accounting for around 30 percent of GDP.
- 2. The economy continues to depend heavily on remittances.** These inflows offset low domestic employment and underpin consumption and growth. Mining activity has increased in recent years, particularly gold production, but the economy remains relatively undiversified with a narrow export base—primarily cotton, aluminum, and gold. Completion of the Rogun Hydropower Project (HPP), at an estimated remaining cost of nearly \$5 billion, remains an important part of Tajikistan's development strategy.
- 3. The current juncture is an opportunity to accelerate reforms.** The authorities have made progress in implementing past Fund advice (see Table 11), but far-reaching structural reforms are critical to unlock the economy's long-term potential and support more inclusive growth. The strong recovery from the pandemic provides an opportune juncture to tackle deep-seated structural vulnerabilities and reduce vulnerability to external shocks.

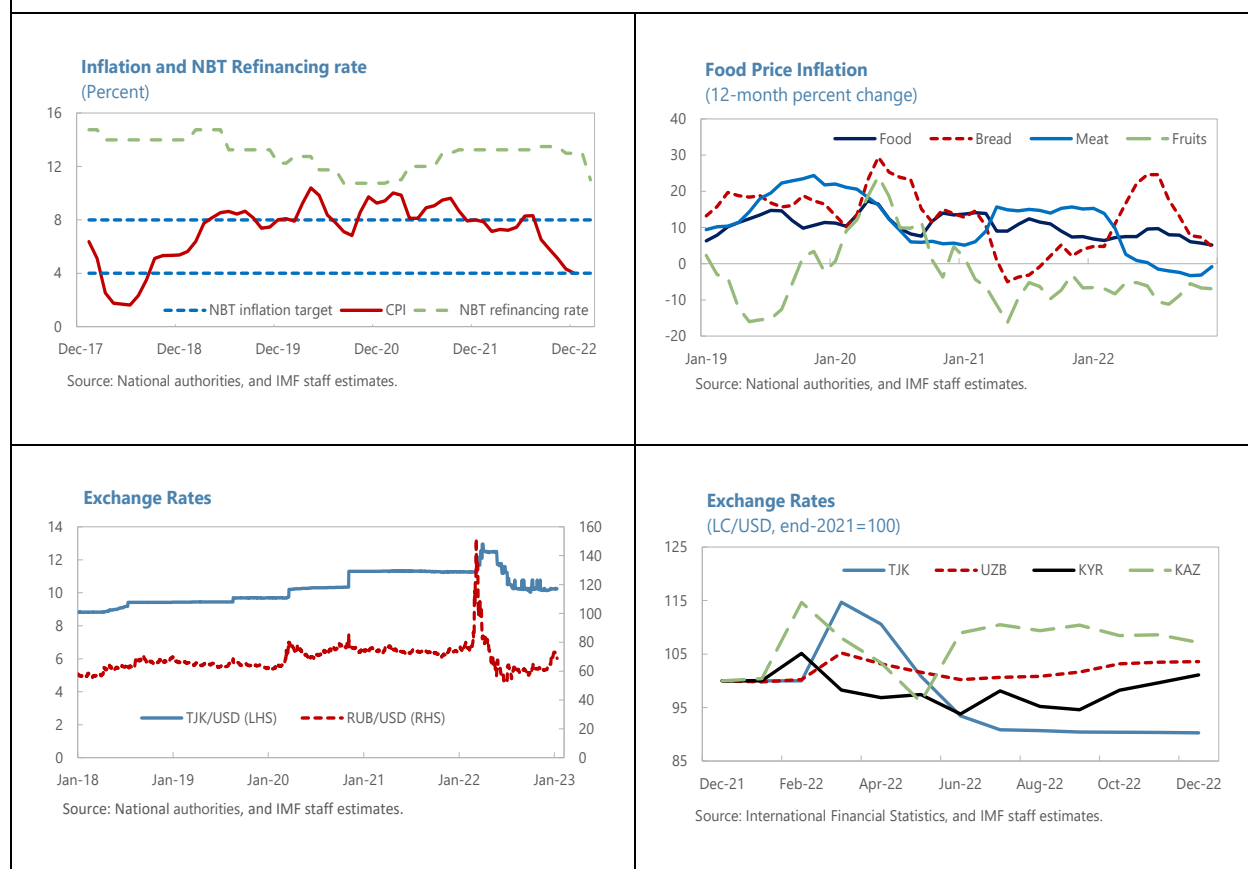
RECENT ECONOMIC DEVELOPMENTS

4. Strong growth continued in 2022, with minimal disruption from the war in Ukraine. After growing by 9.4 percent in 2021, real GDP increased 8.0 percent in 2022, reflecting broad-based growth in industry (including mining), agriculture, and services. Adverse spillovers from the war did not materialize as expected, while strong financial inflows boosted domestic demand and liquidity.



5. Inflation was well-contained during 2022 despite higher commodity prices, owing in part to somoni appreciation. Somoni appreciation against the US dollar together with strong domestic agricultural production and the release of strategic food reserves helped moderate the impact of higher prices for imported food and fuel in the first half of the year (Box 1). After a modest increase in the first half of 2022, twelve-month inflation slowed from 8.3 percent in June to 4.2 percent in December, as falling prices for imported wheat and fuel offset an increase in electricity tariffs in October. This leaves inflation well below the mid-point of the NBT's medium-term target range of 6 (± 2) percent.

Text Figure 1. Inflation and Exchange Rate Developments



Box 1. What is Driving Tajikistan's Low Inflation?

Inflation declined in 2022 despite higher prices for imported food and fuel. This has taken place despite the large weight of imported items (60 percent) in Tajikistan's CPI basket, with a broad-based decline in inflation across food and non-food goods and services.

Several domestic factors appear to have contributed to low inflation:

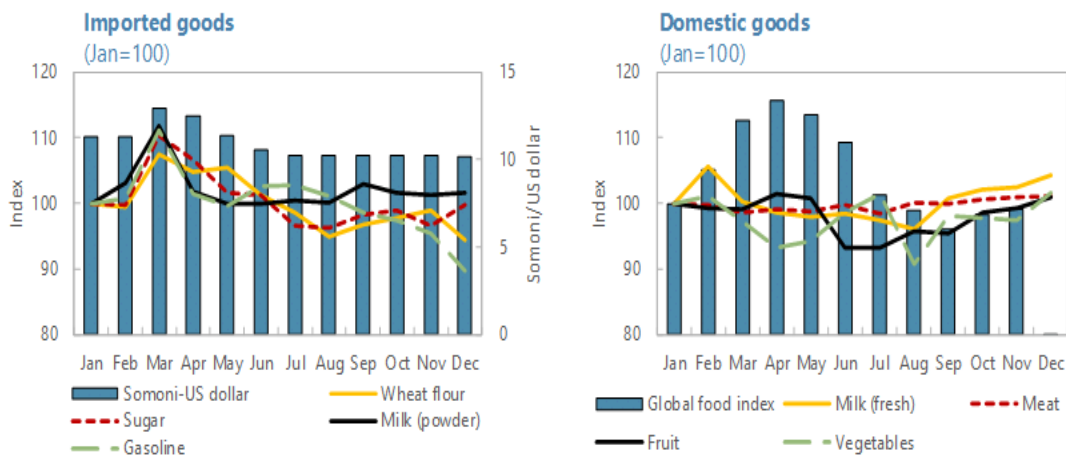
- **The exchange rate helped mitigate imported inflation.** The somoni appreciated 10 percent against the dollar during 2022, more than most other countries in the region.
- **The government took steps to moderate rising prices for food imports.** As part of the anti-crisis plan to mitigate higher food prices, the government released strategic food reserves to maintain the supply of key imported staples (flour, sugar, cooking oil) while delaying certain tariff adjustments. The 3-percentage point decrease in the VAT rate from January 2022 also helped cushion the price shock.
- **Strong agricultural production kept local food prices contained.** Many food products are produced locally, with prices largely determined by domestic supply and demand (Figure 1). Local fruits and vegetables enjoyed a bumper harvest, helping offset price pressures for imported items. Strong domestic production also led to increased import substitution of certain products (e.g., imported milk and meat).

Box 1. What is Driving Tajikistan’s Low Inflation? (Concluded)

- **A tight monetary stance.** Tajikistan raised the policy rate by 250 basis points in 2021, maintaining one of the highest nominal and real policy rates in the region during 2022. Although interest rate transmission remains relatively modest, this likely helped contain inflation expectations and support the exchange rate.

Idiosyncratic factors also appear to have played a large role. Staff estimates from a new structural Vector Autoregressive Model point to international food prices and the exchange rate as key drivers of short-term inflation fluctuations. Nevertheless, the model forecasts suggest that policy interventions and other idiosyncratic factors helped reduce inflation by 3 percentage points at the peak of the crisis.

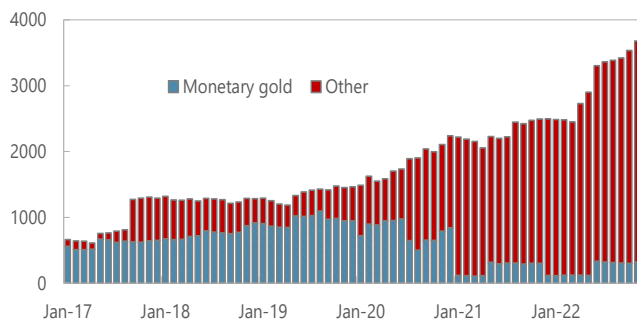
Tajikistan: Inflation Developments in 2022



Sources: National Authorities, IMF Commodity Price System, IMF staff calculations.

6. Large remittance inflows kept the current account in surplus and contributed to a sizable increase in FX reserve buffers during 2022. Remittances slowed immediately after the beginning of the war but rose substantially during Q2-Q3. This contributed to a significant increase in FX reserves, from \$2.5 billion at end-2021 to \$3.8 billion at end-2022, close to 8 months’ import coverage. The NBT has also continued to build FX reserves through gold purchases from domestic producers.

FX Reserves (US\$ millions)



Source: National authorities, and IMF staff estimates.

7. The fiscal deficit is estimated at 1.4 percent of GDP in 2022, implying a modest expansion from last year's deficit of 0.7 percent due to increased capital spending. Tax collection has benefitted from increased revenue from the mining sector, reflecting strong growth in

mining and an increase in the income tax rate for mining companies, together with steps to begin phasing out some tax exemptions. This helped keep revenues broadly unchanged as a share of GDP from 2021, despite reductions in VAT and income tax rates introduced at the beginning of 2022. Public debt is projected to have declined by 6 percentage points to 34.6 percent of GDP at end-2022.

8. Financial soundness indicators continued to improve in 2022 as the resolution of two large banks in 2021 helped clean up legacy loans in the banking system. The capital adequacy ratio strengthened to 25.3 percent at end-2022 as non-performing loans declined to 12.2 percent of total loans, while strong fee and commission income has supported profitability. Credit concentrations and foreign currency lending remain on a downward trend, albeit from relatively high initial levels. Credit growth picked up in 2022, driven by consumer loans to households in domestic currency, with claims on the private sector rising 22 percent (year-on-year) in November.

OUTLOOK AND RISKS

9. Significant uncertainty remains over the near-term outlook. While negative spillovers from the war have not materialized so far, it remains unclear to what extent Tajikistan will continue to be relatively unaffected by weaker economic activity in Russia. Real GDP growth could decelerate more than projected as the positive impact of the strong inflows in 2022 diminishes, while inflation could accelerate as rapid monetary growth feeds through the economy. Over the medium-term, growth is expected to converge to its potential of about 4 percent, with inflation staying within the NBT's target range and FX reserves remaining at around 8 months of imports through 2027.

10. Risks to the outlook appear tilted to the downside. Russia could be increasingly affected as the war continues, potentially lowering demand for Tajik exports and labor migrants (see the Risk Assessment Matrix, Annex I). Remittances are projected to return to historical levels after the surge in 2022; a more pronounced decline would have a negative impact on growth, with possible spillovers to the banking system. The return of migrant workers from Russia could also increase the need to scale up social assistance, while Tajikistan's economy is especially exposed to climate-related risks. On the upside, increased FX reserves have reduced near-term vulnerabilities, and further development of Tajikistan's large proven gold reserves provides scope to continue to build external buffers and increase fiscal resources.

11. The authorities agreed with staff's assessment of risks to the outlook but were more optimistic regarding medium-term growth prospects. They agreed that the level of uncertainty over the near-term outlook was elevated, with the risk that a continued slowdown in Russia could begin to adversely impact Tajik migrants working there. The authorities thought the growth outlook appeared more favorable, however, and were optimistic about continued development of the mining sector and the impact of ongoing infrastructure projects on the economy.

POLICY DISCUSSIONS

Fiscal space remains limited due to debt sustainability concerns. In this context, improved revenue mobilization is essential to create space for high-priority social and development spending.

Discussions focused on strengthening the policy framework to ensure debt sustainability, improve governance of SOEs, modernize exchange rate and monetary operations and safeguard financial stability. Continued progress on structural reforms is needed to improve the business climate and accelerate growth and domestic job creation.

A. Fiscal Policy

Background

12. The 2023 budget envisages a fiscal deficit of 2 percent of GDP, with a possible widening to 2.5 percent if concessional external financing for Rogun HPP materializes. Tax revenues are projected at around the same level as in 2022, based on current projections for commodity prices and unchanged tax policies. Staff's baseline assumes a fiscal deficit of 2.5 percent of GDP with overall expenditures projected at 30.7 percent of GDP, reflecting higher capital spending of about 2 percent of GDP. This would be financed mostly through higher capital grants, including from China, the World Bank and ADB¹. A new means testing formula has been adopted to improve the targeting of social assistance, which is projected to expand coverage of the poorest decile of the population from 38 to 63 percent. This will be supported by an increased allocation for targeted social assistance (TSA), although the overall TSA envelope remains modest (about 0.2 percent of GDP).

13. The authorities are taking steps to implement their financial recovery program for the loss-making electricity sector. The program aims to strengthen the financial viability and governance of the sector and improve the reliability of electricity supply. The recent electricity tariff increase was the first adjustment since 2019², as scheduled tariff increases for 2020-21 were postponed due to the economic impact of COVID. An increase of 50 percent in the tariff for the state-owned aluminum company (TALCO) will also go into effect in February 2023. The reform of the electricity tariff structure is still ongoing with a view to reaching full cost recovery by 2027.

Staff Views

14. The fiscal deficit target of 2.5 percent of GDP remains an important anchor to ensure that debt remains on a downward trajectory over the medium term. This will require keeping expenditure within a sustainable Rogun financing envelope (see Annex III)³ and should be

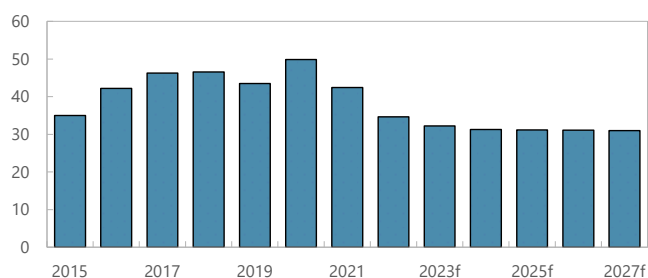
¹ After 2023, grant amounts are expected to return to the 2019-21 average in nominal terms.

² In October 2022, households' tariffs increased by 17 percent and industry tariffs increased by 10 percent.

³ Under the May 2020 Rapid Credit Facility (RCF), the authorities committed to remain within an annual spending envelope for Rogun of around \$375 million (3 percent of GDP in 2023) to keep debt on a sustainable path. This envisages \$175 million of concessional borrowing and \$200 million of budget financing.

reinforced by phasing out quasi-fiscal activities, including through state-owned enterprises (SOE) (see Annex VI). Public debt continues to be assessed as sustainable, but with high risk of debt distress (see Debt Sustainability Analysis). Improving the efficiency of public investment is essential to overcome tight fiscal constraints; an IMF PIMA assessment can help to identify efficiency gaps in public investment management.

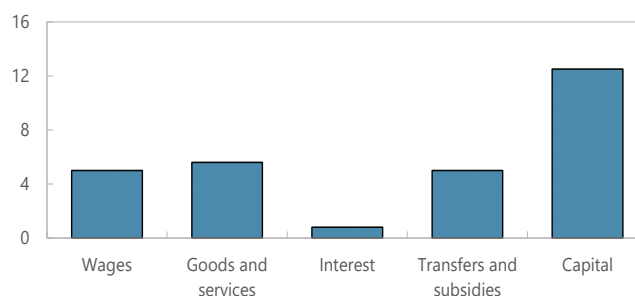
Public and Publicly Guaranteed Debt
(Percent GDP)



Source: National authorities, and IMF staff estimates.

15. Improved domestic revenue mobilization is needed create space for high priority spending. Limited fiscal space is further constrained by Rogun - related spending. Sustained efforts to broaden the tax base by fully phasing out inefficient tax exemptions and improving tax administration are essential to increase space for critical investments in health care, education, and social protection to achieve Tajikistan's goals under the National Development Strategy-2030. Social assistance spending in Tajikistan is the lowest in the region (0.8 percent of GDP compared to an average of 2 percent of GDP in regional comparators⁴ and EMEs), while benefit incidence and coverage in the bottom quartile are relatively low. Development of a Medium-Term Revenue Strategy (MTRS) is important to provide a framework to anchor improved revenue mobilization.

Composition of Public Expenditure, 2022
(Percent GDP)



Source: National authorities, and IMF staff estimates.

16. Development of the domestic debt market is needed to help diversify sources of financing. The budget continues to be heavily externally financed, with the limited local government securities market constraining scope for domestic financing. In addition, while there are relatively large government deposits placed with the NBT (about 6.5 percent of GDP at end-November), the practice of earmarking deposits for specific ministries leaves limited flexibility to manage financial resources within the Treasury Single Account. Increasing the efficiency of cash management and developing the domestic securities market to allow market-based domestic issuance would provide greater scope to mitigate shortfalls in external financing (Box 2).

17. Comprehensive governance and transparency reforms are key to reducing vulnerabilities to corruption and fiscal risks from the SOE sector. Recent steps to approve a Fiscal Risk Management Strategy and publish a Fiscal Risk Statement are well-placed and should be

⁴ This includes Middle East, Caucasus and Central Asian countries.

followed by measures to improve monitoring and management of SOE fiscal risks, including data collection in line with IFRS requirements and audit, developing a comprehensive SOE ownership and oversight policy, and improving corporate governance and management performance (see Annex VI). Borrowing by SOEs should be carefully considered and included within the government's overall medium-term debt envelope and strategy.

18. Decisive efforts are needed to advance reforms to improve the financial viability of the electricity sector. The recent electricity tariff increases are important steps but need to be accompanied by a comprehensive reform of the electricity tariff structure with a time-bound plan to reach cost recovery. Sustained efforts to restructure Barki Tojik's (BT) debt remain a critical priority to reduce the cash deficit in the electricity sector, in addition to efforts to reduce technical, commercial, and collection losses, improve governance, and address BT's arrears to suppliers, commercial debt and liabilities to other public entities. In addition, the move to unbundle BT into separate generation, transmission and distribution units should be supported by implementation of a rules-based distribution of revenues among the three entities for the new financial model of the sector to become fully operational.

Box 2. Cash Management

Cash management is an important element of effective public financial management. It helps consolidate government financial resources, strengthen government oversight over its cash flows and reduce the cost of borrowing. Three pillars of cash management include: i) an established Treasury Single Account (TSA), ii) cash flow forecasting, and iii) cash balance management. A well operating cash management system ensures budget execution in a timely and efficient manner, improves accounting control and revenue administration. It also minimizes the cost of funding and allows excess government balances to be invested efficiently.

Cash balance management is a key component for smooth operation of government finances. It requires maintaining a certain level of TSA cash balance to meet government obligations on a day-to-day basis and provide a cushion against cash flow volatility. Many countries use this approach, with an average level of 3 percent of GDP. The excess cash flow above the target balance is potentially available for investment.

In Tajikistan, the government's cash balance as a share of GDP is the highest in the region. This is partly related to the practice of earmarking different government deposits to specific purposes, which limits scope for consolidation of cash resources and cash balance management. This can result in unnecessary borrowing that increases interest costs.

Tajikistan could improve its cash forecasting capacity and consider setting a target cash buffer to effectively manage its financial resources. Importantly, the TSA should have sufficient cash available to meet day-to-day expenditures and avoid shortfalls. Implementation of an effective cash management policy is particularly important to decrease the borrowing requirement given Tajikistan's high risk of debt distress.

There is no one-size-fits-all methodology for setting a target for cash balances. The design of the cash target should carefully consider potential risks based on quantitative analyses of cash flow volatility. This

Central Government Cash Balances at the Central Bank, Year-end (Percent of GDP)

	2019	2020	2021
Armenia	5.0	4.3	5.8
Azerbaijan	3.3	6.8	4.3
Georgia	3.0	2.9	2.8
Kazakhstan	2.8	3.7	3.5
Tajikistan	5.0	7.2	6.4
Kyrgyz Republic	2.8	2.8	3.1
Uzbekistan	n/a	6.6	5.5

Source: The IMF

Box 2. Cash Management (Concluded)

should be complemented by qualitative assessments, including existing risk mitigation mechanisms and financial market access. There is a trade-off between costs and risks: the target should be sufficient to meet financing needs during periods of liquidity strains while avoiding excess balances, given the cost of funding. Some countries base their target on projected debt service (e.g. Brazil, Greece, Turkey, Uruguay), while others use financing needs (e.g. Hungary, Portugal, Romania).¹

¹ Y.Hurcan, F.Koç, E.Balibek, How to set up a cash buffer: a practical guide to developing and implementing a cash buffer policy, IMF, 2020.

Authorities' Views

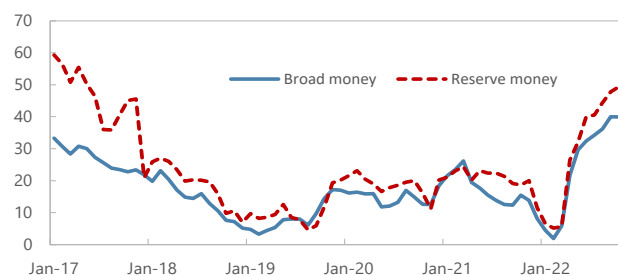
19. The authorities emphasized their commitment to a medium-term fiscal deficit target of 2.5 percent of GDP. They indicated that any revenue underperformance this year would be offset with spending measures (including cuts in low priority investment) to remain within this envelope. They noted the strong revenue performance in 2022 and pointed to progress in modernizing tax administration and making compliance easier for taxpayers by expanding digitalization. They also emphasized their intention to continue to scale back tax exemptions over the next several years. The authorities noted that they are receiving IMF TA on development of an MTRS and expressed interest in IMF TA to design a strategy for development of the local government securities market.

B. Monetary and Exchange Rate Policies

Background

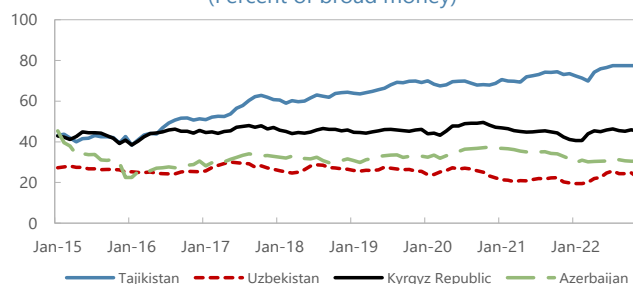
20. The NBT reduced the refinancing rate by 200 basis points in February 2023 to 11 percent, in line with subdued inflation. This followed a reduction of 50 basis points in October and leaves the real policy rate close to 5 percent and real lending rates near 17 percent (using expected inflation). Strong financial inflows led to rapid growth in reserve and broad money in 2022, which rose 52 percent and 41 percent, respectively, in November (y/y). The expansion was primarily in currency in circulation, which remains relatively high in Tajikistan; low financial intermediation impedes the effectiveness of monetary policy transmission. Exchange rate flexibility increased somewhat during 2022, as the somoni broadly tracked the volatility of the ruble, which helped mitigate external commodity price pressures.

Reserve Money and Broad Money
(12 month percent change)



Source: National authorities, and IMF staff estimates.

Currency in Circulation
(Percent of broad money)



Source: Haver analytics, and IMF staff calculations.

21. Enactment of amendments to the NBT Law in line with the 2021 safeguards assessment recommendations is important to strengthen the NBT's autonomy and governance. Draft amendments to the NBT Law, developed with support from Fund staff, were submitted to the Government in July 2022 for approval. They aim to strengthen the NBT's operational autonomy and governance and limit scope for monetary financing of the deficit. The NBT is also in the process of implementing other safeguards recommendations with a view to bolstering the foreign reserves management framework and IT security.

Staff Views

22. The rapid growth in monetary aggregates during 2022 warrants caution even if inflation remains subdued in the near-term. Quantitative measures such as raising the reserve requirement and sterilizing inflows through NBT bill and ruble auctions are essential to mop up excess liquidity and rein in monetary growth. Macroprudential controls should also complement monetary policy in mitigating potential risks from overheating in the near term. Over the medium term, a transition to inflation-targeting will require sustained efforts to improve monetary policy transmission. Implementation of the required reserve averaging mechanism would help strengthen reserve money targeting as an interim policy anchor, while strengthening the liquidity forecasting framework and supporting deeper interbank and government debt markets will enhance liquidity management.

23. Enhancing exchange rate flexibility is an important part of the policy toolkit to absorb external shocks. Reduced FX pressures have helped keep the official and parallel rates relatively aligned, but the NBT should remain vigilant to any reemergence of FX pressures. Steps to modernize FX markets in line with recent IMF TA, including moving to price-based FX auctions, improving transparency on FX market transactions, and executing public-sector transactions at prevailing market rates, would help improve FX management and could facilitate the elimination of multiple currency practices (MCP).⁵

24. The external position in 2022 is stronger than the level implied by medium-term fundamentals and desirable policies. Accounting for cyclical factors, the temporary surge in remittances and that a lower share of remittances financed imports results in an adjusted current account (CA) balance of 0 percent in 2022, which is 2.8 percentage points above the CA norm (See Annex II). The estimated gap is primarily due to the smaller needed medium-term fiscal adjustment than in the rest of the world, the large accumulation of reserves in 2022 and insufficient financial depth. Given the uncertain global environment, staff views the realized reserve accumulation as prudent. Using the estimated CA elasticity, the implied 2022 REER undervaluation is about 15 percent.

⁵ See Informational Annex.

Authorities' Views

25. The authorities were in broad agreement with IMF staff's recommendations. They stressed their readiness to reassess the monetary stance if inflationary pressures emerge, and shared staff's view that absorbing excess liquidity through NBT bill auctions can help prevent feedbacks to inflation. However, they noted the need to update reserve money targets given strong economic growth and requested IMF TA on upgrading their liquidity modelling and forecasting framework. The NBT broadly concurred with staff's external sector assessment; they observed that the sanctions on Russia have led to structural changes in the FX market and indicated that reforms to improve the functioning of FX markets remain a priority. They noted that the draft amendments to the NBT Law are pending approval by the Government and reiterated their commitment to implementing the safeguards recommendations on strengthening internal audit and IT security.

C. Safeguarding Financial Stability

Background

26. The authorities are taking steps to strengthen the resilience of the banking system. The resolution of two banks, AIB and TSB, in 2021 has facilitated the cleanup of legacy loans while the reimbursement of insured depositors during 2022 has improved depositor confidence. This contributed to a large increase in bank deposits during 2022, in the context of strong remittances. The AIB and TSB liquidators are in the process of addressing other outstanding claims in the order of priority and according to the timeline established by the national legislation.⁶

27. The NBT has proactively tightened prudential standards. In May 2022, the NBT issued a new regulation that tightened prudential norms on capital adequacy and liquidity, prompt corrective action, large exposures, and related-party lending. The regulation introduces a new core capital adequacy ratio, more stringent liquidity requirements for systemic banks, in addition to previous capital conservation measures (withholding of dividends and share repurchases) for institutions approaching the minimum capital requirement. This represents a step forward towards aligning prudential standards with Basel II/III. Regulation of Islamic banking has also been strengthened.

28. The authorities have expanded the financial safety net. New amendments to the Deposit Insurance Law, drafted with support from WB staff, were approved by the lower chamber of Parliament in January 2023. The amendments (i) extend deposit insurance coverage to individual entrepreneurs, small businesses and non-commercial organizations, (ii) raise the coverage level and (iii) allow the IDIF to invest in highly rated bonds issued by foreign governments and international financial institutions. In addition, the government has put in place a fiscal backstop mechanism for emergency situations.

29. The NBT is upgrading the AML-CFT framework. A new AML-CFT Law, drafted with IMF TA, has been submitted to the Parliament for approval. The authorities note that the new law aims

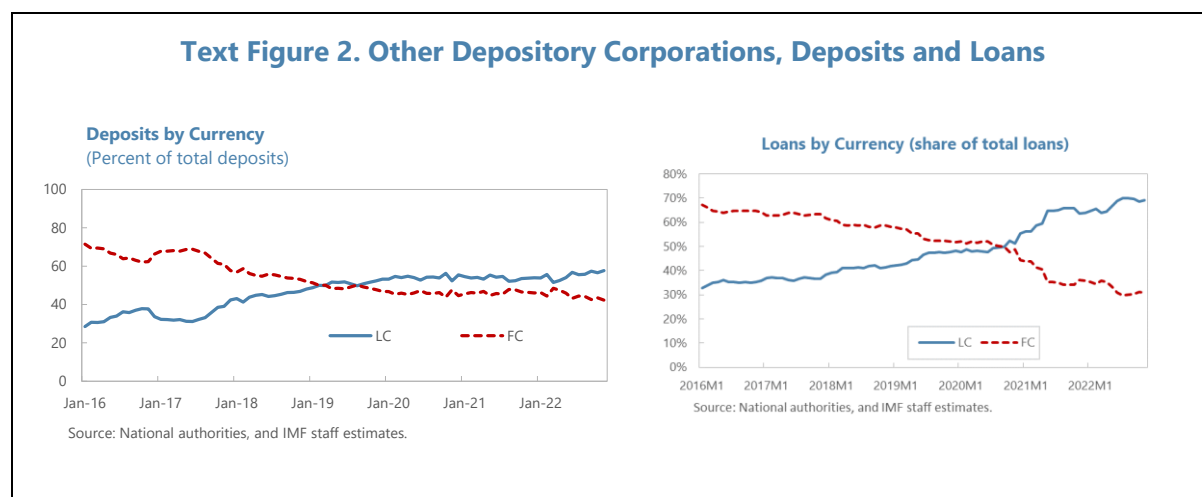
⁶ The initial deadline for the resolution will expire by mid-2023 but can be extended for another two years.

to bring Tajikistan closer to international standards by addressing gaps that were identified in Tajikistan’s 2018 AML/CFT assessment, including the implementation of a risk-based AML/CFT framework and the disclosure of ultimate beneficial ownership. The IMF is providing TA on drafting regulations to support the new law under an ongoing capacity development project with the NBT.

Staff Views

30. Emerging risks call for further strengthening of banking supervision and regulation.

Despite progress, some banks continue to cope with a backlog of legacy NPLs. Banks’ asset quality has thus far been resilient but non-standard loans – past due less than 30 days – have nearly doubled since end-2021 amid buoyant commercial lending. Raising provisions on such loans will build pre-emptive buffers should they slip into NPL status. Heightened FX volatility has incentivized banks to shift to lending in domestic currency. While this mitigates to some extent credit risk from foreign currency lending, it could give rise to balance sheet currency mismatches as foreign currency deposits have declined to a lesser extent (Text Figure). In this regard, further restrictions on FX lending to unhedged borrowers, enforcement of prudential limits on banks’ open FX positions and a differentiated approach to monitoring liquidity in domestic and foreign currency can help guard against exchange rate volatility. Further steps to align domestic regulations with Basel II/III standards are essential over the medium term.



31. Implementation of the recommendations of the 2022 Financial Sector Stability Review (FSSR) will bolster the banking system’s resilience to shocks.

The FSSR prepared a TA roadmap that aims to strengthen regulation and supervision, macroprudential analysis, stress testing and financial safety nets. Key TA priorities include to upskill staff with a structured training program, develop a dedicated policy division, and prepare a medium-term strategic plan, accompanied by an organizational review of NBT’s banking supervision and financial stability departments.

32. Tightening macroprudential standards is key to mitigating macro-financial risks from rapid credit and monetary growth.

The authorities have introduced voluntary macroprudential standards on loan-to-value, debt service-to-income, and credit-to-stable funding ratios. Making

these standards mandatory can help strengthen credit risk management in the context of rapid credit growth. Systemic risk monitoring should be based on an enhanced stress-testing framework that includes forward-looking macro scenarios incorporating shocks to remittances and the exchange rate. Capital adequacy standards could be differentiated for groups of banks, based on their systemic importance, if warranted by stress test results. A gradual transition of NBT's reporting standards for banks to IFRS will further strengthen risk monitoring.

33. Financial safety nets and AML-CFT standards should be strengthened. The resolution of AIB and TSB should be completed in a swift and transparent manner, with proper disclosure of associated costs to all stakeholders in audited reports. Structured training to expand the pool of qualified liquidators can help facilitate this process. Going forward, it is essential to put in place effective crisis contingency plans, including at the national level, and continue to strengthen the resolution framework and prompt corrective action mechanism. The broadening of deposit insurance coverage should be backed by strong Deposit Insurance Fund (DIF) buffers and institutional capacity. In this regard, timely enactment of the revised Deposit Insurance Law can help bolster DIF's investment income and mobilize donor support to augment its buffers. Sanctions and increased compliance costs can accelerate de-risking by foreign banks, calling for swift adoption and implementation of the new AML-CFT Law to help diversify domestic CBRs.

Authorities' Views

34. The authorities reiterated their commitment to strong supervision and macroprudential oversight. They noted the NBT's more stringent definition of NPLs relative to international practices. The NBT views the shift to domestic currency lending as an important risk-mitigating factor given that previous asset quality problems emanated from foreign currency lending. They stressed that NBT's FX purchases from banks have helped them maintain prudent FX positions and noted that banks have expanded use of hedging instruments to guard against mismatches. The NBT expressed readiness to collaborate with the IMF on the FSSR TA recommendations and saw merit in consulting with banks before making the voluntary macroprudential standards mandatory.

D. Structural Reforms to Enhance Governance and Sustainable Growth

Background

35. There has been progress on several initiatives that aim to improve governance and strengthen the business climate.

- **Licensing and permits:** Draft laws on permits and inspections aim to improve transparency, including by establishing an online portal and increasing the predictability of the inspection regime.
- **Anti-corruption:** The National Anticorruption Strategy 2021-2030 focuses on eradicating corruption across property management, procurement, and government services. As part of

implementation of the first phase (2021-2025), the authorities have prepared a new public procurement law to expand coverage of public procurement regulations to include SOEs and submitted a new AML-CFT law to Parliament for approval.

- **Financial inclusion:** The authorities have developed a National Financial Inclusion Strategy for 2022-2026 that provides a roadmap to improve access to finance by increasing the availability of financial services, strengthening digital infrastructure, and improving financial literacy (see Annex V).

36. Reducing climate-related vulnerabilities would open new opportunities for more sustainable growth. Tajikistan is expected to warm relatively quickly over the next several decades, increasing its exposure to powerful droughts and floods and erratic precipitation. The dominance of water-dependent agricultural and hydropower sectors leaves the economy vulnerable to climate shocks while adaptation capacity is weak. Tajikistan sustains significant losses of potential output in scenarios with limited global mitigation and domestic adaptation. Staff estimates indicate that climate reforms are key to realizing the economy's long-term potential while limiting the environmental impact of accelerated industrialization (see Annex IV).

Staff Views

37. Continued efforts to strengthen governance and transparency are critical to unlock the economy's full potential and support more inclusive growth. The new laws in progress are a step forward, but effective enforcement will be critical to achieve meaningful results. Reform efforts should continue to focus on (i) improving governance and transparency, (ii) supporting private sector development, and (iii) enhancing social protection and human capital. These overarching themes cut across a variety of institutional areas and structural policies, including SOE reform (¶17), the central bank institutional framework (¶21) and AML/CFT (¶29). Further progress on anti-corruption is also essential, including amending the penal code to ensure consistency with the United Nations Convention Against Corruption and enhancing asset declaration requirements.

38. The Green Development Strategy for 2023-37 provides a useful roadmap for achieving mitigation and adaptation goals but should be implemented judiciously to limit fiscal impact. Adaptation remains critical and completing the National Adaptation Plan (NAP) process would help strengthen resilience of climate-prone agricultural and energy sectors. While Tajikistan appears broadly on track to meet its Paris Agreement target for carbon emissions, further mitigation appears warranted to ensure they remain within this target over the long run. The strategy involves significant costs and will require efforts to create fiscal space for climate reforms. Green development is also a focal point of the authorities' broader development objectives and an overarching theme of their second voluntary assessment of progress towards the 2030 SDG.

Authorities' Views

39. The authorities stressed their commitment to advance reforms toward a more market-oriented economy. They agreed that a more resilient and diversified domestic economy is needed

to facilitate domestic job creation and emphasized their intention to continue to move forward with reforms to improve governance and strengthen the investment climate.

40. They noted progress in implementing the 2021-2030 Anti-Corruption Strategy. The authorities reported stricter requirements for renting public buildings and tighter enforcement of asset declaration rules for public officials. They indicated tender procedures for public procurement through the single portal of the Agency for Public Procurement are being adhered to and that this will be extended to include SOEs under the new public procurement law.

41. The authorities emphasized their commitment to realizing the climate policy priorities put forward by the Green Development Strategy. They noted that the strategy will be mainly financed through assistance from development partners and private investment. They are actively working with UN partners and donor institutions to complete the NAP process and develop effective adaptation and mitigation projects.

STATISTICAL ISSUES

42. Data provision is broadly adequate for surveillance but enhanced statistical reporting would aid economic decision making. Accelerating the transition to *GFSM2014* is essential to upgrade the quality of fiscal statistics. Given the sensitivity of revenues from the mining sector to international commodity prices, collecting data on mining-related revenues is important for revenue forecasts and fiscal policymaking. Other priority areas include improving data sources and methods of compilation for quarterly GDP. Timely dissemination of key macroeconomic indicators in line with GDSS guidelines would also strengthen transparency.

STAFF APPRAISAL

43. Macroeconomic performance remained largely favorable during 2022, with minimal disruption from the war in Ukraine. Strong broad-based growth continued as adverse spillovers from the war did not materialize and strong financial inflows supported domestic demand and liquidity. Strong growth and prudent fiscal policy contributed to a projected decline in public debt to 35 percent of GDP in 2022 from nearly 50 percent in 2020, while FX reserves rose to nearly 8 months' import coverage.

44. Significant uncertainty remains over the near-term outlook. While Tajikistan proved to be resilient to weaker economic activity in Russia in 2022, there remains a considerable risk that Tajik migrants will be impacted as the war continues. Real GDP growth is projected to decelerate to 5 percent in 2023 as the positive impact of this year's strong inflows diminishes. Over the medium-term, growth is expected to converge to its potential of about 4 percent, with inflation staying within the NBT's target range and FX reserves remaining at around 8 months of imports through 2027.

45. The fiscal deficit target of 2.5 percent of GDP remains an important anchor to ensure that debt remains on a downward trajectory over the medium term. This will require improving

the efficiency of spending and should be reinforced by phasing out quasi-fiscal activities related to SOE. Social spending remains low compared to peers, and improved domestic revenue mobilization is essential to create space for high priority spending in health care, education and social protection. This should be anchored by an MTRS specifying the necessary tax policy and administration reforms, including fully phasing out inefficient tax exemptions. Development of the domestic debt market will also help increase resilience and diversify sources of financing.

46. Comprehensive governance and transparency reforms are key to reducing fiscal risks from the SOE sector. The steps to approve a Fiscal Risk Management Strategy and publish a Fiscal Risk Statement should be followed by measures to improve monitoring and management of SOE fiscal risks. In this context, decisive efforts are needed to advance reforms to reduce the financial deficit of the electricity sector. Improving the financial discipline and governance of the domestic electricity sector is essential to the viability of ongoing investments in electricity generation.

47. Inflation was well-contained during 2022 despite higher commodity prices. Rapid monetary growth warrants caution, however, and quantitative measures should be used to mop up excess liquidity. Macroprudential controls should also complement monetary policy to mitigate potential risks from overheating. Enhancing exchange rate flexibility remains an important part of the policy toolkit to absorb external shocks. A transition to inflation-targeting will require sustained efforts to improve monetary policy transmission and increase financial intermediation. Enactment of the amendments to the NBT Law recommended by the 2021 Safeguards Assessment is important to strengthen the NBT's operational autonomy and governance.

48. Emerging risks call for further strengthening of banking supervision and regulation. Implementation of the recommendations of the 2022 Financial Sector Stability Review will bolster the banking system's resilience to shocks. The resolution of AIB and TSB should be completed in a swift and transparent manner, with proper disclosure of associated costs to all stakeholders in audited reports.

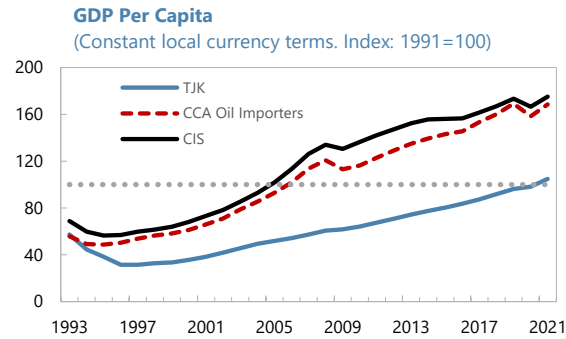
49. A transition to more market-oriented resource allocation is needed to unlock the economy's full potential and support more inclusive growth. Accelerating reforms to reduce the state footprint in the economy would help foster private investment and create space for the private sector to become an engine of growth. Reform efforts should continue to focus on SOE reform, the central bank institutional framework, the AML/CFT regime and anti-corruption.

50. Reducing climate-related vulnerabilities would open new opportunities for more sustainable growth. Tajikistan is especially vulnerable to climate change, and climate reforms are key to realizing the economy's long-term potential. The Green Development Strategy for 2023-37 provides a useful roadmap for achieving mitigation and adaptation goals but should be implemented judiciously to limit fiscal impact.

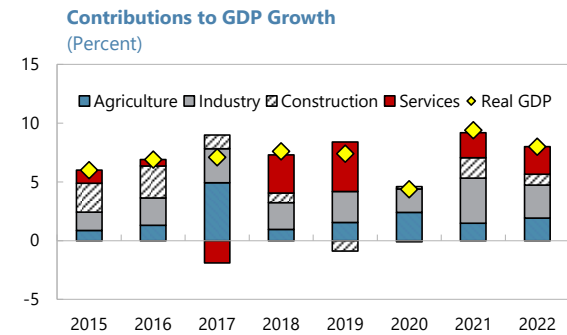
51. It is proposed that the next Article IV consultation be held on the standard 12-month cycle.

Figure 1. Tajikistan: Growth and Inflation

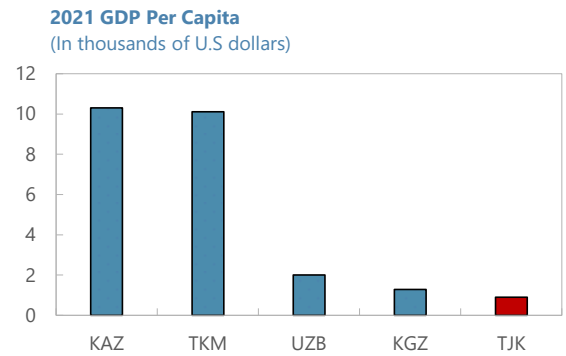
Recovery from the COVID-19 shock...



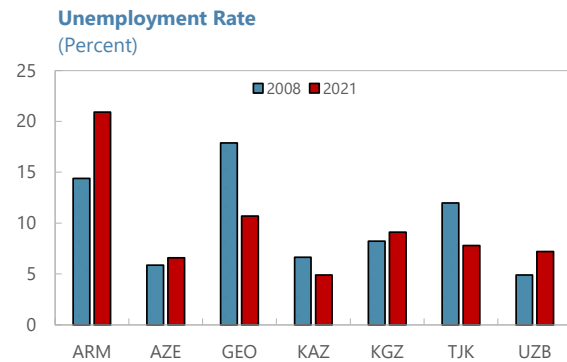
...has been driven by industry and services.



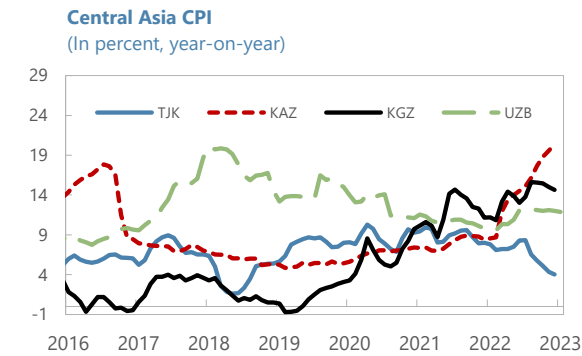
However, per capita income is still low...



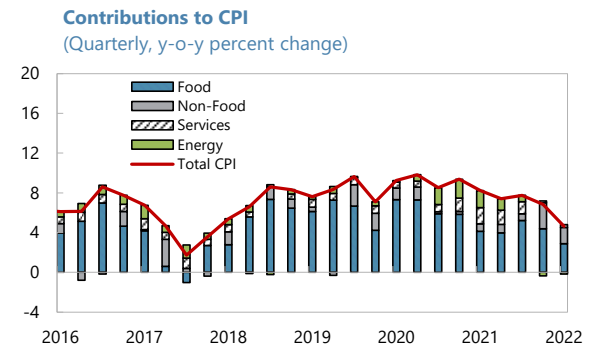
...and unemployment elevated.



Inflation has remained below regional peers...



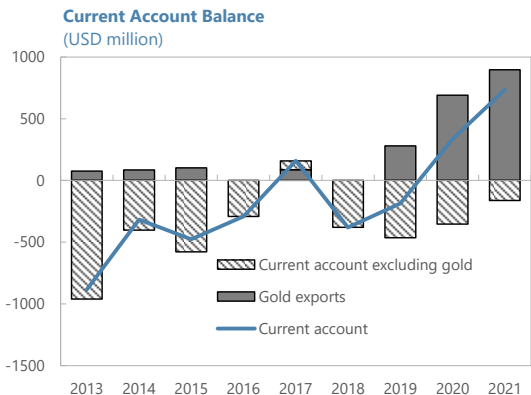
...as food price inflation has been subdued.



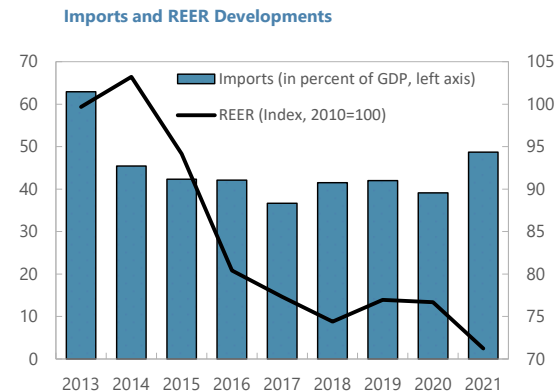
Sources: National authorities, Haver Analytics, and IMF staff estimates.

Figure 2. Tajikistan: External Sector Developments

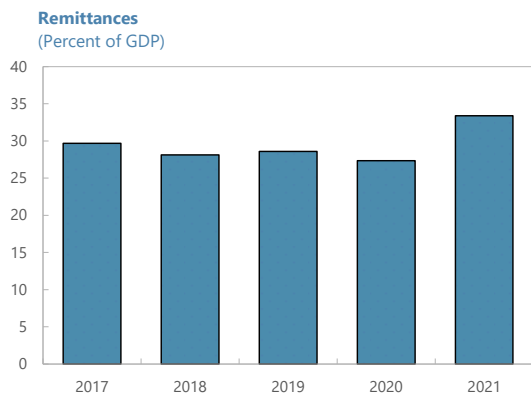
The current account balance has improved on the back of strong gold exports and remittances...



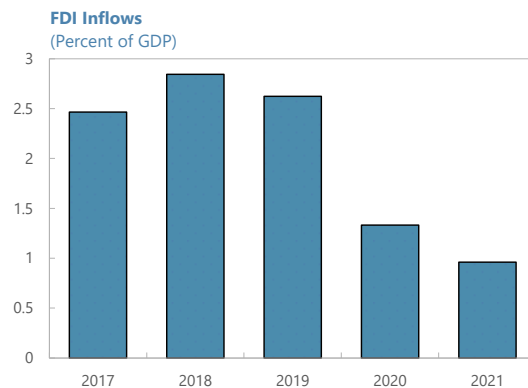
... and import compression and substitution effects from REER depreciation.



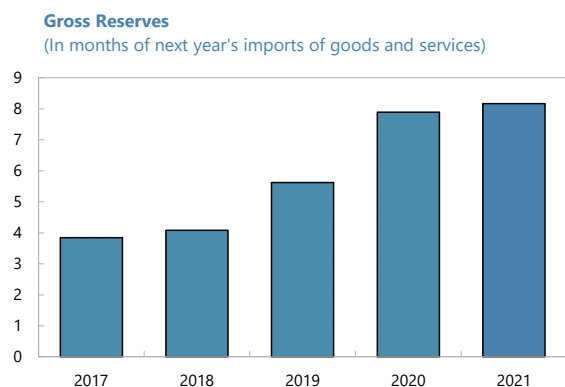
Remittances remain an important source of income...



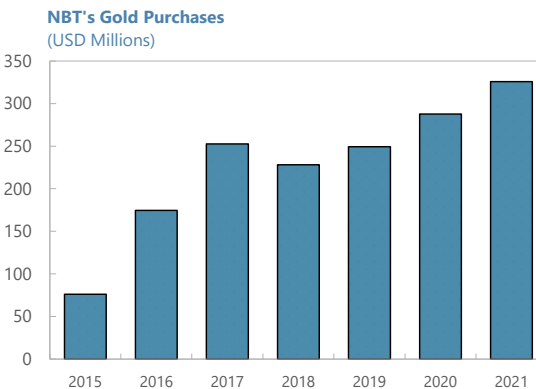
...while FDI inflows fell during the pandemic.



Reserves are well above adequacy metrics...



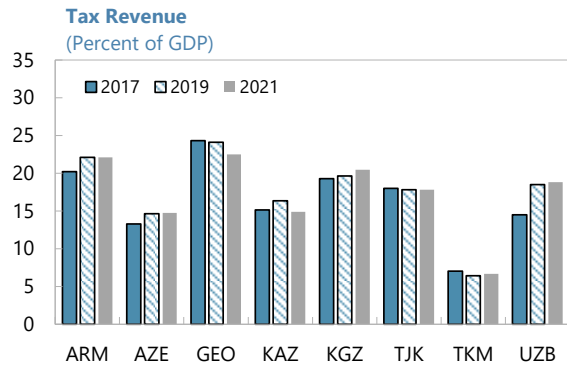
...supported by the NBT's domestic gold purchases



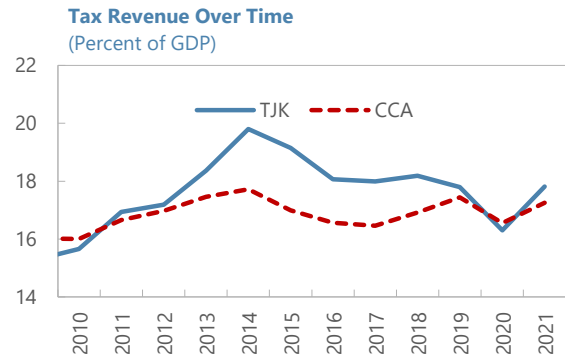
Sources: Tajikistan authorities, Haver Analytics, and IMF staff estimates.

Figure 3. Tajikistan: Fiscal Developments

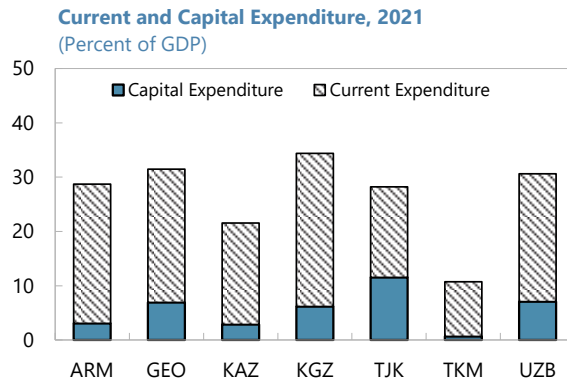
Tax revenues are close to the regional average...



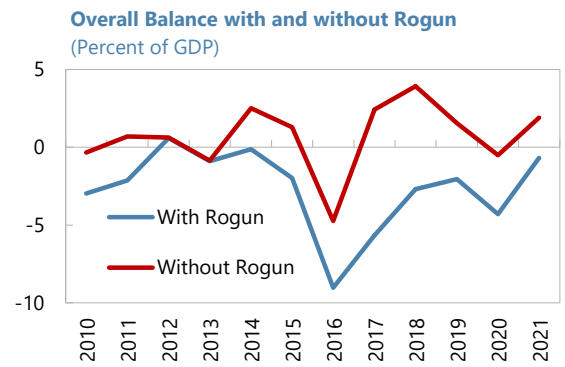
...but have been on a declining trend.



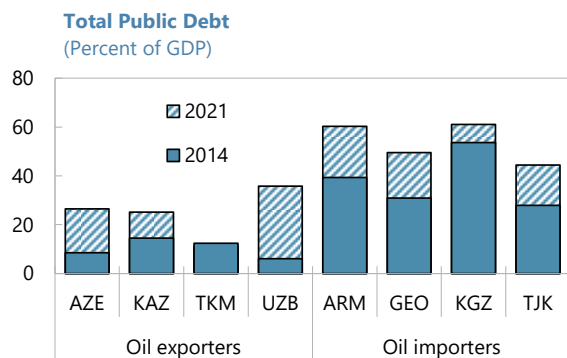
Capital expenditures are high relative to peers...



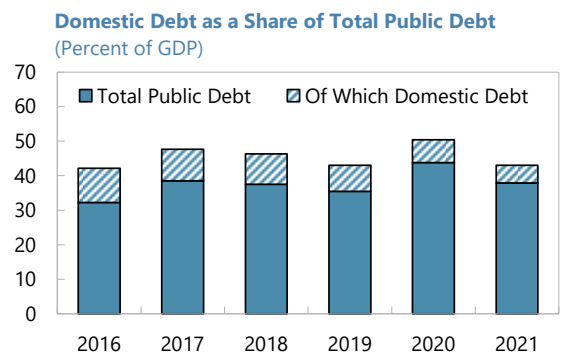
...and a major contributor to the fiscal deficit.



Public debt is relatively high...



...and mostly from external borrowing.

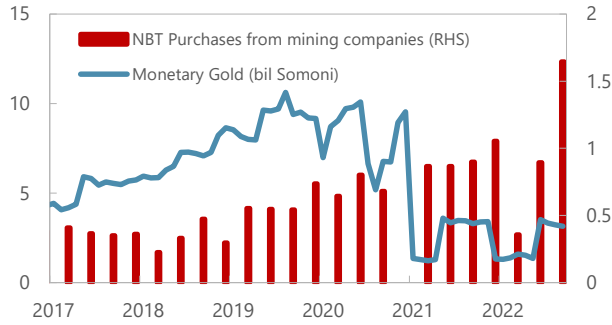


Sources: Tajikistan authorities, Haver Analytics, and IMF staff estimates.

Figure 4. Tajikistan: Monetary Developments

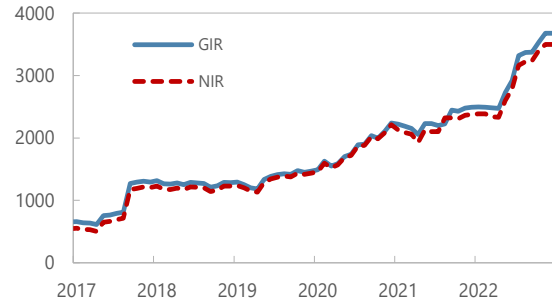
NBT gold purchases have increased...

Gold Stock and NBT Purchases
(Billions of somoni)



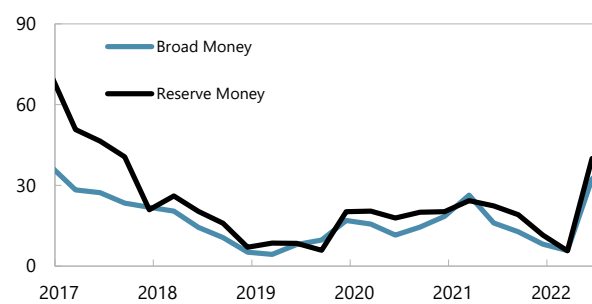
...and reserves have risen.

International Reserves Position
(In millions of U.S dollars)



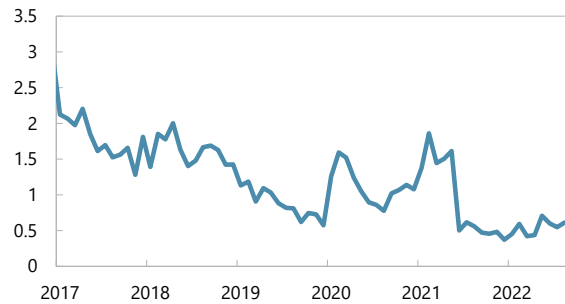
Fueling a sharp increase in monetary aggregates...

Monetary Aggregates
(In percent, year-on-year)



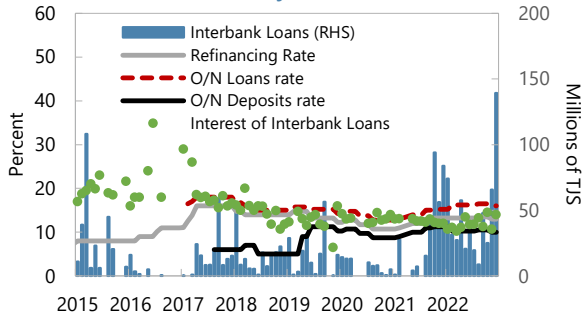
...although excess systemic liquidity remains stable.

Excess Liquidity
(Billions of somoni)



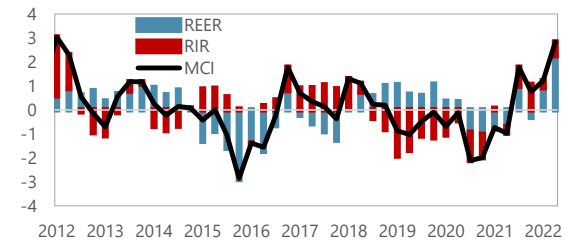
Despite a reduction in the refinancing rate...

Interest Rates in Tajikistan



...monetary conditions were relatively tight in 2022.

Monetary Conditions Index
(Index)



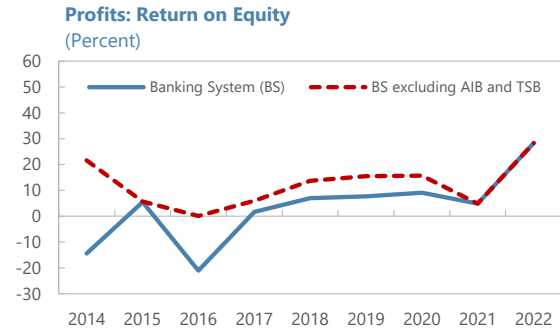
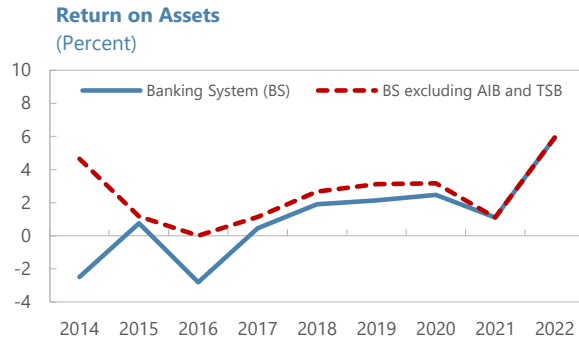
Note: Increase denotes tightening.

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

Figure 5. Tajikistan: Financial Sector

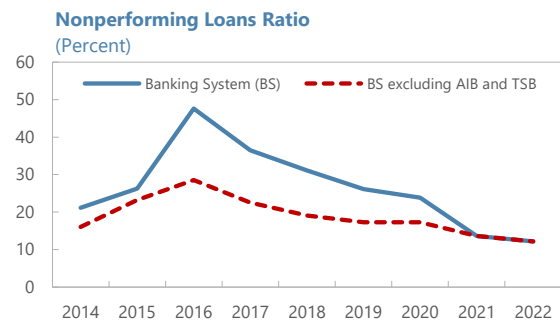
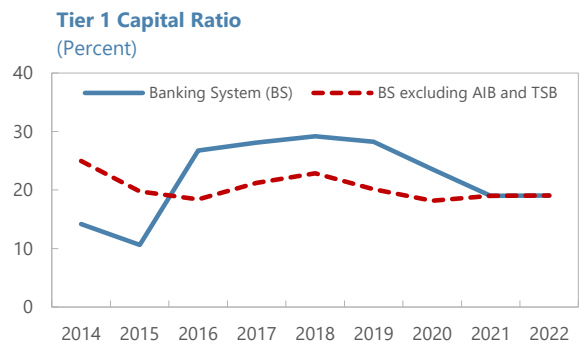
Bank profitability continues to trend upward...

...as illustrated by ROA and ROE indicators...



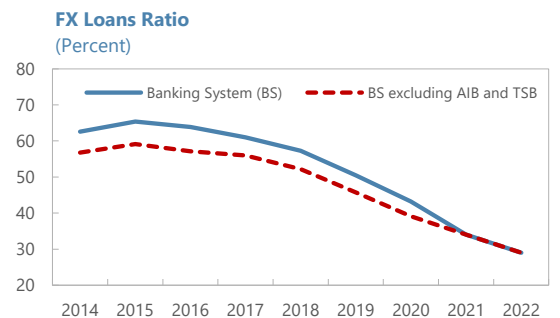
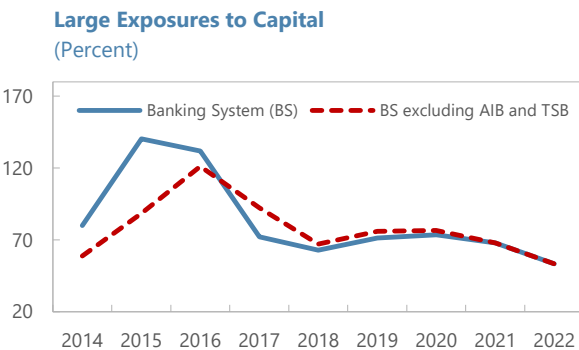
...allowing banks to shore up their capital buffers.

Despite a decrease, NPLs remain elevated.



Large exposures are trending down...

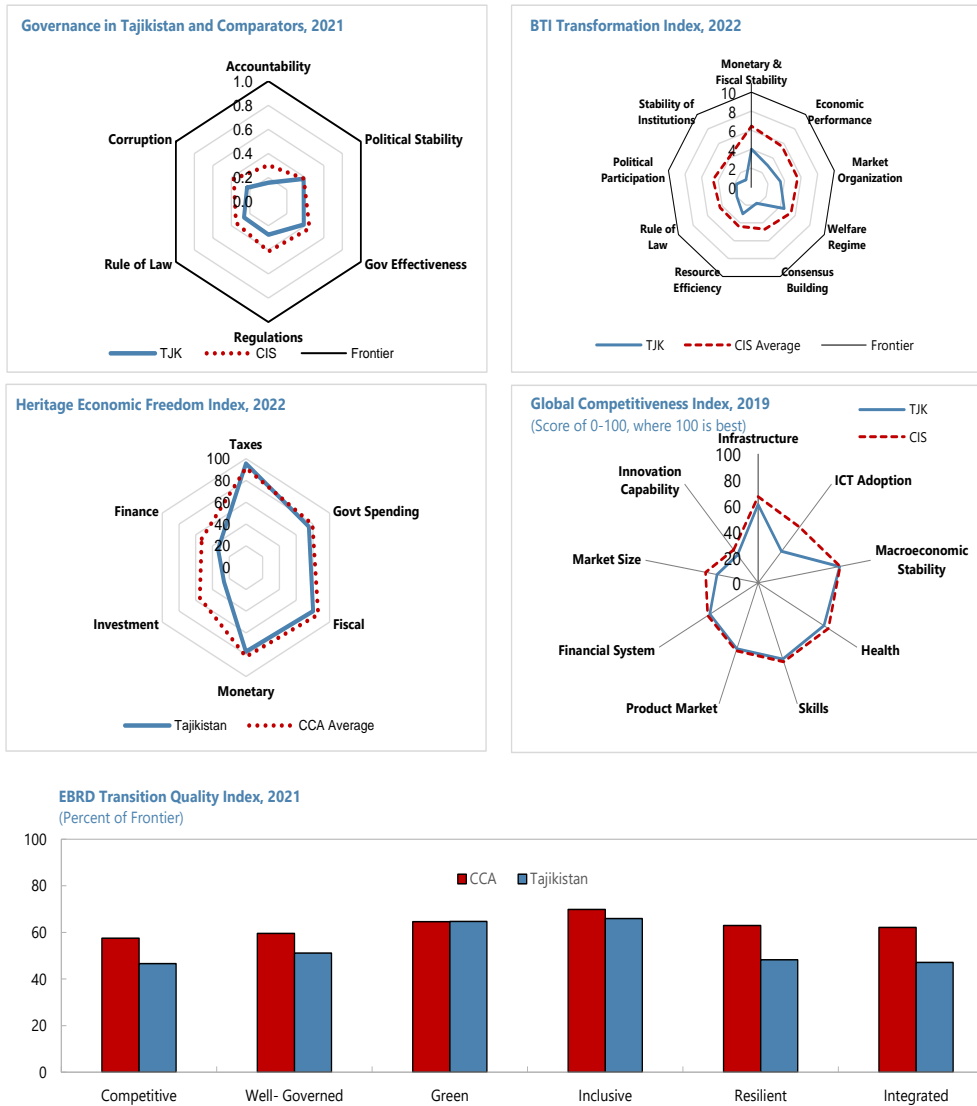
...as is the degree of dollarization.



Sources: Tajikistan authorities and IMF staff estimates.

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 Bank, Bertelsmann Transformation Index, The Heritage Foundation, World Economic Forum, EBRD, and IMF staff estimates.

Table 1. Selected Economic Indicators, 2019–27

(Quota: SDR 174 million)

(Population: 9.5 million; 2020)

(Per capita GDP: US\$897; 2021)

(Poverty rate: 26 percent; 2019)

(Main exports: aluminum, gold, cotton)

	2019	2020	2021	2022	2023	2024	2025	2026	2027
	Proj.								
(Annual percent change; unless otherwise indicated)									
National accounts									
Real GDP	7.4	4.4	9.4	8.0	5.0	4.5	4.0	4.0	4.0
GDP deflator (cumulative)	3.6	1.7	10.0	6.0	6.3	6.5	6.0	6.0	6.0
Headline CPI inflation (end-of-period)	8.0	9.4	8.0	4.2	6.5	6.5	6.5	6.5	6.5
Headline CPI inflation (period average)	7.8	8.6	9.0	6.7	5.4	6.5	6.5	6.5	6.5
(In percent of GDP; unless otherwise indicated)									
General government finances									
Revenue and grants	26.8	24.8	27.0	27.5	28.2	26.2	26.6	26.8	27.1
Tax revenue	19.9	18.3	19.5	19.5	19.6	19.8	20.2	20.4	20.7
Expenditure and net lending	28.8	29.2	27.6	28.9	30.7	28.7	29.1	29.3	29.6
Current	16.7	17.1	16.4	16.4	16.0	16.0	16.0	15.9	15.7
Capital	12.1	12.1	11.3	12.5	14.7	12.7	13.1	13.4	12.6
Overall balance (excl. PIP and stat. discrepancy)	1.7	-2.2	0.0	1.5	1.4	1.1	2.3	2.4	2.4
Overall balance (incl. PIP and stat. discrepancy)	-2.1	-4.3	-0.7	-1.4	-2.5	-2.5	-2.5	-2.5	-2.5
Domestic financing	1.1	-2.1	-0.1	0.0	0.0	0.0	0.0	0.0	0.0
External financing	0.4	6.0	0.8	1.4	2.5	2.5	2.5	2.5	2.5
Total public and publicly-guaranteed debt	43.5	49.8	42.5	34.6	32.3	31.3	31.2	31.1	31.0
Monetary sector									
Broad money (12-month percent change)	17.0	18.4	8.2	38.1	11.6	11.3	10.2	10.2	10.2
Reserve money (12-month percent change)	20.2	20.2	11.6	48.8	18.3	11.2	10.2	10.2	10.1
Credit to private sector (12-month percent change)	7.7	19.9	-5.2	23.4	13.5	9.2	5.8	6.1	6.1
Velocity of broad money (eop)	3.6	3.2	3.2	3.0	...	...	...	...	...
Refinancing rate (in percent, eop/ latest value)	12.3	10.8	13.3	13.0	...	...	...	...	...
(In percent of GDP; unless otherwise indicated)									
External sector									
Exports of goods and services (U.S. dollar, percent change)	11.4	13.3	53.4	-17.2	-0.5	4.2	4.5	8.1	7.9
Imports of goods and services (U.S. dollar, percent change)	5.8	-8.3	36.2	19.3	15.4	9.7	6.9	8.0	7.9
Current account balance	-2.2	4.1	8.2	6.4	-1.6	-2.4	-2.8	-2.9	-2.9
Trade balance (goods)	-23.1	-17.8	-19.2	-27.1	-27.8	-27.9	-27.9	-27.9	-27.9
FDI (net)	2.3	0.4	0.4	3.9	1.8	3.2	3.2	3.2	3.2
Total public and publicly guaranteed external debt	35.1	44.2	37.5	30.6	29.1	28.5	28.3	27.9	27.4
Exports of goods and services, in millions of U.S. dollars	1,243	1,409	2,161	1,789	1,780	1,855	1,938	2,094	2,259
Imports of goods and services, in millions of U.S. dollars	-3,409	-3,125	-4,258	-5,081	-5,864	-6,431	-6,872	-7,421	-8,004
Current account balance, in millions of U.S. dollars	-185	336	735	668	-206	-341	-435	-479	-513
Total public and publicly guaranteed external debt (US dollar, millions)	2,870	3,281	3,344	3,471	3,766	4,022	4,308	4,588	4,850
Gross official reserves (in millions of U.S. dollars)	1,465	2,238	2,499	3,771	4,428	4,841	5,196	5,530	5,832
In months of next year's imports	5.6	6.3	5.9	7.7	8.3	8.5	8.4	8.3	8.1
In percent of broad money	64.0	96.3	99.6	98.0	101.1	101.3	100.7	99.3	97.1
Memorandum items:									
Nominal GDP (in millions of somoni)	79,110	83,958	101,076	115,739	129,183	143,770	158,493	174,722	192,540
Nominal effective exchange rate (Index 2010=100)	62.9	60.2	54.1	59.7	...	...	...	...	...
Real effective exchange rate (Index 2010=100)	76.9	76.7	71.2	75.3	...	...	...	...	...
Average exchange rate (somoni per U.S. dollar)	9.53	10.32	11.31	11.03	...	...	...	...	...

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

Table 2. Tajikistan: General Government Operations, 2019–27
(In millions of somoni; unless otherwise indicated)

	2019	2020	2021	2022	2023	2024	2025	2026	2027
	Proj.								
Overall revenues and grants	21,180	20,842	27,266	31,852	36,489	37,663	42,132	46,858	52,229
Total revenues	19,453	19,025	24,136	27,860	31,224	35,414	39,817	44,486	49,614
Tax revenues	15,768	15,356	19,666	22,616	25,371	28,516	31,967	35,718	39,946
Income and profit tax	3,814	3,577	4,700	5,660	6,125	6,817	7,615	8,500	9,127
Payroll taxes	1,688	1,668	2,035	2,553	2,744	3,054	3,367	3,712	4,090
Property taxes	370	374	457	612	656	727	798	877	963
Taxes on goods and services	9,079	9,033	11,516	12,410	14,396	16,173	18,283	20,533	24,315
International trade and operations tax	816	704	958	1,381	1,449	1,744	1,903	2,096	1,450
Nontax revenues	3,686	3,669	4,470	5,244	5,853	6,898	7,850	8,768	9,668
Of which: Extra-budgetary funds	2,094	1,853	2,556	3,695	4,124	4,969	5,880	6,456	7,307
Grants	1,726	1,817	3,130	3,992	5,265	2,248	2,315	2,372	2,614
Of which: Public Investment Program (PIP) financing	1,726	1,817	2,893	2,886	4,760	1,817	1,840	1,848	2,037
Total expenditures and net lending	22,804	24,485	27,940	33,429	39,681	41,212	46,059	51,183	57,036
Current expenditures	13,224	14,322	16,543	18,937	20,712	23,000	25,326	27,832	30,268
Expenditures on goods and services	8,900	9,409	11,134	12,230	13,327	14,709	16,213	17,961	20,864
Wages and salaries	5,213	5,787	6,504	5,755	6,825	7,518	8,199	9,164	10,853
Others	3,687	3,622	4,630	6,475	6,502	7,190	8,014	8,797	10,011
Interest payments	663	775	874	874	874	925	993	919	547
External	594	635	827	866	842	882	930	852	474
Domestic	69	40	47	7	32	42	63	66	74
Transfers and subsidies	3,661	4,138	4,534	5,833	6,511	7,366	8,120	8,952	8,857
Capital expenditures	9,574	10,163	11,397	14,492	18,970	18,213	20,732	23,351	24,276
Externally financed (PIP and Rogun)	4,301	3,652	5,174	6,226	9,702	7,017	9,408	10,379	11,566
Of which: Rogun	1,166	0	0	0	0	528	516	1,053	1,882
Domestically financed	5,273	6,511	6,223	8,266	9,268	11,195	11,324	12,972	15,373
Of which: Rogun	1,674	3,182	2,552	3,500	2,726	2,198	2,114	2,210	2,204
Of which: Non-Rogun	3,599	3,329	3,671	4,766	6,542	8,998	9,210	10,762	13,169
Net lending	8	0	0	0	0	0	0	0	0
Overall balance (incl. PIP)	-1,624	-3,643	-674	-1,577	-3,192	-3,550	-3,927	-4,324	-4,806
Overall balance (excl. PIP and PIP-related grants)	1,382	-1,808	0	1,762	1,749	1,651	3,642	4,206	4,552
Overall balance (incl. PIP and excl. bank recapitalization)	-1,624	-3,643	-674	-1,577	-3,192	-3,550	-3,927	-4,324	-4,806
Total financing (incl. PIP)	1,193	3,283	675	1,577	3,192	3,550	3,927	4,324	4,806
Net external	339	5,061	791	1,577	3,192	3,550	3,927	4,324	4,806
Disbursements	1,941	6,407	2,281	3,339	5,021	5,543	7,748	8,451	8,826
Of which: the IMF's RCF	0	2,038	0	0	0	0	0	0	0
Of which: the WB	n/a	116.9	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Of which: the ADB	n/a	1,032.2	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Of which: other donors (including G20 DSSI)	n/a	472.6	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Of which: PIP disbursement	n/a	2,231	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Amortization	-1,602	-1,346	-1,490	-1,762	-1,828	-1,994	-3,821	-4,126	-4,020
Net domestic	854	-1,778	-116	0	0	0	0	0	0
Of which: Deposits with commercial banks	-55	-208	552	0	0	0	0	0	0
Of which: Deposits with the NBT	324	-2,238	-718	0	0	0	0	0	0
Of which: T-bills	0	100	0	0	0	0	0	0	0
Of which: Privatization proceeds/Sales of gold and pr. Mtl. to NBT	577	567	50	0	0	0	0	0	0
<i>Memorandum items:</i>									
Public Debt (Percent of GDP)	43.5	49.8	42.5	34.6	32.3	31.3	31.2	31.1	31.0

Sources: Tajikistan authorities, and Fund staff estimates.

Table 3. Tajikistan: General Government Operations, 2019–27
(In percent of GDP)

	2019	2020	2021	2022	2023	2024	2025	2026	2027
	Proj.								
Overall revenues and grants	26.8	24.8	27.0	27.5	28.2	26.2	26.6	26.8	27.1
Tax revenues	19.9	18.3	19.5	19.5	19.6	19.8	20.2	20.4	20.7
Income and profit tax	4.8	4.3	4.6	4.9	4.7	4.7	4.8	4.9	4.7
Payroll taxes	2.1	2.0	2.0	2.2	2.1	2.1	2.1	2.1	2.1
Property taxes	0.5	0.4	0.5	0.5	0.5	0.5	0.5	0.5	0.5
Taxes on goods and services	11.5	10.8	11.4	10.7	11.1	11.2	11.5	11.8	12.6
International trade and operations tax	1.0	0.8	0.9	1.2	1.1	1.2	1.2	1.2	0.8
Nontax revenues	4.7	4.4	4.4	4.5	4.5	4.8	5.0	5.0	5.0
Grants	2.2	2.2	3.1	3.4	4.1	1.6	1.5	1.4	1.4
Total expenditure and net lending	28.8	29.2	27.6	28.9	30.7	28.7	29.1	29.3	29.6
Current expenditures	16.7	17.1	16.4	16.4	16.0	16.0	16.0	15.9	15.7
Expenditures on goods and services	11.2	11.2	11.0	10.6	10.3	10.2	10.2	10.3	10.8
Wages and salaries	6.6	6.9	6.4	5.0	5.3	5.2	5.2	5.2	5.6
Others	4.7	4.3	4.6	5.6	5.0	5.0	5.1	5.0	5.2
Interest payments	0.8	0.9	0.9	0.8	0.7	0.6	0.6	0.5	0.3
Transfers and subsidies	4.6	4.9	4.5	5.0	5.0	5.1	5.1	5.1	4.6
Capital expenditures	12.1	12.1	11.3	12.5	14.7	12.7	13.1	13.4	12.6
Externally financed (PIP and Rogun)	5.4	4.4	5.1	5.4	7.5	4.9	5.9	5.9	6.0
<i>Of which: Rogun</i>	1.5	0.0	0.0	0.0	0.0	0.4	0.3	0.6	1.0
Domestically financed	6.7	7.8	6.2	7.1	7.2	7.8	7.1	7.4	8.0
<i>Of which: Rogun</i>	2.1	3.8	2.5	3.0	2.1	1.5	1.3	1.3	1.1
<i>Of which: Non-Rogun</i>	4.5	4.0	3.6	4.1	5.1	6.3	5.8	6.2	6.8
Overall balance	-2.1	-4.3	-0.7	-1.4	-2.5	-2.5	-2.5	-2.5	-2.5
Overall balance (excl. PIP and PIP-related grants)	1.7	-2.2	0.0	1.5	1.4	1.1	2.3	2.4	2.4
Overall balance (incl. PIP and excl. bank recapitalization)	-2.1	-4.3	-0.7	-1.4	-2.5	-2.5	-2.5	-2.5	-2.5
Total financing (incl. PIP)	1.5	3.9	0.7	1.4	2.5	2.5	2.5	2.5	2.5
Net external	0.4	6.0	0.8	1.4	2.5	2.5	2.5	2.5	2.5
Disbursements	2.5	7.6	2.3	2.9	3.9	3.9	4.9	4.8	4.6
Amortization	-2.0	-1.6	-1.5	-1.5	-1.4	-1.4	-2.4	-2.4	-2.1
Net domestic	1.1	-2.1	-0.1	0.0	0.0	0.0	0.0	0.0	0.0
<i>Of which: deposits with commercial banks</i>	-0.1	-0.2	0.5	0.0	0.0	0.0	0.0	0.0	0.0
<i>Of which: deposits with the NBT</i>	0.4	-2.7	-0.7	0.0	0.0	0.0	0.0	0.0	0.0
<i>Memorandum items:</i>									
Public debt to GDP	43.5	49.8	42.5	34.6	32.3	31.3	31.2	31.1	31.0
Nominal GDP (in millions of somoni)	79,110	83,958	101,076	115,739	129,183	143,770	158,493	174,722	192,540

Sources: Tajikistan authorities, and Fund staff estimates.

Table 4. Tajikistan: Accounts of the National Bank of Tajikistan, 2019-27

	2019	2020	2021	2022	2023	2024	2025	2026	2027	
					Proj.					
	(In millions of somoni)									
Net foreign assets	13,118	24,245	24,798	35,137	41,359	46,417	51,246	56,338	61,230	
Gross assets	14,604	25,781	28,792	38,384	44,541	49,664	54,364	59,124	63,664	
Gross liabilities	1,486	1,536	3,994	3,247	3,182	3,247	3,118	2,786	2,434	
Net international reserves 1/	13,049	24,967	26,975	36,982	42,962	47,928	52,483	57,097	61,496	
Gross international reserves 1/	14,187	25,293	28,236	38,110	44,273	49,390	54,084	58,839	63,373	
Gross reserve liabilities	1,138	326	1,261	1,128	1,311	1,462	1,601	1,742	1,876	
Net domestic assets	5,628	-1,711	339	2,274	2,881	2,778	2,949	3,369	4,526	
Net claims on general government	1,600	-638	-1,356	-3,034	-3,514	-3,514	-3,514	-3,514	-3,514	
Net claims on financial corporations	-1,509	-1,628	-1,027	-476	-603	-581	-617	-705	-947	
NBT's bills	-1,759	-1,808	-1,071	-698	-719	-741	-763	-787	-811	
Credit to the private sector	411	725	480	547	547	547	547	547	547	
Other items net	5,126	-171	2,243	5,237	6,452	6,326	6,533	7,041	8,441	
Reserve money	18,746	22,534	25,138	37,411	44,241	49,195	54,195	59,707	65,757	
Reserve money in domestic currency	17,592	21,202	23,612	27,321	31,014	35,206	39,965	45,368	51,500	
Currency in circulation	16,068	19,059	22,110	33,157	37,419	41,609	45,838	50,500	55,617	
Bank reserves	2,513	3,206	2,553	3,790	4,393	4,935	5,518	6,172	6,903	
Bank deposits in domestic currency	1,369	1,987	1,254	1,890	2,146	2,436	2,765	3,139	3,563	
Bank deposits in foreign currency	1,144	1,219	1,299	1,900	2,247	2,499	2,753	3,033	3,340	
Other deposits	165	269	474	192	218	247	280	318	360	
	(12-month growth in percent)									
Reserve money	20.2	20.2	11.6	48.8	18.3	11.2	10.2	10.2	10.1	
Net foreign assets	26.2	84.8	2.3	41.7	17.7	12.2	10.4	9.9	8.7	
Gross international reserves	17.2	78.3	11.6	35.0	16.2	11.6	9.5	8.8	7.7	
Net international reserves	38.3	91.3	8.0	37.1	16.2	11.6	9.5	8.8	7.7	
Net domestic assets	8.3	-130.4	-119.8	569.9	26.7	-3.6	6.2	14.2	34.4	
	(12-month growth in percent of reserve money)									
Reserve money (12-month percent change)	20.2	20.2	11.6	48.8	18.3	11.2	10.2	10.2	10.1	
Net foreign assets	17.4	59.4	2.5	41.1	16.6	11.4	9.8	9.4	8.2	
Gross international reserves	13.3	59.2	13.1	39.3	16.5	11.6	9.5	8.8	7.6	
Net international reserves	23.2	63.6	8.9	39.8	16.0	11.2	9.3	8.5	7.4	
Net domestic assets	2.8	-39.1	9.1	7.7	1.6	-0.2	0.3	0.8	1.9	
Net credit to general government	2.1	-11.9	-3.2	-6.7	-1.3	0.0	0.0	0.0	0.0	
Credit to the private sector	0.0	0.4	-1.1	0.2	0.2	0.1	0.1	0.1	0.1	
NBT bills	1.2	-0.3	3.3	-0.1	-0.1	0.0	0.0	0.0	0.0	
Other items net	-0.6	-28.3	10.7	11.9	3.2	-0.3	0.4	0.9	2.3	
<i>Memorandum items:</i>										
Net international reserves (in millions of U.S.dollars)	1,347.1	2,209.5	2,383.0	3,624.8	4,296.9	4,697.9	5,041.7	5,366.0	5,659.2	
Net international reserves (percent of broad money)	58.9	95.1	95.0	94.3	98.1	98.3	97.7	96.4	94.2	
Official exchange rate (somon/U.S. dollars; eop)	9.7	11.3	11.3	10.2	...	...	...	...	...

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, 2019–27

	2019	2020	2021	2022	2023	2024	2025	2026	2027
	Proj.								
	(In millions of somoni, end-of-period stock)								
Net foreign assets	12,104	23,857	25,038	35,364	41,601	46,684	51,544	56,670	61,569
National Bank of Tajikistan 1/	13,118	24,245	24,798	35,137	41,359	46,417	51,246	56,338	61,230
Commercial banks	-1,015	-389	240	227	242	267	299	332	339
Net domestic assets	12,480	5,811	7,221	8,977	8,271	8,808	9,619	10,746	12,221
Net credit to general government (incl. Roghun OJSC)	291	-2,154	-2,320	-4,597	-5,076	-5,076	-5,076	-5,076	-5,076
National Bank of Tajikistan	1,600	-638	-1,356	-3,034	-3,514	-3,514	-3,514	-3,514	-3,514
Commercial banks	-1,308	-1,516	-964	-1,565	-1,000	-500	-500	-500	-500
Net credit to public non-financial corporations	2,605	2,533	2,294	2,202	2,330	2,461	2,587	2,720	2,858
Credit to the private sector	8,885	10,657	10,108	12,473	14,159	15,468	16,370	17,364	18,421
Net credit to other financial corporations	-76	-185	-142	-142	-142	-142	-142	-142	-142
Other items net	775	-5,041	-2,719	-958	-3,000	-3,903	-4,120	-4,120	-3,841
Broad money	22,164	26,253	28,400	39,234	43,791	48,736	53,726	59,228	65,268
Somoni broad money	18,937	22,618	25,234	35,310	38,930	43,326	47,763	52,654	58,023
Currency outside banks	15,332	18,058	20,874	30,014	33,090	36,827	40,598	44,756	49,320
Deposits	3,604	4,559	4,361	5,297	5,839	6,499	7,164	7,898	8,703
Foreign currency deposits	3,228	3,635	3,166	3,923	4,861	5,410	5,964	6,574	7,245
	(12-month growth in percent of broad money)								
Broad money 2/	17.0	18.4	8.2	38.1	11.6	11.3	10.2	10.2	10.2
Net foreign assets	15.3	53.0	4.5	37.1	15.0	11.6	10.0	9.5	9.1
National Bank of Tajikistan	14.4	50.2	2.1	36.4	15.9	11.5	9.9	9.5	8.3
Commercial banks	1.0	2.8	2.4	0.0	0.0	0.1	0.1	0.1	0.0
Net domestic assets	1.9	-30.1	5.4	6.2	-1.8	1.2	1.7	2.1	2.5
Net credit to general government	1.4	-11.0	-0.6	-8.0	-1.2	0.0	0.0	0.0	0.0
Credit to the private sector	3.3	8.0	-2.1	8.3	4.3	3.0	1.9	1.9	1.8
Other items net	-4.7	-26.2	8.8	6.2	-5.2	-2.1	-0.4	0.0	0.5
<i>Memorandum items:</i>									
Deposit dollarization (in percent)	46.8	44.6	46.1	42.3	...	...	...	...	...
Velocity	3.6	3.2	3.2	3.0	...	...	...	...	...
Credit to the private sector (percent of GDP)	11.2	12.7	10.0	10.8	...	...	...	...	...
Money multiplier	1.2	1.2	1.0	1.1	...	...	...	...	...
Sources: National authorities 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 6. Tajikistan: Balance of Payments, 2019–27

	2019	2020	2021	2022	2023	2024	2025	2026	2027
	Proj.								
	(In millions of U.S. dollars, unless otherwise indicated)								
Current account	-185	336	735	668	-206	-341	-435	-479	-513
Balance on goods and services	-2,165	-1,716	-2,097	-3,292	-4,084	-4,576	-4,934	-5,327	-5,746
Balance on goods	-1,920	-1,445	-1,712	-2,837	-3,554	-3,977	-4,288	-4,631	-4,995
Exports	1,001	1,271	2,015	1,629	1,606	1,666	1,733	1,871	2,018
Imports	2,921	2,716	3,727	4,466	5,160	5,643	6,021	6,502	7,013
Balance on services	-245	-271	-385	-455	-531	-600	-646	-696	-751
Balance on income	1,331	1,364	1,821	2,662	2,590	2,868	3,060	3,301	3,573
Balance on transfers	650	688	1,011	1,298	1,288	1,368	1,440	1,548	1,659
Capital and financial account	531	768	435	560	818	709	744	768	815
Capital transfers	169	189	227	241	472	180	148	106	189
FDI	190	36	36	410	231	452	488	527	569
Portfolio Investment	-73	0	1	0	0	0	-167	-167	-167
Other capital flows 1/ of which: CCRT	245	543	172	-91	116	77	274	302	224
of which: RCF		18	7	...	...	...	...	...	...
		194	...	...	...	...	-20	-41	-66
Errors and omissions	169	-151	212	...	...	...	...	...	...
Overall balance	176	1254	958	1227	612	368	309	289	302
	(in percent of GDP, unless otherwise indicated)								
Current account	-2.2	4.1	8.2	6.4	-1.6	-2.4	-2.8	-2.9	-2.9
Balance on goods and services	-26.1	-21.1	-23.5	-31.5	-31.9	-32.1	-32.1	-32.1	-32.1
Balance on goods	-23.1	-17.8	-19.2	-27.1	-27.8	-27.9	-27.9	-27.9	-27.9
Exports	12.1	15.6	22.5	15.6	12.6	11.7	11.3	11.3	11.3
Imports	35.2	33.4	41.7	42.7	40.3	39.6	39.2	39.2	39.2
Balance on services	-3.0	-3.3	-4.3	-4.3	-4.1	-4.2	-4.2	-4.2	-4.2
Balance on income	16.0	16.8	20.4	25.4	20.2	20.1	19.9	19.9	20.0
Balance on transfers	7.8	8.5	11.3	12.4	10.1	9.6	9.4	9.3	9.3
Capital and financial account	6.4	9.4	4.9	5.3	6.4	5.0	4.8	4.6	4.6
Capital transfers	2.0	2.3	2.5	2.3	3.7	1.3	1.0	0.6	1.1
FDI	2.3	0.4	0.4	3.9	1.8	3.2	3.2	3.2	3.2
Portfolio Investment	-0.9	0.0	0.0	0.0	0.0	0.0	-1.1	-1.0	-0.9
Other capital flows 1/ of which: CCRT	3.0	6.7	1.9	-0.9	0.9	0.5	1.8	1.8	1.2
of which: RCF		0.2	0.1	0.0	0.0	0.0	0.0	0.0	0.0
		2.4	0.0	0.0	0.0	0.0	-0.1	-0.2	-0.4
Errors and omissions	2.0	-1.9	2.4	0.0	0.0	0.0	0.0	0.0	0.0
Overall balance	2.1	15.4	10.7	11.7	4.8	2.6	2.0	1.7	1.7
<i>Memorandum items:</i>									
Nominal GDP (In millions of U.S. dollars)	8,301	8,134	8,934	10,467	12,796	14,241	15,373	16,601	17,905
Remittances, inflows (In millions of U.S. dollars)	2,322	2,187	2,739	3,908	3,871	4,255	4,553	4,890	5,234
(in percent of GDP)	28.0	26.9	30.7	37.3	30.3	29.9	29.6	29.5	29.2
Current account balance (In percent of GDP)	-2.2	4.1	8.2	6.4	-1.6	-2.4	-2.8	-2.9	-2.9
Gross reserves 2/	1465	2238	2499	3771	4428	4841	5196	5530	5832
(in months of next year's imports of goods and services)	5.6	6.3	5.9	7.7	8.3	8.5	8.4	8.3	8.1
(in percent of IMF's Reserve Adequacy metric: Fixed)	113.6	179.0	190.7	286.1	317.1	338.5	404.5	396.9	391.6
(in percent of IMF's Reserve Adequacy metric: Floating)	137.2	219.9	236.9	345.7	384.6	411.7	516.6	507.7	505.0
Total Public and Publicly Guaranteed (PPG) external debt	2,870	3,281	3,344	3,471	3,766	4,022	4,308	4,588	4,850
(in percent of GDP)	35.1	44.2	37.5	30.6	29.1	28.5	28.3	27.9	27.4
Debt service on PPG external debt (In millions of U.S. dollars)	239	203	206	238	264	285	461	473	418
(in percent of exports of goods and services)	19.2	14.4	9.5	13.3	14.9	15.4	23.8	22.6	18.5

Sources: Tajik authorities; and Fund staff estimates.

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

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

Table 7. 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	32
Incidence of tuberculosis (per 100,000 people)	219	196	128	86	84
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	95
Lower secondary completion rate, total (percent of relevant age group)	84	86	94	98	96
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	...	0.87
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)	57	63	69	76	82
People using at least basic sanitation services (percent of population)	90	92	93	95	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	0.33	0.58	1.01
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	3
Technology					
Individuals using the Internet (percent of population)	0	0	12	19	22

Source: The World Bank

Table 8. Tajikistan: Capacity to Repay the Fund, 2020–30 1/

	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030
Net Use of Fund Credit (in million SDRs)	124.9	-6.5	-1.3	0.0	0.0	-13.9	-27.8	-27.8	-27.8	-27.8	-13.9
Disbursements	139.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Repayment	14.4	6.5	1.3	0.0	0.0	13.9	27.8	27.8	27.8	27.8	13.9
Outstanding IMF credit											
In millions of SDRs	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	206.6	202.0	187.3	185.1	186.2	168.5	131.9	94.7	57.2	19.2	0.0
In percent of exports of goods and services	14.7	9.3	10.5	10.4	10.0	8.7	6.3	4.2	2.3	0.7	0.0
In percent of external debt service	94.0	93.4	77.5	69.8	65.2	35.1	25.8	20.8	21.2	7.2	0.0
In percent of gross reserves	9.2	8.1	5.0	4.2	3.8	3.2	2.4	1.6	0.9	0.3	0.0
In percent of GDP	2.5	2.3	1.8	1.4	1.3	1.1	0.8	0.5	0.3	0.1	0.0
In percent of quota	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 (including charges)											
In millions of SDRs	14.4	6.5	1.3	1.9	1.9	15.8	29.8	29.8	29.8	29.8	15.8
In millions of US dollars	20.0	9.3	1.7	2.5	2.6	21.3	40.3	40.5	40.7	40.9	21.9
In percent of exports of goods and services	1.4	0.4	0.1	0.1	0.1	1.1	1.9	1.8	1.7	1.6	0.8
In percent of external debt service	9.1	4.3	0.7	0.9	0.9	4.4	7.9	8.9	15.1	15.4	9.9
In percent of gross reserves	0.9	0.4	0.0	0.1	0.1	0.4	0.7	0.7	0.6	0.6	0.3
In percent of GDP	0.2	0.1	0.0	0.0	0.0	0.1	0.2	0.2	0.2	0.2	0.1
In percent of quota	8.2	3.7	0.7	1.1	1.1	9.1	17.1	17.1	17.1	17.1	9.1
Memorandum items:											
Gross reserves (in millions of US dollars)	2,238	2,499	3,771	4,428	4,841	5,196	5,530	5,832	6,337	6,728	7,123
Quota (in millions of SDRs)	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. Tajikistan: Inclusive Growth Indicators

	Bnchmrk	Year	LICs		Bnchmrk	Year	LICs	
			Indicator	Average			Indicator	Average
Growth								
GDP per capita growth (percent; 2018-21 average)	G		5.0	1.7	B	2021	7.6	7.3
Gross Fixed Capital Formation (percent of GDP; 2018-21 average)	G		31.5	24.4	G	2021	6.1	8.7
Poverty and Inequality								
Poverty headcount ratio at \$3.20/day (percent of population; 2015)	G	2015	25.7	48.8	B	2021	17.0	14.2
Multidimensional poverty (percent of population)			n.a.	n.a.	B	2021	40.5	63.2
Prevalence of stunting (% of children under 5, 2018)	G	2018	17.5	23.9	B	2021	30.4	55.3
GINI Index (2015)	G	2015	34.0	39.6	B	2021	24.9	43.7
Child mortality (per 1,000, 2020)	G	2020	32.3	55.7				
Growth in mean consumption (growth, % bottom 40th percentile)			n.a.	n.a.				
Human Development and Access to Services								
Human Development Index (2020)	G	2020	0.7	0.5	G	2021	-0.6	-0.8
Life expectancy at birth (years, 2020)	G	2020	71.3	65.2	B	2021	-1.1	-0.7
Access to electricity (% of population, 2020)	G	2020	99.8	60.2	B	2021	-1.2	-0.7
Net school enrollment, secondary, total (% population, 2012)	G	2012	83.2	38.2	B	2021	-1.3	-0.7
Individuals using internet (% population, 2017)	B	2017	22.0	22.1	B	2021	25.0	29.5
Literacy rate (% population, 2015)	G	2015	99.8	70.2	G	2021	23.8	20.3
Government								
Commitment to reducing inequality index (2020)	G	2020	0.41	0.33	G	2020	23.8	20.3
Government spending on social safety net programs (percent of GDP, 2018)	B	2022	0.8	1.3				
Coverage of social safety net programs in poorest quintile (% population, 2012)	B	2012	13.0	22.5				
Government expenditure on education, total (% GDP, 2019)	G	2019	5.7	4.3				
Health expenditure, domestic general government (% of GDP, 2019)	G	2019	1.9	1.7				
Labor Markets (ILO estimates)								
Unemployment rate (% of total labor force, 2021)	B	2021	7.6	7.3				
Female (% of female labor force, 2020)	G	2021	6.1	8.7				
Youth (% of total labor force ages 15-24, 2020)	B	2021	17.0	14.2				
Labor force participation (% of total population ages 15+, 2020)	B	2021	40.5	63.2				
Female (% of female population ages 15+, 2020)	B	2021	30.4	55.3				
Youth (% of population ages 15-24, 2020)	B	2021	24.9	43.7				
Governance¹								
Government Effectiveness (WGI, 2021)	G	2021	-0.6	-0.8				
Regulatory Quality (WGI, 2021)	B	2021	-1.1	-0.7				
Rule of Law (WGI, 2021)	B	2021	-1.2	-0.7				
Control of Corruption (WGI, 2021)	B	2021	-1.3	-0.7				
Corruption Perceptions Index (2021)	G	2021	25.0	29.5				
Gender Equity and Inclusion								
Account at a financial institution (female vs male, % 2018)	G	2018	80.9	76.7				
Female employment to population ratio (% 2021)	B	2021	28.5	51.4				
Literacy rate (female vs male, % 2015)		2015	n.a.	n.a.				
Net school enrollment, secondary (female vs male, % 2012)	B	2012	90.1	101.2				
Gender Gap Index (2021)	B	2022	0.6	0.7				
Female seats in Parliament (share of total seats, 2020)	G	2020	23.8	20.3				
Access to Finance								
Account at a financial institution (% age 15+, 2017)	G	2017	47.0	36.3				
Domestic credit to private sector (% GDP, 2021)	B	2021	11.8	26.8				
<div style="display: flex; justify-content: space-around; align-items: center;"> <div style="text-align: center;"> <p>Better than LICs Average</p> <p>Improvement since previous observation</p> </div> <div style="text-align: center;"> <p>Worse than LICs Average</p> <p>Deterioration since previous observation</p> </div> </div>								

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 10. Tajikistan: Financial Soundness Indicators, 2019Q1–22Q3

(In percent; unless otherwise indicated)

	2019Q1	2019Q2	2019Q3	2019	2020Q1	2020Q2	2020Q3	2020	2021Q1	2021Q2	2021Q3	2021Q4	2022Q1	2022Q2	2022Q3
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	23.4	22.2	25.1	25.1
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	19.0	16.8	19.8	18.9
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	3.2	7.0	3.6	0.6
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	13.7	14.2	13.4	12.1
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	1.1	4.1	9.1	8.1
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	4.8	20.2	44.1	38.1
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	60.9	53.2	40.1	43.0
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	64.6	60.7	43.3	44.0
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	31.9	34.8	36.7	38.5
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	87.7	94.5	101.1	92.5
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	4.7	8.8	2.0	7.6
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	20.9	19.7	21.8	21.8
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	68.0	72.9	59.7	52.4
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	7.8	23.6	45.1	41.0
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	58.7	55.8	56.9	58.3
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	87.2	91.8	95.7	98.8
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	34.0	34.5	29.6	29.0
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	49.4	51.4	45.5	44.6

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 11. Tajikistan: Key Recommendations of the 2021 Article IV Consultation	
Recommendation	Status
<i>Fiscal policy</i>	
Limit the annual fiscal deficit to –2.5 percent of GDP over the medium term to ensure a declining public debt path. Ensure tight expenditure control and spending efficiency.	The authorities remain committed to the medium-term fiscal target of –2.5 percent of GDP which will keep public debt on a downward trajectory. The 2022 fiscal deficit is estimated at 1.4 percent of GDP, while the 2023 budget envisages a deficit of 2 percent of GDP.
<i>Exchange Rate Policy and Monetary Operations</i>	
Allow greater exchange rate flexibility over the medium term.	The somoni has broadly tracked the volatility of the ruble since the onset of the war in Ukraine. After depreciating 15 percent in March, the somoni/US dollar exchange rate bounced back to above its pre-war level by mid-year with a cumulative somoni appreciation of 10 percent against the dollar during 2022.
<i>Financial Sector Policy</i>	
Complete the resolution of insolvent banks. Rebuild the Individuals Deposit Insurance Fund's buffers and improve bank resolution and crisis management frameworks.	The re-imbursalment of insured depositors by the IDIF was completed in 2022. The AIB and TSB liquidators are addressing other outstanding claims in the order of priority and according to the timeline established by the domestic legislation. New amendments to the Deposit Insurance Law introduced enhancements to DIF's coverage and investment policy. A fiscal backstop mechanism was put in place to deal with emergency situations. The 2022 IMF FSSR proposed TA on bank resolution and crisis management frameworks as part of the TA Roadmap, which is being finalized.
Strengthen financial sector regulation and supervision.	In May 2022, the NBT adopted a decree which tightened prudential standards on capital, liquidity, prompt corrective action, large exposures, and related-party lending. In April 2022, the IMF Financial Sector Stability Review (FSSR) provided a TA Roadmap for strengthening supervision, regulation and financial stability oversight. The FSSR Work Plan is being finalized with the NBT and will guide Fund TA.
<i>Governance and Transparency</i>	
Implement public financial management, procurement, and SOE governance reforms.	Draft amendments to the Public Procurement Law which will expand coverage of SOEs are pending approval. The SOE Fiscal Risk Management Strategy has been recently approved and SOE Fiscal Risk Statements have been published.
Adopt AML/CFT legislation; further enhance NBT governance and capacity.	A draft AML/CFT law is pending final approval by the Parliament.

Table 11. Tajikistan: Key Recommendations of the 2021 Article IV Consultation	
Recommendation	Status
	Draft amendments to the NBT Law related to NBT's governance and financial autonomy have been submitted to the Government for approval.
<i>Climate Policies</i>	
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.	<p>Tajikistan's National Adaptation Strategy for 2020-30 lays out adaptation priorities for major sectors (agriculture, energy, transport, water).</p> <p>Tajikistan launched its National Adaptation Plan (NAP) process in April 2022 with support from the UNDP and UN Green Climate Fund. The project aims to build institutional arrangements and capacity for developing a NAP by end-2023.</p> <p>In September 2022, the Government approved a new Green Development Strategy for 2023-37 which provides a roadmap for climate mitigation and adaptation in key economic sectors.</p> <p>Electricity tariffs were raised 17 percent in 2022 and further adjustments are planned next year.</p>
<i>Other Structural Policies</i>	
Promote inclusive, diversified, private sector-led growth. Reduce administrative burdens, and improve governance and transparency, including to strengthen anti-corruption efforts.	<p>The government has declared industrialization a key priority. A primary objective at this juncture is to increase foreign investment, especially in areas with green economic potential.</p> <p>The authorities prepared new laws on permits and inspections that streamline registration requirements for new businesses and improve predictability of the inspection regime.</p> <p>The authorities' anticorruption efforts are guided by the Anticorruption Strategy for 2021-30.</p>
Foster entrepreneurship, prioritize investment, and better targeting of social protection to nurture talent; raise productivity and support sustainable growth.	<p>The Government's National Financial Inclusion Strategy for 2022-26 aims to improve access to finance for SMEs and private entrepreneurs. A new Gender Financial Inclusion project was launched in December 2022 financed by EBRD.</p> <p>The World Bank is working with the authorities on improving targeting of social protection as part of their Development Policy Operation (DPO).</p>

Annex I. Risk Assessment Matrix

Risk 1/	Description	Likelihood / Timeframe	Possible Impact (if realized) / Transmission Channels	Policy Advice
External Risks and Spillovers				
Intensifying spillovers from Russia's war in Ukraine.	Further sanctions resulting from the war and related uncertainties exacerbate trade and financial disruptions and commodity price volatility.	High Short-term	High Tajikistan is vulnerable to direct and indirect spillovers from the war given its close trade and financial linkages with Russia and Ukraine.	Strengthen policy frameworks, improve revenue mobilization, and reprioritize spending to preserve fiscal and debt sustainability. Use the exchange rate as a shock absorber while smoothing excess volatility. Diversify trade and financial linkages to limit impact of sanctions on domestic economy.
Commodity price shocks	A combination of continuing supply disruptions (e.g., due to conflicts and export restrictions) and negative demand shocks causes recurrent commodity price volatility and social and economic instability.	High Short-term	High Tajikistan depends heavily on commodity revenue and commodity price volatility would adversely affect its external and fiscal positions.	Strengthen revenue mobilization, reduce non-priority spending, and mobilize donor support to safeguard debt sustainability. Provide targeted assistance to the vulnerable. Allow greater exchange rate flexibility while smoothing excess volatility. Tighten monetary policy if there is a risk of de-anchoring of inflation expectations.
Abrupt global slowdown or recession EMDEs.	A sharp global slowdown, with spillovers through trade and financial channels, and downward commodity price pressures. This leads to widening of external imbalances and fiscal pressures, capital outflows, debt, and financial crises.	Medium Short-term High Short-term	Medium Reduced confidence in economic prospects. Adverse impact on fiscal and external positions (disorderly migration, reduced exports (including electricity), and cuts in foreign direct investment), slower economic growth.	Reprioritize expenditure and mobilize donor support to preserve debt sustainability. Provide targeted social assistance to the vulnerable. Allow greater exchange rate flexibility to facilitate external adjustment. Tighten financial supervision, stand ready to provide liquidity to solvent and viable banks.

Risk 1/	Description	Likelihood / Timeframe	Possible Impact (if realized) / Transmission Channels	Policy Advice
Local Covid-19 outbreak	Emergence of more contagious vaccine-resistant variants force new lockdowns and inhibit commerce. This results in extended supply chain disruptions, slower growth, capital outflows, and debt distress	Medium 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 lower domestic demand, increase unemployment, delay key infrastructure projects, and reduce growth.	Redouble vaccination rollout efforts. Reduce the pace of fiscal consolidation, provide support to affected sectors and vulnerable households. Greater exchange rate flexibility to facilitate external adjustment. Seek additional donor support.
More frequent and severe natural disasters related to climate change	Severe damage to infrastructure, supply chain disruptions and inflationary pressures. Water and food shortages, lower medium-term growth.	Medium Medium-term	Medium-High Tajikistan is very susceptible to climate risks due to its geographic and economic characteristics. Natural disasters and water shortages reduce productivity in key sectors (agriculture, hydropower, mining) weighing on medium-term growth.	Press ahead with structural reforms to strengthen resilience to climate shocks. (i) strengthen social protection of vulnerable populations. (ii) enhance human capital and resilience in climate-prone sectors. (iii) ensure fiscal space and adequate financing for climate policy reforms.
Domestic Risks				
Fiscal slippages and a rise in debt	Implementation of the new tax code and continued tax exemptions results in lower tax revenues. Poor SOE fiscal controls, quasi-fiscal activities and Rogundemands results in higher expenditures.	Medium Medium-term	High Lower revenues coupled with increased spending pressures would increase the deficits and the need for budgetary financing. Higher debt service could squeeze out priority spending or lead to fiscal loosening with knock-on effect on 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.

Risk 1/	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 governance reforms are not implemented.	High Medium-term	Medium A slowdown in reforms could result in lower investment and productivity and slower growth. Social tensions 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).
Financial sector risks materialize	Risks have increased due to the war in Ukraine, asset quality could deteriorate due to adverse shocks to trade, remittances, and financial linkages, weakening banking sector soundness.	Medium Medium-term	Medium NPLs may rise amid still high dollarization and credit concentrations, reducing bank profitability and raising solvency risk. With a large SOE sector, contingent fiscal liabilities could increase.	Stand ready to provide liquidity to solvent banks. Strengthen prudential standards to early detect emerging risks. Strengthen supervision, crisis management and bank resolution frameworks.
Geopolitical risks escalate	Security risks are on the rise due to the deterioration of the security outlook in Afghanistan, border clashes with Kyrgyz Republic and tensions in the Gorno-Badakhshan region.	Medium Short-term	Medium Security-related spending is likely to increase and budget pressures could intensify. Electricity exports to Afghanistan and transit exports to third parties could be hindered.	Prioritize expenditures and strengthen revenue generation to build fiscal buffers against unanticipated shocks. Diversify electricity exports.

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.

Annex II. External Sector Assessment

Overall Assessment: *The external position of Tajikistan in 2022 was **stronger than** the level implied by fundamentals and desirable policy settings, based on the results of the IMF's EBA-lite current account (CA) model.¹ This assessment is highly uncertain given the lack of full-year data for 2022 and the still ongoing war in Ukraine. 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.*

Potential Policy Responses: *In the near-term, the pass-through from nominal currency appreciation this year can be incomplete and should be closely monitored. Over time, the authorities should adopt reforms for a gradual transition to a more flexible exchange rate. The fiscal deficit target remains an important anchor for the external position over the medium-term. Increasing the investment component of the domestic absorption relative to national savings, while maintaining a sustainable fiscal framework, will facilitate the adjustment.*

Foreign Assets and Liabilities: Position and Trajectory

Background. As of 2022Q3, the net international investment position (NIIP) was -38 percent of GDP, increasing steadily after being broadly stable at -66 percent of GDP in 2017-19 as a result of substantial CA surpluses in 2020-2022 (see Table 6) that resulted in a significant reserve assets buildup (about 20 percent of 2022 GDP since 2019). Direct investments (34 percent of GDP) and government borrowing (30 percent of GDP) dominate the liability structure of the NIIP (78 percent of GDP). Multilateral and bilateral loans are at concessional rates.

Assessment. The Tajikistan's NIIP is expected to deteriorate over the medium-term, consistent with the projections in Table 6, which indicates gradual convergence to the CA norm. The implied larger 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 and therefore should be avoided until risks to debt sustainability are eliminated.

2022Q3 (% GDP)	NIIP: -38	Gross Assets: 42	Debt Assets: 3	Gross Liab.: 78	Debt Liab.: 52
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Current Account

Background. Large trade deficits in goods and services (in the order of 27 percent of GDP) offset by large income and transfer balances (mostly representing remittances inflows from Russia) were aided by one-off gold exports in 2020-21, resulting in significant CA surpluses (4.1 and 8.4 percent of GDP respectively). In 2022 the CA is projected to reach a surplus of 6.4 percent of GDP mostly reflecting a reduction in gold exports and acceleration in imports, which were partially compensated by a surge in dollar remittances. Exports of goods, denominated in USD, are expected to fall by 19 percent in 2022 reflecting a reduction in gold exports which was only partially offset by increases in traditional exports. Imports of goods are projected to increase by 20 percent in line with the ongoing recovery and somoni appreciation. Remittances, mostly from Russia, included in both income and transfers balance in Table 6, are expected to

temporarily surge to 37.3 percent of GDP in 2022 (6.7 percentage points higher than in 2021). While ruble strength against the US dollar played a role, the surge is assessed to be mostly temporary and constitute precautionary and savings transfers of Tajik citizens in light of the war coupled with sanctions and fear of future sanctions imposed on Russia. The surrounding general uncertainty may have also played a role. As evidenced by virtually no effect on real activity or prices in 2022 and that the 2022 ratio of imports to remittances is projected to be the lowest since 2018, most of the surge was not spent. From the savings-investment balance perspective the reduction in the 2022 CA is due to a reduction in public savings associated with the expansionary fiscal stance. Over the medium term, external imbalances are expected to reemerge due to strong public investment (i.e., Rogun) which would be externally financed.

Assessment. The EBA-lite Current Account (CA) model, applied to 2022 data, estimates a CA norm of -2.8 percent of GDP (see table). To reflect that the surge in remittances was a one-off shock, the majority of which was not spent, staff applied a coefficient of 0.9 (to be reassessed in the future when more information becomes available) resulting in the adjusted CA of 0.0 percent of GDP. This implies a gap of 2.8 percent of GDP under current policies. The external position in 2022 is assessed to be stronger than fundamentals and desirable policy settings. The gap is primarily due to the smaller needed medium-term fiscal adjustment than in the rest of the world, the large accumulation of reserves in 2022 and insufficient financial depth. Using standard trade elasticities, the implied REER gap is about 15 percent. The remaining part of the CA gap may represent an incomplete passthrough from strong remittances and realized nominal appreciation.

Tajikistan: EBA-lite Model Results, 2022			
	CA model 1/	REER model 1/ (in percent of GDP)	
CA-Actual	6.4		
Cyclical contributions (from model) (-)	-0.2		
Additional temporary/statistical factors (-) 2/	7.3		
Natural disasters and conflicts (-)	-0.6		
Adjusted CA	0.0		
CA Norm (from model) 3/	-2.8		
Adjustments to the norm (-)	0.0		
Adjusted CA Norm	-2.8		
CA Gap	2.8	±1	3.5
o/w Relative policy gap	2.4		
Elasticity	-0.2		
REER Gap (in percent)	-14.9		-18.7
1/ Based on the EBA-lite 3.0 methodology			
2/ Additional cyclical adjustment to account for the temporary surge in remittances (the difference between 2022 and 2027 GDP ratios times 0.9). In the 2021 Article IV report the remittances-to-GDP ratio was projected to be unchanged between 2022 and 2026.			
3/ Cyclically adjusted, including multilateral consistency adjustments.			

Real Exchange Rate

Background. The official market exchange rate against the US dollar in 2022 qualitatively followed the pattern of the Russian ruble. The NBT engineered a 15 percent step depreciation at the beginning of March in response to pressures stemming from the war in Ukraine. Since then, the somoni appreciated by more than 20 percent as of end-October and about 10 percent since end-2021 mostly on the back of stronger remittances and lower demand for the US dollar. FX shortages effectively disappeared since April. As of September 2022, the average real effective exchange rate was still about 3.5 percent more depreciated than the 2021 average as the inflation differential with trading partners more than offset bilateral nominal appreciation.

Assessment. The EBA's Lite Index Real Effective Exchange Rate (IREER) model finds a misalignment of the REER with an undervaluation of 19 percent (see text table). Considering that the typical error in estimation of the CA gap is 1 percentage point of GDP, the result of the IREER model is not statistically different from the CA model. However, staff assesses that this approach is generally may come with a larger uncertainty due to a short period for which all the model's variable are available (since 2011)². The recent nominal appreciation episode can motivate reforms for a gradual 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 as proposed in the 2021 IMF FX TA mission. Although Tajikistan is mainly an exporter of primary commodities and minerals, greater exchange rate flexibility is important for import compression as well as substitution effects to facilitate external adjustment to future shocks. Insufficient infrastructure quality, weak business environment, limited innovation capability and technology adoption, as well as the underdeveloped financial sector weigh on competitiveness relative to CIS peers.

Capital and Financial Accounts: Flows and Policy Measures

Background. In 2022 the financial account (3.2 percent of GDP) is expected to be dominated by net FDI (4.0 percent of GDP, with about 90 percent of it due to reinvested earnings) that recovered from anemic 0.4 percent of GDP during the COVID crisis in 2020–21 and the 2019 level of 2.3 percent of GDP. About 90 percent of all 2022 FDI inflows are expected to be from China. Other investment, mostly representing bilateral and multilateral government borrowing, is typically the second largest component of the financial account (3.9 percent of GDP on average during 2019–21). In 2022, it is expected to turn negative as the authorities paused external borrowing, as required for the World Bank assessment under the Sustainable Development Finance Policy. Portfolio flows were minimal in 2022, similar to previous years apart from the 2017 Eurobond-related transactions.

Assessment. Reliance on FDI and concessional bilateral and multilateral instruments to cover external financing needs keeps risks related to capital flows low. Development of domestic debt market should proceed steadily to increase resilience and diversify sources of financing prior to higher reliance on market-based instruments in the medium-term.

FX Intervention and Reserves Level

Background. In 2022 reserves are expected to increase by about US\$ 1.2 billion (following an increase of about US\$1 billion in 2021) on the back of the surge in remittances from Russia, reflecting an increase in ruble transactions as well as ruble strength against the US dollar, sizable recovery in FDI and purchases of US dollars from banks. The latter is potentially related to a shift to the ruble in external trade invoicing.

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 according to this metric, staff assesses Tajikistan's FX reserves are adequate for precautionary and operational purposes. FX reserves help to ensure Tajikistan has access to needed imports and insure against shocks, especially in the current highly uncertain global environment. They may also be 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. The NBT's participation in World Bank's Reserve Advisory and Management Partnership (RAMP), should enhance its reserve management and governance framework, build capacity, and optimize the level of reserve holdings.

¹ The external sector assessment is based on staff's estimates for 2022 as data for the entire year was not yet available.

² This estimation assumes the REER was in equilibrium on average during 2011–2019.

Annex III. Rogun Hydropower Project¹

A. Project Overview

1. **The Rogun hydropower project (HPP) is a 3,780MW hydroelectric power facility under construction on the Vakhsh River in Tajikistan.** Upon completion, it would be the biggest hydropower station in Central Asia with the world's tallest embankment dam. Once the reservoir reaches the full supply level, its annual average generation is expected to be around 14,400 GWh.
2. **The project aims to provide affordable electricity to meet growing domestic demand and a stable electricity supply of during the winter when demand is highest.** In addition, it would allow for exports of clean energy to other countries in Central Asia, which depend to a significant extent on fossil-fuel based electricity generation. Exports are expected to account for around 60 percent of total electricity generation from the project through 2040, with markets expected to include Uzbekistan and Kazakhstan. Completion of the Central Asia-South Asia electricity transmission project (CASA-1000)², which would construct a transmission line through Afghanistan to Pakistan, would open additional export opportunities. Domestic sales are anticipated both to the state electricity utility (Barki Tojik) and through direct sales to large industrial enterprises, including the state aluminum company (TALCO).
3. **Project construction resumed in 2007 and has been progressing at a sporadic pace, depending on the availability of financial resources.** Although construction was initiated in 1976, the project was stalled for almost four decades due to the break-up of the Soviet Union, the Tajik civil war and the lack of funding. Construction accelerated in 2016 with the selection of the contractor for the main dam (the Italian firm WeBuild) and three of the four main Engineering, Procurement, and Construction (EPC) contracts for the project have already been signed. The government has proceeded so far without the involvement of any development partners in project implementation; the project is being led by the state-owned joint stock company (JSC) Rogun HPP, supported by an international consultant (Tractebel-ELC/France- Italy) on technical supervision, contract oversight, and management of the various contractors. The first two generating units of the power station were commissioned in November 2018 and September 2019, respectively, with the completion of phase one of the main dam.

B. Project Financing

4. **Since 2007, around \$3.5 billion has been spent on the project, largely financed from state budget revenues.** Additional sources of financing have included TJS900 million (US\$80 million) through a domestic public offering by Rogun JSC in 2010, and a \$500 million sovereign Eurobond that was issued for project financing in 2017. In addition, Rogun JSC issued a TJS900 million bond in 2021 that was purchased by the state pension fund. Until now, there has

¹ This reflects information from the World Bank Project Information Document for "Technical Assistance for Financing Framework for Rogun Hydropower Project", November 2022.

² The CASA-1000 project is a \$1.2 billion project being financed by seven institutions, with the largest share from the World Bank through the International Development Association (IDA). The project was originally planned for completion by 2023, but construction of the line through Afghanistan has been suspended.

been limited interest from development partners or commercial banks to finance the project due to the lack of a fiscally sustainable financing plan or commercial arrangements for electricity sales from the project.

Total Investment in the Rogun HPP, 2007-2022 (TJS mn)									
	2007-10	2011-13	2014-16	2017	2018	2019	2020	2021	2022
Total spending	2,271	2,915	5,950	5,251	4,758	3,417.3	3,182	2,552	3,500
State budget	1,318	2,716	5,950	5,201.7	4,700	3417.3	3,182	2,552	3,500
Equity	820	199	--	--	--	--	--	--	--
Total spending (percent of GDP)	2.3	2.8	3.9	8.6	6.9	3.6	3.8	2.6	3.1

Source: WB Rogun Financing Options Study and Fund staff estimates.

5. The remaining cost to complete the project is estimated at \$4.5-5.0 billion³. Electricity generation is expected to gradually increase as construction progresses, but revenues will remain limited in the short and medium term. As a result, there is a significant time lag between the project's remaining financing needs and the realization of revenues to service the financing. Current projections suggest that the project will take 20 years to fully repay its capital investment. Under the May 2020 Rapid Credit Facility (RCF), the authorities committed to avoid non-concessional borrowing until Rogun power-purchase agreements (PPA) were finalized, and to remain within an annual spending envelope for Rogun of around \$375 million to keep debt on a sustainable path⁴. Staff's macroeconomic framework and DSA reflects this spending envelope, given that PPAs are still not in place and any additional sources of financing have yet to be identified⁵.

6. At the authorities' request, the World Bank prepared the *Rogun Financing Options Study to examine potential sources of financing*. The study, which was completed in November 2021, concluded that the original plan to complete construction by 2029 was not macroeconomically sustainable and proposed a revised schedule to better match financing flows with expected revenues. This would extend the project completion date to 2032, with the reservoir

³ Based on projected expenditures through 2022. This reflects capital costs only and does not include: (a) changes to contract prices that may have taken place after completion of the World Bank's financing options study; (b) costs of solutions to address recommendations from dam safety POE; and (c) financing costs.

⁴ The spending envelope of \$375 million envisages \$175 million of concessional borrowing and \$200 million of budget financing.

⁵ Commercial borrowing is not expected to take place before 2029. Any additional financing beyond this envelope would need to be provided through grants.

to be filled to the full supply level by 2039. The study proposed sequenced public and private financing, with a combination of state budget spending, grants, concessional loans and commercial debt in order to remain within available budget resources and ensure consistency with debt sustainability.

Proposed financing sources for the Rogun HPP, 2023-2032	
Potential sources	Indicative amounts
Government equity/state budget financing	US\$1.6 billion
Grants from development partners	US\$680 million
Concessional loans from development partners	US\$1.3 billion
Export credit agencies and commercial debt	US\$560 million
Operating cash flows	US\$350 million
Total	US\$4.5 billion

7. The authorities are working with the World Bank to mobilize additional sources of project financing consistent with debt sustainability. In December 2021, the findings of the *Rogun Financing Options Study* were presented to a roundtable of development partners that could potentially finance the project. There was a consensus that the project: (a) remains economically viable as an export-oriented project; (b) holds significant potential for contributing to decarbonization of power systems of Central Asia countries; (c) should be completed in a macroeconomically sustainable manner; (d) operated under a sustainable commercial framework; and (e) should ensure that environmental and social performance is consistent with international good practice.

8. Development partners indicated that any financing would require an independent assessment to validate project design and the quality of the work already done. Given that the project is already well underway, potential lenders expressed the need for assurances that design and implementation to date comply with international standards. As a result, the World Bank is financing an independent study that will review the technical, environmental, and commercial framework for the project— including an audit of project design and dam safety; the quality of the work completed so far; and an assessment of procurement on the contracts already awarded.⁶

⁶ The World Bank's Technical Assistance for Financing Framework for Rogun HPP Project was approved by the Board on January 12, 2023.

Annex IV. Climate Change and Long-Term Growth¹

Tajikistan's output and long-run growth are vulnerable to climate change, with staff estimates suggesting significant output losses without active climate policies to reduce output sensitivity to climate shocks. The new Green Development Strategy for 2023-37 is an opportunity to make growth more sustainable and resilient over the long run. The strategy should be underpinned by strong policy frameworks that help create fiscal space while mobilizing concessional funding and private investment to limit fiscal implications.

A. Tajikistan's Exposure to Climate Change

1. Tajikistan's mountainous and land-locked territory has been warming fast over the past decade. Higher evaporation rates and the intensifying retreat of Tajikistan's glaciers, which account for nearly 60 percent of Central Asia's water supply, have increased climatic aridity despite ample water resources (Figure 1). Climate change has also been associated with more frequent and severe natural disasters. Torrential rains, powerful storms and floods, severe droughts, and erratic precipitation are taking a large economic and human toll. If global emissions continue unabated, Tajikistan's temperatures are set to rise by 6 degrees Celsius by 2100, further increasing its exposure to climate risks.

2. Tajikistan's reliance on water-dependent sectors leaves the economy vulnerable to climate shocks. Tajikistan's rain-fed agricultural sector accounts for nearly 25 percent of GDP and more than 60 percent of total employment. Agricultural output is concentrated in water-intensive crops (cotton and wheat) which are susceptible to droughts and erratic precipitation. The drier climate conditions are expected to weigh on crop yields over the next decades, increasing food insecurity and reliance on food imports. Meanwhile, droughts can also disrupt production in the water-dependent hydropower and mining sectors, which are key drivers of growth. In addition, the more frequent and severe natural disasters have caused large outmigration from disaster-prone areas².

B. Impact of Climate Change on Tajikistan's Long-Term Growth

3. Climate vulnerabilities weigh on the economy's long-run potential. Climate change represents a gradual and persistent deterioration of climate conditions which may affect not only the level of output but also its long-run growth rate³. Natural disasters not only degrade land and infrastructure but also worsen human health and labor productivity. On the other hand, dealing with climate-related damage diverts scarce resources away from productivity-enhancing investments in human capital and new technologies.

¹Prepared by Kalin Tintchev with inputs from Maxwell Tuuli.

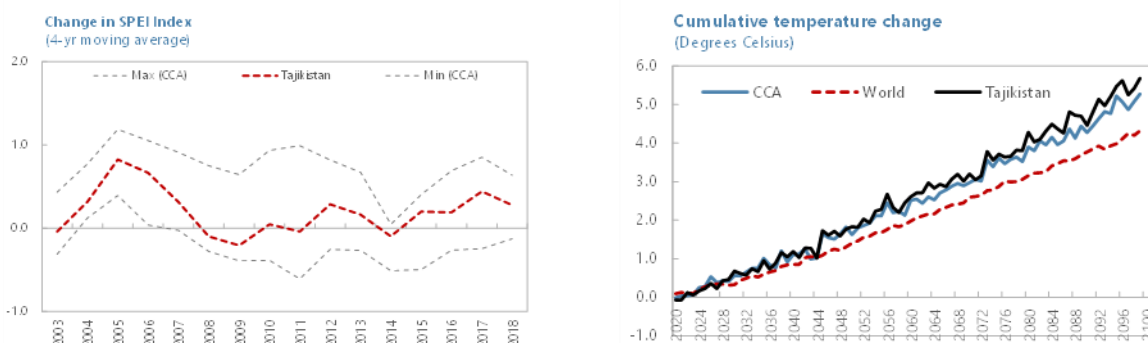
² It is estimated that about 50,000 persons migrated from disaster-prone areas between 2000 and 2015.

³ Global warming is defined as deviations of mean temperature from its long-run trend (30-year moving average).

Figure 1. Tajikistan: Exposure to Climate Change

Tajikistan's climatic aridity has increased...

...And mean temperatures are projected to rise faster than in CCA peers.



LHS: Standardized Precipitation-Evapotranspiration Index (SPEI); lower values indicate drier soil conditions.
RHS: Temperature projections from the IPCC high-emission global climate scenario (RCP 8.5).

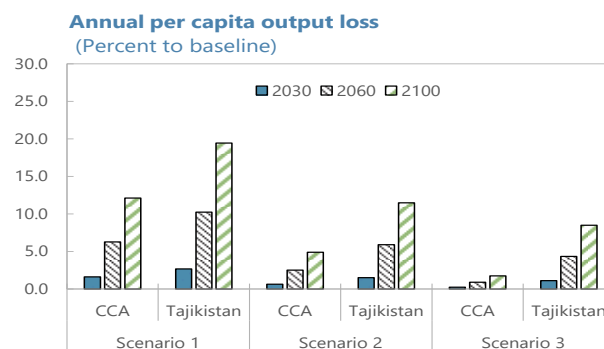
Sources: The World Bank and IMF staff calculations.

4. Model-based evidence suggests that long-term growth may be susceptible to climate shocks. Staff estimates from an Autoregressive Distributed Lag Model (ARDL) for 148 EMDEs indicate that persistent deviations of temperature from its long-run trend lower TFP, investment, and employment, with negative repercussions to long-term growth. Particularly vulnerable are countries with high exposure and output sensitivity to climate change as well as countries with low coping and adaptive capacities due to low incomes, weak fiscal buffers, insufficient social spending and human capital, and poor water availability.

5. Staff estimates suggest that Tajikistan may sustain large output losses absent active global and domestic climate policies. The UN Intergovernmental Panel on Climate Change Fifth Assessment report projects temperatures in Tajikistan to increase persistently over the next decades in a high-emission scenario where global emissions rise unabated, outpacing regional peers. The model estimates suggest that Tajikistan's annual output loss could reach 10 percent of baseline GDP per capita by 2060 if this scenario materializes and domestic adaptation is limited (Figure 2). This compares to 6.3 percent for the Caucasus and Central Asia (CCA) region. However, global mitigation consistent with the Paris Agreement and sound adaptation policies can reduce its output loss to about 4 percent. Productivity enhancements are critical to support Tajikistan's transition from resource-based to efficiency-driven growth. In this context, addressing climate risks can help ensure sustained growth in total factor productivity (TFP) and economic welfare.

Figure 2. Tajikistan: Output Losses in Climate Scenarios

Tajikistan may sustain significant output losses absent active climate policies.



Scenario 1: No global mitigation and domestic adaptation efforts.

Scenario 2: All countries adhere to the PA; no climate adaptation.

Scenario 3: All countries adhere to the PA; climate adaptation.

Sources: The World Bank and IMF staff estimates.

C. Adaptation and Mitigation

6. Adaptation is essential to reduce Tajikistan's output sensitivity to climate change.

Adaptation builds financial and institutional resilience to natural disasters. To be effective, adaptation should be anchored in a well-designed holistic National Adaptation Plan (NAP). Tajikistan launched its NAP process in April 2022 with support from the UN Development Program and Green Climate Fund. The project aims to build institutional capacity for developing a NAP by end-2023. Its key goals are to (i) integrate adaptation in national and sectoral policies, (ii) enhance climate vulnerability analysis, (iii) develop effective adaptation projects, and (iv) improve capacity to tap adaptation funding. Bringing the NAP process to fruition is critical to strengthen the economy's resilience to climate change.

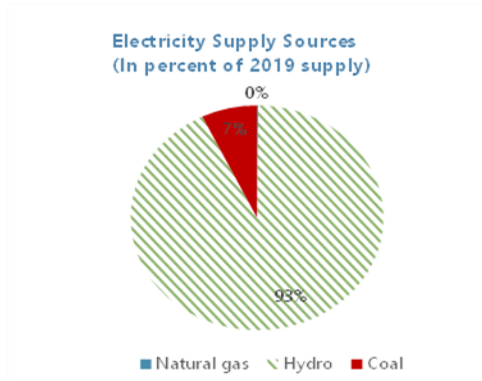
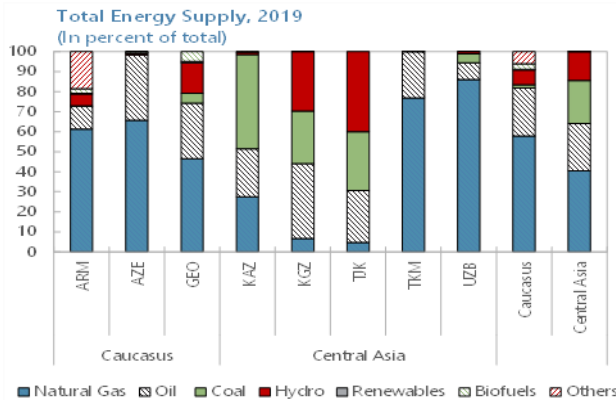
7. Tajikistan's National Adaptation Strategy for 2020-30 lays out adaptation priorities for major sectors (agriculture, energy, transport, water resources). Improving the climate resilience of these sectors is key to supporting employment and inclusive growth. The strategy envisages, among others, measures to improve irrigation and water management and expand the use of climate-smart technologies. Climate risks should be reflected in the macro-fiscal framework and budget planning to support forward-looking risk prevention. Focusing adaptation on key vulnerabilities will improve effectiveness and reduce costs.

8. Tajikistan uses a larger share of renewable energy sources than other countries in the region. At end-2019, renewable hydropower sources accounted for about 40 percent of total energy supply and 93 percent of electricity generation (Figure 3). Reliance on green electricity has helped keep greenhouse gases (GHG) at one of the lowest levels in the region and globally (Figure 4). Carbon emissions fell steeply during the economic collapse caused by the 1992-97 civil war and

are still below their pre-war level. Emissions are primarily driven by agriculture and other fuel combustion sectors.

Figure 3. Tajikistan: Energy Mix

Renewables constitute a large share of Tajikistan's energy supply... with electricity generation driven by hydropower supply...



Sources: IEA and IMF staff calculations.

9. The country appears broadly on track to meet its Paris Agreement target. The 2003 National Mitigation Action Plan set policy priorities for implementation of the UN Framework Convention on Climate Change. The country is a signatory of the Paris Agreement and has committed to reducing GHG by 30-40 percent of pre-industrial levels by 2030 (unconditionally) and 40-50 percent (conditional on international support). While GHG emissions are currently low, and Tajikistan appears broadly on track to meet its unconditional target, they are projected to rise over the next decades and further mitigation efforts will be needed to keep them contained beyond 2030 (Figure 4).

Figure 4. Tajikistan: Carbon Emissions and Pledges under the Paris Agreement

Emissions remain below 1990 levels in absolute terms...

...And on a per capita basis.

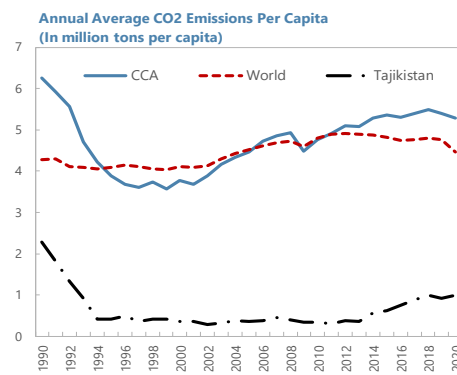
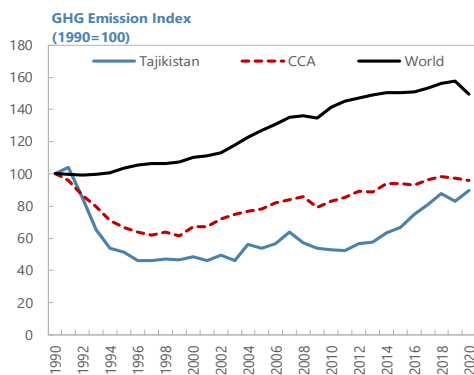
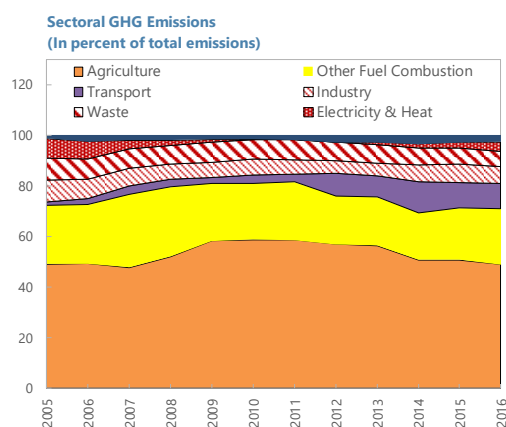
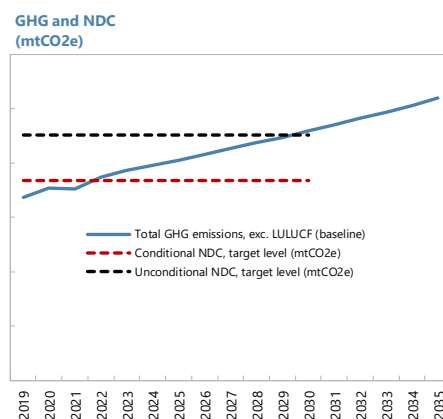


Figure 4. Tajikistan: Carbon Emissions and Pledges under the Paris Agreement (Concluded)

GHG are driven by agriculture and fuel combustion...



Further mitigation appears warranted to keep GHG within the NDC targets over the long run.



Note: Nationally Determined Contributions (NDCs) to the Paris Agreement objectives.

Sources: Ritchie and Roser (2020), the IMF CPAT Tool and Climate Indicators Dashboard, and staff calculations.

D. Strategy for Green Economic Development for 2023-37

10. Tajikistan has prepared an ambitious green development strategy that aims to reduce their vulnerability to climate change. The recently adopted Strategy for Green Economic Development for 2023-37, prepared with EU support, provides a comprehensive roadmap for green development of major economic sectors. Further development of Tajikistan's renewable energy potential, with a focus on expanding small and medium-sized hydropower, is envisaged to address seasonal power shortages, boost electricity exports, and satisfy a growing demand for clean electricity in the context of the national plan for accelerated industrialization. The strategy's adaptation aspects, on the other hand, aim to improve the resilience and environmental sustainability of key sectors (e.g., agriculture, transport, construction).

11. The strategy will need to be implemented judiciously to manage fiscal costs. The strategy entails significant costs (estimated at about US \$2.2 bn) and should be implemented judiciously to manage budgetary implications. Although the bulk of financing is expected to come from development partners and the private sector, budgetary resources are also likely to play an important role. The strategy's implementation will be monitored and coordinated by the Ministry of Economic Development and Trade. The period from 2023 to 2028 will focus on dissemination of information and training about the green economy, application of its principles in the legal framework and the public decision-making process, and on initial greening of key sectors.

12. Strong policy and institutional frameworks are key to advancing the green agenda. Creating fiscal space and mobilizing concessional and private sector financing are essential to ensure successful implementation of the strategy. This involves close cooperation with development partners to strengthen policy and institutional frameworks. On the domestic front, this entails raising

electricity tariffs to cost recovery while providing adequate protection to the vulnerable. Reducing the electricity company's technical and commercial losses can help strengthen the viability of renewable energy projects. On the external front, improving the business climate and public procurement can be instrumental in mobilizing donor support and private sector investment.

13. The authorities' efforts to diversify energy sources and improve water management are well placed. Addressing the climate risks posed by melting glaciers and changing river flows is critical to ensuring a stable water supply for the agricultural and energy sectors. Climate change-driven fluctuations in river flows tend to reduce agricultural yields and disrupt hydropower generation, causing electricity rationing during winter months. This also poses risks to energy security given Tajikistan's reliance on hydropower, and their significant ongoing investment in new hydropower generation based on river flows from melting glaciers. In this regard, the authorities' plans to develop new solar power capacity and improve water management are well placed. Tajikistan has been actively involved in promoting cooperation on water management and co-chairing UN conferences on this topic.

14. A regional approach to mitigation can bring mutual long-term economic benefits. CCA's emissions have been growing rapidly, surpassing the global average on a per capita basis. However, emission rates vary greatly across CCA countries. Larger emitters (e.g., Kazakhstan and Uzbekistan) have committed to achieving carbon neutrality by mid-2050-60 and their demand for clean energy is expected to grow rapidly over the next decades. On the other hand, Tajikistan's future green electricity output may exceed domestic needs and could be exported to help them meet mitigation goals. In this regard, concluding power purchase agreements with prospective regional partners could help raise donor financing for Tajikistan's renewable energy projects.⁴

⁴ The World Bank provides grants for verifiable emission reductions through Emission Reduction Payment Agreements (ERPAs) and Scaling Climate Action by Lowering Emissions (SCALE) programs.

Annex V. Challenges to Increasing Financial Inclusion in Tajikistan¹

Despite a liquid financial system supported by strong remittance inflows, the level of financial intermediation and financial inclusion is low in Tajikistan. While households' and SMEs' access to financial services has increased in recent years, their level of inclusion remains low due to various structural demand and supply side barriers. The authorities are implementing a National Financial Inclusion Strategy (NFIS) that aims to improve inclusion, including through increasing the diversity and supply of financial services, strengthening digital infrastructures, and improving financial literacy. A key question is how to channel Tajikistan's high remittance flows into savings and investment vehicles which would promote financial development.

A. Introduction

1. Financial inclusion is defined as a combination of access, use and quality of financial products and services. Financial inclusion is a multidimensional concept that can be broadly expressed as the extent to which “individuals and businesses have access to useful and affordable financial products and services that meet their needs – transactions, payments, savings, credit and insurance – delivered in a responsible and sustainable way.”² The indicators used to measure financial inclusion include:

- Access: number of ATMs per 100 thousand of adults, number of commercial bank branches per 100 thousand of adults, percentage of firms with a bank loan or a line of credit.
- Use: use of credit for borrowing purpose, use of formal financial services for saving purpose, use of formal financial services for remittances purpose, and outstanding loans from commercial banks as a percent of GDP.
- Quality of financial products and services: average interest rate on loans, banks' cost to income ratio, net interest margin, return on assets, and non-performing loans to total loans.

As of September 2022, suppliers of formal financial services and products include 62 Credit Financial Institutions (15 banks and 47 microfinance institutions³), and 18 insurance organizations.

2. High levels of remittances should lead to stronger financial development and inclusion. At low levels, remittances are used for consumption purposes by liquidity-constrained households who operate in countries characterized by severe credit market imperfections (e.g., asymmetric information, weak legal and institutional frameworks, and noncompetitive banking systems). Thus, remittances can help households avoid using the formal financial system. However, as remittance to GDP levels rise, households are likely to save unused cash flows through formal

¹ Prepared by Kady Keita.

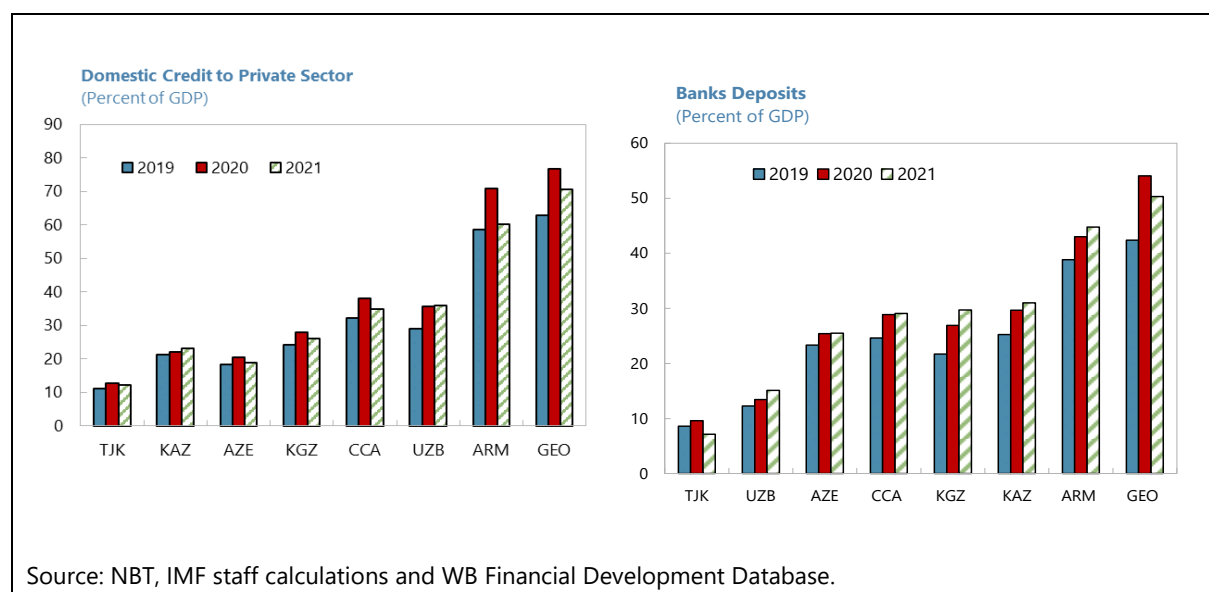
² See World Bank <https://www.worldbank.org/en/topic/financialinclusion/overview>.

³ Microfinance institutions include microcredit (deposit and lending) organizations and microlending funds.

channels, allowing banks to expand their financial services and enhance inclusiveness.⁴ Remittances in Tajikistan represent 31 percent of GDP. Unfortunately, a large share is processed by the National Processing Center for Remittances (NPCR) and does not transit through formal financial institutions, breaking the link between money transfer transactions and bank accounts.

B. Tajikistan's Indicators of Financial Inclusion

3. With the lowest GDP per capita in the CCA region, Tajikistan is faced with key challenges in terms of financial inclusion. The domestic financial system has a limited capacity to finance the economy given its inability to mobilize savings. Despite having increased recently, the size of savings collected by banks is low as illustrated by the ratio of bank deposits to GDP (10.3 percent of GDP in 2021 and 13.4 percent in 2022). Domestic credit to firms and households as well remains the lowest in the region (12.2 percent of GDP in 2021 and 12.4 percent in 2022).



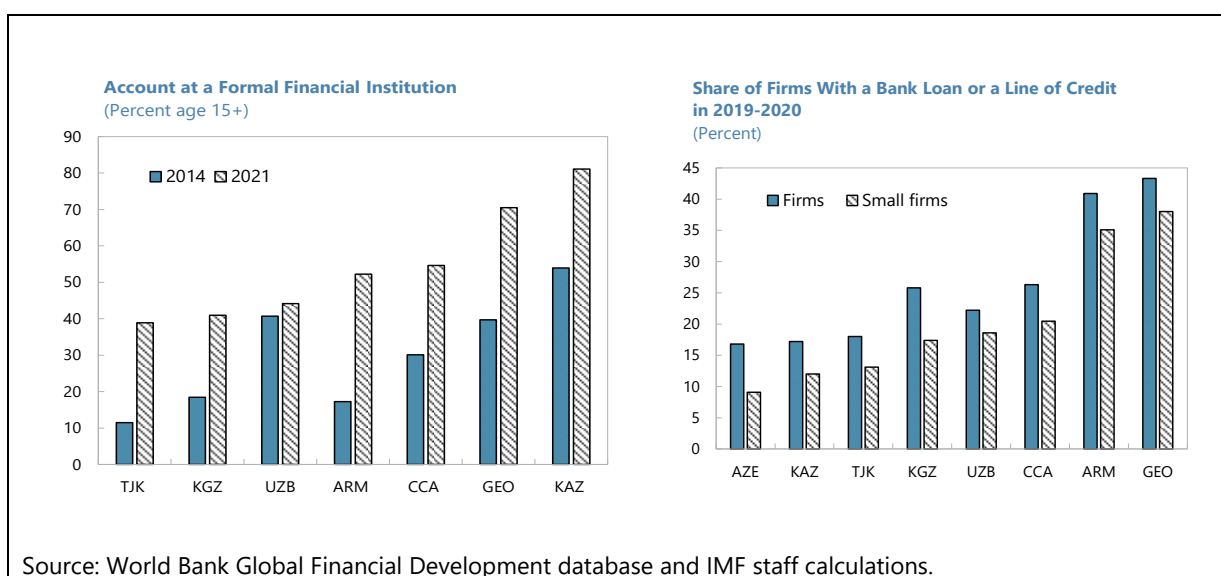
4. The data suggests that access to financial services has increased in recent years but remains relatively low.

- The share of firms with a bank loan or a line of credit rose by 4 percentage points between 2013 and 2019 but remains relatively low.
- Only 18 percent of Tajik firms were reported to have a bank loan or a line of credit in 2019 (compared to 25 percent in Kyrgyzstan, 22 in Uzbekistan and 26 on average in the CCA region).
- The share of Tajik people older than 15 holding an account at a formal financial institution rose by 28 percentage points between 2014 and 2021 thanks to an increase in the number of

⁴ Naceur, Chami and Trabelsi (2015) found a "U" shaped relationship between workers' remittances and financial inclusion.

branches of deposit taking microfinance institutions as well as the number of non-branch retail agent outlets of commercial banks.

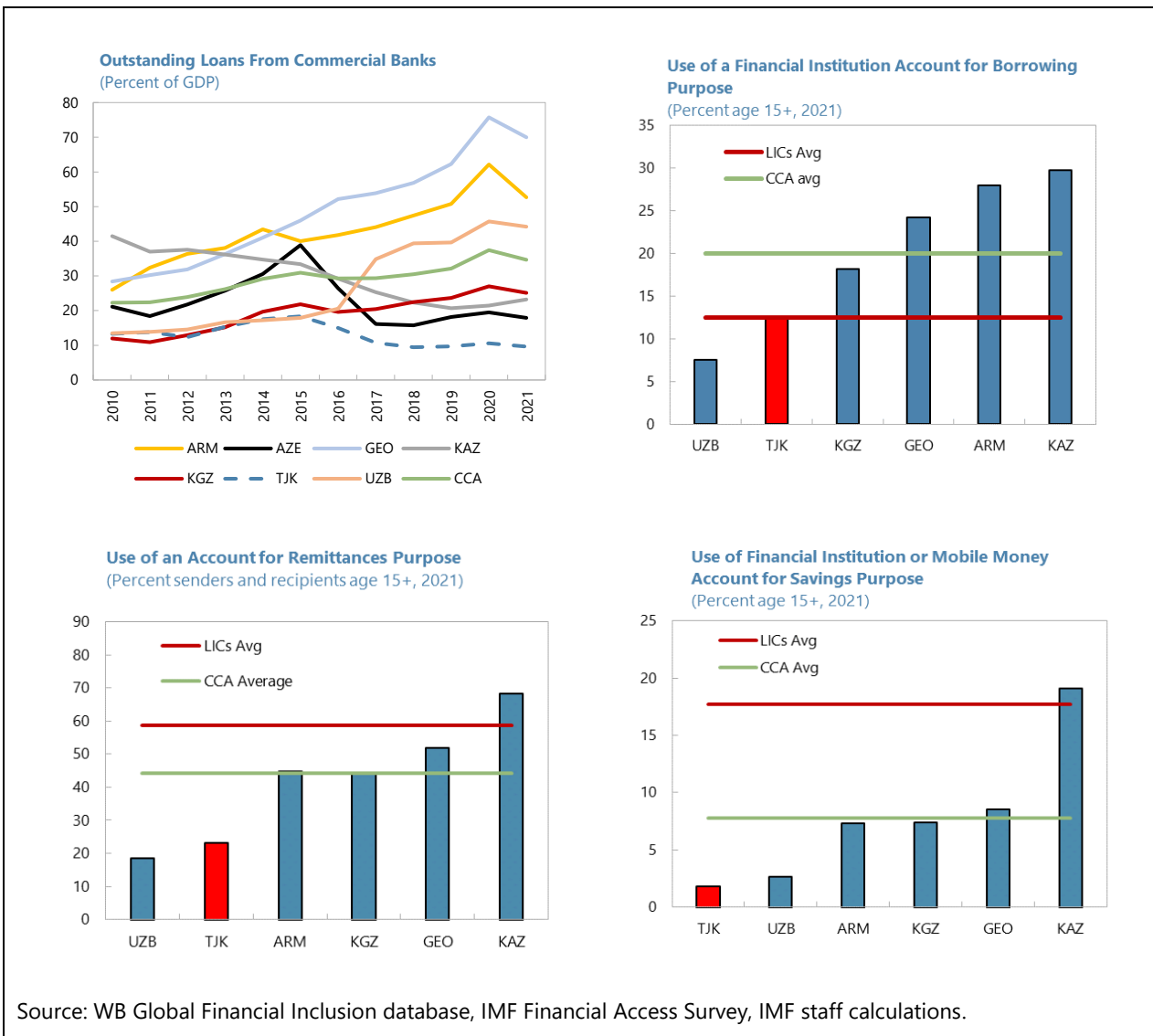
- In 2021, 39 percent of Tajik people older than 15 years were reported to have an account at a formal financial institution (compared to 45 percent in Kyrgyzstan, 44 in Uzbekistan and 56 on average in the CCA region).
- The low access to financial services is explained by a relatively low supply of access points as well as a strong concentration of banks.
- In 2022, the number of commercial bank branches was recorded to be roughly 2 per 100 thousand adults and 1 per 1000 km². The number of ATMs was recorded to be 27.4 per 100 thousand adults and 12.2 per 1000 km² in 2022. Banks concentration was recorded at 86 percent in 2021.



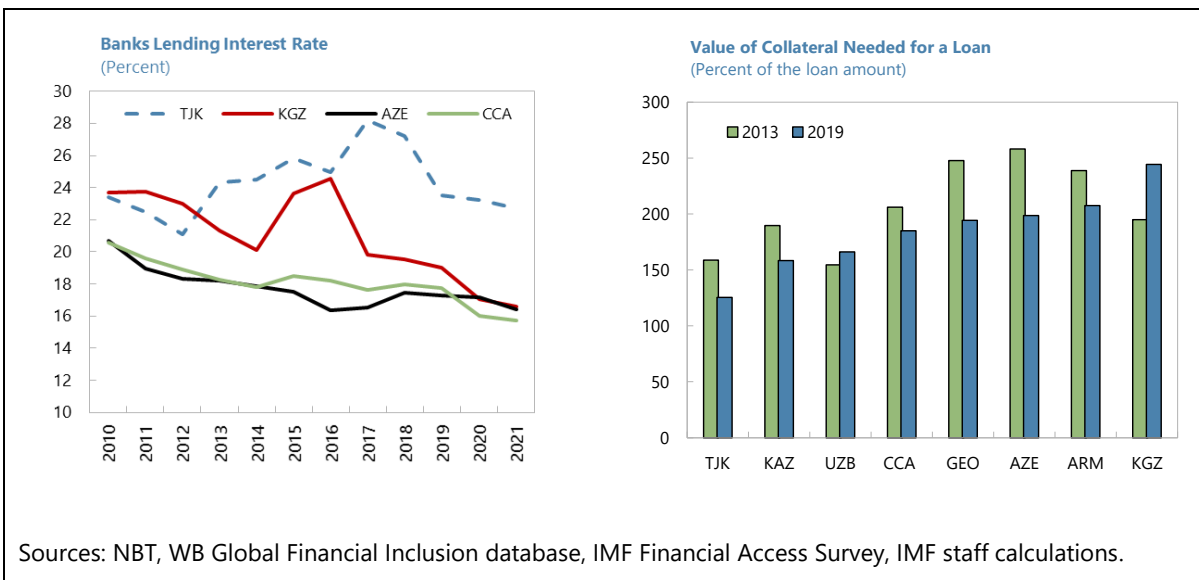
5. The use of formal financial services is relatively low for borrowing and remittance purposes and especially weak for savings.

- Commercial banks' lending has not followed economic activity as illustrated by the drop in their outstanding loans to GDP ratio by half from 23 percent between 2015 and 2021.
- In 2021, only 12 percent of older than 15 used a formal financial institution or a mobile money account for borrowing, which is roughly equal to the LICs' average but lower than the CCA regional average of 20 percent.
- In 2021, 23 percent of the senders and recipients of remittances used an account at a formal financial institution for their remittance purpose, while this indicator is 59 on average for LICs and 44 for CCA countries, due to an insufficient linkage of money transfer transactions and electronic wallets to bank accounts.

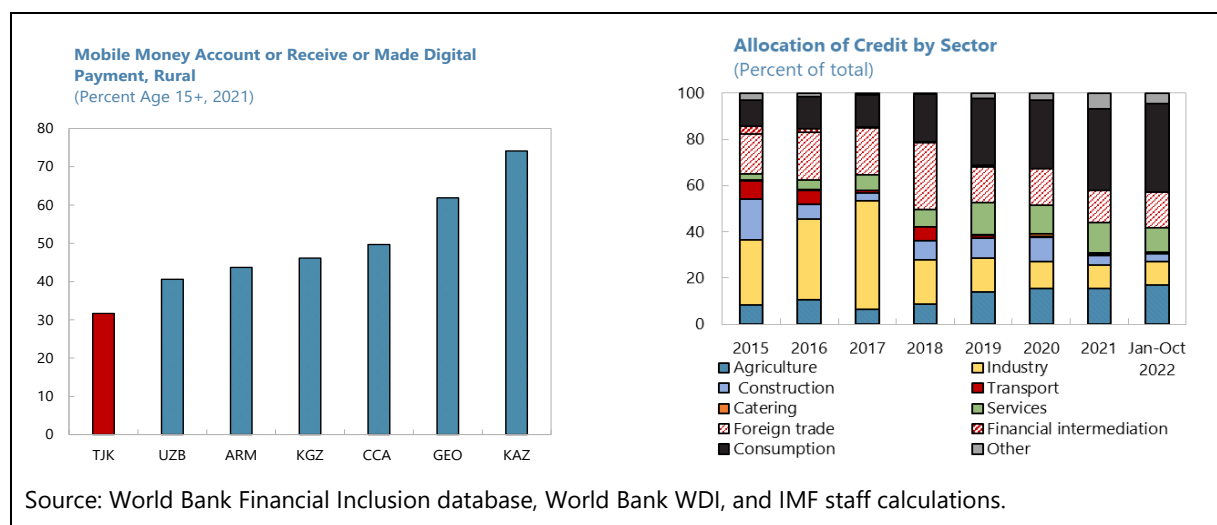
- An insignificant share of the older than 15 (2 percent) have used a formal financial institution or mobile money account for savings purposes in 2021.
- During COVID, many banks started to offer remittance recipients the ability to use their transfer codes to replenish their banking card (account) via the internet. A smaller subset allows this operation via mobile phones. Currently, remittances and banking cards are not used to promote loan placements or deposit accounts. These instruments still require physical presence at bank branches to open accounts and to make loan repayments. Also, the use of substantial transfer fees limits the use of digital banking services.
- The collapse of Fononbank and Tajprombank in 2017, has reduced public confidence in the financial system and helps to explain limited usage of banks as savings vehicles, as some of Tajprombank’s clients continue to experience difficulties in returning their deposits.



6. Although it has decreased in recent years, the cost of credit remains high, making credit inaccessible for many people. Tajik banks' lending interest rate has dropped to around 22.7 percent in 2021, from 28.2 percent in 2017. However, it remains higher than in peer countries and the regional average. Tajik banks do compare favorably in terms of collateral requirements as they require the lowest value of collateral for a loan (in percentage of the loan amount) in the region.



7. Financial products could be better aligned with the needs of SMEs and households, many of which are in rural areas. Tajikistan has one of the highest shares of rural populations in the region and among the LICs (over the last ten years, the share of rural population has been higher than LICs average as well as CCA average). However, the share of older than 15 that use mobile money account and digital payment services in rural area is relatively low (31 percent in 2021 versus 49 percent in the CCA on average). The allocation of credit reveals that only 15.3 percent of total outstanding loans in 2021 were allocated to agriculture and 1 percent to the catering sector, which include many of the smallest enterprises.



8. Financial services delivery is reasonably profitable, both in absolute terms and from a cross-country perspective, but banks face relatively high credit risk. There is a trend of significant improvement in banking performance indicators. The benchmarking of Tajikistan against regional peers in 2021 shows a reasonably profitable banking sector as illustrated by net interest margin which is roughly the regional average. Despite this good profitability, credit risk remains relatively high, with the share of non-performing loans to gross loans at 13 percent in 2021 compared to the regional average of 6 percent.

Table 1. Tajikistan: Key Indicators of Efficiency of the Financial Sector

Country	2022	2021					
	TJK	TJK	CCA	AZE	KAZ	KGZ	UZB
Bank cost to income ratio (%)	70.3	75.0	46.9	59.5	29.9	67.8	42.3
Bank net interest margin (%)	...	6.2	6.4	6.1	5.5	6.5	4.4
Bank noninterest income to total income (%)	74.1	46.7	31.7	27.4	35.7	33.8	39.4
Bank overhead costs to total assets (%)	6.4	6.9	3.3	3.6	2.0	5.0	2.6
Bank return on assets (% , after tax)	3.9	0.5	2.0	1.8	3.8	1.5	0.5
Bank return on equity (% , after tax)	18.7	2.1	13.9	12.6	30.3	9.3	3.4
Credit to government and state-owned enterprises to GDP (%)	...	3.1	7.3	3.5	5.6	1.9	12.7
Bank non-performing loans to gross loans (%)	...	13.4	6.2	...	6.9	10.8	5.1

Source: NBT, WB Financial Development database, IMF staff calculations

C. Barriers to Financial Inclusion

9. The limited diversity of financial products, coupled with the relatively high cost of credit are (supply side) barriers to financial inclusion. Bank payment cards are predominantly debit cards, with credit cards being quasi-inexistent, while Islamic finance is under-developed⁵ despite the large share of the Muslim population. Furthermore, contrary to microfinance institutions, banks are less interested in serving low-income market segments, resulting in a restricted range of financial products available to households and SMEs. Savings products, in contrast to credit products, are represented at a smaller scale due to a lack of promotion by financial institutions. The insurance market is also characterized by a lack of diverse insurance products and a lack of competition.

10. The low level of financial literacy constitutes a (demand side) barrier to financial inclusion. The public has a low level of literacy on financial products and services as well as on financial consumers' rights protection, reducing the demand for financial products and services.

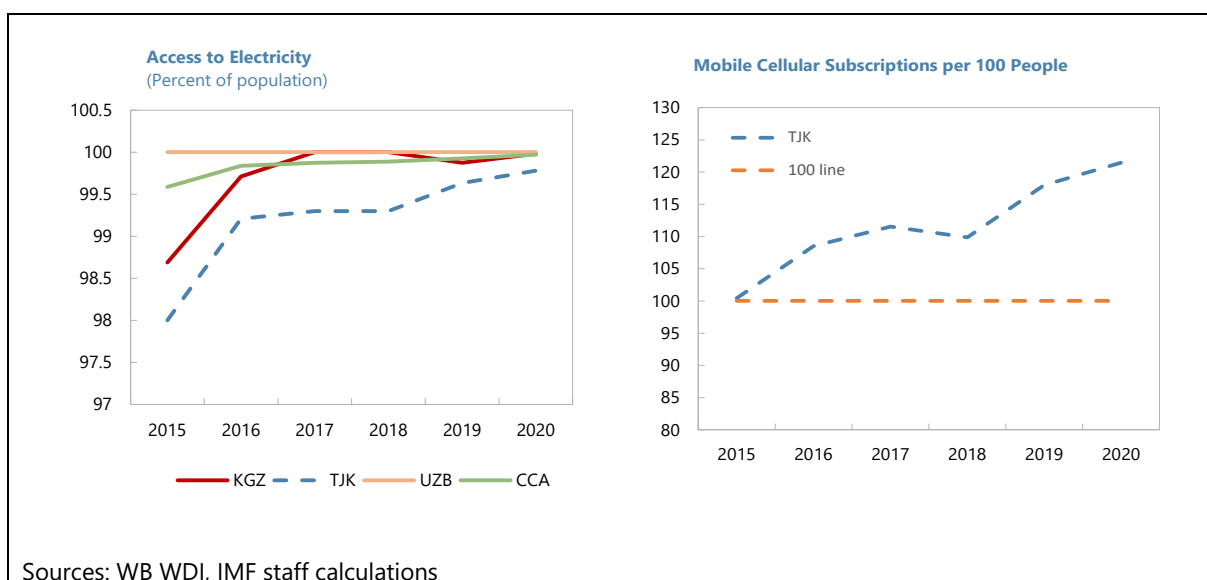
11. The lack of a bank and insurance company code of conduct as well as limited legal protection of consumers' rights constitute an impediment to demand for financial services. While microfinance institutions have a code of conduct for their members, there is no single code

⁵ According to the Financial Inclusion Strategy 2022-2026, as of 2020, only one Islamic bank has been created and two microfinance institutions have been provided licenses to carry out Islamic banking activities. However, during the last 5 years, regulation and legal framework was developed and 27 legal acts were adopted as part of efforts to promote Islamic finance.

for banking and insurance industries⁶. Moreover, the lack of out-of-court dispute resolution mechanisms, such as financial ombudsman reduces consumers' confidence in the system.

12. Incentives to remain in the informal economy are a major obstacle to financial inclusion. The size of the informal economy is relatively high. According to the most recent data, in 2018, the informal sector constituted more than one third of the economy (38 percent of GDP)⁷. Such dominance of informality reduces the level of civil identification of households and small firms and their ability to meet the requirements for borrowing from formal financial institutions.

13. There are still gaps in physical connectivity and information infrastructure: while access to electricity and mobile cellular phones is broad, internet speed could be improved. Almost 100 percent of the Tajik population has access to electricity and there are 121 mobile cellular subscriptions per 100 people in 2020. However, the average mobile Internet speed as of November 2022 is 8.17 Mbps, and the average fixed broadband internet speed is 32.09 Mbps⁸, making the country rank 136th and 104th in the world, respectively.



D. The National Financial Inclusion Strategy and Additional Recommendations

14. The authorities have developed, with international partners, an ambitious National Financial Inclusion Strategy (NFIS) for 2022-2026. The strategy contains a comprehensive action

⁶ However, the National Financial Inclusion Strategy for 2022-2026 prepares an action plan on the development of a unified model industry code of professional ethics for credit financial institutions and insurance organizations.

⁷ Source: World Bank informal economy database: Multiple indicators multiple causes model-based (MIMIC) estimates of informal output (% of official GDP). See Elgin, Kose, Ohnsorge, and Yu (2021)

⁸ <https://www.speedtest.net/global-index>.

plan to enhance SMEs and household access to high quality financial products and services. It includes 67 planned activities across four key areas of intervention: (i) delivery channels and digital financial services; (ii) diversity of financial products; (iii) protecting the rights of financial services consumers; and (iv) financial literacy. Broadly, the objective is to increase the supply of financial services and their access points, improve digital infrastructure, strengthen the legal framework for a better protection of financial consumers' rights, and improve financial literacy, especially for women and youth.

15. In addition to fully implementing the NFIS, several other measures would help to increase financial inclusion in Tajikistan. These include:

- Improve the civil registration system for SMEs. The introduction and request of a social identification number as well as revenue statements in administrative processes would encourage SMEs to formalize their activities and meet the requirements for borrowing from formal financial services.
- Strengthen and expand SME support facilities. While SMEs have new innovative business ideas, they may lack basic expertise in crucial business areas (e.g., accounting, marketing, business planning). Providing technical assistance to SMEs can enhance the bankability of SME projects, making them more attractive to financial lenders.
- Enhance competition in the financial system. High net interest margins and concentration ratios suggest that the financial sector is relatively noncompetitive. Bank supervision and regulation authorities should investigate ways to inject more competition through the attraction of new foreign entrants and institutions specialized in providing FinTech solutions.
- Improving the public's confidence in the financial system through sound supervision and deposit backstop is essential to increase demand for financial services. The objective is to allow a greater use of formal financial services for borrowing, payments, remittances purposes as well as for savings purpose.

Annex VI. Update on State-Owned Enterprise Fiscal Risks and Reforms^{1,2}

A. Introduction

1. SOEs are an important part of the Tajik economy. There are approximately 1,000 SOEs in Tajikistan in various legal forms. However, an updated SOE inventory has not been published since 2015. The sector employs around 24 percent of the labor force, accounts for about 17 percent of GDP, and operates in many areas of the economy (e.g., energy, infrastructure, communal services, communications, banking, transport, trade, and insurance). The three largest SOEs (the electric company Barki Tojik (BT), Tajik Railways, and Tajik Aluminum Holding (TALCO)) hold over 80 percent of SOE assets. Other large SOEs include Tajiktransgaz and Tajik Air.

B. Monitoring of SOE Activities

2. The scope of this review is limited to large SOEs, which are monitored by the MoF under a 2019 government decree. Most of

these SOEs are organized as Joint Stock Companies (JSCs) or State Unitary Enterprises (SUEs), with few as Limited Liability Companies (LLCs). Importantly, SOEs have yet to be divided into commercial (public corporation) and non-commercial (general government) units. The government is the majority shareholder in SOEs. Exceptions include Rogun Hydroelectric Power Plant (RHPP), where the government still retains full operational control, and Zaravshon mining, where China has a 70 percent stake.

SOE Organizational Structures

- **Limited Liability Company (LLC):** Also known as “OOO” or “Pte”
 - Requires at least 1 director and 1 shareholder.
 - Of the 27 large SOEs, **2 are LLCs.**
- **State Unitary Enterprise (SUE):** special entity, wholly owned by the state.
 - Legally, SUEs do not own state-owned property.
 - Of the 27 large SOEs, **10 are SUEs.**
 - Tajik Rail is a SUE.
- **Joint Stock Company (JSC):** can be Open (OJSC) or Closed (CJSC).
 - CJSC up to 50 stockholders, while OJSC can have unlimited number
 - An LLC with more than 30 stockholders, must be transformed into a JSC
 - Of the 27 large SOEs, **15 are JSCs.**
 - BT, Rogun HPP, Tajik Air, Dushanbe Airport, and TALCO are OJSCs.

3. The government’s SOE monitoring list has been expanded, but still does not include TALCO—the main industrial consumer of electricity. The addition of RHPP, Zaravshon and Aprelevka gold mining SOEs and Sanoatsodirobtbank increased the list to 27 entities. Overall, there are 3 financial sector SOEs and 24 nonfinancial sector SOEs.

4. SOE data is collected on a regular basis, but the quality and consistency remain very uneven. Most SOE’s do not comply with IFRS requirements and only a few conduct an annual audit. Fragmented, inconsistent data reporting by SOEs restricts the MoF’s SOE monitoring department

¹ See Selected Issues Paper 2019, “Fiscal Risks from State-Owned Enterprises and Reforms in Tajikistan”, (<https://www.elibrary.imf.org/view/journals/002/2021/199/article-A003-en.xml>).

² Prepared by Nailya Menlasheva and Kevin Ross.

(SOEMD) ability to perform its oversight role. Moreover, TALCO operations are at the heart of the energy sector's financial difficulties and should be closely monitored by the SOEMD.

C. SOE Fiscal Risks and Aggregate Economic Performance

5. After a 3-year hiatus, the MoF renewed publication of Statement of Fiscal Risks (SFR) in October 2022. With the help of IMF TA, the authorities have improved the quality of the report expanding coverage and highlighting key characteristics and fiscal risks. A summary of the aggregate financial position is done for 24 SOE's while a separate assessment is presented for several large ones. The statement also provides information on flows between the state budget and the 27 SOEs, quasi-fiscal activities and subsidies. Even though the publication of SFR was stopped in 2018, the new SFR covers the missing period in its assessment and analytics. Importantly, the separation of the vertically integrated electricity company into 3 distinct companies as well as the addition of new SOEs has complicated the analysis of the aggregate SOE position. For example, for 2021 the SOEMD reconstructed BT's financial position but were unable to fully consolidate or net out all flows and stocks as the newly established energy companies struggled to consistently report.

6. The aggregate financial performance of SOEs improved in 2021—due mostly to the addition of new gold mining SOEs and lower ER losses on BT operations.

- **SOE's have a loss-making legacy.** SOEs have been a drain on Tajikistan's public finances for some time. The 23 largest SOEs have recorded an aggregate net loss each year from 2013 to 2020.
- **Recent improvement in the overall P&L position.** In 2021 the aggregate P&L of non-financial SOEs shifted sharply, from a loss of TJS 6 billion in 2020 to a profit of TJS 1 billion.

However, this was mainly due to the absence of exchange rate losses at BT and an increase in income by about 19 percent. Zaravshon's gold profits increased by 35 percent (TJS 800 million). The improved profitability of Dushanbe Airport, Tajik Rail, and the 3 financial sector SOEs also helped.

	2019	2020	2021	2019	2020	2021
	(in billions TJS)			(in % of GDP)		
Current assets	11.3	14.5	18.8	14.6	17.5	19.1
Total assets	71.8	79.8	82.3	92.9	96.6	83.2
Short-term liabilities	26.0	31.5	34.9	33.6	38.2	35.3
Total liabilities	44.4	49.2	53.8	57.5	59.6	54.4
Equity	27.4	30.5	28.4	35.4	37	28.8
Operating income	8.2	10.1	12.0	10.6	12.2	12.1
Other income	0.6	0.3	0.7	0.7	0.4	0.7
Net profit	-5.2	-6.1	1.0	-6.7	-7.4	1.1

Source: MOF data and staff estimates

- **Overall, the SOEs on net started to add to budget flows.** In 2021 inflows from SOEs to the state budget overperform outflows. This positive dynamic is explained by a 43 percent reduction in proceeds directed from the budget to SOEs within sub-loan agreements and a 23 percent increase in tax payments by SOEs.

	2020	2021	2020	2021
	(in billions TJS)		(in % of GDP)	
From budget to SOEs				
Current subsidies / transfers	0.01	0.01	0.0	0.0
Equity	0.00	0.00	0.0	0.0
Loans	2.9	1.7	3.5	1.7
Total	2.9	1.7	3.5	1.7
From SOEs to the budget				
Taxes	2.1	2.5	2.5	2.6
Dividends	0.0	0.0	0.0	0.0
Loan repayment	0.2	0.2	0.2	0.2
Total	2.3	2.8	2.8	2.8
Balance	-0.6	1.1	-0.8	1.1

Source: MOF data and staff estimates

- **SOE's overall debt service arrears increased but declined as a percent of GDP.** Debt service transactions from SOEs are mainly related to sub-loans, which given their nature and magnitude represent significant fiscal risk. In 2021 the SOE sector has kept accumulating debt service losses, where within a year the amount of debt overdue payments has been increased from TJS 14 billion to TJS 17 billion (17.1 percent of GDP). Some 93 percent of accumulated overdue debt belongs to BT.

	2015	2016	2017	2018	2019	2020	2021
	(In billions TJS)						
Principal	1.13	1.56	2.23	2.83	3.31	3.97	4.41
Interest	1.14	1.63	2.32	2.94	3.51	3.87	4.67
Penalties	1.11	1.76	2.67	3.78	4.99	6.51	7.84
Total	3.38	4.95	7.22	9.55	11.81	14.34	16.92
In % to GDP	7.0	9.1	11.8	13.9	15.3	17.4	17.1

Source: MOF data and staff estimates

- **Indirect subsidies continue to put a heavy load on the state budget.** In 2021, the debt of Tajik Railways worth of TJS 286.5 million within sub-loan agreement was converted into state shares of the company.³ Also the pending tax payment of OJSC Dushanbe International Airport and Khujand International Airport to the budget in the amount of TJS 43 million has been postponed for 3 years.⁴
- **The economic health of some key individual SOEs continued to deteriorate.** Abstracting from the exchange rate revaluations and the expansion of the monitoring list, the economic health, and fiscal risks of important SOEs (e.g., TALCO, Tajik Air, Transgaz) have worsened. Fifteen of the 27 SOEs reported losses in 2021.

³ Government Decree N57 dated February 27, 2021.

⁴ Offsetting SOE financial obligations to third parties by writing off their fiscal tax liabilities have been common. These arrangements were generally reflected as an equity increase in the SOE's Statement of Financial Position.

D. Progress in the SOE Reform Agenda

7. The authorities have taken some steps to improve SOE financial performance and management structure.

- The government's ***Fiscal Risks Management Program (2022-26)*** was approved in November 2022. This program would provide direction on the next steps needed to further improve the monitoring, evaluation, and management of fiscal risks.
- The authorities are working with the development partners to implement the BT Financial Recovery Program (2019-25). Key reforms are focused on installing metering equipment, improving accounts receivable recovery rates, and lowering overall operating and funding costs. To some degree, negative spillover effects from COVID-19 and the war in Ukraine has slowed progress and raised the cost of the financial rehabilitation.
- BT started the process of dividing the company into three separate entities (for production, transmission, and distribution). Over time this measure is expected to strengthen the efficiency, reliability, transparency, and financial health of electricity sector.
- Transition tariff methodology was approved to cover operating expenses and accounts payable for the next 12 months, as well as capital expenditures in generation and transmission. An escrow account was opened to effectively manage energy proceeds and a Supervisory Board headed by the Prime Minister was established to oversee the account.

8. Strengthening SOE governance is key to improving their financial performance and reducing fiscal risks.

- Approved amendments to the ***Law on State Enterprises*** in 2020 required all SUEs to have supervisory boards. A Government decree has approved supervisory boards for 35 SUEs. However, there are no transparent and objective criteria and procedures in Tajikistan for appointing SOE supervisory board members.
- Supervisory boards generally comprise ministers, deputy ministers or other officials. International experience suggests that this can give rise to conflicts between commercial objectives and public policy objectives that might weaken the financial performance of those SOEs.

9. As noted above, comprehensive reforms are required to put SOE sector on a sustainable path.

- It will be important to continue the reforms in energy sector. These reforms should ensure improvements in collection and bringing existing tariffs in line with the full cost-recovery over the medium-term.

- Targeted social safety nets will be needed to mitigate the impact of the reform on vulnerable segments of the population. Government should continue its efforts to deregulate the sector and improve its transparency and management.
- Full IFRS implementation for all large SOEs is yet to be put in place. Financial difficulties prevent many SOEs from conducting regular audits. This represents a risk for the state as the ultimate owner.
- The data provided by SOEs on their financial performance is limited. There are significant inconsistencies between audited reports and those submitted to the MOF by some large SOEs.
- Borrowing by SOEs should be carefully considered and included within the government's overall medium-term debt envelope and strategy. Commercial borrowing by SOEs should be underpinned by strong corporate governance and proven commercial viability.



REPUBLIC OF TAJIKISTAN

STAFF REPORT FOR THE 2022 ARTICLE IV CONSULTATION—INFORMATIONAL ANNEX

February 10, 2023

Prepared By

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

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FUND RELATIONS

(As of December 31, 2022)

Membership Status: Joined April 27, 1993; Article VIII

General Resources Account:	SDR Million	Percent Quota
Quota	174.00	100.00
IMF's Holdings of Currency (Holdings Rate)	174.00	100.00
Reserve Tranche Position	0.00	0.00

SDR Department:	SDR Million	Percent Allocation
Net cumulative allocation	248.85	100.00
Holdings	189.15	76.01

Outstanding Purchases and Loans:	SDR Million	Percent Quota
RCF Loans	139.20	80.00

Latest Financial Commitments:

Arrangements:

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

¹ Formerly PRGF

Overdue Obligations and Projected Payments to Fund²**(SDR Million; based on existing use of resources and present holdings of SDRs):**

	Forthcoming				
	<u>2023</u>	<u>2024</u>	<u>2025</u>	<u>2026</u>	<u>2027</u>
Principal			13.92	27.84	27.84
Charges/Interest	1.73	1.74	1.74	1.74	1.74
Total	1.73	1.74	15.66	29.58	29.58

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			
	<u>Delivery Date</u>	<u>GRA</u>	<u>PRGT</u>	<u>Total</u>
	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
N/A	Dec 15, 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 National Bank of Tajikistan is making progress in implementing the recommendations of the IMF 2021 Safeguards Assessment. The Safeguards Assessment had especially found vulnerabilities in the legal framework and governance arrangements. The NBT is currently reforming its legal framework in line with the recommendations. Amendments to the NBT's law have been developed, with the technical assistance from the Fund, and submitted to the Government in July 2022 for approval. These amendments aim at strengthening the NBT's operational autonomy and governance and limit the scope for monetary financing of the deficit. The NBT re-iterated its commitment to implement other safeguard recommendations, including on strengthening the foreign reserves management framework, IT security, and mechanisms for distinguishing between realized and unrealized gains in profit appropriation procedures. With regards to profit appropriation procedures the NBT is considering requesting Fund technical assistance.

Exchange Rate Arrangements

Tajikistan's de jure exchange rate arrangement is managed floating and its de facto exchange rate arrangement 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 has been assessed by the Fund to maintain exchange measures giving rise to 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 Agreement⁵. 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 (somon) 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

⁵ Staff is currently collecting further information relating to the latest developments in the foreign exchange market (see staff report, paragraphs 20-25) to determine if there have also been any changes to exchange measures that may affect the Fund's assessment of these measures under Article VIII, Section 2(a) and Section 3.

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).

FSAP Participation

Tajikistan participated in the Financial Sector Assessment Program during 2007–08, and the FSSA report was published at: <https://www.imf.org/en/Publications/CR/Issues/2016/12/31/Republic-of-Tajikistan-Financial-System-Stability-Assessment-including-Reports-on-Observance-22534>. 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. Tajikistan has not participated in an FSAP since 2015, although a Financial Sector Stability Review (FSSR) was completed in April 2022. The FSSR conducted a diagnostic review that covered financial supervision and regulation; macroprudential policy and financial stability; stress testing; financial safety net and crisis management; and financial market infrastructure and payments. The FSSR prepared a roadmap for technical assistance over the next three years to address key vulnerabilities and strengthen the financial system.

Article IV Consultation

The 2021 Article IV consultation with Tajikistan was concluded on January 21, 2021.

Technical Assistance

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

Tajikistan: Future Technical Assistance, 2023 /1		
Fund Department	Area of Assistance	Mission Dates
MCM	Macroprudential oversight /2	Sept 2023-Aug 2026
MCM	Stress testing model for liquidity risk	Dec 2023
LEG	Legal drafting and sectoral risk-based supervision	Feb 2023
FAD	Tax policy diagnostics	January/February 2023
MCM	MCM follow up on implementation of reforms to FX markets and FSSR proposed reforms	To Be Determined
1/Other future TA activities are planned by MCM based on the FSSR work plan but are not yet confirmed. 2/ Availability of a suitable expert (resident advisor) will be an important pre-condition for this TA activity.		

Tajikistan: Technical Assistance, 2006-22		
MCM	Discussion on FSSR Work Plan	December 2022
FAD	Tax Administration	December 2022
MCM/ ITD/ CCAMTAC	Enhancing Liquidity Forecasting Framework	September/October 2022
FAD	SOEs Fiscal Risks Statement	August/September 2022
LEG	Legal Drafting Mission on AML/CFT Law	May 2022
STA	Government Finance Statistics	March 2022
STA	External Sector Statistics Mission	February 2022
MCM	Financial Sector Stability Review	December 2021
STA	Residential Property Prices Index Mission	November/December 2021
LEG	Legal Drafting Mission on AML/CFT Law	October 2021
LEG	Central Banking Law	August 2021
CCAMTAC	Strengthening Fiscal Risks Management and Disclosure	June 2021
MCM	Improving the Functioning of the FX Market	May 2021
STA	Government Financial Statistics	May 2021
LEG	Draft Tax Law Code	February/March 2021
FAD	Second SOE Fiscal Risk Management Strategy	February 2021
CCAMTAC	Tax Administration	February 2021
STA	National Accounts Mission	January 2021
FAD	SOE Fiscal Risks	August 2020
STA	National Accounts Statistics	June 2019

Tajikistan: Technical Assistance, 2006-22 (Continued)		
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
MCM	Banking Supervision	August 2017
MCM	Banking Supervision	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/Nov 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

Tajikistan: Technical Assistance, 2006-22 (Concluded)		
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
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.htm>

STATISTICAL ISSUES

(As of January 20, 2022)

I. Assessment of Data Adequacy for Surveillance
<p>General: Data provision has some shortcomings in the areas of national accounts, price statistics, and monetary statistics, but is broadly adequate for surveillance.</p>
<p>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 and assessed monthly data sources for the compilation of Monthly Indicator of Economic Growth (MIEG); reviewed source data for the compilation of quarterly GDP estimates and provided recommendations for further improvement.</p>
<p>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 formula 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 formula is recommended. At the higher level of aggregation, the modified Laspeyres formula 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.</p> <p>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.</p> <p>In December 2021, IMF's Statistics Department (STA) led a mission to assist the Agency of Statistics of the Republic of Tajikistan (TAJSTAT) with the development, for the first time, of a residential property price index (RPPI). TAJSTAT aims to compile the RPPI using the hedonic Rolling Time Dummy (RTD) method and to publish a quarterly RPPI from January 2023.</p>
<p>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. The time series was subsequently updated to 2021Q3 in late 2021, and, since then, the MOF has been submitting the quarterly data on a regular basis. The MOF also posts the COVID-19 related quarterly social expenditures on its website and submits such data to the IMF's Middle East and</p>

Central Asia Department (MCD) for surveillance purposes. STA provided the latest technical assistance on GFS in March 2022 to help the authorities gain further experience in compiling GFS in accordance with the GFSM2014 and recommended the MOF to introduce the GFS concepts in the budget.

4. 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. 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).

5. External sector statistics (ESS): The NBT develops quarterly balance of payment and IIP, based on the Sixth Edition of the Balance of Payment and International Investment Position Manual (BPM6); quarterly external debt statistics (QEDS) for all institutional sectors per the requirements of the External Debt Statistics: Guide for Compilers and Users 2013 (2013 EDS Guide); it also participates in the Coordinated Direct Investment Survey (CDIS). Data are prepared and sent to the IMF in a timely manner in accordance with international standards. However, a number of issues remain that require further work for improving the quality, coverage, and reliability of ESS, especially the estimation of remittances, services and foreign investments statistics. The latest IMF technical assistance mission on external sector statistics was held in February 2022 and aimed at providing assistance to the NBT in improving the quality of ESS by improving current data sources and methods of compiling the balance of payments, international investment position (IIP), and external debt statistics (EDS); identifying and eliminating current gaps in data; as well as determining further actions to be taken by the NBT to achieve results in improving the compilation and dissemination of ESS.

II. 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 Report on the Observance of Standards and Codes (ROSC) was published on April 8, 2005.

III. Reporting to STA

The country page in the International Financial Statistics (IFS) has been published since February 2003.

Tajikistan: Table of Common Indicators Required for Surveillance
(As of January 20, 2023)

	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	Data Quality Accuracy and reliability ⁸
Exchange Rates	December 2022	1/17/2023	M	M	M		
International Reserve Assets and Reserve Liabilities of the Monetary Authorities ¹	November 2022	1/6/2023	M	W	W		
Reserve/Base Money	November 2022	1/6/2023	M	M	W	O, O, LO, O	LO, O, O, O, NO
Broad Money	November 2022	1/6/2023	M	M	M		
Central Bank Balance Sheet	November 2022	1/6/2023	M	M	W		
Consolidated Balance Sheet of the Banking System	November 2022	1/6/2023	M	M	M		
Interest Rates ²	December 2022	1/13/2023	M	M	I		
Consumer Price Index	December 2022	1/20/2023	M	M	M	LO, LO, LNO, O	LO, LO, LO, O, O
Revenue, Expenditure, Balance and Composition of Financing ³ — General Government ⁴	September 2022	11/28/2022	M	M	I	LO, LO, O, O	O, O, O, LO, LO
Revenue, Expenditure, Balance and Composition of Financing ³ — Central Government	September 2022	11/28/2022	M	M	I		
Stocks of Central Government and Central Government-Guaranteed Debt ⁵	June 2022	11/28/2022	Q	Q	I		
External Current Account Balance	September 2022	1/13/2023	Q	Q	Q	LNO, LNO, O, O	LO, O, O, O, O
Exports and Imports of Goods and Services	September 2022	1/13/2023	Q	Q	Q		
International Investment Position	September 2022	1/13/2023	Q	Q	Q		
GDP/GNP ⁹	December 2022	1/13/2023	M/Q/A	M	Q	O, LNO, LNO, LNO	LO, LO, LNO, O, O
Gross External Debt	June 2022	11/28/2022	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 are published on Tajstat's website while monthly estimates are provided in a statistical bulletin.



REPUBLIC OF TAJIKISTAN

STAFF REPORT FOR THE 2022 ARTICLE IV CONSULTATION—DEBT SUSTAINABILITY ANALYSIS

February 10, 2023

Approved By
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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 external and overall risk of debt distress remains high (unchanged from the December 2021 DSA).¹

Public debt declined from 49.8 percent of GDP in 2020 to 43.4 percent of GDP in 2021, reflecting strong GDP growth. Under the baseline, the debt-to-GDP ratio declines further to 31.0 percent by 2027 based on the authorities' adherence to fiscal discipline and is thus assessed as sustainable. Likewise, the present value of the public debt-to-GDP ratio is projected to decline over the same period to 24.2 percent. However, the external debt service-to-export indicator breaches its threshold, leading to a high external risk rating.

The authorities' commitment to maintain a fiscal deficit of 2.5 percent of GDP over the medium term, and to avoid non-concessional external borrowing is projected to stabilize key debt indicators below their respective sustainability thresholds by 2032.²

Tajikistan's public debt is sustainable but remains vulnerable, especially to export shocks and contingent fiscal liabilities. Maintaining fiscal discipline, avoiding non-concessional external borrowing, expanding and diversifying exports, and containing contingent liabilities from SOEs would reduce vulnerabilities and stabilize debt.

¹ The CI for Tajikistan is estimated at 3.08, based on October 2022 WEO and 2021 World Bank's CPIA, indicating a strong Debt Carrying Capacity (DCC).

² The commitment is made under the IMF's Rapid Credit Facility of 2020).

COVERAGE AND BACKGROUND ON PUBLIC DEBT

A. Background on Debt and Debt Coverage

1. In recent years, external and financial sector factors have contributed to variations in debt-to-GDP levels. Tajikistan's external public and publicly guaranteed (PPG) debt rose from 24 percent of GDP in 2014 to 50.4 percent of GDP at end-2020 mainly because of a sizable depreciation of the somoni, an increase in Rogun-related spending that resulted in sizable fiscal deficits in 2016 and 2017, and the fallout of the COVID-19 shock. This increase was driven by both commercial debt (the issuance of a US\$500 million sovereign bond in 2017)³ and concessional debt (emergency borrowing from development partners during the COVID-19 shock). In 2021 external PPG debt declined to 43 percent of GDP reflecting strong GDP growth. Domestic PPG debt followed a similar pattern. It increased from 3.5 percent of GDP at end-2014 to 6.6 percent of GDP at end-2020 and then declined to 5.2 percent of GDP in 2021. The increase in domestic PPG partly reflects a 6 percent of GDP recapitalization of banks in December 2016.

2. External debt accounted for the majority of PPG debt in 2021. External PPG debt amounted to 88 percent of total PPG debt, with over 80 percent of external PPG debt owed to multilateral and bilateral creditors. The largest single creditor was China, which held about a third of the total PPG external debt (Table 1).

Text Table 1. Tajikistan: Composition of External Public Debt, 2017-2021

	2017	2018	2019	2020	2021
External Public Debt (US\$ billion)	2.84	2.89	2.87	3.28	3.34
Bilateral	1.38	1.37	1.29	1.34	1.31
<i>of which: China</i>	1.21	1.21	1.12	1.15	1.11
Multilateral	0.93	0.99	1.01	1.35	1.42
Guaranteed loans	0.03	0.03	0.07	0.10	0.12
Bonds	0.50	0.50	0.50	0.50	0.50

Source: Country authorities.

3. The National Bank of Tajikistan (NBT) is the main creditor and holder of largely non-marketable domestic government debt (Table 2). Most of the government securities held by the NBT were issued at significantly below-market terms, with some interest rates as low as 0.99 percent. Since 2016, the government has been accumulating interest and principal arrears to the NBT.⁴ 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 2 percent interest rate with a one-year maturity. The government repaid

³ The Eurobond of US\$500 million issued in September 2017, with a maturity of 10 years, carried an interest rate of 7.125 percent.

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.

TJS 412 million (0.4 percent of GDP) to the NBT during 2021. However, the government continues to run arrears against the NBT, with overdue credit owed by the government to the NBT amounting to 4 percent of GDP as of end-2021, including the bonds issued to recapitalize commercial banks during the 2015-16 shocks.

Debt instrument	2020	2021	2022 (9 months)
1 Tajiksodirotbank recapitalization bonds	2,134	2,133	2,122
2 MoF's bond related to Agroinvestbank	1,748	1,707	1,653
o.w. Agroinvestbank recapitalization bonds	1,065	1,024	969
o.w. bonds to settle Agroinvestbank's loan liabilities.	484	484	484
o.w. bond for capitalization of Agroinvestbank	200	200	200
3 MoF's bond for Roghun financing	251	122	-
4 T-bills	278	73	90
Long-term T-bills	154	23	
Short-term T-bills	125	50	90
5 Amonotbank's lotteries	10	10	
6 MoF's bonds to support cotton producers	59	59	
7 Loan from the NBT	1,059	953	857
Total	5,539	5,058	4,722

Source: National authorities.

4. This DSA covers the central government, central bank, and government-guaranteed external and domestic debt (Table 3). 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),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 public-private partnership (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	

⁵ The Ministry of Finance does not record non-guaranteed debt of SOEs. IDA's Sustainable Development Finance Policy (SDFP) and IMF's TA are jointly supporting the improvement of SOEs' fiscal risk management in Tajikistan. See more details in paragraph 23.

BACKGROUND ON MACRO FORECASTS

5. **Compared to the previous DSA, the macroeconomic outlook has improved (Table 4).**⁶ The new projections reflect the expected rebound from the global pandemic, which remains subject to downside risks from possible adverse spillover from the war in Ukraine as well as geopolitical tensions with the Kyrgyz Republic and Afghanistan. The main assumptions are:

- **External.** The current account surplus is expected to decline in 2022 and switch to a moderate deficit over the medium term, reflecting a normalization of gold exports and remittances, and an increase in infrastructure investment. Remittances are expected to jump to 38 percent of GDP in 2022, before converging to pre-war and pre-COVID levels in the medium-term at around 30 percent of GDP. Gold exports, the largest exports item in 2020-21, are expected to decline significantly in 2022 after a one-off increase in 2021 and to remain in line with production in the medium-term. Valuation effects from somoni appreciation are expected to contribute to higher imports as well as a reduction in the public debt/GDP ratio in 2022. Despite a sizable import acceleration in 2022, remittances inflows boosted international reserves to about 8 months of imports, above Fund's adequacy metrics. The 2021 SDR allocation remains unused and adds to the stock of reserves.
- **Interest rates.** The immediate impact of higher world interest rates on existing external debt is projected to be limited due to the concessional nature of the current stock. In the medium term, after Rogun's power purchase agreements are in place and debt remains sustainable, the authorities are expected to increase access to market financing. As a result, medium-term effective average interest rates on external debt are expected to increase gradually. The existing domestic public debt stock has been provided at highly negative real terms by the NBT; development of the domestic bond market would help diversify sources of financing but would also likely require a convergence toward market rates.
- **Fiscal.** The fiscal deficit is expected to increase in 2022 owing to higher expenditures but remain below the authorities' medium-term target of 2.5 percent of GDP. Over the medium-term, the fiscal deficit is expected to remain in line with the authorities' fiscal deficit target. Spending on Rogun's and other large infrastructure projects is expected to be financed by improving revenues, with offsetting cuts to other non-priority spending as needed. Additionally, Rogun expenditure should remain within the sustainable financing envelope (see footnote 8) Fiscal discipline should be further reinforced by phasing out tax exemptions and strengthening state-owned enterprises (SOE).
- **Growth and inflation.** Growth is estimated at 8 percent in 2022 reflecting both strong remittances inflows, still favorable terms-of-trade and good domestic output performance in industry (mining). Over the medium term, growth is expected to converge to about 4 percent, as uneven structural reforms weigh on potential growth. Inflation is expected to remain within the

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

NBT target range over the medium term supported by a tight monetary stance and macroprudential tools, if necessary. In the short term, residual effects of somoni appreciation will help manage inflationary pressures.⁷

- **Rogun HPP.** To ensure macro-fiscal sustainability, the World Bank's "Rogun Financing Options Study" suggests completing the Rogun project in 2032 instead of 2029 as initially planned by the authorities. During the construction phase, the impact on growth is not expected to be significant due to the high import component of the project, while export proceeds from two temporarily installed turbines will barely cover operational costs. When production reaches its full capacity, the impact on the potential output is expected to be strong. After the construction phase is completed, production will increase steadily as the reservoir reaches its full supply level over the next decade, contributing to higher real GDP growth.

Text Table 4. Tajikistan: Baseline DSA Assumptions, 2019-32
(In percent of GDP)

	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028-32
Real GDP growth, percent										
2022 DSA	7.4	4.4	9.4	8.0	5.0	4.5	4.0	4.0	4.0	4.0
2021 DSA	7.5	-2.0	7.5	4.5	4.0	4.0	4.0	4.0	4.0	7.0
2020 DSA	5.5	4.8	4.5	4.5	4.0	4.0	4.0	4.0	4.0	7.0
CPI Inflation (period avg), percent										
2022 DSA	7.8	8.6	9.0	6.6	5.4	6.5	6.5	6.5	6.5	6.5
2021 DSA	7.8	8.6	8.8	7.6	6.7	6.5	6.5	6.5	6.5	6.5
2020 DSA	7.5	7.4	6.7	6.5	6.5	6.5	7.5	8.5	9.5	12.5
Primary fiscal balance										
2022 DSA	-1.2	-3.4	0.2	-0.6	-1.8	-1.8	-1.9	-1.9	-2.2	-2.4
2021 DSA	-1.2	-3.5	-1.0	-1.9	-1.9	-2.0	-2.0	-2.1	-1.4	-1.7
2020 DSA	-2.7	-3.2	-3.3	-3.5	-3.5	-3.4	-2.4	-1.4	-0.4	2.6
Overall fiscal balance (incl. PIP)										
2022 DSA	-2.1	-4.3	-0.7	-1.4	-2.5	-2.5	-2.5	-2.5	-2.5	-2.5
2021 DSA	-2.1	-7.7	-4.4	-2.6	-2.5	-2.5	-2.5	-2.5	-2.5	0.5
2020 DSA	-3.8	-4.3	-4.3	-4.3	-4.3	-4.3	-4.3	-4.3	-4.3	-1.3
Current account balance										
2022 DSA	-2.2	4.1	8.2	6.4	-1.6	-2.4	-2.8	-2.9	-2.9	-3.0
2021 DSA	-2.3	-7.8	-4.7	-4.6	-4.4	-4.3	-4.3	-4.3	-4.3	-1.3
2020 DSA	-4.5	-5.2	-5.3	-5.3	-5.4	-5.5	-5.5	-5.5	-5.5	-2.5
Public debt										
2022 DSA	43.5	49.8	42.5	34.6	32.3	31.3	31.2	31.1	31.0	28.0
2021 DSA	44.1	51.3	47.0	44.1	43.6	43.3	42.1	41.0	39.3	37.1
2020 DSA	44.1	51.3	52.4	52.4	52.2	52.0	53.0	54.0	55.0	58.0

Sources: National authorities, the IMF and the WB staff estimates.

⁷ There are weaknesses in national accounts statistics.

6. Macroeconomic assumptions under the current baseline scenario are broadly similar to the medium-term projections in the 2021 DSA. GDP growth is estimated to slow to estimated potential over the medium-term. The projected fiscal deficit in 2022 is lower relative to the 2021 DSA reflecting better-than-expected revenue performance. The projections also incorporate the government's commitment to fiscal discipline, with the budgets for 2023-24 expected to be in line with the medium-term fiscal deficit target of 2.5 percent of GDP. As discussed in the staff report, the external position is projected to strengthen in the 2022 DSA before stabilizing with moderate deficits in the medium term. International reserves (in months of imports) are higher in the current DSA owing to stronger than expected remittances inflows.

7. The baseline scenario assumes that medium-term fiscal financing will be met from external financing. Staff projections assume that domestic financing will start increasing beginning from 2025. Currently, domestic financing is limited to short-term T-bills covering 11 percent of gross financing needs. Staff projects that domestic financing will increase in the long-term as the local market develops, reaching 50 percent of gross financing needs by 2032. The staff also projects draw down of government's deposits in the NBT in medium-term. The average real interest rate on new publicly issued domestic debt is projected to gradually converge to the market rate.

8. The baseline scenario assumes that most financing needs will be mainly met through external borrowing from 2023 through 2027. External financing will be provided on concessional terms in the near term, with no non-concessional financing until Rogun power purchase agreements (PPA) are signed, in line with the authorities' commitment under the 2020 Rapid Credit Facility (RCF)⁸ and the IDA's Sustainable Development Finance Policy (SDFP). Concessional loans and grants are expected to be provided by international finance institutions, export credit agencies, and traditional bilateral partners; staff assumes concessional borrowing will continue in line with the levels of recent years. Residual financing needs could be potentially met from non-concessional borrowing once PPAs are in place. The baseline projects non-concessional borrowing of around 1 percent of GDP per year from 2029-2032.

9. 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 continuous 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.

⁸ In the RCF Letter of Intent (LOI), the authorities committed to avoiding any additional non-concessional borrowing until the Rogun power purchase agreements have been finalized and debt is on a sustainable path over the long term. Likewise, the total Rogun financing envelope over a three-year period should be around US\$1.1 billion (or on average approximately US\$375 million per year). This envelope envisages US\$200 million from the state budget and US\$175 million from concessional borrowing.

COUNTRY CLASSIFICATION AND DETERMINATION OF SCENARIO STRESS TESTS

10. Tajikistan's debt-carrying capacity (DCC) is assessed to be strong. The revised composite indicator (CI) from the October 2022 WEO and the World Bank's 2021 CPIA rating suggest that Tajikistan's DCC is currently assessed to be strong. The DCC did not change from the previous year.

Text Table 5. Tajikistan: Debt Carrying Capacity

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 3.08	Strong 3.09	Strong 3.10	

APPLICABLE		APPLICABLE	
EXTERNAL debt burden thresholds		TOTAL public debt benchmark	
PV of debt in % of		PV of total public debt in percent of GDP	
Exports	240		70
GDP	55		
Debt service in % of			
Exports	21		
Revenue	23		

11. 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.⁹ Default tailored tests for commodity prices are also applied since non-fuel commodity exports constitute an important part of Tajikistan's exports.

12. 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 11.2 percent of GDP. The shock reflects: (i) 8.2 percent of GDP based on available information on Barki Tojik arrears,¹⁰ which could be transferred onto the government's

⁹ According to LIC DSA guidance, the default PPP stress parameter is calculated as 35 percent of the PPP capital stock, while for banking sector the default stress parameter is set at 5 percent of GDP. Staff considers default parameters to be adequate in the case of Tajikistan.

¹⁰ Barki-Tojik is a state-owned energy company in Tajikistan. Contingent liabilities associated with the Barki-Tojik include arrears to thermal power plants, banking sector, Rogun HPP, and Uzbekistan for gas supply.

balance sheet; (ii) 2 percent of GDP TALCO's external debt; and (iii) 1 percent of GDP Rogun HPP's security placed in the Pension Fund.

Text Table 6. Tajikistan: Stress Test Parameters

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	11.2	
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)		17.9	

1/ The default shock of 2% of GDP will be triggered for countries whose government-guaranteed debt is not fully captured under the country's public debt definition (1.). If it is already included in the government debt (1.) and risks associated with SoE's debt not guaranteed by the government is assessed to be negligible, a country team may reduce this to 0%.

DEBT SUSTAINABILITY

A. External Debt Sustainability Analysis

13. Under the baseline scenario, the trajectory of external debt indicators does not change in comparison to the 2021 DSA. External debt stabilizes in the medium-term. Under the current DSA only one indicator breaches a threshold but falls back to 2022 levels by the end of projection horizon in 2032.

14. One external debt indicator breaches its threshold in earlier years of the projections but 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 2027. 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.

15. Under the historical scenario, the debt burden indicators are higher than under the baseline scenario. The historical scenario is based on averages from 2012 to 2021, during which the current account deficit was relatively higher – averaging 2.6 percent of GDP. Therefore, under this scenario, all debt burden ratios, especially for solvency indicators, remain considerably higher than the baseline trajectory and follow an upward trend throughout the projection period.

16. 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 for these indicators. Under a shock to

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.

exports, the PV of the debt-to-exports ratio reaches 369.7 percent (versus 240 percent threshold), while the PV of debt service-to-exports ratio reaches 43 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.

17. The market-financing risk indicator tool is moderate. Recent tightening of global financial conditions pushed the spread on Tajikistan's sovereign bond (1750 bps) 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.

B. Public Debt Sustainability Analysis

18. Under the baseline, overall public debt-to-GDP does not breach its threshold but is assessed at high risk due to baseline breaches on the external debt indicators, in line with the 2021 DSA. The public debt burden indicator (PV total debt-to-GDP) ratio stabilizes and remains below the 70 percent benchmark throughout the projection horizon. While the PV of debt-to-revenue ratio exhibits a relatively stable path, the debt service-to-revenue indicator significantly increases in the long term – reflecting a shift towards growing domestic financing and the associated increase in the debt service costs.

19. The standardized sensitivity analysis shows lower risks, in comparison to the 2021 DSA. Shock to combined contingent liabilities in the most extreme and historical shocks adversely affect all public debt indicators. The shock causes a 6.6 percent deterioration in comparison to baseline debt ratio by 2032. This highlights the need for strengthened oversight of SOE sector and streamlined borrowing policies at a time when the government is already financing a large infrastructure project.

RISK RATING AND VULNERABILITIES

20. 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 2021 DSA findings. As in the 2021 DSA, debt stabilizes under the baseline.

21. 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 after 2027. 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.

22. 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.

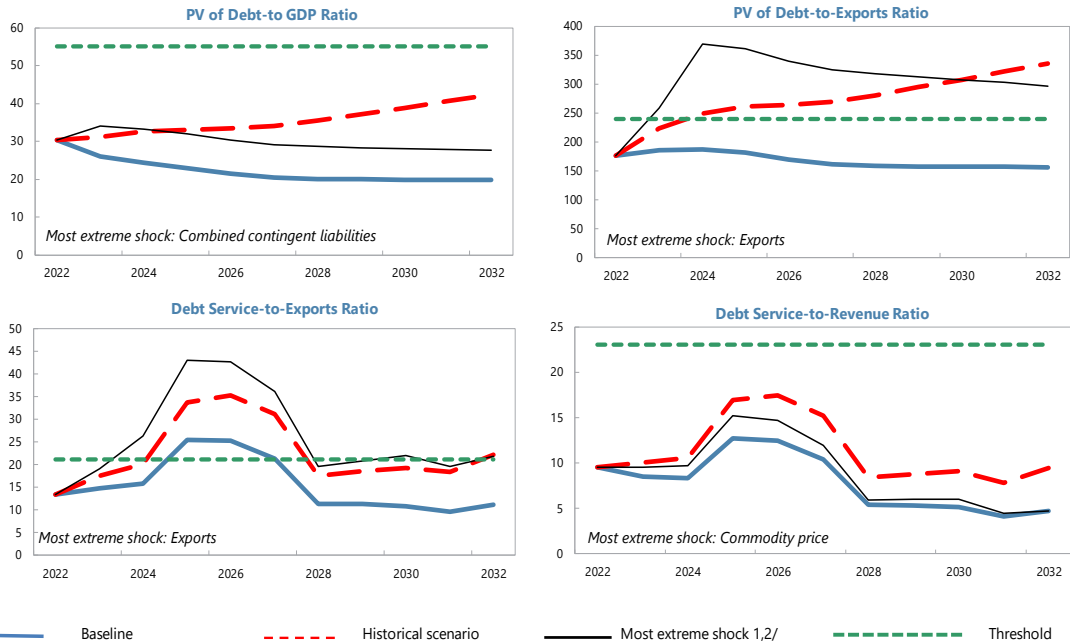
23. Under the baseline, Tajikistan’s public debt is sustainable owing to the authorities’ adherence to fiscal discipline and to avoiding non-concessional external borrowing. All stock and flow indicators are on a stable trajectory during the projection horizon. It is also worth noting that while external debt risks are high, total public debt levels do not breach thresholds in both the baseline and stress tests. In case fiscal adjustment falls short or the authorities resort to non-concessional borrowing, the debt path may deteriorate, putting debt sustainability under pressure. 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.

24. 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 breaches in the debt service-to-exports ratio in the medium term. Supported by the IDA’s SDFP and IMF TA, Tajikistan has made significant progress in enhancing (i) debt transparency by publishing annual public debt reports, audited financial statements of top SOEs, and SOE Fiscal Risk Statements, (ii) fiscal sustainability by adopting the SOE Fiscal Risks Management Program for 2023–2027, and (iii) debt management by avoiding non-concessional borrowing and adopting a new edition of the Law on Public and Publicly Guaranteed Debt in June 2022. Continued progress in strengthening 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

25. The authorities broadly agreed with overall assessment. They concurred with staff that debt vulnerabilities need to be better managed, including through a medium-term fiscal adjustment and seeking concessional borrowing to meet financing needs. They agreed that non-concessional borrowing would weaken debt sustainability and committed to refrain from it. The authorities agreed that contingent liabilities stemming from the SOE’s sector contain a significant fiscal risk and may undermine debt sustainability.

Figure 1. Tajikistan: Indicators of Public and Publicly Guaranteed External Debt under Alternative Scenarios, 2022-2032



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	1.4%	1.4%
USD Discount rate	5.0%	5.0%
Avg. maturity (incl. grace period)	26	26
Avg. grace period	5	5

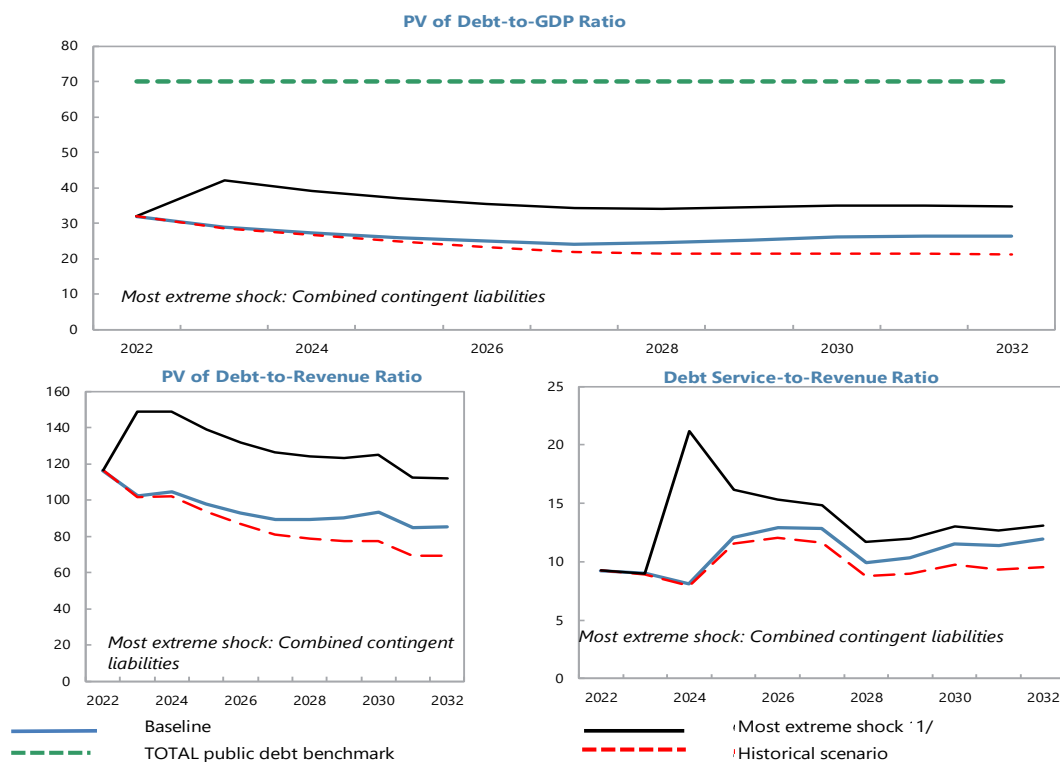
* Note: All the additional financing needs generated by the shocks under the stress tests are assumed to be covered by PPG external MLT debt in the external DSA. Default terms of marginal debt are based on baseline 10-year projections.

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 2032. 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 extreme 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, 2022-2032



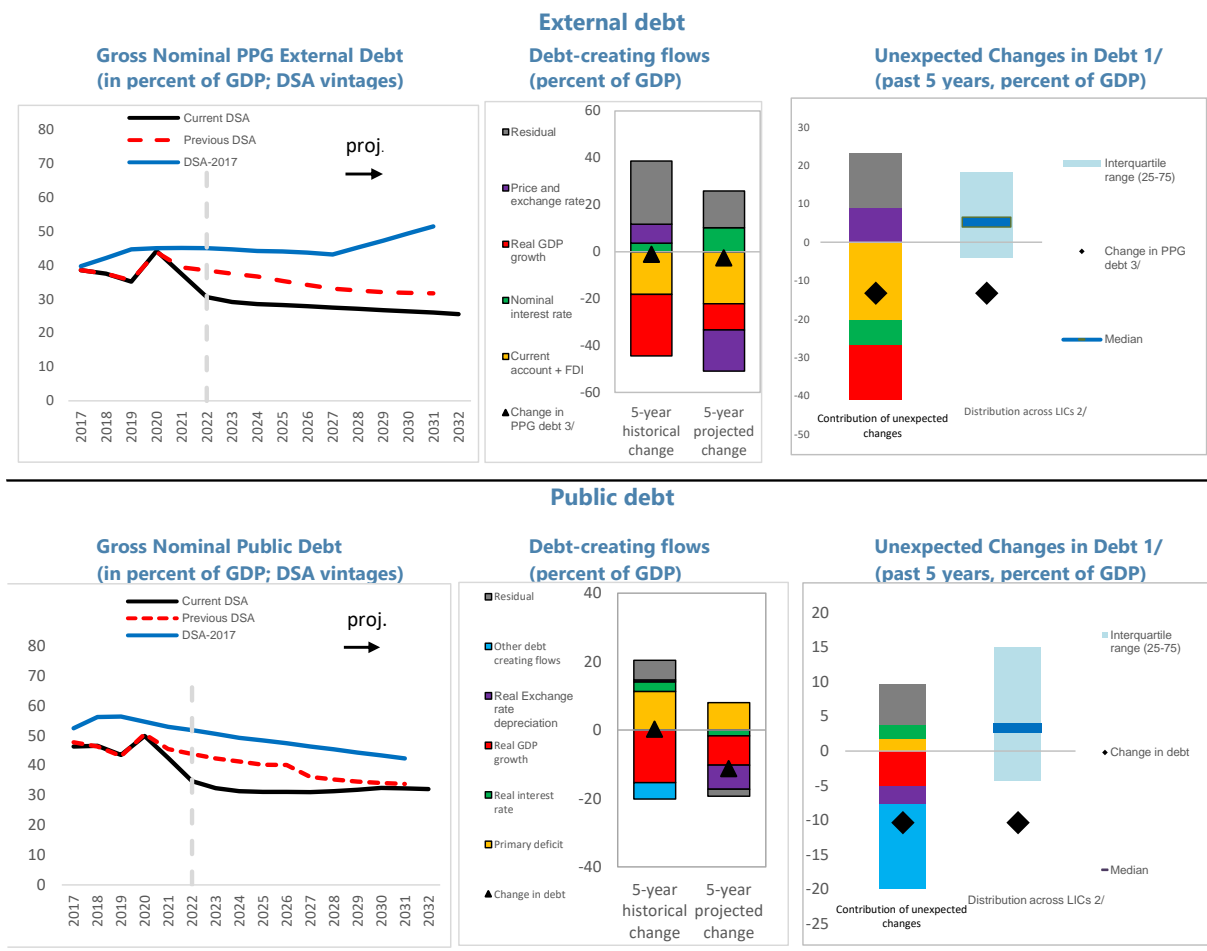
Borrowing assumptions on additional financing needs resulting from the stress tests*	Default	User defined
Shares of marginal debt		
External PPG medium and long-term	72%	72%
Domestic medium and long-term	11%	11%
Domestic short-term	18%	18%
Terms of marginal debt		
External MLT debt		
Avg. nominal interest rate on new borrowing in USD	1.4%	1.4%
Avg. maturity (incl. grace period)	26	26
Avg. grace period	5	5
Domestic MLT debt		
Avg. real interest rate on new borrowing	0.5%	0.5%
Avg. maturity (incl. grace period)	9	9
Avg. grace period	0	0
Domestic short-term debt		
Avg. real interest rate	-2.6%	-2.6%

* 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 2032. 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 extreme 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



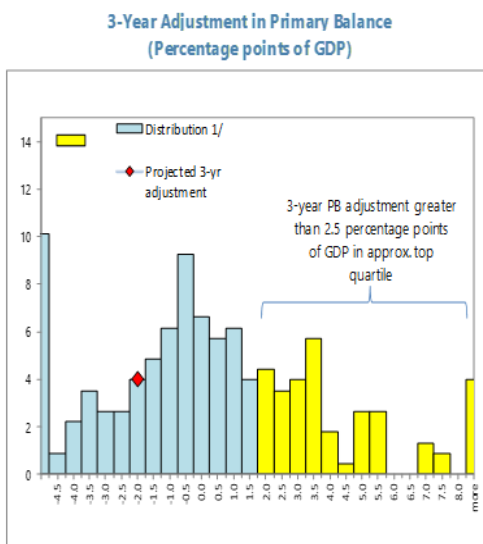
1/ Difference between anticipated and actual contributions on debt ratios.

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

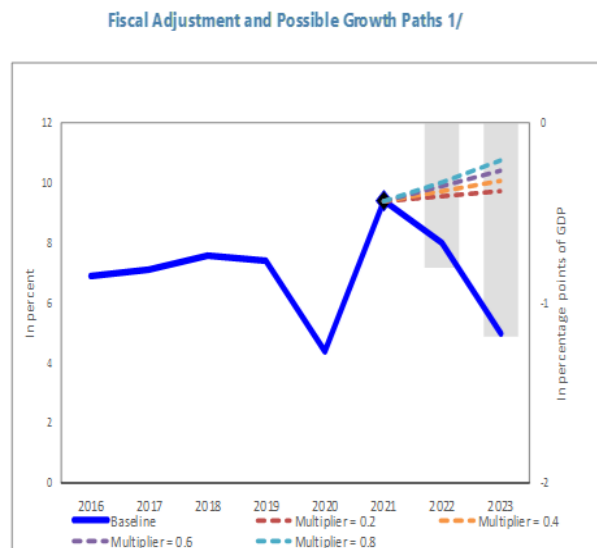
3/ Given the relatively low private external debt for average low-income countries, a ppt change in PPG external debt should be largely explained by the drivers of the external debt dynamics equation.

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

Figure 4. Tajikistan: Realism Tools



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.



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

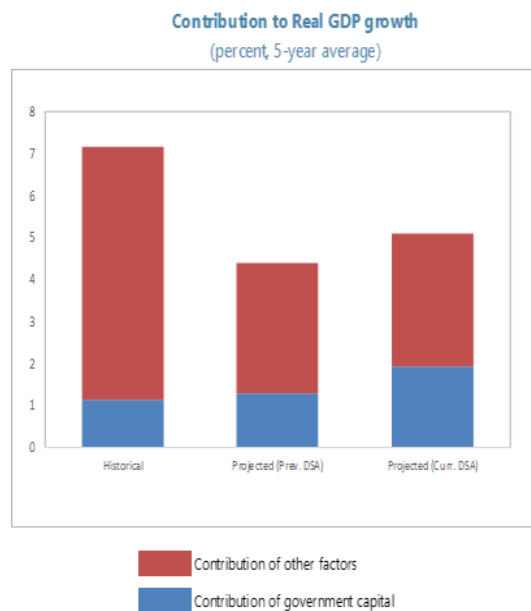
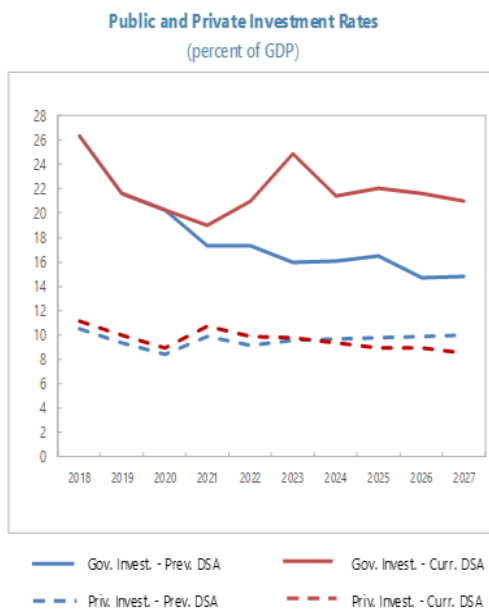
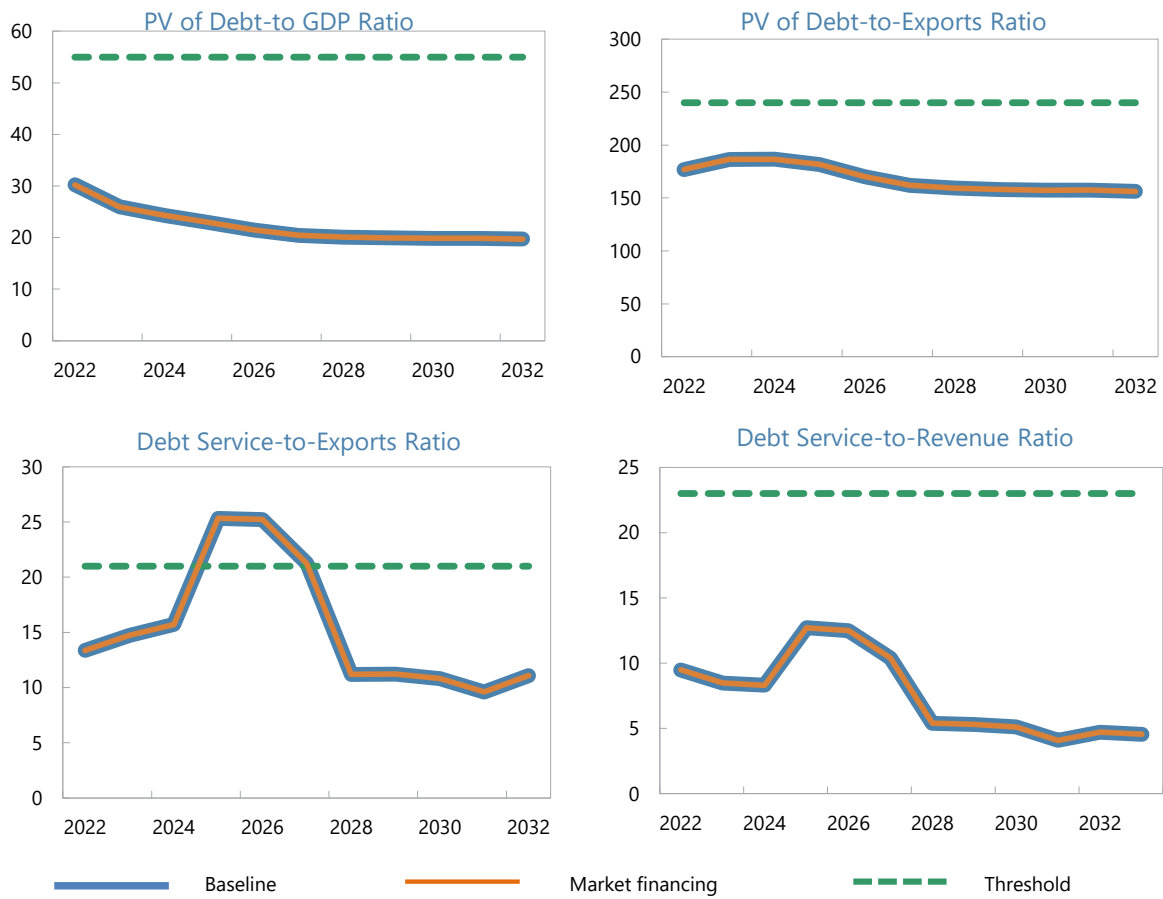


Figure 5. Tajikistan: Market-Financing Risk Indicators

	GFN	1/	EMBI	2/
Benchmarks	14		570	
Values	4		1200	
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, 2021-42

(In percent of GDP, unless otherwise indicated)

	Actual	Projections								Average 8/	
	2021	2022	2023	2024	2025	2026	2027	2032	2042	Historical	Projections
External debt (nominal) 1/	63.5	49.1	44.0	41.6	40.1	38.5	37.0	31.3	22.2	66.8	38.0
<i>of which: public and publicly guaranteed (PPG)</i>	<i>37.5</i>	<i>30.6</i>	<i>29.1</i>	<i>28.5</i>	<i>28.3</i>	<i>27.9</i>	<i>27.5</i>	<i>25.5</i>	<i>17.7</i>	<i>33.4</i>	<i>27.6</i>
Change in external debt	-21.3	-14.4	-5.1	-2.4	-1.5	-1.5	-1.5	-1.2	2.0		
Identified net debt-creating flows	-16.2	-14.6	-2.2	-2.6	-1.9	-1.8	-1.7	-1.3	-1.1	-2.0	-2.9
Non-interest current account deficit	-9.1	-8.4	-0.4	0.3	0.8	0.8	1.0	1.3	1.1	1.6	0.0
Deficit in balance of goods and services	23.5	31.5	31.9	32.1	32.1	32.1	32.1	32.1	29.4	31.7	32.0
Exports	24.2	17.1	13.9	13.0	12.6	12.6	12.6	12.6	11.6		
Imports	47.7	48.5	45.8	45.2	44.7	44.7	44.7	44.7	41.0		
Net current transfers (negative = inflow)	-11.3	-12.4	-10.1	-9.6	-9.4	-9.3	-9.3	-9.2	-8.4	-8.7	-9.6
<i>of which: official</i>	<i>-2.8</i>	<i>-1.0</i>	<i>-0.4</i>	<i>-0.3</i>	<i>-0.3</i>	<i>-0.3</i>	<i>-0.3</i>	<i>-0.3</i>	<i>0.0</i>		
Other current account flows (negative = net inflow)	-21.2	-27.5	-22.2	-22.2	-22.0	-21.9	-21.8	-21.6	-19.9	-21.4	-22.4
Net FDI (negative = inflow)	-0.4	-3.9	-1.8	-3.2	-3.2	-3.2	-3.2	-3.2	-2.9	-2.6	-3.1
Endogenous debt dynamics 2/	-6.7	-2.3	0.0	0.3	0.5	0.6	0.4	0.6	0.7		
Contribution from nominal interest rate	0.9	2.1	2.0	2.1	2.1	2.1	1.9	1.8	1.7		
Contribution from real GDP growth	-7.3	-4.3	-2.0	-1.8	-1.5	-1.5	-1.4	-1.2	-0.9		
Contribution from price and exchange rate changes	-0.3	...	...	...	...	...	...	...	...
Residual 3/	-5.1	0.2	-2.9	0.1	0.4	0.2	0.2	0.1	3.1	2.5	0.0
<i>of which: exceptional financing</i>	<i>0.0</i>	<i>0.0</i>	<i>0.0</i>	<i>0.0</i>	<i>0.0</i>	<i>0.0</i>	<i>0.0</i>	<i>0.0</i>	<i>0.0</i>		
Sustainability indicators											
PV of PPG external debt-to-GDP ratio	34.6	30.2	25.9	24.3	22.9	21.5	20.4	19.7	15.0		
PV of PPG external debt-to-exports ratio	142.9	176.8	186.5	186.6	181.7	170.2	161.9	156.2	129.4		
PPG debt service-to-exports ratio	7.2	13.4	14.7	15.7	25.3	25.2	21.2	11.1	13.6		
PPG debt service-to-revenue ratio	7.3	9.5	8.5	8.3	12.7	12.5	10.4	4.7	5.2		
Gross external financing need (Million of U.S. dollars)	932.4	219.7	1370.5	1231.2	1260.5	1299.4	1338.3	1263.6	1878.0		
Key macroeconomic assumptions											
Real GDP growth (in percent)	9.4	8.0	5.0	4.5	4.0	4.0	4.0	4.0	5.0	7.0	4.5
GDP deflator in US dollar terms (change in percent)	0.4	8.5	16.4	6.5	3.8	3.7	3.3	3.3	3.3	-3.2	5.5
Effective interest rate (percent) 4/	1.1	3.8	5.0	5.2	5.4	5.6	5.2	6.0	8.9	1.5	5.3
Growth of exports of G&S (US dollar terms, in percent)	53.4	-17.2	-0.5	4.2	4.5	8.1	7.9	7.4	7.0	9.6	4.1
Growth of imports of G&S (US dollar terms, in percent)	36.2	19.3	15.4	9.7	6.9	8.0	7.9	7.4	7.0	2.1	9.6
Grant element of new public sector borrowing (in percent)	...	46.9	47.0	42.2	44.8	44.4	43.1	27.9	23.4	...	39.2
Government revenues (excluding grants, in percent of GDP)	23.9	24.1	24.2	24.6	25.1	25.5	25.8	29.6	30.0	25.2	26.2
Aid flows (in Million of US dollars) 5/	276.6	642.8	990.0	536.4	812.6	814.9	767.3	655.0	883.6		
Grant-equivalent financing (in percent of GDP) 6/	...	4.8	5.9	2.9	3.5	3.3	3.0	2.0	1.4	...	3.1
Grant-equivalent financing (in percent of external financing) 6/	...	75.8	74.3	61.0	58.5	57.8	57.8	54.4	51.0	...	60.6
Nominal GDP (Million of US dollars)	8,934	10,467	12,796	14,241	15,373	16,601	17,905	25,820	57,044		
Nominal dollar GDP growth	9.8	17.2	22.3	11.3	7.9	8.0	7.9	7.4	8.5	3.7	10.2
Memorandum items:											
PV of external debt 7/	60.7	48.8	40.8	37.4	34.7	32.1	30.0	25.5	19.5		
in percent of exports	250.7	285.4	293.4	286.8	275.2	254.1	237.4	201.8	168.3		
Total external debt service-to-exports ratio	82.4	84.6	92.8	88.2	84.3	80.8	76.4	54.0	44.4		
PV of PPG external debt (in Million of US dollars)	3088.0	3163.6	3319.0	3461.0	3520.4	3563.5	3657.8	5088.2	8536.4		
(PVT-PVt-1)/GDPT-1 (in percent)	0.8	1.5	1.1	0.4	0.3	0.6	1.3	0.5	0.5		
Non-interest current account deficit that stabilizes debt ratio	12.2	6.0	4.7	2.8	2.3	2.4	2.5	2.4	-0.9		

Sources: Country authorities; and staff estimates and projections.

1/ Includes both public and private sector external debt.

2/ Derived as $(r - g - \rho(1+g) + \alpha(1+r))/(1+g+\rho+g\rho)$ 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, α = 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.

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

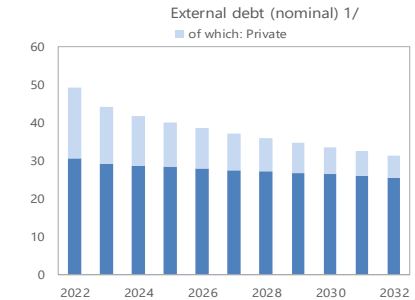
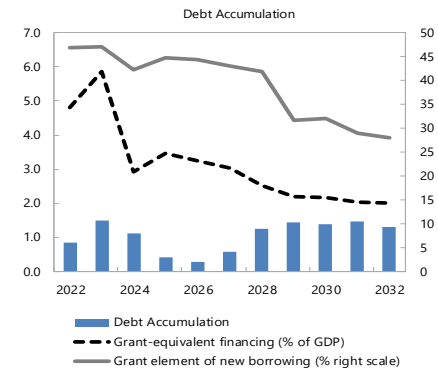


Table 2. Tajikistan: Public Sector Debt Sustainability Framework, Baseline Scenario, 2021-42

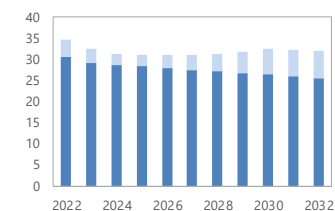
(In percent of GDP, unless otherwise indicated)

	Actual		Projections								Average 6/	
	2021	2022	2023	2024	2025	2026	2027	2032	2042	Historical	Projections	
Public sector debt 1/	42.5	34.7	32.4	31.4	31.1	31.1	31.0	32.0	35.2	39.6	32.0	
of which: external debt	37.5	30.6	29.1	28.5	28.3	27.9	27.5	25.5	17.7	33.4	27.6	
Change in public sector debt	-7.4	-7.8	-2.3	-1.0	-0.2	0.0	-0.1	-0.2	0.1			
Identified debt-creating flows	-8.2	-2.8	-0.3	0.1	0.4	0.4	0.5	-0.2	0.1	0.2	0.0	
Primary deficit	-0.2	0.6	1.8	1.8	1.9	1.9	2.2	1.5	1.9	1.8	1.9	
Revenue and grants	27.0	27.5	28.2	26.2	26.6	26.8	27.1	31.0	31.0	27.5	28.0	
of which: grants	3.1	3.4	4.1	1.6	1.5	1.4	1.4	1.4	1.0			
Primary (noninterest) expenditure	26.8	28.1	30.0	28.0	28.4	28.8	29.3	32.5	32.9	29.3	29.9	
Automatic debt dynamics	-8.0	-3.4	-2.1	-1.7	-1.5	-1.5	-1.7	-1.7	-1.7			
Contribution from interest rate/growth differential	-3.6	-3.4	-2.1	-1.7	-1.5	-1.5	-1.7	-1.7	-1.7			
of which: contribution from average real interest rate	0.7	-0.2	-0.5	-0.3	-0.3	-0.3	-0.6	-0.4	-0.1			
of which: contribution from real GDP growth	-4.3	-3.1	-1.7	-1.4	-1.2	-1.2	-1.2	-1.2	-1.7			
Contribution from real exchange rate depreciation	-4.4	...	...	...	...	...	...	...	...
Other identified debt-creating flows	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	-0.2	0.0	
Privatization receipts (negative)	0.0	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)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0			
Residual	0.8	-5.0	-2.0	-1.1	-0.6	-0.4	-0.6	-0.1	0.0	0.5	-0.9	
Sustainability indicators												
PV of public debt-to-GDP ratio 2/	39.6	32.0	28.9	27.4	26.0	24.9	24.2	26.4	32.6			
PV of public debt-to-revenue and grants ratio	146.7	116.3	102.4	104.6	97.7	92.8	89.1	85.2	105.2			
Debt service-to-revenue and grants ratio 3/	7.4	9.3	9.0	8.1	12.1	12.9	12.8	11.9	27.1			
Gross financing need 4/	1.8	3.2	4.3	4.0	5.1	5.4	5.7	5.2	10.3			
Key macroeconomic and fiscal assumptions												
Real GDP growth (in percent)	9.4	8.0	5.0	4.5	4.0	4.0	4.0	4.0	5.0	7.0	4.5	
Average nominal interest rate on external debt (in percent)	1.1	1.9	2.0	2.2	2.3	2.3	1.5	1.4	2.3	0.2	1.7	
Average real interest rate on domestic debt (in percent)	-9.1	-5.7	-5.4	-5.3	-4.7	-5.1	-5.1	-0.9	0.4	-0.8	-3.9	
Real exchange rate depreciation (in percent, + indicates depreciation)	-10.6	...	...	...	...	...	...	...	...	4.0	...
Inflation rate (GDP deflator, in percent)	10.0	6.0	6.3	6.5	6.0	6.0	6.0	5.5	5.5	5.5	5.9	
Growth of real primary spending (deflated by GDP deflator, in percent)	3.7	13.4	12.1	-2.5	5.5	5.2	6.0	3.5	4.4	9.0	6.4	
Primary deficit that stabilizes the debt-to-GDP ratio 5/	7.2	8.4	4.1	2.8	2.1	2.0	2.3	1.7	1.8	2.9	2.8	
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			

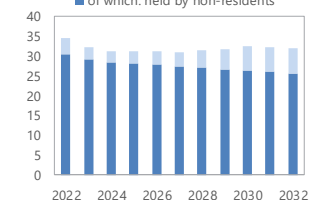
Definition of external/domestic debt	Residency-based
Is there a material difference between the two criteria?	No

Public sector debt 1/

■ of which: local-currency denominated
■ of which: foreign-currency denominated



■ of which: held by residents
■ of which: held by non-residents



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 stabilize 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, 2022-2032

	Projections 1/										
	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032
PV of debt-to GDP ratio											
Baseline	30	26	24	23	21	20	20	20	20	20	20
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2022-2032 2/	30	31	33	33	33	34	35	37	39	41	42
B. Bound Tests											
B1. Real GDP growth	30	26	25	24	22	21	21	21	21	21	20
B2. Primary balance	30	27	29	28	26	25	25	24	24	24	23
B3. Exports	30	29	31	29	27	26	26	25	25	24	24
B4. Other flows 3/	30	29	30	28	27	25	25	24	24	24	23
B5. Depreciation	30	26	24	23	21	20	20	20	20	20	20
B6. Combination of B1-B5	30	32	30	28	26	25	25	24	24	24	23
C. Tailored Tests											
C1. Combined contingent liabilities	30	34	33	32	30	29	29	28	28	28	28
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	30	29	29	27	24	21	19	17	15	13	11
C4. Market Financing	30	26	24	23	21	20	20	20	20	20	20
Threshold	55	55	55	55	55	55	55	55	55	55	55
PV of debt-to-exports ratio											
Baseline	177	186	187	182	170	162	159	158	157	157	156
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2022-2032 2/	177	224	250	262	264	269	281	295	308	322	336
B. Bound Tests											
B1. Real GDP growth	177	186	187	182	170	162	159	158	157	157	156
B2. Primary balance	177	196	224	221	208	199	195	192	190	188	186
B3. Exports	177	259	370	361	340	325	318	313	307	303	297
B4. Other flows 3/	177	208	229	224	211	202	198	194	190	187	183
B5. Depreciation	177	186	187	182	170	162	159	158	157	157	156
B6. Combination of B1-B5	177	237	209	258	242	231	227	223	220	218	215
C. Tailored Tests											
C1. Combined contingent liabilities	177	244	255	253	240	231	227	224	222	221	219
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	177	263	279	255	218	185	159	142	125	110	95
C4. Market Financing	177	186	187	182	170	162	159	158	157	157	156
Threshold	240	240	240	240	240	240	240	240	240	240	240
Debt service-to-exports ratio											
Baseline	13	15	16	25	25	21	11	11	11	10	11
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2022-2032 2/	13	17	20	34	35	31	17	19	19	18	22
B. Bound Tests											
B1. Real GDP growth	13	15	16	25	25	21	11	11	11	10	11
B2. Primary balance	13	15	17	27	27	23	13	13	13	12	13
B3. Exports	13	19	26	43	43	36	19	21	22	20	22
B4. Other flows 3/	13	15	16	26	26	22	12	13	14	12	14
B5. Depreciation	13	15	16	25	25	21	11	11	11	10	11
B6. Combination of B1-B5	13	17	20	33	32	27	15	16	15	14	16
C. Tailored Tests											
C1. Combined contingent liabilities	13	15	17	27	27	23	12	12	12	11	12
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	13	19	21	33	31	25	13	13	13	11	12
C4. Market Financing	13	15	16	25	25	21	11	11	11	10	11
Threshold	21	21	21	21	21	21	21	21	21	21	21
Debt service-to-revenue ratio											
Baseline	9	8	8	13	12	10	5	5	5	4	5
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2022-2032 2/	9	10	11	17	17	15	8	9	9	8	9
B. Bound Tests											
B1. Real GDP growth	9	9	9	13	13	11	6	6	5	4	5
B2. Primary balance	9	8	9	14	13	11	6	6	6	5	6
B3. Exports	9	9	9	14	13	11	6	6	7	6	6
B4. Other flows 3/	9	8	9	13	13	11	6	6	6	5	6
B5. Depreciation	9	8	8	13	12	10	5	5	5	4	5
B6. Combination of B1-B5	9	9	9	14	14	12	6	7	6	5	6
C. Tailored Tests											
C1. Combined contingent liabilities	9	8	9	13	13	11	6	6	6	5	5
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	9	10	10	15	15	12	6	6	6	5	5
C4. Market Financing	9	8	8	13	12	10	5	5	5	4	5
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, 2022-2032

	Projections 1/										
	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032
PV of Debt-to-GDP Ratio											
Baseline	32	29	27	26	25	24	25	25	26	26	27
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2022-2032 2/	32	29	27	25	23	22	21	21	21	21	21
B. Bound Tests											
B1. Real GDP growth	32	30	30	29	28	28	29	30	32	32	34
B2. Primary balance	32	31	34	32	30	29	29	30	31	31	31
B3. Exports	32	31	32	31	30	29	29	29	30	30	30
B4. Other flows 3/	32	32	33	31	30	29	29	30	30	30	30
B5. Depreciation	32	36	32	28	25	22	21	21	20	20	19
B6. Combination of B1-B5	32	29	29	27	25	24	24	25	25	25	25
C. Tailored Tests											
C1. Combined contingent liabilities	32	42	39	37	35	34	34	34	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	32	31	32	33	34	35	36	37	38	39	39
C4. Market Financing	32										
TOTAL public debt benchmark	70	70	70	70	70	70	70	70	70	70	70
PV of Debt-to-Revenue Ratio											
Baseline	116	102	105	98	93	89	89	90	93	88	86
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2022-2032 2/	116	101	102	94	87	81	79	77	77	72	69
B. Bound Tests											
B1. Real GDP growth	116	105	112	108	105	103	105	108	113	108	108
B2. Primary balance	116	110	128	119	113	108	107	107	109	102	99
B3. Exports	116	109	124	116	110	106	105	105	107	99	96
B4. Other flows 3/	116	113	126	118	112	108	107	107	108	100	97
B5. Depreciation	116	128	123	107	93	83	77	74	73	65	61
B6. Combination of B1-B5	116	103	110	102	95	90	88	88	89	83	80
C. Tailored Tests											
C1. Combined contingent liabilities	116	149	149	139	132	126	124	123	125	116	113
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	116	120	134	137	136	134	133	131	135	128	126
C4. Market Financing	116										
Debt Service-to-Revenue Ratio											
Baseline	9	9	8	12	13	13	10	10	12	12	12
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2022-2032 2/	9	9	8	12	12	12	9	9	10	10	10
B. Bound Tests											
B1. Real GDP growth	9	9	9	13	14	14	11	12	14	14	14
B2. Primary balance	9	9	11	16	15	14	11	12	13	13	13
B3. Exports	9	9	8	13	13	13	10	11	13	13	13
B4. Other flows 3/	9	9	8	13	13	13	10	11	13	13	13
B5. Depreciation	9	10	11	16	17	16	11	11	12	12	12
B6. Combination of B1-B5	9	9	9	14	13	13	10	11	12	12	12
C. Tailored Tests											
C1. Combined contingent liabilities	9	9	21	16	15	15	12	12	13	13	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	9	10	9	15	18	18	14	14	15	16	16
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. Peter and Mr. Rajabov on Republic of Tajikistan
February 27, 2023

On behalf of our Tajik authorities, we thank staff for the insightful policy dialogue, the thorough policy assessment in a challenging regional environment, and the well-written papers. The continued 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. Going forward, they are interested in further deepening this engagement and have expressed their interest in a new Fund-supported program.

Economic developments and outlook

Tajikistan's economy grew strongly in 2022. Real GDP increased by 8 percent, driven by traditionally important sectors such as mining, agriculture, and services. The strong, broad-based performance is a sign of the economy's resilience in the face of high regional uncertainty. It is also a testament to the authorities' reform efforts to diversify economic activity, with these reform efforts being supported by international financial institutions. The authorities are confident that further improvements in the business environment to attract foreign investment in sectors such as tourism and light manufacturing, combined with continued public investment in hydropower infrastructure, will allow for robust growth in the future. They are more optimistic than staff regarding medium-term growth prospects, while agreeing with staff's assessment of risks to the outlook, including from developments in the neighboring Commonwealth of Independent States (CIS) countries and Afghanistan.

Fiscal policy

The authorities are committed to a prudent fiscal policy with a medium-term fiscal deficit target of 2.5 percent of GDP. They have taken steps to tighten fiscal policy to avoid an accumulation of unsustainable debt. The introduction of a new tax code in January 2022 has contributed to strong revenue performance in 2022 and a reduction in the budget deficit. The

new tax code also includes administrative reforms and taxpayer protections that make tax collection more efficient and fairer. Together with significant grant resources received from international partners for development purposes, this prudent fiscal policy has resulted in a decline in public debt to 35 percent of GDP in 2022 from nearly 50 percent in 2020. The authorities are taking appropriate measures to monitor the sustainability of external debt and are grateful for continued IMF technical assistance (TA) in the development of a medium-term revenue strategy. They are also interested in IMF TA to design a strategy for the development of the local government securities market to help diversify sources of financing.

The government is collaborating closely with the World Bank and other international financial institutions to develop a phased approach to financing the Rogun hydroelectric power plant project that will better align financing flows with expected revenues and facilitate significant concessional borrowing from 2023 to 2030 without jeopardizing debt sustainability. The World Bank's approval on January 12, 2023 of USD 20 million in TA to prepare an independent study that will review the technical, environmental, and commercial framework for the project is a welcome step in this regard. The study will also help ensure that the project is sustainable and takes into account potential environmental impacts.

Monetary policy

Amid considerable uncertainty about global financing conditions and taking into account global and domestic inflationary pressures, the National Bank of Tajikistan (NBT) has maintained a tight monetary policy stance over the past five years, which have been marked by the emergence of a global pandemic and conflicts in the CIS region. This tight monetary stance has helped contain inflationary pressures, with headline CPI inflation remaining in single digits over the past five years and ending the year 2022 at 4.2 percent. After depreciating by 15 percent in March, the somoni has appreciated steadily against the US dollar, which, together with strong domestic agricultural production, has also helped to keep inflation well-contained in 2022 despite higher international commodity prices.

The NBT is continuing its monetary policy and banking system reforms by implementing the Monetary Policy Strategy 2021–2025 and creating favorable conditions for moving towards an inflation-targeting regime. Draft amendments to the NBT Law to increase the central bank's operational autonomy and governance are awaiting government approval.

Financial sector

The authorities have made significant progress in strengthening the resilience of the financial sector. The ongoing reforms to ensure transparency of financial statements, strengthen capital requirements, improve credit risk management, and embed corporate governance in state-owned banks are contributing to the remarkable performance of the banking system. The capital adequacy ratio of the banking system increased from 18.2 in 2020 to 25.3 percent in

2022, while the level of non-performing loans decreased from 23.4 to 12.2 percent of total loans. Continuing its downward trend, the share of USD-denominated loans decreased during the same period from 42 to 28 percent. The total amount of deposits in the banking sector increased by 53 percent in 2022 to 15.5 billion somoni, equivalent to about USD 1.5 billion, while the return on equity increased from 2.1 percent at the end of 2021 to 18.7 percent a year later.

To ensure financial stability while further developing the banking system, the NBT will continue to implement financial sector reforms and harmonize the regulatory and supervisory framework in line with international best practices, including the Basel II/III standards. Amendments and additions to the Deposit Insurance Law have been drafted and are under consideration by parliament. The adoption of these amendments will contribute to broadening the financial safety net, strengthening the deposit insurance system, and increasing public confidence in the banking sector. The resolution of credit institutions, including AIB and TSB, is being carried out in strict accordance with national legislation. The authorities are also taking decisive steps towards higher integration of information technology in the banking system.

Recognizing the importance of upgrading the AML/CFT framework, a new law drafted with IMF TA to address the FATF recommendations from 2018 was adopted by parliament on January 18, 2023. It will promote the development of financial services in Tajikistan by facilitating the implementation of a risk-based AML/CFT framework. Regulations to support the new law are being drafted and the authorities are grateful for the Fund's valuable support in this regard.

Structural reform

The authorities are committed to continue their structural reform efforts to promote sustainable growth, reduce poverty, strengthen resilience, and achieve their long-term development goals. In 2022, they amended seven laws in the areas of energy, gender, health, social welfare, education, and finance. They consider policy dialogue to be a critical aspect of this process to ensure that the reforms are effective and have a positive impact on the people and the economy.

The authorities have taken decisive steps to improve the financial viability of the electricity sector. The financial recovery plan for the state-owned electricity utility, Barki Tojik, involved electricity tariff increases for households and industry of 17 and 10 percent, respectively, in 2022, with further adjustments planned. In addition, a special tariff for the largest energy consumer, the state-owned aluminum company TALCO, was raised by 50 percent in February 2023. The authorities recognize that raising energy prices alone may not be sufficient to ensure the long-term financial sustainability of the sector, and that sustained

efforts and a comprehensive approach are needed that balances the need for financial sustainability of the energy sector with the affordability of energy for consumers.

Climate change

Tajikistan has adopted a national climate change adaptation strategy and, as a member of the international community, submitted a revised Intended Nationally Determined Contribution in December 2021, demonstrating the country's commitment to addressing the challenges posed by climate change. The authorities recognize that continued efforts in this area will be critical to mitigating the effects of climate change and promoting sustainable development in Tajikistan and beyond. By reducing reliance on fossil fuels and transitioning to cleaner and more sustainable energy sources, such as the Rogun hydropower plant, Tajikistan is reducing its carbon footprint and contributing to global efforts to mitigate the effects of climate change.

Conclusion

Our Tajik authorities are grateful to IMF staff for their engagement and support and are interested in further deepening this engagement. They have expressed interest in an IMF-supported program to further strengthen the country's economic stability and growth, and would welcome an early start of program discussions with staff. A possible program should be designed in a way that is consistent with the country's economic and social objectives and takes into account the potential risks and challenges facing the economy that finds itself in a fragile and conflict-affected environment. The valuable support of the IMF in the form of policy advice, TA, and financial assistance is very welcome to help address the economic challenges and promote sustainable growth in Tajikistan.