



Tajikistan

Highlights

- **Rapid economic growth continues, combined with low inflation.** Having expanded by 8 per cent in 2022, the economy grew by a further 8.3 per cent year on year in the first half of 2023, thanks to China's reopening and Russia's sustained demand for workers from Tajikistan. The country also stands out for its low inflation rate (2.3 per cent), which is well below that of regional peers.
- **The authorities have adopted a new civil code.** The new code is intended to enhance the protection of property and land tenure rights by streamlining registration processes, but the recent dispute related to Aga Khan Foundation assets in Khorog appears to contradict the spirit of the new code, potentially damaging investment confidence.
- **Tajikistan's ambition to serve regional energy needs is growing.** Fixed capital investment in electricity production, distribution and transmission infrastructure is increasing rapidly, and the recent re-engagement of major international financial institutions with the Roghun hydropower plant (HPP) project is likely to help in raising funds for its successful completion.

Key priorities for 2024

- **The authorities should strengthen their efforts to maintain investor confidence.** The recently introduced Business Support Programme for 2023-27, as well as reforms to the tax administration and construction licensing, are steps in the right direction. However, recent cases of alleged property rights violations and less-than-fully-transparent business closures might be concerning for potential investors.
- **Greater regional cooperation is required to de-risk major infrastructure investment projects and ensure energy and water security for all.** Border demarcation, as well as energy and water cooperation, should be front and centre of Tajikistan's engagement with neighbouring countries. In particular, investment in the Roghun HPP will require Tajikistan to secure downstream offtake agreements with Kazakhstan and Uzbekistan.
- **The water and irrigation sector is in need of major reform and investment.** Tariffs should be gradually brought to levels that reflect local costs to stimulate a transition to water-saving technologies and crops. Coupled with investment in billing and metering devices, this will help raise additional revenues to address investment needs in the sector.

Main macroeconomic indicators (per cent)

	2019	2020	2021	2022	2023 proj.
GDP growth	7.4	4.4	9.4	8.0	7.5
Inflation (average)	7.8	8.6	9.0	6.6	4.6
Government balance/GDP	-2.1	-4.3	-0.7	-0.2	-2.5
Current account balance/GDP	-2.2	4.1	8.2	15.6	-3.7
Net FDI/GDP [neg. sign = inflows]	2.6	1.3	0.9	1.7	n.a.
External debt/GDP	80.0	85.5	78.8	n.a.	n.a.
Gross reserves/GDP	17.7	27.5	28.0	36.7	n.a.
Credit to private sector/GDP	11.6	13.0	10.3	10.6	n.a.

Macroeconomic developments and policy response

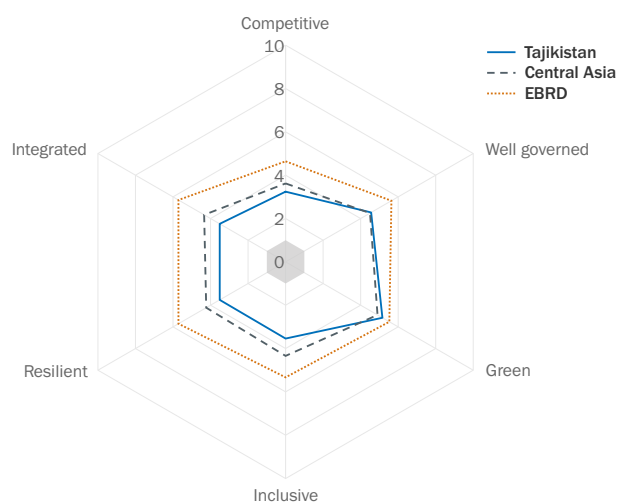
Strong growth continued in the first half of 2023. The economy grew by 8.3 per cent year on year in the first half of 2023, helped by China's reopening, Russia's sustained demand for workers from Tajikistan and vigorous public spending. Fixed capital investment increased 27.1 per cent year on year in the first six months of the year, the bulk of it allocated to the transport and energy sectors. Growth was broadly based, with most sectors expanding in remarkable fashion: industrial production, including export-oriented mining activities, up 10.3 per cent year on year; manufacturing up 14.2 per cent; agriculture up 7.9 per cent; and trucking up 12.3 per cent. Strong growth in hospitality (up 14.4 per cent) and retail trade turnover (up 10.4 per cent) are indicative of the continued strength of consumer demand on the back of steady remittances and growing real wages (the latter were up 14.2 per cent year on year as at May 2023).

Inflation is at a notably low level. With consumer price inflation of just 2.3 per cent (as at July 2023), Tajikistan is currently the only Central Asian economy to keep inflation below its central bank's target corridor (4-8 per cent). As inflationary pressures eased, the National Bank of Tajikistan gradually brought down its policy rate from 13 per cent in November 2022 to 10 per cent in May 2023. Since the beginning of 2023, the somoni has lost 7.4 per cent against the US dollar, but remains well above its value before the war on Ukraine. For now, the currency appears to be resilient to the rouble's sharp depreciation in August 2023, but is very likely to be negatively affected later in the year via the remittances channel.

Public debt is falling thanks to strong gross domestic product (GDP) growth and good fiscal performance. In 2022 public debt declined to 34.6 per cent of GDP on the back of very strong growth in output and improved tax collection. The International Monetary Fund (IMF) considers the level of Tajikistan's public debt to be sustainable in the medium term, as long as the government keeps the budget deficit below 2.5 per cent of GDP (the deficit stood at 0.2 per cent of GDP in 2022). In January to May 2023 the budget posted a surplus of TJS 1.046 billion (€90.86 million), an improvement on the same period in 2022. Budget revenues rose 18.1 per cent year on year thanks to rapid growth in tax receipts (up 19.4 per cent), while expenditures increased 18.8 per cent. The risk of debt distress remains high due to forthcoming (2025-27) principal repayments on a Eurobond and repayments of the IMF's Rapid Credit Facility. Uncertainty over future revenue flows and spending pressures associated with planned infrastructure investment and contingent liabilities generated by state-owned utility companies are major concerns.

Strong growth is set to continue. We forecast GDP growth of 7.5 per cent in 2023 and 2024 thanks to Russia's continued demand for labour from Tajikistan, enhanced cooperation with China, and investment in the Roghun HPP, transport and other types of infrastructure. Business and tax administration reforms may bring additional private-sector investment and facilitate further growth. Major downside risks relate to a possible worsening of external demand conditions (for example, China's potential slowdown, the performance of Russia's war economy, political destabilisation in Afghanistan), weaker investment confidence and potential conflicts over transboundary water resources, as illustrated by occasional flare-ups at the border with the Kyrgyz Republic.

Assessment of transition qualities (1-10)



Structural reform developments

Digitalisation in the public sector is advancing. The decree “on measures to expand non-cash payments”, which came into effect on 1 August 2023, mandates that payments of taxes, state, communal and medical fees, as well as other budgetary payments, be made electronically. The decree prohibits state institutions from accepting cash payments and envisions the creation of a unified electronic portal for public services. This reform reduces the risk of public-sector corruption and increases budgetary transparency. In August 2023 Tajikistan signed a memorandum of understanding (MoU) with Kazakhstan to cooperate in digitalisation. The MoU envisages experience-sharing, training opportunities, assistance in designing e-government infrastructure, as well as a pilot project to connect 10 Tajik villages to the internet via the KazSat-3 satellite.

A new civil code is in place. In effect since 1 July 2023, the new code enhances the protection of property and land tenure rights. The document regulates property and personal non-property relations, intellectual rights, and corporate and labour relations, among other things. It aspires to improve land governance by streamlining land registration processes and delineating the responsibilities and rights of local dekhkan farms. However, the recent dispute over Aga Khan Foundation assets in Khorog appears to contradict the spirit of the new code, potentially damaging investment confidence.

The country is pushing for accession to the European Union (EU) Generalized System of Preferences+ (GSP+). In late 2022 and early 2023 the government of Tajikistan held several meetings with EU officials to discuss the country’s potential accession to GSP+, which would enable its entrepreneurs to export, duty free, more than 6,000 denominations of goods to the EU market. Prospective GSP+ membership could boost Tajikistan’s competitiveness in the EU market, provided it can produce goods that meet the EU’s stringent price and quality requirements. However, the country’s accession remains contingent on it ratifying multiple conventions on human rights and the environment.

Additional funding from international financial institutions is being sought to complete the Roghun HPP. The hydro plant, construction of which began in 2016, is expected to become Central Asia’s largest power plant, with a total capacity of 3.6 GW. Once completed, it will address the country’s domestic electricity shortages and generate extra revenue by exporting surplus electricity. While two out of six turbines are already operational, Tajikistan will need to secure additional funds to complete the project. In January 2023 the World Bank approved a US\$ 15 million (€14.2 million) grant to improve the financial and commercial frameworks of the HPP. In addition, in May 2023 the Tajik authorities announced that the Asian Infrastructure Investment Bank (AIIB) had committed to a soft loan of US\$ 500 million (€473.2 million) for the project. Securing offtake agreements with downstream countries, such as Kazakhstan and Uzbekistan, will be required for financial closure.

Tajikistan postpones connection to Central Asia’s unified power system to 2024. In early 2023 the Deputy Minister of Energy and Water Resources announced Tajikistan’s intention to reconnect to the unified Central Asian power system by April 2023. This system has two connection points in Tajikistan. The first point, in central Tajikistan, has recently been linked and currently operates in a technical test mode. However, due to additional preparatory work required to link the country’s northern region, the completion date was moved to April 2024. Despite this delay, Tajikistan’s commitment to rejoining the regional grid is a positive step, strengthening Central Asian cooperation and enhancing energy security for countries across the region.