REPUBLIC OF TAJIKISTAN
2022

Republic of Tajikistan

Social and Economic Developments in 2022

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LIST OF ABBREVIATIONS

CA – current account of the balance of payments
CPI – consumer price index
EFSD Project Unit – Project Unit of the Eurasian Fund for Stabilization and Development
GDP – gross domestic product
NBT – National Bank of the Republic of Tajikistan
RF – Russian Federation
RT – Republic of Tajikistan
Tajstat – Agency on Statistics under the President of the Republic of Tajikistan
VAT – value added tax

In 2022, Tajikistan's economy continued to show high rates of economic growth, driven mainly by domestic demand. Consumption was supported by high rates of growth of remittances. Investment growth occurred in the electric power generation, transmission and distribution sector, as well as in education. Higher remittances contributed to an improvement of the current account and the balance of payments in general, leading to increase of the country's international reserves and appreciation of the local currency. In turn, the local currency appreciation and a good harvest of agricultural crops contributed to lower inflation, which gave the National Bank of Tajikistan an opportunity to bring down the refinancing rate by the year end. In 2022, the budget deficit declined marginally. Growing budget revenues in the form of grants offset a decrease in tax revenues that occurred due to lower tax rates set in accordance with the new Tax Code. Key indicators of the banking sector reflect improved financial stability.

Real Sector and Labour Market

Despite a slight slowdown in the economy that followed the recovery growth in 2021, the GDP growth remained fairly high in 2022. In January–December, the GDP grew by 8.0%[1] compared to 9.2% a year earlier, remaining above the average level of 7% in 2010–2021 (Figure 1).

High economic growth was supported by domestic demand. In terms of components of GDP use, investment showed the highest growth rates, up by 11.4% (23.3% in 2021). The key driver of investment activity was the electric power generation, transmission and distribution sector (13.6%), which accounted for 29.1% of total investment in 2022. That was accompanied by a decline in investment in the manufacturing industry (by 65.2%), wholesale and retail trade (by 24.2%), and in non-production facilities (except for education). The share of foreign investment in fixed capital amounted to 28.8%, exceeding the share of private domestic investment (28.4%). The share of public investment in fixed capital remained at 41.4%. Consumption grew by 9.8% due to a significant increase in remittances and growth of real wages.

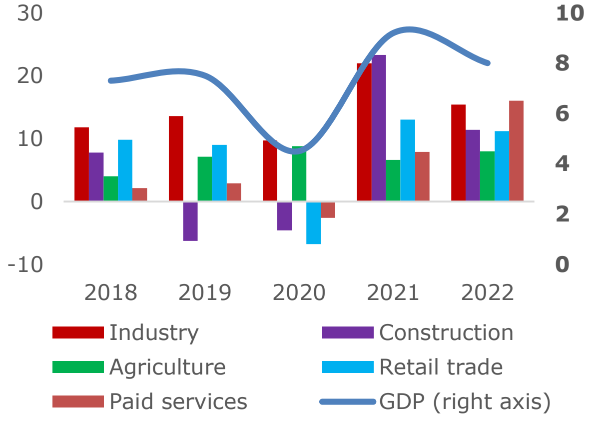
The trade deficit expanded, mainly as a result of lower gold exports. In 2022, exports of precious and semi-precious stones and metals fell by 40.9%, which resulted in a decrease in exports of goods (in US $ terms) by 0.4%, despite an increase in exports of other categories of goods. In the same period, imports grew by 22.8% due to an increase in imports of polymer materials, rubber and rubber products by a factor of 1.5; textile materials and products by 39.3%; and chemical products by 38.5%.

The largest contributors to the GDP growth were services, industry, and agriculture. According to preliminary EFSD estimates, the main drivers of economic growth by the production method were services (3.6 p.p.), industrial production (1.4 p.p.), and agriculture (1.3 p.p.) (Figure 2). Services grew by 9%, with the highest growth rates within the services sector observed in wholesale and retail trade (11.2%), hotel and restaurant services (18.1%), freight traffic (26.1%), and passenger traffic (11.1%). Industrial production increased by 15.4% in 2022. The highest growth was recorded in manufacturing (16.4%) and electricity, gas, steam and air conditioning supply (17.5%). In contrast, the real output in the mining industry fell by 2.3%. The main contributors to the growth of the manufacturing industry were textiles, garments, leather, leather goods and footwear (3.8 p.p.); rubber, plastic and other non-metallic minerals (2.3 p.p.); and metal products (1.5 p.p.). Agriculture grew by 8%. In particular, animal husbandry showed 8.7% growth.

The growth of services, industry, and construction contributed to higher employment and real wages in 2022. The official unemployment rate remained unchanged at 2.1%. The growth of employment slowed down to 1.7% compared to 3.1% in 2021. The highest rates of new job creation were noted in mining (143.1%), construction (127.5%), manufacturing (104.8%), and hotels and restaurants (213%) in 2022. The average economy-wide growth of real wages was 7.2% compared to 1.4% in 2021. The largest increases in real wages occurred in construction; electricity, gas, steam and air conditioning supply; as well as agriculture. In the services sector, the largest increases in real wages were recorded in education and public administration.

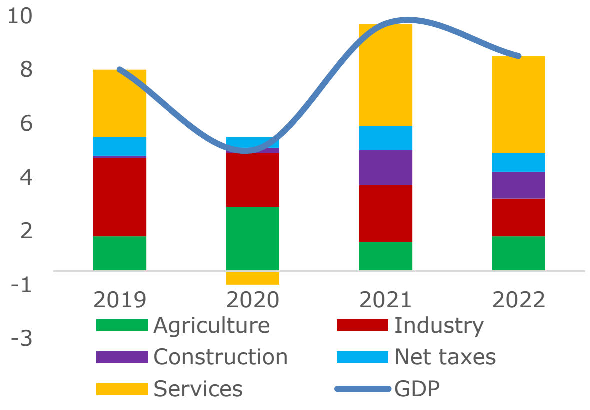
[1] Based on preliminary data for 2022.

Figure 1. *Economic growth (in %, y-o-y)*



Source: Tajstat

Figure 2. *Composition of economic growth (contribution, in %)*



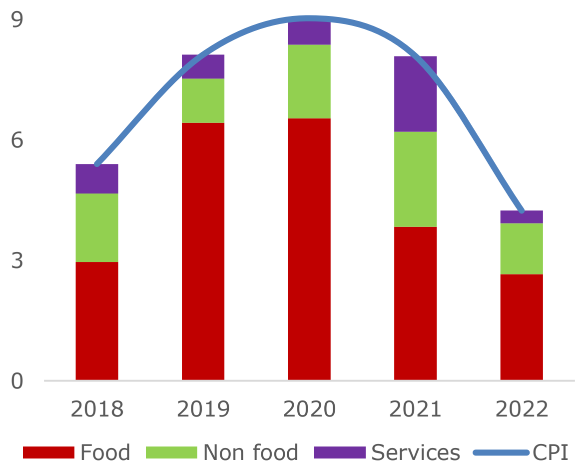
Source: Tajstat

Inflation and Monetary Policy

Inflation decelerated in 2022 in the context of appreciation of the local currency. The 12-month inflation fell to 4.2% in 2022 (Figure 3) from 8% a year earlier, while the NBT's target was 6±2%. The main factor of the decelerating inflation was a lower rate of growth of food prices (a contribution of 2.7 p.p.). A good harvest and the sale of certain types of products from state reserves in the second half of the year contributed to lower food prices. The rate of price growth was also lower for non-food goods and services. Lower international prices for imported goods and the local currency appreciation also contributed to a decrease in inflation. Amid weaker inflationary pressure in H2 2022, the National Bank brought the refinancing rate down from 13.5% to 13% in November 2022.

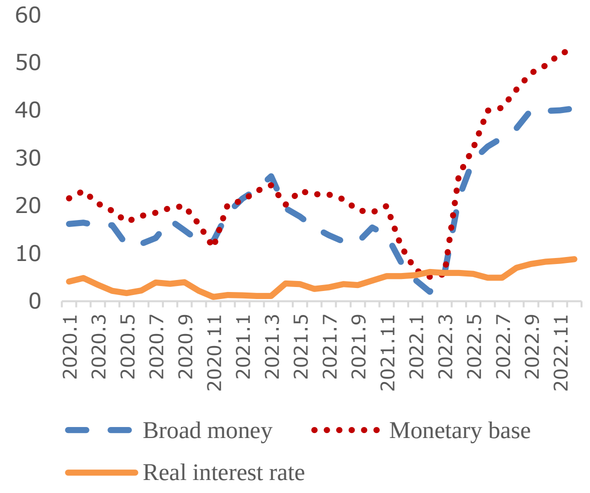
Against the background of lower inflation, the NBT expanded the money supply, stimulating the economic activity. In 2022, the base money grew by 52.9% against 11.6% a year earlier (Figure 4). The main factors driving the base money growth were a rise of cash in circulation by 46.8% and an increase in the NBT's reserves by a factor of 1.4 due to an upsurge (by a factor of 1.8) of commercial banks' funds on correspondent accounts. As to components of the NBT's assets, net foreign assets increased by 43.7% as a result of purchases of foreign currency due to a substantial increase in inward remittances. The NBT's net domestic credit remained negative in 2022 due to an increase in Government deposits by 12.3%, a reduction of the NBT's portfolio of Government securities by 8.7%, and net negative credit to financial institutions. The NBT's credit to the private sector remained almost unchanged compared to 2021. However, there was growth of other net domestic assets of the NBT. The growth of broad money supply (M4) accelerated to 40.4% in 2022 compared to 8.2% a year earlier. The main factor driving the money supply growth was a rise of cash outside commercial banks by 42% (M0). Demand deposits increased by 59%, contributing to the growth of M1 by 43%. Other deposits grew by 46.1%, as a result of which M2 (money supply in local currency) increased by 43.4%, generating inflation risks in the future. Foreign currency deposits increased by 16.8%. As a consequence, M3 grew by 43.4%.

Figure 3. *Inflation (in %, y-o-y)*



Source: Tajstat

Figure 4. *Monetary indicators (in %, y-o-y)*



Source: NBT, Tajstat

Budget Sector and Government Debt

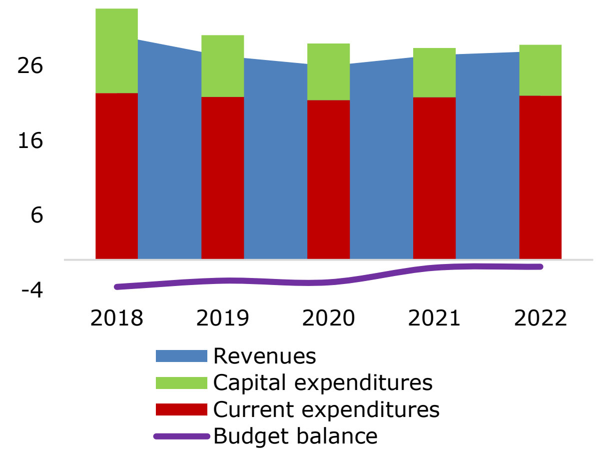
Strong economic growth rates and higher support in the form of grants provided by development partners contributed to some improvement in the country's fiscal position, despite a marked reduction of a significant number of tax rates. State budget revenues grew to 28% of GDP (against 27.4% a year earlier) due to a significant increase in grant revenues (by 0.9 p.p. of GDP), mainly for budget support purposes, as well as non-tax revenues (by 0.6 p.p.) owing to higher revenues from transactions with non-financial assets and revenues received by government agencies through the provision of paid services. Tax revenues decreased by 1 p.p. due to a significant drop of basic tax rates[2] in accordance with the new Tax Code, which came into force in early 2022. Budget expenditures went up to 28.9% of GDP as a result of an increase in both current and capital expenditures (by 0.2 p.p. each). The growth of current expenditures is explained by an increase in financing for goods and services by 1.3 p.p. of GDP[3], while spending on budget sector salaries and wages and transfers to households generally declined by 0.8 p.p. The growth of capital expenditures was driven by enhanced use of investment support provided by development partners (up by 0.7 p.p. compared to the previous year). The resulting state budget deficit was 0.9% of GDP in 2022, down from 1.1% a year earlier. The primary balance remained close to being balanced (-0.2% of GDP).

The debt burden of the Republic of Tajikistan decreased significantly in 2022 as a result of the GDP growth, somoni appreciation, and net external debt repayments. On January 1, 2023, the government debt was 32.5% of GDP, against 42.8% a year earlier. The decline was mainly driven by the dynamics of external debt, which accounted for about 88% of the sovereign debt and fell by US $71 million during the year. Against the background of the GDP growth and somoni appreciation, it led to a decrease in external debt to 28.5% of GDP (37.7% of GDP in 2021).

[2] In particular, the profit tax rate was reduced from 23 to 20%; the personal income tax rate – from 13 to 12%; the VAT rate – from 18 to 15%; and the social tax rate – from 25 to 20%.
[3] This item accounts for 31% of current expenditures and presumably includes financing of the Rogun HPP construction.

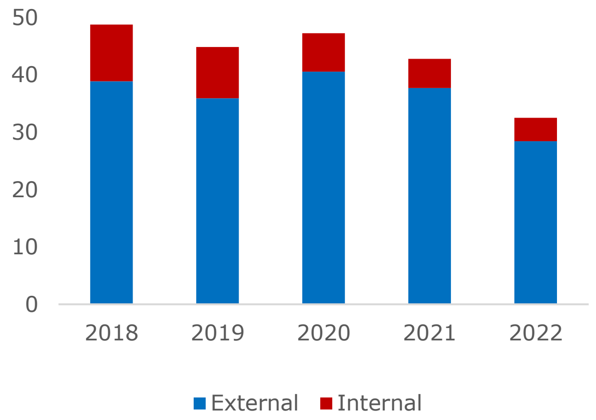
Domestic debt grew by the equivalent of US $11.5 million, but its level went down from 5 to 4% of GDP in relative terms.

Figure 5. *State budget (in % of GDP)*



Source: MF RT, Tajstat

Figure 6. *Government debt (in % of GDP)*



Source: MF RT, Tajstat

External Sector

The trade deficit increased due to lower exports of precious metals and stones, higher prices for certain imported energy resources, and stronger domestic demand for imported goods. In 2022, the trade deficit rose to 28.8% of GDP (by 5.3 p.p. compared to 2021) against the background of a 0.4% decrease in exports and a 22.8% increase in imports of goods in US dollar terms. The lack of export growth was a result of divergent dynamics of exports of individual goods. Exports of precious and semi-precious stones and metals fell by 40.9%, cotton fibre – by 3.9%, machinery and equipment – by 21.2%. At the same time, exports of mineral products increased by 44.4%, electricity – by 10.6%, and base metals and metal products – by 20%. The main drivers of the growth of imports in nominal terms were mineral products (up by 35%), chemical products (up by 38.5%), and vehicles (up by 31.7%). The growth of imports was a result of higher prices for some energy resources, in particular, diesel fuel. The increase in imports was also supported by growing domestic demand, stimulated by higher remittances from abroad.

Figure 7. *World prices and REER (in %, y-o-y)*

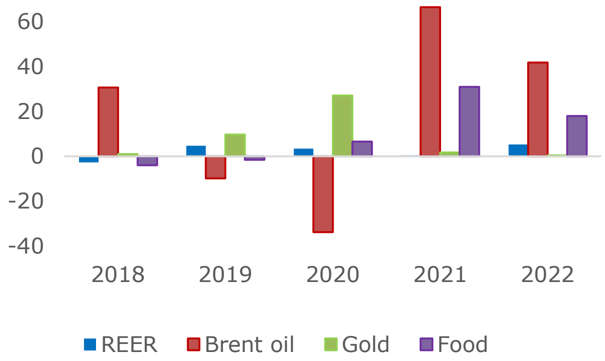
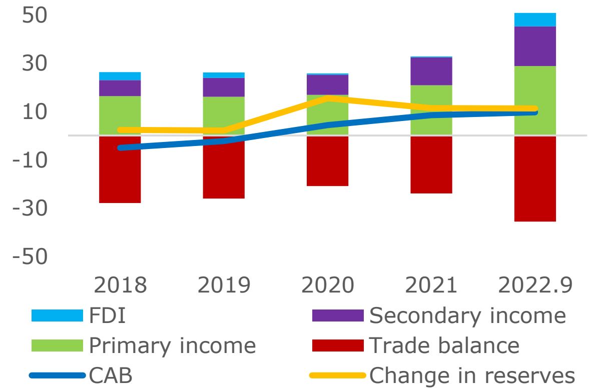


Figure 8. *Balance of payments (in % of GDP)*



Source: World Bank, national authorities, EFSD estimates *Source: NBT, Tajstat*

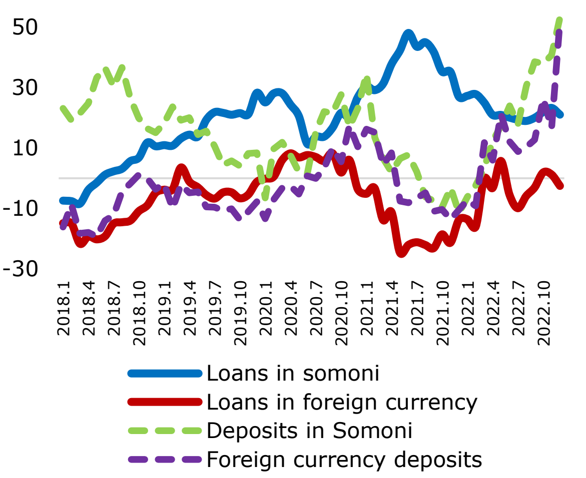
Despite the trade deficit expansion, the balance of payments, according to preliminary estimates, improved due to higher remittances, which led to an increase in the international reserves and appreciation of the local currency (Figure 8). Net inward remittances to the Republic of Tajikistan increased by 75.9% during 9 months of the year compared to 2021, reaching US $3,545.4 million (45.8% of GDP), surpassing the trade deficit. The increase in remittances was driven by a recovery of migration flows to the Russian Federation following the easing of anti-COVID restrictions, an increase in the number of tourists from Russia, and appreciation of the Russian ruble in 2022. The net inflow of foreign direct investment increased from US $14.8 to US $384.5 million (3.6% of GDP). The growth of remittances and foreign direct investment contributed to an improvement in the balance of payments and an increase in international reserves by 55%. Against the background of the improved balance of payments, the somoni exchange rate against the US $ appreciated by 9.8% in December 2022 compared to December 2021.

Financial Sector

A substantial expansion of money supply contributed to accelerating lending. The annual growth rate of the loan portfolio accelerated to 13.3% in 2022 against 9.9% a year earlier (Figure 9). In particular, loans in foreign currency increased in US dollar terms by 8%, but due to the somoni appreciation, they declined by 2.5% in the somoni equivalent. Accordingly, the growth of lending in 2022 was mainly a result of an increase in loans in the local currency by 21.1% (Figure 9), with the share of loans in the local currency up from 67.1% to 72%. The average lending interest rate declined slightly during the 12-month period from 24% to 23.8%, while the real interest rate increased for borrowers from 16% to 19.6% against the background of lower inflation. Deposits grew by 52.6%. Deposits in the local and foreign currencies, as well as those of legal entities and private individuals, grew at approximately the same rate. The high growth rate of deposits in 2022 was driven by a high rate of growth of inward remittances. The average interest rate for term deposits in the local currency increased from 10.1% to 10.3%, while that for foreign currency deposits decreased from 4% to 3.7%. The share of foreign currency deposits changed slightly in 2022, reaching 44.3%.

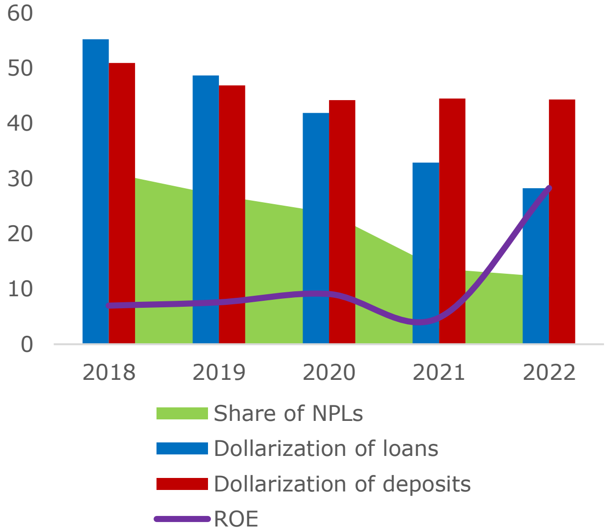
Indicators of the banking system reflect its improved sustainability. The share of non-performing loans decreased from 13.7% to 12.2%, while the return on assets grew more than fivefold, from 1.1% to 5.8%, and the return on capital – from 4.8% to 28.3% (Figure 10). This improvement in the financial soundness of the banking system is, among other things, a result of the completion of rehabilitation of distressed banks, as well as a rise in non-interest incomes due to the influx of capital from the Russian Federation.

Figure 9. *Bank deposits and lending (in %, y-o-y)*



Source: NBT

Figure 10. *Banking sector indicators (in %)*



Source: NBT

Medium-Term Outlook

Under the baseline scenario prepared by the EFSD, given the impact of external factors, the economic growth rate is projected to slow down in the Republic of Tajikistan to 6.2% in 2023, returning to 7% in 2025. In 2023, the economic activity would be constrained by a slowdown in the global economy and a potential outflow of Russian migrants and their capital to other countries. According to forecasts of the EFSD Project Unit, Tajikistan's economic growth rate would slow down to 6.2% in 2023. In 2024–2025, the real GDP would grow by 6.5% and 7.0% against the background of accelerating growth of the global economy and a recovery of the Russian economy.

Inflation would be within the medium-term target of the National Bank of Tajikistan. Against the background of continuing inflationary pressure associated with high levels of global food and energy prices, inflation in Tajikistan is projected to increase slightly to 6.2% in 2023, approaching the target. At the same time, moderately tight monetary policies, a stable exchange rate of the local currency, and a lower growth rate of international food and energy prices would help maintain the consumer price index at 6.0% in 2024–2025.[4]

According to EFSD estimates, the balance of payments would be supported in the forecast period with remittances and external financing of the public sector. The current account surplus would decline and be replaced by a deficit by 2025 due to faster import growth rates. As to the financial account, foreign direct investment would slightly decrease in 2023–2025 against the background of low global economic growth rates. However, these negative trends would be mainly offset by high prices for exported commodities, remittances from Russia, grants from international financial institutions, and government borrowings under the Public Investment Programme. These financial inflows would support the balance of payments in 2023–2025. The country's international reserves would remain at a relatively comfortable level of at least 7.7 months of imports of goods and services.

[4] https://www.nbt.tj/upload/iblock/548/Durnamo_ru_2022.pdf

With limited domestic sources of financing, the implementation of the Public Investment Programme would result in higher expenditures and a greater state budget deficit in 2023–2025. Taking into account the decelerating economic growth, state budget revenues are expected to decrease. However, improved tax administration would help maintain the revenues at 28% of GDP in 2023. Subsequent acceleration of economic activity in the Republic of Tajikistan would help improve state budget revenues to 28.3% of GDP in 2024 and to 28.6% of GDP in 2025. Given the relatively high level of planned expenditures due to the need to implement the Public Investment Programme, the budget deficit is expected to expand to 1.5%–1.7% of GDP in 2023–2025. Thus, the deficit would almost double in the medium term compared to 2022. However, it would be significantly below the 2.5% upper limit recommended by the IMF to maintain the debt sustainability.

The projected high GDP growth rates and a relatively low level of the primary budget deficit would contribute to an improvement of the RT debt sustainability in the medium term. As estimated by the EFSD Project Unit, the government debt would amount to 30.8% of GDP in 2023. Due to continued high GDP growth rates, stability of the somoni exchange rate, and a relatively small projected primary budget deficit, which, according to EFSD estimates, would not exceed 1% of GDP, the government debt would decline to 27.4% of GDP by end-2025. Debt service and repayment costs would make 9.6% of budget revenues in 2023 and 9.0% in 2024 but would grow to 11.9% in 2025. The sharp increase in expenditures is explained by the start in 2025 of the repayment period for Eurobonds issued to finance the construction of the Rogun HPP.

In 2025–2027, Tajikistan will have to repay US $0.5 billion Eurobonds issued in 2017, with a coupon of 7.125%. The principal will be repaid in three equal annual tranches of US $0.16 billion each. However, according to EFSD estimates, the country's solvency risks would not increase significantly. In the absence of refinancing, the country will still be able to repay Eurobonds at the expense of international reserve assets.

Downside risks associated with a potential deterioration in external conditions prevail in the forecast. The risks are related to potential further hikes of international energy and food prices and a decrease in remittances due to a slower recovery of the Russian economy.

Table 1. Tajikistan: Key macroeconomic indicators

	2022 Actual	2023 Forecast	2024 Forecast	2025 Forecast
National accounts and prices (in %)				
Real GDP growth	8.0	6.2	6.5	7.0
CPI (December, y-o-y)	4.2	6.2	6.0	6.0
Money and credit (end of period)				
Broad money, percentage change	40.4	10.4	10.4	10.7
Government finance (in % of GDP)				
Revenues and grants	28.0	28.0	28.3	28.6
of which tax revenues	18.8	18.8	18.9	19.0
Budget expenditures	28.9	29.7	29.9	30.1
Current expenditures	22.5	22.8	22.9	23.0
Capital expenditures	6.6	6.9	7.0	7.1
Budget balance ("-" deficit/"+" surplus)	-0.9	-1.7	-1.6	-1.5
External sector (in % of GDP)*				
Current account	2.7	1.0	0.4	-0.8
Remittances	36.7	30.3	29.7	28.1
Foreign direct investment	4.0	3.2	3.0	3.0
Gross reserves, in months of imports of goods and services of the current year	8.1	8.0	7.9	7.7

Box: **Tajikistan's Fiscal Policy during Periods of Economic Slowdown.**

In developing and low-income countries, fiscal policies can often be pro-cyclical. For example, during periods of economic boom, the state budget sees increases in both revenues and expenditures, which contributes to economy overheating and mounting inflationary pressure. Alternatively, during periods of recession, lower state budget revenues may inhibit adequate stimulation of economic recovery by increasing government expenditures against the background of a contraction of the private sector of the economy.

The EFSD has calculated the structural balance and fiscal impulse for the RT in 2007–2021. The calculations show that during this period, a negative output gap was formed in 2007, 2009–2010, 2015, and 2020. In the period under review, positive gaps in the potential GDP were found to be usually more significant than negative ones. The dynamics of the actual budget balance show a gradual improvement in the situation – the budget deficit went down from an average of 5.1% of GDP in 2007–2013 to 4.4% in 2014–2021. Over the past 3 years, even in the context of the coronavirus pandemic, it has not exceeded 4% of GDP.

It is noteworthy that, with grants and special funds deducted from budget revenues and interest payments deducted from budget expenditures, the structural balance shows the opposite trend. Adjusted revenues for the same periods increased by only 3.2 p.p. of potential GDP, while adjusted expenditures went up by 5.1 p.p. Therefore, the structural budget deficit increased from an average of 6.5% of potential output in 2007–2013 to 8.4% of potential output in 2014–2021. Thus, the structural budget balance shows a gradual deterioration in the situation in 2007–2021. The main factor contributing to the situation is significant dependence of the RT state budget on grants. During the period under review, the volume of grants received by the RT state budget increased both in nominal and relative terms. In relative terms, grants went up from 0.1%–0.3% of GDP in 2007–2008 to 3.2–3.5% of GDP in 2020–2021.

The application of the changes in the structural balance to changes in the potential GDP leads to a conclusions about the direction of fiscal policies in each budget period. In 2008–2021, the fiscal policy was countercyclical only half of the time. In 28% of cases, its direction could not be determined and, therefore, it was acyclical, and in 22% of cases it was procyclical. Moreover, the countercyclical orientation of the RT fiscal policies strengthened over time.

The fiscal impulse had different components during periods of negative output gaps. In 2009, most of the impulse was generated by changes in revenues, and in 2015 – by changes in expenditures. In 2020, there was almost no fiscal impulse as a positive revenue impulse was offset by a negative expenditure impulse. During crisis periods, revenues related to consumption (VAT, excise taxes), profit and personal income taxes, as well as taxes on foreign economic activity, decreased. Those are mainly capital expenditures that are cut in response to crisis developments in the economy, while current expenditures increase. In terms of the functional classification, expenditures related to the real sector of the economy are cut the most.