Tajikistan

Country Economic Update
Spring 2018

Changing Regional Environment: Critical to Capitalize

WORLD BANK GROUP

Macroeconomics, Trade & Investment
Global Practice

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Government Fiscal Year:	January 1 – December 31
Currency Unit:	Tajikistan Somoni (TJS)
Currency Equivalents:	Official Exchange Rate Effective as of March 31, 2018
	US$1 = 8.8138 TJS
Weights and Measures:	Metric System

Abbreviations and Acronyms

DRS	Districts of Republican Subordination
FDI	Foreign Direct Investment
GBAO	Gorno-Badakhshan Autonomous Oblast
HPP	Hydropower Plant
IFI	International Financial Institution
IMF	International Monetary Fund
IT	Inflation Targeting
L2TJK	Listening to Tajikistan Survey
LFS	Labor Force Survey
MOF	Ministry of Finance
MPI	Multidimensional Poverty Index
MTDS	Medium-Term Debt Strategy
NBT	National Bank of Tajikistan
NEET	Not in Employment, Education or Training
NPL	Non-Performing Loans
PIP	Public Investment Project
PPG Debt	Public and publicly-guaranteed debt
ROA	Return on Assets
ROE	Return on Equity
SOE	State-Owned Enterprise
TajStat	Tajik Statistical Agency
TC	Tax Committee
TSA	Targeted Social Assistance
UN	United Nations
VAT	Value Added Tax
WBG	World Bank Group

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Foreword

This edition of the Tajikistan Country Economic Update (CEU) is part of a semi-annual series designed to monitor socio-economic developments in Tajikistan. It presents an analysis of political, economic, and social developments, as well as the progress of and challenges with the implementation of structural reforms in 2017. It also includes a special section highlighting the key fiscal management challenges in Tajikistan.

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Overview

Growth in Tajikistan remained robust, albeit with low poverty reduction.

Real GDP growth accelerated in 2017, to 7.1 percent (from 6.9 percent in 2016), and was sustained at 7 percent during the first quarter of 2018 on the back of a robust recovery in remittances driven by a resumption of growth in Russia and an improved external environment. A boost in the mining sector supported net exports, which contributed substantially to overall GDP growth. The high rate of economic growth was sustained due to a significant fiscal stimulus and a reduction in the external imbalance. However, the fiscal expansion undermined the recently-adopted strategy envisaging fiscal consolidation in 2017-20[1]. The nearly-balanced current account was helped by improving terms of trade and the undervaluation of the somoni. Progress on structural reforms—including the resolution of pending challenges in the financial sector, which inhibit the development of a vibrant private sector—remained weak. The poverty rate continued its muted decline, falling to an estimated 29.5 percent in 2017; this relatively small improvement corresponded to the weakened growth elasticity of poverty observed in recent years. The real challenge for Tajikistan is not only to sustain high rates of economic growth, but to pursue public policies that promote inclusiveness and the shared benefits of growth. Such aims could be achieved by improving the efficiency of redistributive policies and creating a business-friendly environment for the private sector with a view to generating more jobs and achieving better results in poverty alleviation through employment earnings.

The fiscal discipline was breached whereas the monetary policy kept inflation in check.

Following a massive fiscal expansion in 2016, the Tajik authorities approved the 2017 State Budget with an objective to commence fiscal consolidation against the backdrop of shrinking fiscal space and quickly rising debt service obligations. However, as Eurobond proceeds became available, the government continued the expansionary path which pushed up the fiscal deficit to about 6 percent of GDP from 3.7 percent of GDP (excluding the 6.1 percent of GDP bank bailout program) in 2016. In the context of the persistent spending pressures it is very likely the approved State Budget deficit of 2.9 percent of GDP in 2018 will be infringed as well compromising the prospects for meeting the fiscal consolidation target. Reflecting the recovery of remittance inflows, exchange rate pressures subsided during the second half of 2017, while moderating inflation triggered a cut in the policy rate in early 2018. Meanwhile, the central bank has continued its work to lay the foundations for a smooth transition to the inflation-targeting.

Domestic policy-induced vulnerabilities pose downside risks to the growth outlook.

Tajikistan's economic outlook has strengthened, but faces some notable downside risks. The economy is expected to benefit from an improving regional environment and stable commodities prices. Strong economic growth and a continuing recovery in remittance inflows are projected to help drive down the poverty rate. While the changing regional landscape presents new prospects for Tajikistan's energy exports, it also exposes shortfalls in the country's external competitiveness which will require swift

[1] The fiscal balance estimates are preliminary and subject to corrections after release of final numbers.

policy actions to address so that Tajikistan can catch up to its neighbors in terms of investment attractiveness and business regulatory reform. Moreover, to improve the poverty reduction and job creation elasticity of growth, the authorities need to embark on a wide range of structural reforms to facilitate the development of the domestic private sector, improve the governance and financial accountability of state-owned enterprises (SOEs), and resolve challenges in the banking sector which pose significant downside risks to growth.

A. Recent Socio-Economic Developments

Recent Political Events

The President's annual address focused on domestic policy priorities and was followed by a Cabinet reshuffle.

President Emomali Rahmon's annual address, delivered in December 2017, was focused on: (i) banking sector reforms to address problems in two distressed banks; (ii) a reduction of inspections of private enterprises involved in the production of goods;[2] (iii) combating corruption by moving the government to an open competition hiring practice; (iv) prioritizing regional relations and strengthening cooperation with other Central Asian economies; (v) rationalizing the use of electricity and improving the timeliness of payments; and (vi) declaring 2018 as the year of Tourism and Folk Crafts. These steps have been long-awaited by the domestic private sector. Following the annual address, the President announced a reshuffle of his Cabinet, which resulted in leadership changes at the Ministry of Finance, Customs Service, State Committee for Investment and Property Management, and Chamber of Accounts. New deputy heads were also introduced at the Ministry of Economy and Trade, Tax Committee, Customs Service, and Ministry of Defense, among other realignments at the republican and local administration levels. The challenge now will be to see better institutional performance at the respective agencies.

The Uzbek President's visit to Dushanbe changed the paradigm of bilateral relations.

After almost 15 years of tense relations between Tajikistan and Uzbekistan, the President of Uzbekistan, Shavkat Mirziyoyev, made a state visit to Dushanbe in March 2018. It was a historic visit in terms of signaling a new paradigm in bilateral political and economic relations. During the visit, the two countries signed 27 bilateral agreements on various aspects of cooperation including the joint use of water and energy resources. The visit was followed by: (i) the re-opening of 10 border crossings points (closed in 2001) and resumption of railway operations through Uzbekistan for the first time since 2012; (ii) the immediate resumption of electricity exports from Tajikistan to Uzbekistan through the re-opened regional transmission grid and the resumption of natural gas exports from Uzbekistan to Tajikistan (interrupted in 2013); and (iii) the introduction of a visa-free

[2] The President's decree announced a 2-year moratorium on inspections, except for planned inspections by the Tax Committee, Prosecutors Office, Anti-Corruption Agency, Chamber of Accounts, and the National Bank. However, only 0.6 percent of businesses will potentially benefit from the moratorium. According to the Statistics Agency, as of end-December 2017, the number of legal entities involved in the production sector was 1,942, which is 0.6 percent of the total number of entrepreneurs (301,295) and 6.2 percent of the total number of legal entities (31,204) registered in Tajikistan.

travel regime for visits up to 30 days. Uzbekistan also officially expressed interest in the ongoing construction of Tajikistan's hydropower facilities, including the Rogun Hydropower Plant (HPP).

First Summit of Central Asian leaders in Astana highlighted evolving regional dynamics.

The evolving regional context prompted Central Asian leaders to meet and publicly express their commitment to regional cooperation and partnership. At the first summit, which took place in Astana on March 15, 2018, leaders issued a joint statement expressing commitment to "regional cooperation, mutual support, and joint solutions to pressing issues, to ensure the security, stability, and sustainable development of the region" and agreed to meet annually.

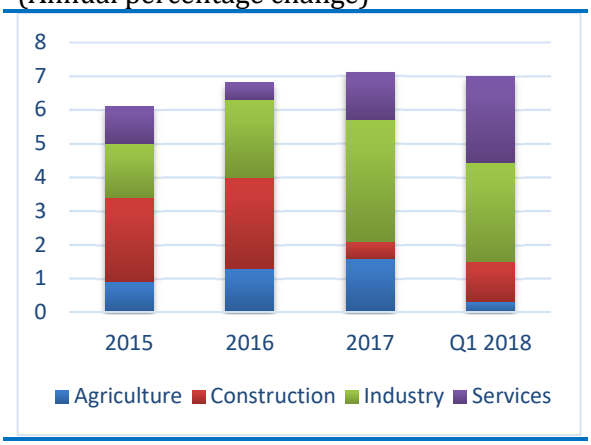
The changing regional context opens up new opportunities for Tajikistan to benefit from trade expansion and deeper economic relations. In the short term, this may be limited to natural resources, primarily water and energy resources. To extend regional cooperation beyond the extractive sector, Tajikistan will need to accelerate structural reforms to create a stable and predictable policy environment with efficient, rules-based implementation and fair administration.

Economic Growth and Inflation

Economic growth was driven by private consumption and net exports.

According to official estimates, real GDP growth accelerated to 7.1 percent in 2017 (from 6.9 percent in 2016), fueled by rising private consumption on the back of recovering remittances, and net exports (boosted by metallic minerals).[3] Investments also supported economic growth buttressed by public projects whereas private investments by domestic and foreign sources were muted. The latter is partially explained by the completion of some projects funded by Chinese investors. Public investment remained strong but turned to be insufficient to offset the sharp decline in domestic private investment and FDI. Public investment remained the dominant source in 2017, contributing almost three-quarters of total investment in the Tajik economy. Strong momentum was sustained in the first quarter of 2018, although growth drivers shifted toward a more significant

Figure 1. Sector Contributions to Growth
(Annual percentage change)



Sources: TajStat and World Bank staff estimates.

[3] According to the Central Bank of Russia, remittances to Tajikistan totaled US$2.5 billion in 2017 compared to US$1.9 billion in 2016, a year-on year increase of 31.5 percent.

contribution from public investment while net exports subsided and foreign investment continued its declining trend.

All sectors registered growth in 2017.

On the supply side, growth was supported by both the tradable and non-tradable sectors in 2017. Industry, which expanded by 21.3 percent year on year, provided the largest contribution to overall growth, accounting for one-half of the total (Table 1). The main drivers of the expansion of industrial output were the addition of new food processing companies to the production stream, mining of non-energy minerals, and electricity production. Favorable weather conditions helped agricultural production to increase by 6.8 percent year on year; the sector contributed 1.6 percentage points to GDP growth in 2017. At the same time, rebounding remittance inflows spurred output in the services sector, which grew by 2.9 percent year on year (and acceleration from a growth rate of 1.1 percent in 2016). Output from the construction sector slowed markedly in 2017 (to 4.1 percent year on year, compared with an average annual growth rate of more than 20 percent in 2013–16), reflecting the lower private investments by both domestic and foreign origin. In the first quarter of 2018, industry remained the main driver of growth, supported by textiles, non-metallic mineral processing, and non-energy extractives. Recovering private transfers also continued to support robust retail trade and services sector growth, the latter of which became the second-largest contributor to growth in the first quarter of 2018. The construction sector's contribution to growth was also positive, primarily supported by the construction of energy projects, education facilities and investments in the extractive sector. Encouragingly, so far in 2018 agricultural output has exceeded the average production of the last two years, although this was primarily due to favorable climatic conditions and not necessarily improved productivity.

Table 1. Contribution to Real GDP Growth, 2015–18
(In percentage points)

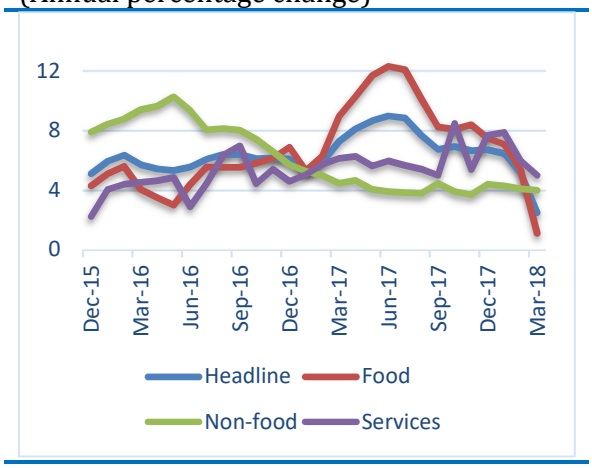
	2015	2016	2017	Q1 2018
Real GDP growth	**6.0**	**6.9**	**7.1**	**7.0**
Agriculture	0.9	1.3	1.6	0.3
Construction	2.5	2.7	0.5	1.2
Industry	1.6	2.3	3.6	3.0
Services	1.1	0.5	1.4	2.5

Source: TajStat and World Bank staff estimates.

Inflation remained within the target range.

Although annual consumer price inflation rose to 6.7 percent in 2017 (slightly above the 6 percent rate recorded in 2016), it remained within the National Bank of Tajikistan's (NBT) target range of 7 percent (+/- 2 percentage points). Inflationary pressures stemmed from the depreciation of the somoni (11 percent during the year), which pushed up prices for imported goods, as well as other factors, such as a supply-side shock for some food staples and higher utility tariffs. As inflationary pressures and expectations subsided in early 2018, the NBT opted to cut the policy rate in January to 14.75 percent (from 16 percent previously) and again in March to 14 percent. Despite the cumulative 2 percentage point reduction in the policy rate, annual inflation fell to a record low of 2.5 percent in the first quarter of 2018 compared to 7.3 percent in the corresponding period of last year. Prudent monetary policy—combined with a supply-side shock associated with a surge of low-cost food imports from Uzbekistan—contained food price inflation to just 1.1 percent during the first quarter of 2018 (compared to 9 percent in the same period of 2017).

Figure 2. Consumer Price Inflation
(Annual percentage change)



Sources: TajStat and World Bank staff estimates.

External Sector

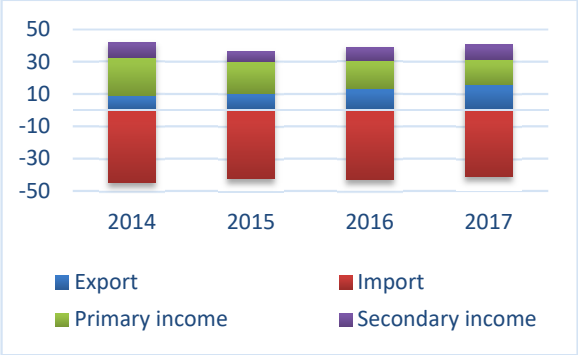
The external imbalance narrowed.

Tajikistan's external position continued to strengthen in 2017 supported by improved terms of trade, recovering remittances, and surging net exports.[4] The current account deficit fell to 0.5 percent of GDP compared to 3.8 percent of GDP in 2016 (table 2). This significant external adjustment was supported by a further contraction of import spending (down 1.5 percent year on year), a strong boost in export earnings (up 22 percent year on year), and recovering remittance inflows (up 31.5 percent year on year).[5] The declining trend of imports, primarily in machinery and equipment, metals and other construction materials leads to serious concerns for future growth rates and tax base. Higher export earnings in 2017 were mainly driven by traditional exports including mineral products, precious/semi-precious metals and stones, and textiles. Earnings from other traditional commodities—such as cotton and aluminum—declined. Inflows of FDI contracted by 14.3 percent year on year in 2017 (to 2.8 percent of GDP), reflecting continuing challenges in the banking sector (frozen accounts, for example) and the persistent lack

[4] According to NBT estimates, the somoni was undervalued by over 7 percent in 2017.
[5] Remittances recovered from 27.7 percent of GDP in 2016 to 35.4 percent of GDP in 2017.

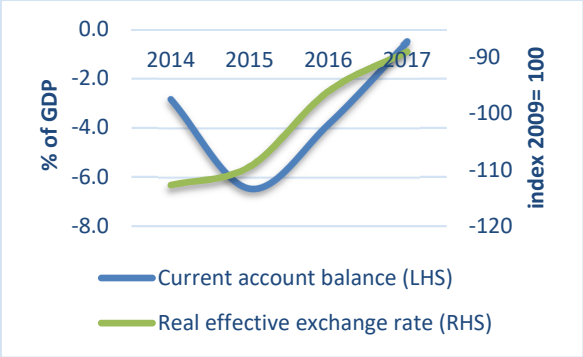
of investor confidence despite the expansion of government investment incentives.

Figure 3. Current Account Components
(In percent of GDP)



Sources: NBT and World Bank staff calculations.

Figure 4. Current Account Balance and Real Effective Exchange Rate
(Annual percentage change)



Sources: NBT and World Bank staff calculations.

Table 2. Balance of Payments and Official Reserves, 2014-2017
(In US$ millions)

	2014	2015	2016	2017e
Current account balance	**-258**	**-472**	**-362**	**-35**
Merchandise trade	-3001	-2254	-1886	-1517
Exports f.o.b.	527	572	668	873
Imports f.o.b.	3258	2826	2554	2390
Services	-306	-241	-138	-287
Primary income	2184	1526	1089	1101
Secondary income	865	497	572	668
Capital and financial account balance	**418**	**637**	**423**	**691**
Capital Account	124	144	144	135
Foreign direct investment	309	426	234	200
Portfolio investment	2	0	0	500
Other capital flows	-17	67	45	-144
Errors and omissions	**-246**	**-146**	**-296**	**-124**
Overall Balance	**-89**	**19**	**46**	**531**
Memorandum items:				
NBT Official Reserves (months of import)	1.4	1.7	2.7	5.4
Nominal GDP (US$ million)	9,242	7,857	6,922	7,162

Source: NBT.

Financial Sector

The financial sector shows signs of improvement but continues to downsize because of damaged trust.

Several regulatory initiatives by the NBT, coupled with recovering private business activity, helped reduce the level of non-performing loans (NPLs), reportedly from 47.6 percent in 2016 to 36.5 percent in 2017.[6] Most banks closed the year with small, yet positive, returns with the average ROA and ROE reaching 0.4 percent and 1.5 percent, respectively. Positive earnings boosted the capital adequacy ratio to 22.9 percent (from 17 percent in 2016). However, a decline in total deposits of over 10 percent in dollar terms is an indication of continued widespread distrust to banks. While resolution of two troubled banks is awaiting a government decision, depositors continue to struggle to withdraw personal savings due to liquidity shortages. On the lending side, both banks and businesses remain cautious due to stricter borrower screening procedures and lackluster business activity. Lending to the private sector contracted by 20 percent year on year in 2017 (following a 5 percent decline in 2016).

The supervisory framework is improving, but important gaps remain.

The NBT has improved the enforcement of prudential norms and transparency of financial reporting. In particular, directed and connected lending at subsidized rates came under stricter control, resulting in a decrease in large exposures. Risk management tools were improved, prompt corrective actions and new amendments to consumer protection law were introduced, and a new legislative framework for payment systems was developed. Such reforms have accelerated in recent years, supporting the development of a gradually more resilient supervisory framework. However, delays in the Parliament approval of the legislative amendments, including amendments to the Law on National Bank of Tajikistan, holds back the enactment of a modern legislative framework for enhancing the regulator's supervisory function.

Social Sector

Labor market pressures intensified while female and youth employment potential remains underutilized.

The unemployment rate stood at 6.9 percent in Tajikistan in 2016, according to the 2017 Labor Force Survey (LFS).[7] Labor market pressures intensified in 2017 when the number of applicants per vacancy increased following a 13 percent decline in job vacancies. In 2016, the female employment rate (40.5 percent) was significantly lower than the male employment rate (59.5 percent). However, the share of women in top managerial positions was 24.1 percent, which is relatively high compared even with advanced economies. Furthermore, labor under-utilization among the young population (aged 15-29 years) was 20.5 percent; one in five young people could not capitalize on their labor potential. At the same time, overall youth unemployment declined significantly, from 15.5 percent in the 2009 LFS to 10.6 percent in the 2016 LFS. According to the survey,

[6] Reflects the 30+ days overdue definition for NPL.

[7] According to official labor force statistics for 2017, the total number of employed and officially registered unemployed stood at 2,289,900 people of which official unemployment, based on administrative data, comprised 2.1 percent of the labor force.

the share of young people (ages 15-24 and up to 29) not in employment, education, or training (NEET) was about 30 percent.

Average wages have increased modestly, but low-paid sectors experienced significant increases.

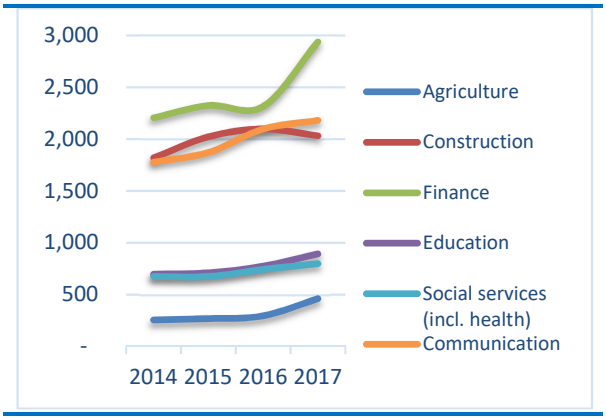
Although the minimum wage was unchanged in 2017—at 400 somoni (about US$45)—the average nominal monthly wage (about 1,147.8 somoni in 2017) increased by 11.4 percent in real terms compared to 2016.[8] All sectors except construction experienced wage growth in 2017, ranging from 4 percent in the communications sector to more than 50 percent in agriculture – the latter however driven administratively to catch up with the minimum wage (figure 5). This dynamic helped to reduce the large sectoral disparities in wage earnings and reduce the difference between the highest-paid financial sector and the lowest-paid agriculture sector from eight times in 2016 to nearly six times in 2017. Agriculture, which employs about 45 percent of the labor force, registered the highest wage income growth in 2017 but remained the lowest-paid sector with an average monthly wage of 461 somoni (15 percent above the minimum wage). Although remaining relatively low, average wages in the social sectors—including education, healthcare, and social services—were 70-90 percent higher than those in the agriculture sector while being more than twice as productive (figure 6). Financial services, construction, and transport and communications remained the highest-paid sectors. The difference in paid wages is in line with the divergence in sectoral levels of labor productivity. Agriculture, with the lowest productivity per worker, lags construction by a factor of 10 in productivity. Construction has been the primary driver of productivity in the Tajik economy, pulling out resources from the rest of the economy over the last 10 years.

Employment in agriculture rose.

The sectoral profile of wage employment in Tajikistan has not changed dramatically despite some shifts during the last 3-4 years (from agriculture and processing to social sectors in the range of 10 percent). Employment in public administration and construction have increased by an even more significant margin (more than 20 percent), absorbing labor from other services sectors. About 45 percent of total hired employment was in the agriculture sector in 2017 (up from 42.9 percent in 2016), with education and the health and social services sectors accounting for 20.1 percent and 9.6 percent of employment, respectively.

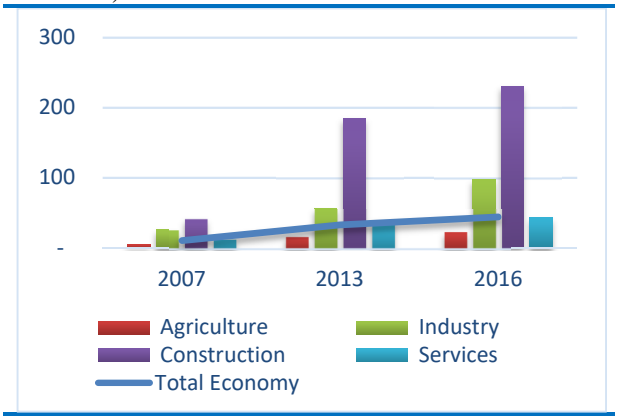
[8] Average wages increased by 19.6 percent between 2016 and 2017 in nominal terms.

Figure 5. Average Monthly Wage by Sector
(In somoni)



Sources: TajStat and World Bank staff calculations.

Figure 6. Productivity by Sector
(Total Value Added in million somoni per 1,000 workers)



Sources: TajStat and World Bank staff calculations.

The pace of poverty reduction declined after the 2008-09 crisis and remains weak.

Tajikistan has achieved a significant reduction in its poverty rate since 2012. Measured with the national poverty line, the poverty rate fell from over 37 percent in 2012 to 29.5 percent in 2017. However, the poverty reduction response to economic growth, which was higher before the 2008–09 financial crisis, has weakened since 2010.[9] Moreover, extreme poverty remained stagnant at 14.1 percent of the population during the last several years. Incomes from employment and remittances remain the primary drivers of poverty reduction. A decline in remittance inflows slowed the pace of poverty reduction in the period between 2014 and the first half of 2016; poverty reduction resumed in the second half of 2016 and accelerated throughout 2017. Recent progress on poverty reduction has varied for urban and rural areas. Poverty was relatively stagnant in urban areas during 2015–16 at around 24 percent before falling to 22 percent in 2017. By contrast, rural poverty fell significantly from 36.1 percent in 2014 to 33.1 percent in 2017.

Prevalence of poverty is determined by economic concentration.

Levels of industrialization and urbanization are important determinants of poverty in Tajikistan's regions. The lowest poverty rates are observed in Dushanbe and Sughd, where most economic activity is concentrated. By contrast, the Gorno-Badakhshan Autonomous Oblast (GBAO), Khatlon, and the Districts of Republican Subordination (DRS), typically indicate poverty rates above the national average. Food expenditure accounts for about 75 percent of total consumption for poor households. The Listening-to-Tajikistan survey identified a noticeable declining trend in the share of households reducing food consumption to pay for other basic needs (from about 45 percent of households in November 2016 to about 27 percent in November 2017) explained by the recovery of remittances.

[9] During the pre-crisis years of 2004-07, each percentage point of economic growth led to a 0.7 percent reduction in poverty while during recent years (2014-17) the poverty reduction response to growth slowed by two times—each percentage point of economic growth resulted in a reduction of poverty of only 0.4 percentage points.

Box 1. Malnutrition and Stunting in Tajikistan

Central Asia is making steady progress towards eliminating childhood stunting. The share of children suffering from low height-for-age is trending downward in every country in the region, and in Tajikistan as the stunting rate fell by almost 21 percentage points between 2003 and 2016. These are remarkable achievements, and due in large part to the commitment of governments and the communities they serve to address malnutrition.

Continued progress is vital to the region's prosperity and the future of its children. But the risks are highest in Tajikistan, where more than 20 percent of children under the age of five are still stunted. According to the latest statistics available, moderately high rates remain in the Kyrgyz Republic, Uzbekistan, Turkmenistan, and Kazakhstan. Inadequate nutrition during the first few years of life prevents children's brains from developing properly, and can cause irreversible damage. Undernourishment compromises children's health and immune system, also putting them at much higher risk of illness and even death. Around the world, nearly half of all deaths among children under the age of five are attributable to undernutrition – about 3 million young lives a year.

In Tajikistan, the World Bank recently completed a study to investigate potential drivers of stunting risk. The findings show that the dangers are concentrated in poorer, rural parts of the country, and among children with several overlapping risk factors. These include the availability and diversity of food, but also aspects of the home environment, such as access to clean water and sanitation. Better care for young children in terms of formal health services, hygiene, and care practices from parents are also correlated with lower stunting rates. World Bank studies show that an additional dollar invested in quality nutrition and preschool programs can yield an estimated return of between $6 and $17 dollars.

Millions of people in Central Asia still lack access to clean water and sanitation facilities. Food fortification efforts remain uncomplete, leading to micronutrient deficiencies in some areas. Many poor families struggle to provide for their children's basic needs, which calls for social protection systems to provide a last resort safety net. Mothers should be supported with education about the benefits of breastfeeding, and families about best care practices for diseases like diarrhea (keep kids hydrated!). Eradicating malnutrition and stunting is within reach in Central Asia, and the World Bank is a committed ally to governments and communities working to make it happen.

Source: Lavado, Rouselle F.; Seitz, William Hutchins; Thiebaud, Alessia: Childhood stunting in Tajikistan: quantifying the association with wash food security health and care practices (English). HNP Discussion Paper. Washington, D.C.2017.

B. Macroeconomic Policies and Structural Reforms

Assessment of Fiscal and Debt Policies

The government pursued expansionary fiscal policy in 2017 undermining the medium-term Fiscal Consolidation Strategy.

Against the backdrop of tightened fiscal space and growing debt service obligations, the authorities approved a medium-term fiscal strategy to commence fiscal consolidation in 2017.[10] However, the envisaged fiscal path was seriously compromised because of significant increase in spending on strategically important infrastructure projects. Overall fiscal deficit increased from 3.7 percent of GDP in 2016 (excluding 6.1 percent of GDP related to the financial sector bailout program) to 6 percent of GDP in 2017. Such significant fiscal expansion undermined the overall effort to restore the country's macro-fiscal stability despite the improved revenue collection and restrains of re-current spending at a lower-than-approved level. The latter was supported by cuts of non-priority current and capital outlays as well as by the decision to hold off on a second-phase bank bailout program. The authorities have increased public investments by 25 percent,

[10] The fiscal balance estimates are preliminary and subject to corrections after release of final numbers.

y-o-y, to about 17 percent of GDP in 2017 which amplified the set annual limit of the state budget deficit by more than two times. In the context of current massive mobilization of public resources for financing strategically-important infrastructure projects there are concerns that the government may underspend on core social obligations and accumulate arrears.

Tax policy changes weakened domestic revenue mobilization efforts.

An intensified domestic revenue mobilization effort helped to meet the administration's revenue collection target in 2017; collections from tax and non-tax revenues rose by 1 and 0.4 percentage points of GDP, respectively. At the same time the government introduced tax policy changes which seemed friendlier to the business climate albeit at the expense of revenue losses of about 1 percent of GDP. In addition, the authorities introduced revenue-raising policies, including the extension of the road user tax until 2020, upward adjustments to the minimum threshold for calculations for fines and penalties (from 40 to 50 somoni), the introduction of a progressive tax rate (ranging from 7.5 to 15 percent) for motor vehicles based on engine power capacity, and an increase in customs duty on cotton exports (which took effect in early 2018), which, however, in entirety have not been enough to compensate for the estimated revenue loss associated with other tax policy changes.

Table 3: Tax Policy Changes Introduced in 2017 and the Estimated Fiscal Revenue Impact

Tax Policy Changes Introduced in 2017	Estimated Revenue Impact, in percent of 2017 GDP[11]
Increase the VAT threshold from 500,000 to 1,000,000 somoni,	-0.9
Reduction of the corporate profit tax rates from 24/14 percent to 23/13 percent for goods/services,	-0.1
Reduction of customs duty on imported light vehicles by 50 percent.	N/A
Extension of the road user tax until 2020	0.6
Introduction of a progressive tax rate (ranging from 7.5 to 15 percent) for motor vehicles based on engine power capacity	0.1
Net impact	**-0.3**

Although grants for public investment projects were received in line with budgeted amounts, in GDP terms they contracted significantly compared with 2016 levels. Customs collections were affected by lower-than-projected import volumes, but the shortfall was offset by higher-than-projected collections on all other major tax categories, primarily income taxes (both corporate and profit/personal) and natural resources fees. Collections of non-tax revenues exceeded the planned level by 13.7 percent. Compared with 2016, collections from fines and penalties were down by 30 percent, suggesting some improvement in voluntary tax compliance. Extra-budgetary funds and grants for public investment projects were received in full whereas budget support grants fell short of planned amounts by over 50 percent.[12]

[11] World Bank staff estimates based on official data on tax collection in 2016.

[12] The government expected to receive budget support grants/loans from the Asian Development Bank (ADB) totaling US$50 million and EuDB totaling US$20 million, but the latter did not materialize in 2017.

The fiscal expansion at about 3.5 percent of GDP in 2017 was mostly driven by spending on Rogun HPP which exceeded the budgeted level by more than two times compared with the approved 2017 budget. The authorities cut "non-priority" outlays, but recurrent spending suffered more from the expenditure rationalization. Despite minor delays in social spending in 2017, the authorities reported full clearance of arrears by the end of the fiscal year. Construction of infrastructure projects were largely on track whereas Rogun HPP investments accelerated.

Budgeted expenditures for 2018 are likely to overshoot and delay the needed fiscal adjustment.

The 2018 State Budget Law stipulates a budget deficit of below 3 percent of GDP, in line with the adopted medium-term fiscal strategy. Budgetary parameter forecasts for 2018 were brought down to slightly more realistic levels from the overly-ambitious targets of the last few years. Both fiscal revenues and expenditures are projected at lower levels than observed in 2015–17.[13] However, outcomes in 2017 and thus far in 2018 lead to serious reservations about the likelihood of maintaining the fiscal deficit at 2.9 percent of GDP in 2018. Delayed fiscal adjustment may trigger austerity measures over the medium-term and necessitate sizeable cuts of public spending on general public services and government administration to restore a fiscal balance conducive to macroeconomic stability. The 2018 budget does not anticipate a new Eurobond issuance or another banking sector bailout program. However, the experience with the first Eurobond issuance in September 2017 does not preclude that the second issuance may materialize regardless of the budget's provisions.

The public debt burden is heavy and narrows fiscal space.

The level of public and publicly-guaranteed debt (PPG) rose significantly and exceeded 50 percent of GDP by end-2017 despite a domestic fiscal rule setting a 40 percent of GDP threshold in the medium-term debt strategy (MTDS).[14] Loans attracted for public investment projects, particularly from China, the issuance of a US$500 million Eurobond in September 2017, and the depreciation of the somoni increased the level of external debt from 33 percent of GDP in 2016 to about 42 percent by the end of 2017. Domestic debt rose owing to bank re-capitalization and energy sector support programs financed government bond issuances, which boosted the domestic debt burden from 5.3 percent of GDP in 2015 to 11.2 percent in 2017. As a result, Tajikistan's risk of external debt distress rose from low to high as reflected in the latest Debt Sustainability Analysis (DSA) conducted by the IMF and the World Bank. The current debt profile narrows the space for fiscal maneuver—over 40 percent of Tajikistan's total debt repayments fall due in the next five years. To create the needed fiscal room to meet the expected hike in debt service obligations, ongoing fiscal consolidation efforts must be continued.

[13] Total revenue in 2018 is projected at 28.2 percent of GDP and total expenditure at 31.1 percent of GDP.
[14] The strategy was revised and the debt to GDP ceiling was raised to 60 percent (this has not been made public yet).

Table 4: Consolidated Fiscal Accounts, 2014-2017
(In percent of GDP)

	2014	2015	2016	2017e
Revenue and grants	**28.4**	**29.9**	**28.8**	**30.4**
Tax revenue	22.8	22.0	20.6	21.5
Income and profit taxes	4.2	4.8	4.4	5.0
Payroll taxes	3.0	2.8	2.5	2.6
Property taxes	1.5	1.2	1.2	1.3
Taxes on goods and services	12.8	12.0	11.3	11.5
International trade and operations taxes	1.3	1.1	1.2	1.2
Non-Tax Revenues	4.0	5.0	5.2	6.5
of which extra budgetary funds	1.6	2.1	2.5	4.4
Grants	1.5	3.0	3.0	2.4
of which Public investment program (PIP)	1.5	2.1	3.0	2.1
Expenditure and net lending	**28.4**	**31.8**	**38.5**	**36.4**
Current expenses	18.2	18.1	17.6	19.8
Capital expenses and net lending	10.3	13.7	21.0	16.7
Overall fiscal balance (incl. externally-financed PIP) 1/	**-0.1**	**-1.9**	**-9.8**	**-6.0**
Overall fiscal balance (excl. externally-financed PIP)	**1.0**	**1.2**	**-6.6**	**-1.9**
Memorandum items				
Total Public Debt 2/	32.2	36.7	49.0	54.7
Nominal GDP (TJS million)	45,605	48,402	54,471	61,094

Source: Ministry of Finance and World Bank staff estimates.

1/ In 2016, fiscal operations include financial sector bailout in the amount of 6.1 percent of GDP. Without bailout, the overall fiscal deficit (incl. PIP) made 3.7 percent of GDP.

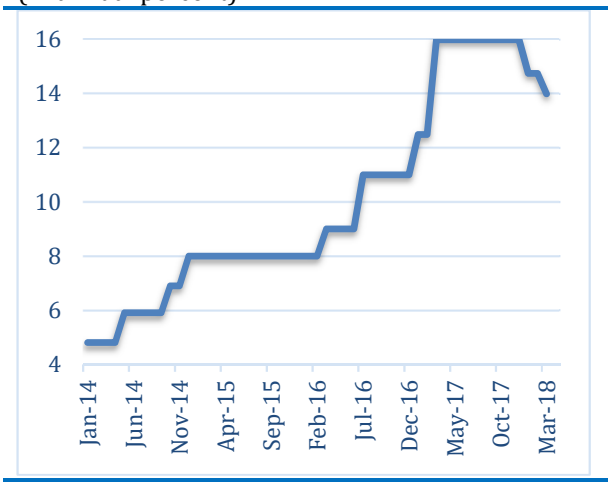
2/ Public debt figures include SOE external borrowings.

Assessment of Monetary and Exchange Rate Policies

Monetary policy was tight in 2017, but the NBT eased policy conditions as inflationary expectations moderated.

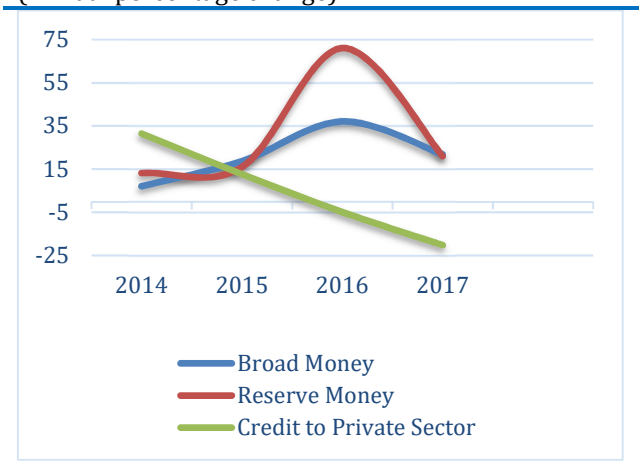
In response to increased inflationary pressures in the first half of 2017, the NBT raised its policy rate twice to reach 16 percent (figure 7). Doing so allowed the absorption of excess liquidity through the sale of National Bank bills. Reserve requirements were also raised to 3 percent (from 1.5 percent) on national currency deposits and to 9 percent (from 7 percent) on foreign currency deposits. The combination of these policies allowed the NBT to dampen the growth of monetary aggregates and moderate inflation towards the end of 2017. Money supply growth remained strong in 2017—in annual terms, broad and reserve money grew by 21.8 percent and 28 percent, respectively (figure 8). With inflation moderating and exchange rate pressures easing, the policy rate was cut to 14.75 percent in January 2018 and 14 percent in March. However, despite an incipient recovery in private consumption, credit to the private sector contracted by over 20 percent year on year in 2017 and stabilized at a new level in early 2018. Strengthened borrower screening procedures, unresolved difficulties in top banks, and prevailing risks in the business environment have dampened credit withdrawals.

Figure 7. Refinance Rate
(In annual percent)



Source: NBT.

Figure 8. Money Supply Aggregates
(Annual percentage change)



Source: NBT.

The NBT declared its intention to move to an inflation targeting regime.

The establishment of an inflation-targeting (IT) regime remains a priority of the central bank; in 2017 the NBT continued to lay the groundwork to adopt such a regime officially in the near future.[15] In 2018, the target band was reduced by 1 percentage point to 7 percent (+/- 2 percentage points). Recently introduced open market and standing facilities, as well as a relatively stable exchange rate, positively contributed to monetary policy. The central bank is working to improve the policy rate transmission mechanism, the macroeconomic modeling capacity of staff, and liquidity forecasting tools. In addition, the timely publication of core statistical data and forward-looking communication with the public—including monetary policy committee press releases—have been improving the transparency of NBT activities.

Ongoing Structural Reforms

Lack of robust progress in inspection reforms undermine private sector development.

Tajikistan initiated reforms to its inspection system to facilitate the dual objective of achieving better regulatory outcomes while avoiding the creation of unnecessary impediments for business. The government adopted a decree in late 2017 stipulating a reduction in the number of inspection bodies to 24. The decree ordered the merger of seven different inspection bodies into two new entities, the Committee for Food Security and the State Supervision Service on Health and Social Protection. The number of planned inspections in 2017 fell by 44 percent year on year, but the incidence of unplanned inspections rose by 35 percent. As a result, the total number of inspections declined by 36.4 percent year on year. While this represents a step in the right direction, substituting planned inspections with unplanned visits undermines the essence of the adopted

[15] The National Bank approved a medium-term action plan covering 2018-20 for transitioning from the current monetary targeting to inflation targeting.

policy objective and should be avoided to ensure genuine improvements in this field.

The government continues granting tax incentives, hampering the revenue base.

In February 2018 the government introduced new sector-specific tax exemptions applicable to industrial enterprises, medical and pharmaceutical companies, agri-business (including poultry), and school uniform producers. The special tax regime was also amended to support the textile industry by allowing existing enterprises to benefit from the regime. Meanwhile, the right to take advantage of the special regime remains conditional and subject to the government's resolution. Amendments were also made to the special tax regime applicable to the poultry industry. In particular, mandatory conditions for enjoying this regime (including the availability of foreign investment or credits from foreign banks) were removed, and the duration of tax exemptions for the sector was cut from 12 to 6 years. Unfortunately, no cost-benefit analysis of these incentives has been completed demonstrating the benefits to the target industry, the foregone fiscal cost for the state budget and any net benefit to the public regarding the number of new jobs or other social returns. As experience elsewhere shows, tax incentives must be accompanied with sector-wide reforms and improvements to yield positive outcomes.

Tax e-filing coverage increased.

The number of electronic services provided by the Tax Committee (TC) to taxpayers is increasing. Currently, seven services are provided electronically to taxpayers, including e-filing, VAT invoices, Tax Code Android (compressed, executable application file containing the code and resources necessary to activate a single Android program on the Linux-based mobile phone platform), a call center, and a tax calculator for three taxes. The gross e-filing rate is currently 87.4 percent, with 97.2 percent coverage for legal entities and 77.8 percent for individual entrepreneurs. In addition, all patent applications are now processed by a central system and all local offices have been linked into the central network. The TC recently launched an e-request facility for the provision of no-arrears certification and for the confirmation of taxpayer registration.

Trade facilitation reforms remain weak.

Although Tajikistan has been a member of the World Trade Organization since 2013, progress in trade facilitation—particularly the regulatory environment that governs interventions and controls by government agencies—has progressed slowly as reflected in international performance indicators. The World Bank Group's 2018 Doing Business report ranks Tajikistan 149 of 189 countries on the trading across borders indicators. On a regional comparison, the country fells behind Kazakhstan and the Kyrgyz Republic while outperforming Uzbekistan. Major trade barriers include border and documentary compliance costs on the import side and VAT refund issues on the export side. Air cargo, which remains underdeveloped, is another key area for improvement.

Tajikistan's Single Window initiative, which was launched several years ago, is still not operational. There are many reasons for the completion time such as the need for legislation to permit electronic signatures and other processes fundamental to a Single Window operation. However, a lack of

high-level leadership and focus has also resulted in the initiative's delay. Although myriad other important trade facilitation areas (such as the publication, transparency, right to appeal, advance rulings) are yet to be addressed, the government is working to accede agreements on government procurement, civil aircraft, and on information technology. Tajikistan is also working on regulations for the Law on Foreign Trade Activities to fully authorize antidumping, countervailing duties, and safeguard measures, and is preparing materials to publicize trade remedies.

Energy sector initiates large-scale institutional and financial reform.

The main service provider in the energy sector covering all functions from generation and transmission to distribution, the vertically-integrated Barqi Tajik (BT), is one of Tajikistan's largest SOEs. With tariffs below cost-recovery levels, low and variable collection rates for electricity and sub-optimal financial management at BT, the energy sector has been in financial distress for years. To improve the company's managerial performance the government has unbundled functions of BT by creating legally separate and independent entities for energy generation, transmission and distribution.

In addition to structural and institutional changes, the government initiated reforms to improve the sector's governance and financial viability and sustainability. In line with the Program on Financial Recovery of BT for the period of 2017-22, the Government of Tajikistan has already implemented a number of important activities, including tariff increases; reduction of payables to Sangtuda-1; improvement of the collection rates for billed electricity; elimination of cross-subsidies among some categories of tariffs for consumers and initial plans to restructure BT's debt connected with government sub-lending.

All the above are critical for building solid grounds for attracting additional investments to the sector especially from the private sector. At the same time, the government will need to develop mechanisms to mitigate the negative impact of electricity tariff increase on the poor and vulnerable parts of population. In addition, a solid set of fiscal rules will need to be established to properly monitor and manage export proceeds to be generated by the sector after Rogun joins the generation stream to ensure commensurate revenues for fiscal needs

C. Economic Outlook and Risks

Tajikistan's Baseline Scenario

Positive outlook despite domestic vulnerabilities.

Tajikistan's outlook for the short to medium term remains positive and is supported by the improved external environment, including prices projected for the country's major export commodities and improving relationships with its neighbors, particularly Uzbekistan. Despite the still-weak banking sector, growth is expected to hover around 6 percent in 2018-20 supported by recovering remittance inflows, infrastructure-driven construction, and the expansion of electricity sales. Inflation is forecast to remain in single digits assuming the central bank's move to the inflation targeting framework improves inflation monitoring.

The medium-term fiscal framework is constrained and exposed to pressures.

The government needs to align its current fiscal policy with the approved medium-term fiscal consolidation strategy which envisages a prudent stance with the fiscal deficit projected to remain below 3 percent of GDP. Unfortunately, the government's projected level of fiscal deficit does not always cover the full scope of public investments on infrastructure projects, particularly on Rogun HPP, which then leads to the actual outcome of deficit exceeding the targeted levels. Apparently spending pressures will remain high until Rogun HPP becomes increasingly self-financed after 2021. Other spending pressures stemming from higher debt service obligations, the need to expand the coverage of the targeted social assistance program and ensure indexation of other social spending, will also keep the fiscal deficit elevated throughout the medium-term. Also, it is projected that the country will remain at the high risk of debt distress in the base-line scenario which will exacerbate further in view of additional financing needs for the construction of large infrastructure projects, including Rogun HPP and CASA -1000. The baseline scenario does not assume additional budget support for the resolution of banking sector difficulties. However, if materializes the potential bailout would expand the augmented deficit concomitantly. Other downside risks to the fiscal framework may also come from the revenue side due to elimination of the road user tax in 2020 and challenges associated with meeting revenue targets if the current incremental budgeting practice continues.

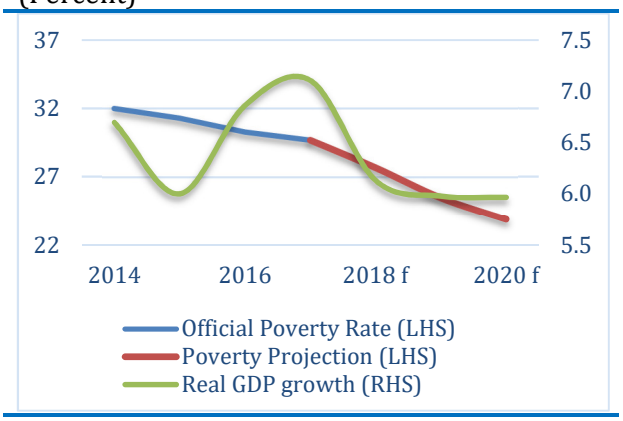
Rising domestic consumption will drive a deterioration of the external balance.

Although the current account deficit will deteriorate compared to its unusually low level in 2017, it is still projected to remain below 3 percent of GDP, contributed by the second-round effects of a remittances-driven recovery of consumption and investment-related imports, particularly for the construction of Rogun HPP. The latter will require commensurate financing which at present remains largely uncertain and thus may pose a serious risk. International reserves, which stood at 5.4 months of import cover at the end of 2017, are expected to decline as the construction of the Rogun HPP unwind into imports.

Poverty reduction prospects remain positive.

The poverty rate is projected to fall to about 24 percent of the population by 2020 (figure 9), supported by strong economic growth, recovering remittances, and the national expansion of the Targeted Social Assistance (TSA) program. However, to meet the poverty alleviation goals outlined in the government's National Development Strategy, the creation of high-quality jobs by the private sector will be crucial going forward.

Figure 9. Poverty Rate Projection
(Percent)



Sources: TajStat and World Bank staff calculations.

Table 5. Baseline Scenario: Selected Macro-Fiscal Indicators, 2017-20
(In percent, unless otherwise indicated)

	2017e	2018f	2019f	2020f
Real GDP growth	7.1	6.1	6.0	6.0
Private Consumption	3.3	3.4	3.5	3.5
Government Consumption	-5.9	6.8	7.7	8.5
Gross Fixed Investments	2.4	3.6	3.8	3.9
Export, Goods and Services	10.4	8.5	8.2	8.1
Import, Goods and Services	5.0	5.2	5.4	5.5
Consumer Price Inflation, period average	7.3	8.5	7.0	7.0
Current account balance (percent of GDP)	-0.5	-2.4	-2.5	-2.6
Overall fiscal balance (percent of GDP)	-6.0	-5.5	-5.0	-4.5
Public debt (percent of GDP)	54.7	55.5	56.0	56.5

Source: Tajik authorities, and World Bank staff estimates and projections

Risks

Downside risks remain.

Risks are weighted to the downside owing to external and domestic factors given Tajikistan's heightened vulnerabilities on both fronts. External geopolitical uncertainties and/or unexpected commodity price shocks would negatively affect remittance inflows and export proceeds (which are highly concentrated in extractives). Domestic vulnerabilities include problems in the banking sector, growing contingent liabilities in public enterprises, and the slow pace of structural reforms, particularly those pertaining to the business environment. The country's deteriorated debt profile and growing debt service obligations pose macro-fiscal challenges and limit the fiscal space for allocating adequate funding for human capital development. Moreover, additional investments required for the Rogun

HPP, will continue shifting away resources from other sectors of the economy, including from the chronically under-funded social sectors. Also, additional financing needs for Rogun HPP will impose significant burden on the already highly distressed level of the country's public debt. A second-round of Eurobond issuance or a banking sector bailout will undermine overall macroeconomic stability of the country.

Upside risks are associated with deepening regional integration, particularly the fast-improving relationship with Uzbekistan. The visa-free regime with Uzbekistan and the resumption of the Central Asian electricity grid has the potential to boost trade volumes between the two countries and allow Tajikistan to increase export of excess electricity in the summer period based on the current capacity. The installation of the first generator at the Rogun HPP in late 2018—and additional installations in the coming years—will significantly benefit the economy over the medium to long runs.

D. Focus Section

Assessment of the State-Owned Enterprise Sector in Tajikistan

The government envisages expansion of the private sector.

The National Development Strategy 2016–30 ("NDS 2030") lays out the Tajik government's vision for the country's future economic development. The strategy envisions a dynamic private sector as the driver of future growth, supported by an efficient and responsive government able to capitalize on the opportunities provided by the country's proximity to large external markets. The continued transition of Tajikistan's economy to a more competitive and market-based economy is central to the strategy's vision. As such, the promotion of competition and enhancing incentives for the restructuring of SOEs are important economic reform priorities for Tajikistan.

So far SOEs play a major role in the Tajik economy.

SOEs play a substantive role in the Tajik economy in terms of asset base, market share and employment as well as impact on the private sector and fiscal risks**.** As of end-2017, there were around 922 SOEs, the largest 23[16] of which accounted for 10.4 percent of GDP during 2015–17.[17] They include utilities (energy, water, and sewage), transport and telecommunications (aviation and railway), industry (cement and mining), and the financial sector (banking and insurance). State-owned enterprises enjoy a dominant share in key infrastructure networks—Tajik Telecom, for example, has a monopoly in national telephone landlines, Tajik Rail Company has a monopoly in railroad services, and Barki Tajik dominates the generation, transmission, and distribution of electricity. As of end-2015, the total assets of the largest SOEs represented 51 percent of GDP (35 percent if current

[16] The government's classification of SOEs is subject to further review to remove and separate budget organizations from commercially-oriented public enterprises. There are many public administration entities with specialized functions providing only public services. They should not be considered as state-owned enterprises and need to be included within the general government as budget organizations.

[17] With the aim of strengthening its oversight of SOEs, in 2009 the government established a department at the MoF to monitor the financial activities of the largest 23 SOEs.

assets, such as receivables, are excluded). Tajikistan's SOEs are also a significant source of employment. Available data suggests that the country's 23 largest SOEs collectively employ about 45,180 workers, or 10 percent of total public employment. The largest single employer is Barki Tajik, with 12,000 employees.

However, SOE sector lacks operational efficiency.

SOE profitability is low as most are loss-makers and generate sizeable arrears**.** Except for some SOEs operating in the aviation sector and Tajik Cement, the majority operate at low profitability or are making losses. According to preliminary data for 2017, 11 of 23 SOEs posted losses that cumulatively amounted to 2.8 billion somoni (4.6 percent of 2017 GDP). Losses have been concentrated in the energy and metal processing sectors—in particular, Barki Tajik (accounting for 94.7 percent of total losses) and TALCO (3.7 percent)—and SOEs in communal services. In addition, SOEs account for the bulk of total arrears in the economy both for receivables (7.3 percent of GDP) and payables (40.5 percent of GDP).[18] Tax arrears to the State Budget and Pension Fund account 286.9 million somoni (0.5 percent of GDP in 2016), while wage arrears to employees (a relatively small share) totaled just 45.3 million somoni (0.1 percent of GDP).

The government needs to enhance SOE oversight.

The government lacks full oversight of SOEs and, as such, their operational performance and technical efficiency remain ambiguous**.** The SOE monitoring department at the MoF prepares quarterly reports on SOE's financial performance and annual reports on fiscal risks. These reports, which are posted on the MoF's website, have formed an integral part of the State Budget documents since 2014. However, there is no comprehensive database to oversee the operations and financial performance of the SOE sector needed to ensure proper management of quasi-fiscal activities and prevent any potential buildup of contingent liabilities.[19] As a result, it is impossible to assess the role of SOEs in the Tajik economy comprehensively. Oversight responsibilities are spread across several line ministries and agencies without universal rules for administrative arrangements. Key strategic entities, such as the Tajikistan Aluminum Smelter (TALCO) and TALCO Management, answer directly to the President's Office. Other SOEs report directly to their respective line ministries, which are authorized to appoint the SOE management. These SOEs provide monthly, quarterly, and annual data to the line ministries. Some reports are also sent to the State Statistical Agency. The 23 largest SOEs, including TALCO, send regular quarterly financial statements—including income, expenditure accounts, and balance sheets—to the MoF. Currently the government is working on legislative initiatives aimed at improving financial oversight, governance and accountability of SOEs.

[18] This figure includes short-term and long-term accounts payable.

[19] The State Committee on Investments and State Property Management governs the SOE privatization process but is not engaged in the current management processes.

SOE payment discipline needs to be addressed in a sustainable manner.

High arrears on receivables and payables are largely the result of poor payment discipline between SOEs**.** In 2016, the 23 largest SOEs had accounts receivable of 3.3 billion somoni and long-term accounts payable of 8.3 billion somoni,[20] or about 6 and 15.2 percent of GDP, respectively. Barki Tajik is the single largest debtor SOE owing 85 percent of total payables and, at the same time, retaining a 36 percent share of total receivables.[21] The latter remains high due to poor payment discipline by the population and other SOEs, in particular by its single largest customer, TALCO, which consumes around 30 percent of Tajikistan's total electricity supply. Although during the last two years TALCO's payment discipline has improved, its debt to Barki Tajik for consumed electricity remains large owing to its previous poor payment discipline. The government has been addressing this issue by writing-off arrears through the inter-enterprise arrears settlement system. As a result, payment arrears by other SOEs to Barki Tajik have been offset in exchange for Barki Tajik's tax arrears forgiveness to the State Budget. However, such a practice runs a risk of discouraging any potential improvement in payment discipline which may, in turn, weaken Barki Tajik's cash position.[22]

Main Concerns and Risks

Half of total tax arrears are owed by SOEs.

The high concentration of tax arrears in SOEs is a cause for concern. Arrears of large SOEs rose steadily until 2013 to reach 475 million somoni (1.2 percent of GDP), before declining to below 314.5 million somoni (0.5 percent of GDP) in 2017, about half of total tax arrears.[23]

Loans and sub-loans incurred by SOEs expose the government to quasi-fiscal risks.

In recent years, the government has been facing extra fiscal costs because of non-repayments of subsidiary loans by SOEs under on-lending arrangements.[24] Barki Tajik and Tajik Trans Gas are among the SOEs that regularly receive on-lending from the MoF despite being in distressed financial conditions. Similar practices in eight SOEs led to total explicit fiscal liabilities of 5 billion somoni in 2016, equivalent to around 9.2 percent of GDP. Barki Tajik alone accounts for more than 97 percent of total outstanding sub-loans.[25] Unfortunately reports on Quasi-Fiscal Risks produced by the SOE Monitoring Unit of MoF do not provide sufficient details on debt repayments to see whether the debt was eventually repaid by the beneficiary SOEs or by the government. The latter creates a moral hazard problem.

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[20] Total accounts payable, including short-term and long-term payables, amounted to 20.6 billion somoni in 2016.

[21] According to the 2016 Audit Report, although total receivables were around 1.2 billion somoni in 2016, they include 569 million somoni for doubtful debts.

[22] The latest settlement, in December 2017, resulted in the forgiveness of 81 million somoni of arrears owed by the Agency on Melioration and Irrigation to Barki Tajik in exchange for writing-off the tax arrears that Barki Tajik owed to the national budget.

[23] Total tax arrears were around 1.2 percent of GDP in 2017.

[24] Under on-lending arrangements, the government passes on the loan obtained from IFIs to SOEs with an interest rate in the range of 3 to 6 percent, significantly below the cost of a commercial loan.

[25] Consists of overdue loans and loans in which the maturity date has not passed. Total outstanding amount of sub-loans is 13 billion somoni or 23.9 percent of GDP in 2016.

Direct budgetary loans to SOEs strain the fiscal space.

The government has a practice of providing short-term loans from the State Budget to large SOEs for specific projects at a subsidized interest rate (typically around 10 percent). In 2017, the total outstanding debt on direct credits to SOEs from the budget amounted to 75 million somoni (0.4 percent of total public spending).

SOE reform should be accelerated to close leakages and prevent the inefficient use of public resources.

Further enhancement of the regulatory framework pertaining to accounting, financial reporting, and audits based on IFRS standards may help to improve the quality of SOE financial statements, and thus the overall management of SOEs. Key principles of non-financial management, including performance management, institutional risk management, and corporate governance, should also be introduced. The current practice of producing Statement of SOE Fiscal Risks could be enriched by including: (i) forward-looking risk estimates; (ii) information on the government's loan re-payments made on behalf of failed SOEs to inform and reduce such risks in the future; (iii) systematic monitoring and strengthening of SOEs to avoid frequent bailouts; (iv) broadening of the coverage of contingent liabilities by including externally- and domestically-borrowed non-guaranteed debt;[26] and (v) identifying an annual ceiling for on-lending to SOEs and reflecting it in the government's Public Debt Management Strategy or in the SOE Fiscal Risk Strategy.

[26] To better monitor loans contracted by SOEs, the MoF could introduce a prior approval practice by requesting that SOEs provide all information on their borrowing plans, expected debt service obligations, and envisaged sources to repay the debt.

Annex Table 1. Selected Macroeconomic and Social Indicators, 2014-20

	2014	2015	2016	2017	2018	2019	2020
	actual	actual	actual	estimate	Projections		
	(Percent, unless otherwise indicated)						
National Income and Prices							
Real GDP growth	6.7	6.0	6.9	7.1	6.1	6.0	6.0
Private consumption growth	1.8	-15.0	6.4	3.3	3.4	3.5	3.5
Gross investment (percent of GDP)	4.6	5.4	6.1	5.8	5.7	5.5	5.4
Consumer price inflation, period average	6.1	5.8	5.9	7.3	8.5	7.0	7.0
Average exchange rate (TJS per USD)	4.93	6.17	7.84	8.5	…	…	…
	(Percent of GDP, unless otherwise indicated)						
External Accounts							
Exports of Goods and Services	9.1	10.5	12.9	15.7	15.2	15.7	16.1
Imports of Goods and Services	44.9	42.3	42.0	40.9	48.8	49.5	50.1
Current Account Balance	-2.8	-6.0	-5.2	-0.5	-2.4	-2.5	-2.6
Capital and Financial Account	5.5	7.4	-1.9	-5.9	2.4	2.5	2.6
Foreign direct investment, net	3.4	5.3	3.4	2.8	3.3	3.3	3.3
	(Percent of GDP, unless otherwise indicated)						
Consolidated Fiscal Accounts							
Revenues	28.4	29.9	28.8	30.4	28.5	28.9	29.2
Expenditures	28.4	31.8	38.5	36.4	34.0	33.9	33.7
Overall fiscal balance 1/	-0.1	-1.9	-9.8	-6.0	-5.5	-5.0	-4.5
Primary fiscal balance	0.4	-1.3	-9.1	-5.5	-4.9	-4.4	-3.9
Total Public Debt 2/	32.2	36.7	49.0	54.7	55.5	56.0	56.5
	(Percent, unless otherwise indicated)						
Monetary Accounts							
Broad money growth	7.1	18.7	37.1	21.8	…	…	…
Reserve money growth	13.2	16.0	71.1	21.0	…	…	…
Private sector credit growth	31.5	12.7	-4.9	-20.2	…	…	…
Refinance rate, end of period	8	8.0	11.0	16.0	…	…	…
Social Indicators							
Population, total (millions)	8.3	8.5	8.6	8.8			
Population growth (percent)	2.3	2.4	2.2	2.2			
Unemployment rate (officially registered)	2.5	2.5	2.4	2.2	…	…	…
Poverty rate, (national poverty line TJS 175.2/month)	32	31.3	30.3	29.5			
Inequality – Gini coefficient	30.8	27.5	28.0	…	…	…	…
Life expectancy (years)	69.6	69.4	…	…	…	…	…

Source: Tajik authorities, and World Bank staff estimates and projections.

1/ In 2016, overall fiscal deficit excluding banking bailout program made 3.7 percent of GDP. The fiscal balance for 2017 is preliminary and will be corrected after release of final numbers.

2/ Public debt figures include SOE external borrowings.

Tajikistan

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