GRAY/23/3844

February 23, 2023

Statement by Mr. Stephan and Ms. Khademi on Republic of Tajikistan (Preliminary)
Executive Board Meeting
February 27, 2023

We agree with staff's assessment and recommendations, and we thank Mr. Peter and Mr. Rajabov for their helpful Buff statement. Tajikistan's economy recovered rather strongly from the effects of the pandemic. We take note of staff's assessment that although the country faces challenges from Russia's war of aggression against Ukraine due to economic linkages with Russia spillovers did not materialize so far. Strong domestic agricultural production and the release of strategic food reserves have contributed to moderate the impact of higher prices of imported food and fuel. This has helped to keep inflation relatively low compared to regional peers. That said, we also note that staff continue to see a high risk of adverse spillovers. *Could staff elaborate in more detail on why "spillovers from the war did not materialize as expected" [para. 4] and what factors will likely impact the amplitude of spillovers going forward?*

We share staff's view that strong monetary growth – for both reserve money and broad money – in 2022 warrants caution. We concur with staff's appraisal that implementing quantitative measures would be useful to reduce excess liquidity and that macroprudential controls could mitigate potential risks from economic overheating. Furthermore, we support staff's call for enhancing exchange rate flexibility to absorb possible external shocks. These measures are especially important as significant uncertainty appears to burden the prospects for the economy, with risks to the outlook tilted to the downside.

We encourage the authorities to step up their efforts on the long-standing challenge of implementing market-oriented reforms. We share staff's sense of urgency to push ahead with SOE reforms, including on price liberalization as well as transparency and accountability. In our view, a successful shift towards a broader-based more diversified and market-oriented economy is crucial for a sustainable economic development. As climate change projections indicate an increasing exposure of Tajikistan to droughts and erratic precipitation, we encourage the authorities to strengthen the resilience of the agricultural and hydropower industry, not least given the importance of these sectors. We welcome staff's call to continue to focus structural reforms on improving transparency, supporting private sector development, enhancing social protection and combating corruption to reduce fiscal risks.

Given the DSA's assessment of high risk of distress, especially of external distress due to the reliance on external financing, we have concerns about Tajikistan's debt sustainability going forward. We agree with staff's advice that the authorities should avoid external borrowing on non-concessional terms and strengthen the development of the domestic debt market to diversify sources of financing. We further agree that the fiscal deficit target of 2.5 percent of GDP remains an important anchor for the medium-term. We note that this will require keeping the expenditure on the Roghun project within the sustainable financing envelope, as agreed under the 2020 RCF. Due to limited fiscal space additional fiscal consolidation and meaningful structural fiscal reforms will be essential to rein in mounting fiscal risks and preserve debt sustainability. We welcome staff's call to specify necessary tax policy and administration reforms and to fully phase out inefficient tax exemptions. Maintaining fiscal discipline, expanding and diversifying exports, and containing contingent liabilities from SOEs would reduce vulnerabilities and stabilize debt.

Like staff, we encourage the authorities to accelerate efforts to strengthen the rule of law and to address corruption as well as AML/CFT issues. We note with concern that Tajikistan still scores low on governance, business environment, competitiveness, and corruption indicators. Weaknesses in these areas obstruct efficient resource allocation, impairing growth and development. Therefore, strengthening governance and transparency as well as supporting private sector development and improving financial supervision of SOEs remain of the essence. *As part of the National Anticorruption Strategy 2021-2030 and following up on their commitment from the RCF-disbursement, the authorities have prepared a new public procurement law to expand coverage of public procurement regulations to include SOEs and submitted a new AML/CFT law to Parliament for approval. How does staff assess the new law and progress in these areas more broadly? Could staff share their insights, if any, on when these new laws are expected to be approved?*

Lastly, we encourage the authorities to consent to the publication of the report.