Growth slowed in 2022 but less than expected thanks to a rebound in remittances. Inflation fell in response to tight monetary policy, currency appreciation, and the release of strategic food reserves. The current account remained in surplus despite a wider trade deficit. Growth will slow in 2023 and recover in 2024, with inflation accelerating and then moderating. A digital economy is key to providing adequate public services and support to firms.

### Economic Performance

**Growth decelerated somewhat from 9.2% in 2021 to 8.0% because of adverse spillover, though limited, from the Russian invasion of Ukraine.** The impact proved less severe than expected, as Russian ruble appreciation and a 51.8% rise in migrant workers to Russia in 2022 sustained financial inflow including remittances. A government plan to mitigate risks to the economy helped sustain activity.

**The slowdown reflected smaller gains in industry, agriculture, and construction, and it came despite a rebound in services.** Growth in industry moderated from 22.0% in 2021 to 15.4% in 2022 because of supply-chain disruption (Figure 2.6.1). Growth in manufacturing was 16.4%, little changed from 16.3% in 2021, and expansion in electricity generation rose from 15.2% in 2021 to 17.5% on the launch of new production facilities. Mining reversed extraordinary 150% growth in 2021 to contract by 2.3%. Despite rising fertilizer prices and worse weather, expansion in agriculture decelerated only marginally, from 8.8% in 2021 to 8.0% in 2022, with gains in fruit and vegetable production and strong growth in livestock and fishing. Construction growth declined by more than half from 23.3% in 2021 to 11.4% in 2022 with the completion of investments for celebrating the 30th anniversary of Tajikistan’s independence. Growth in services doubled from 7.9% in 2021 to 16.0% in 2022 on strong financial inflow, a 15% rise in household disposable income, and a boost in lending that expanded retail trade by 11.2%.

**On the demand side, domestic demand supported growth.** Investment rose by 11.4%, mainly for electricity generation and distribution, transport and communication, and education, while a rebound in remittances boosted consumption. The deficit in net exports expanded by 46.9% as the reopening of borders boosted imports by 22.8%, while exports—mainly gold, minerals, and textiles—decreased by 0.4%.

**Despite higher global prices, reported annual average inflation fell by almost half from 8.0% in 2021 to 4.2%.** This brought inflation to the lower...
end of the 4%–8% target range of the National Bank of Tajikistan, the central bank. Seasonal factors and shocks from the Russian invasion of Ukraine boosted prices by 5.2% for food, 3.9% for other goods, and 2.0% for services—but all increases were less than in 2021. The Tajik somoni appreciated by 9.7%, mirroring recovery in the Russian ruble and offsetting earlier price hikes from surging international prices for food and fuel and a 13.3% rise in credit. Monetary tightening helped restrain inflation, while sustained agricultural production and the strategic release of food reserves contained prices for domestically produced food.

The fiscal deficit doubled from the equivalent of 0.7% of GDP in 2021 to an estimated 1.4% in 2022 (Figure 2.6.2). The increase reflected higher spending on social protection and border security, as well as further investment in the Rogun hydropower project. The state budget was revised in November 2022 to reflect better tax collection and calls for higher social spending. Revenue rose marginally from the equivalent of 27.6% of GDP in 2021 to an estimated 27.8% as improved tax administration, electronic filing, the elimination of some tax exemptions, and more accurate valuation of imports compensated for reduced rates for value-added and income tax introduced at the beginning of 2022. Despite some spending cuts, expenditure increased from 28.3% of GDP in 2021 to 29.2%, reflecting defense spending and compensation for higher food prices. Public and publicly guaranteed external debt fell from 37.8% of GDP in 2021 to 28.5% a year later with rising GDP and an appreciating currency, while total public debt fell from 42.8% of GDP to 34.2% (Figure 2.6.3). In January 2022, the joint World Bank and International Monetary Fund Debt Sustainability Analysis concluded that Tajikistan’s debt was sustainable but with a high risk of debt distress.

The monetary stance remains relatively tight despite cuts in the policy rate since November 2022. Following pressure on the somoni from earlier ruble depreciation and a drop in remittances, the central bank devalued the somoni by 15.0% against the US dollar on 9 March, erasing a significant gap between official and market exchange rates. The somoni subsequently appreciated by 21.5% to the end of December, mirroring ruble strengthening. To restrain liquidity and mitigate inflation, the central bank increased sales of Treasury bills and central bank securities and, in August 2022, raised the policy interest rate from 13.25% to 13.50%.

It also maintained reserve requirements at 9.0% on US dollar accounts and 3.0% on somoni accounts. However, with inflation subdued in August and September, the central bank reduced its policy rate to 13.0% in November 2022 and to 11.0% in February 2023. Broad money growth accelerated from 12.3% in 2021 to 43.4% in 2022, and private sector credit rose by 13.3%, despite central bank sales of deposit certificates to sterilize excess liquidity from strong financial inflow and its own purchases of domestically produced gold (Figure 2.6.4).

The soundness of the banking system continued to improve. Improved bank supervision reduced the share of nonperforming loans from 13.7% in 2021 to
12.2% in 2022. Return on bank assets rose from 1.1% in 2021 to 5.9%, and on bank equity from 4.8% to 28.3% (Figure 2.6.5).

The current account surplus narrowed by more than half from the equivalent of 8.4% of GDP in 2021 to an estimated 3.3%. The trade deficit widened as strong domestic demand and recovery in trade links raised imports by 22.8%, while exports dropped by 0.4%. However, after an initial plunge, remittances rebounded sharply, offsetting much of the larger trade deficit. Gross international reserves reached $3.4 billion at the end of September 2022, providing cover for 8.3 months of imports (Figure 2.6.6).

Economic Prospects

Growth is forecast to decelerate to 5.5% in 2023 as demand ebbs following last year’s strong inflow (Figure 2.6.7 and Table 2.6.1). Uncertainty remains high, as does the risk of lingering negative spillover from weak economic activity in Russia. Moreover, any escalation of the Russian invasion of Ukraine or new waves of military mobilization in Russia could force migrant workers to return home, reducing remittances and investment and disrupting trade. However, gains in industry, particularly in mining, and an easier tax regime should support economic activity, with growth forecast to reach 6.5% in 2024.

On the supply side, industry, agriculture, and services will grow but at a lesser rate. Industry is forecast to expand by 10% in 2023 and 2024, with...
reform as cuts in revenue under the 2022 tax code limit revenue to 28.5% of GDP in 2023 and 26.5% in 2024. Expenditure is forecast to reach 31.0% of GDP in 2023 before declining to 29.0% in 2024. However, it could be higher with any clearing of arrears at state-owned enterprises, faster currency depreciation, or increased social spending for returning migrants. With economic growth, external debt—all of it public—may drop to the equivalent of 33.5% of GDP by the end of 2023, though it could be higher with currency depreciation.

The central bank will try to contain inflation and currency depreciation. Liquidity may be constrained after accommodating budget financing needs. Lending to private firms may increase further following the recent decline in nonperforming loans. Given pressure from depreciation of the ruble and some other trade partners’ currencies, the central bank may intervene to support the local currency.

On the demand side, public investment will remain the main growth driver, though rising at a slower pace. Despite lower business tax rates, continued weakness in the business climate will limit private investment. Private consumption will grow moderately. The deficit in net exports should widen in 2023 as rising domestic income boosts imports, though imports for the Rogun project are expected to moderate.

Inflation will likely accelerate, reaching 7.0% in 2023. This will reflect possible currency depreciation in tandem with a weakening Russian ruble, further increases in consumer lending, announced salary hikes for some civil servants from March to July, and a rise in pensions in July. An increase in electricity tariffs expected in November 2023 will add to inflation (Figure 2.6.8). Inflation is projected to slow slightly to 6.5% in 2024 as global food prices moderate. However, it could accelerate if currency depreciation continues or fiscal needs for budget financing from domestic sources exceed expectations.

The current account is forecast to revert to deficits. Weak remittances and higher imports of consumer goods and inputs for infrastructure projects will turn the current account into a deficit equal to 1.3% of GDP in 2023 and 2.3% in 2024 (Figure 2.6.9). Exports are projected to rise by 15% in 2023 and a further 10% in 2024 with higher electricity exports, including to Afghanistan and Uzbekistan. Imports are expected to rise by 15% in 2023 as disposable income from domestic sources increases, and by a further 30% in 2024 as remittances recover. Remittances are projected to moderate in US dollar terms in 2023 as a weak Russian economy reduces employment opportunities for migrant workers, causing many to

### Table 2.6.1 Selected Economic Indicators, %

<table>
<thead>
<tr>
<th>Year</th>
<th>GDP growth</th>
<th>Inflation</th>
</tr>
</thead>
<tbody>
<tr>
<td>2021</td>
<td>9.2</td>
<td>8.0</td>
</tr>
<tr>
<td>2022</td>
<td>8.0</td>
<td>4.2</td>
</tr>
<tr>
<td>2023</td>
<td>5.5</td>
<td>7.0</td>
</tr>
<tr>
<td>2024</td>
<td>6.5</td>
<td>6.5</td>
</tr>
</tbody>
</table>

Growth will slow in 2023 before accelerating in 2024, but inflation will accelerate in 2023 and then slow.

GDP = gross domestic product.

Sources: TAISTAT, National Bank of Tajikistan; Asian Development Bank estimates.
Asian Development Outlook April 2023

return home, and as ruble depreciation diminishes the US dollar value of most remittances received. Remittances may grow by 15% in 2024 if the international situation permits revived demand for migrant workers. Despite central bank purchases of domestically produced gold, foreign reserves may fall below $3.0 billion to pay for currency intervention to support the somoni.

Policy Challenge—Moving Towards a Digital Economy

This year’s policy challenge focuses on Tajikistan government’s efforts to expedite economic development by applying digital technologies and creating an enabling environment for the development of the digital economy. Tajikistan’s National Development Strategy to 2030 lists among its strategic goals accelerated industrialization and expansion of productive employment. Achieving these goals requires a transition to a digital economy, as do the objectives of enhancing the delivery of public services and fostering innovation. Recent growth has come largely from expanded industry and construction, mainly through mining and public investment. A more digitized economy could support growth while reducing economic and social inequality.

Insufficient and costly digital connectivity is a barrier to digital development. Tajikistan lags other countries in the region in mobile broadband subscriptions, with only 44% of households subscribing in 2021, versus 53% in the Kyrgyz Republic, 65% in Kazakhstan, and 77% in Russia. Only one third of the population uses mobile internet. Moreover, the cost of a mobile broadband subscription with at least 1.5 gigabytes of data is the highest in the region, averaging 7.5% of monthly gross national income per capita, and as much as 15.3% of income for poor households. Broadband download speed for mobile users is very low, ranking Tajikistan 134th among 138 countries in the latest Speedtest Global Index.

The government has been promoting digitalization. A concept note on Tajikistan’s digital economy was endorsed in 2019, and a midterm program for developing it in 2021–2025 was approved in 2021. Measures on e-governance, e-document flow, e-signature, and e-commerce have been adopted. The President of Tajikistan established an agency for innovation and digital technology to strengthen digital governance. The tax committee has introduced 20 new modules in the tax administration information system, expanding the number of e-services to 67. The central bank has authorized remote identity confirmation for individuals using e-money and other digital financial products. Financial technology development has increased in recent years.

However, more is needed to promote digitalization in Tajikistan. Steps could include creating public service centers or halls across the country where the front offices of ministries and agencies would be integrated into a single unit to offer public services to firms and citizens efficiently and transparently. Some 70 of the current 3,000 public services should be digitalized by the end of 2025. Successful digitalization will require registering the unique identification cards carried by all residents.

Investing in improved connectivity, hardware, and software can facilitate the transition to a digital economy and reduce inequity. Disadvantaged groups will benefit from access to digital connectivity, hardware, and software. Funds can be allocated to facilitate access for girls through gender-sensitive digital literacy campaigns and by improving internet access for low-income households. In addition, targeted subsidies could make internet subscription plans more affordable. Finally, programming and coding courses for youth in remote areas could enhance their job prospects at home, thereby reducing labor migration to other countries.