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RAEX-Europe confirmed Tajikistan's ratings at 'B-' in FC and 'B' in LC. The rating outlook is stable. The ratings are withdrawn.

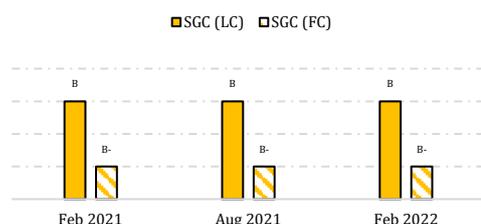
RAEX-Europe confirmed the sovereign government credit ratings (SGC) of Tajikistan at 'B' (Moderately low level of creditworthiness of the government) in national currency and at 'B-' (Moderately low level of creditworthiness of the government) in foreign currency. The rating outlook is stable, which means that in the mid-term perspective there is a high probability of maintaining the rating score.

Ratings

Sovereign Government Credit (LC)	B
Sovereign Government Credit (FC)	B-
Outlook (LC)	Stable
Outlook (FC)	Stable

*These ratings are unsolicited

Ratings dynamics



Summary

The Agency has confirmed Tajikistan's ratings at 'B-' in FC and 'B' in LC, the rating outlook is stable. The confirmation of the ratings is based on the gradual recovery of the Tajik economy and mitigation of the debt repayment risks due to significant financial support from international financial organizations on concessional terms.

In the long-term perspective, the ratings and the outlook reflect low level of welfare and high unemployment, underdeveloped institutions and financial system. Moreover, the external position of the government remains fragile with a high share of FX-denominated debt, dependence on imports and remittances, low level of exports to GDP, and elevated dollarization of the financial system.

Main Economic Indicators of Tajikistan

Macro indicators	2019	2020	2021*
Gross gov. debt, TJS bn	34,1	42,4	45,4
Nominal GDP, TJS bn	77,4	82,5	92,1
Real GDP growth, %	7,5	4,5	7,9
Gross gov. debt/GDP, %	44,1	51,3	49,3
Deficit (surplus)/GDP, %	-2,1	-4,4	-2,7
Inflation rate, %	8,0	9,4	8,0
Current Account Balance/GDP, %	-	-2,3	-2,6

*Estimation

Development indicators	2021
Inequality adj. HDI	0,57**
GDP per capita, USD th	3,9
Default indicator	05.08.2021
10Y Gov Bond Yield, %	10,3***

Source: RAEX-Europe calculations based on data from the IMF, WB, NBT.
2018 data *Maturity in 2027.

The Tajik economy demonstrated a significant recovery in 2021 after the pandemic-related decline in 2020. As of the end of 2021, real GDP of Tajikistan grew by 7,9% what constituted a significant increase of 3,4 p.p. in comparison to 2020 (see graph 1). Return to pre-pandemic growth rates is mainly attributable to the gradual normalization of the world's economic situation due to the rollout of the vaccination campaigns. In Tajikistan, as of November 2021 about 28% of population are either partially or fully vaccinated¹. We anticipate the dynamics of the GDP to be more moderate in the next years (5,8% and 5,9% for 2022 and 2023, respectively) due to more contractionary fiscal and monetary policies.

The contributors to economic growth were rising industrial production (+23% from January to September 2021, y-o-y), acceleration of retail trade (+13% in the same period, y-o-y) and growing agricultural sector (+6,3% in the same period, y-o-y). The unemployment level still remains high at

¹ According to EDB.

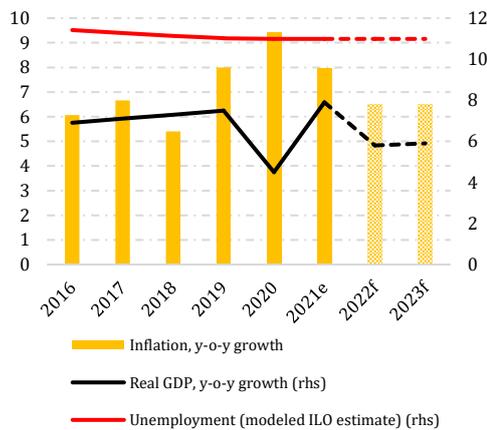
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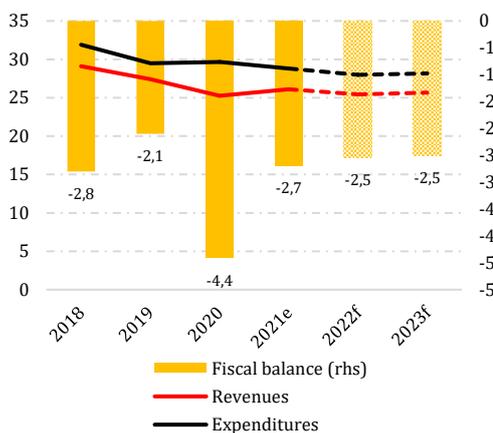
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Graph 1: Macroeconomic indicators, %



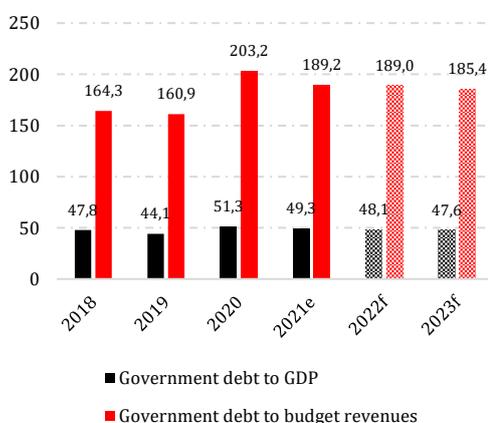
Source: RAEX-Europe calculations based on data from the WB, IMF, NBT, EDB

Graph 2: Fiscal budget dynamics, % of GDP



Source: RAEX-Europe calculations based on data from the WB, IMF, NBT

Graph 3: Government debt dynamics, %



Source: RAEX-Europe calculations based on data from the WB, IMF, NBT

around 11% (see graph 1) and the country is dependent on the inflow of remittances, mainly from Russia. International flights resumed with Kazakhstan, Russia, Uzbekistan, and Turkey only in May 2021.

In the long term, the economic stance of the country and government creditworthiness will remain limited. The level of institutional development of Tajikistan is low: the updated Corruption Perception Index (2020) for Tajikistan stayed at the same level of 25, which corresponds to the position in the fourth quartile of the global ranking.

Budget deficit and debt positions slightly improved. Budget expenditures slightly decreased from 29,7% of GDP in 2020 to 28,8% of GDP in 2021. At the same time, budget revenues (as % of GDP) saw an increase of around 0,8 p.p. in 2021, which lead to a narrowing of the fiscal deficit to 2,7% of GDP (see graph 2). The government debt is estimated to decrease to 189,2% of budget revenues and to 49,3% of GDP in 2021 (by 14 p.p. and 2 p.p. from the readings of 2020, respectively) (see graph 3).

The major problems for the government finances remain the high level of indebtedness of SOEs, lack of internal capacity for revenue growth and investments; nonetheless, financing issues are largely mitigated by the international donors' support on concessional terms. The long-term construction of the Rogun hydroelectric power plant, which commenced in 2016 represents a significant capital expenditure (around 5% of GDP a year), and it is of a strategic importance for the country in terms of its potential role for the energy security. According to the construction schedule, the project is to be completed in 2029, however due to the financing problems a delay is anticipated.

The banking system indicators are showing a positive dynamic. The ratio of NPLs (30 days overdue) to total loans declined from 23,8% at the end of 2020 to 14,9% in 3Q 2021. The banking sector's profitability (ROA) reached its low by 2Q 2020 (1,9%), and since then was gradually increasing to 3,0% in 2Q 2021 and slightly declined to 2,6% in 3Q 2021. Capitalization in the banking system remains adequate as the capital adequacy ratio increased from 18,2% in 4Q 2020 to 23% in 3Q 2021 (see graph 4).

Low level of trust of the banking system from the population and absence of listed shares currently traded on the national Central Asia Stock Exchange (Dushanbe) remain a significant problem for the country's financial system development.

The Central Bank raised the reference rate 4 times in 2021. Overall, in 2021 the reference rate was raised from 10,75% to 13,25%. The contractionary NBT policy was one of the factors that contributed to the country's inflation rate that has been remaining below 10 percent throughout the past year. As of 2021, inflation was 8% what is right on the

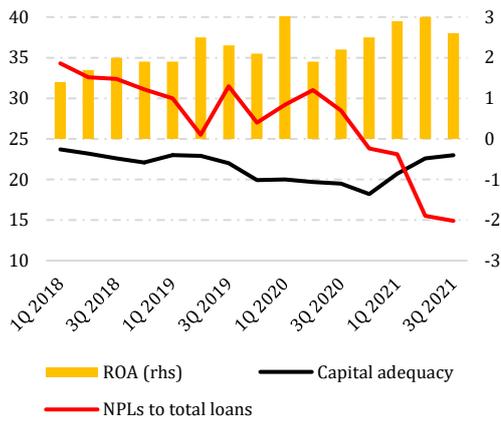
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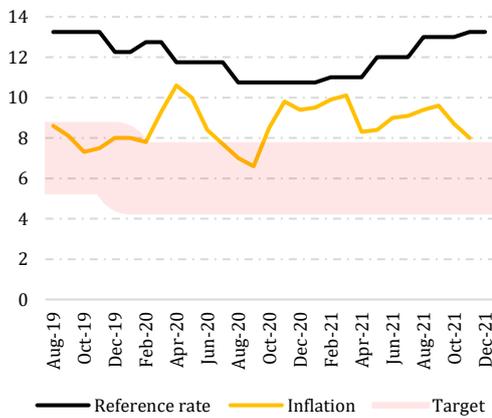
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Graph 4: Financial soundness indicators, %



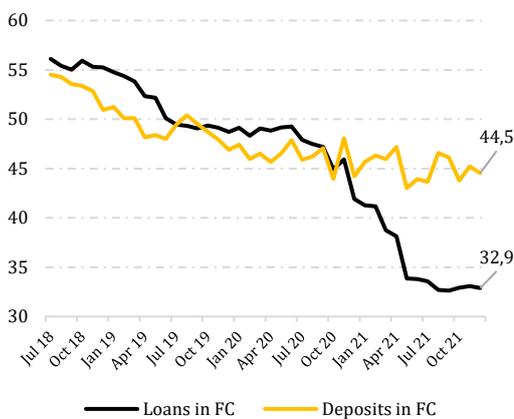
Source: RAEX-Europe calculations based on data from the NBT

Graph 5: Reference rate vs inflation rate, %



Source: RAEX-Europe calculations based on data from the NBT

Graph 6: Financial dollarization, % of total



Source: RAEX-Europe calculations based on data from the NBT

upper border of NBT inflation target corridor of 6% (+/- 2 p.p.) (see graph 5). Another factor affecting inflation was increase in the global fuel and food prices. During 2021, the TJS/USD exchange rate was flat at the level of 11,3 (see graph 8). Gradual weakening of TJS is anticipated in 2022.

The level of dollarization in the country remains high: as of December 2021 44,5% of deposits are nominated in foreign currency. Share of loans in foreign currency demonstrated a significant decrease from about 42% at the end of 2020 to 32,9% in December 2021 (see graph 6). Nevertheless, due to the weak banking system, undeveloped local capital markets, high dollarization and low independency of the NBT the transition mechanisms remain inefficient.

The external position slightly worsened. Import to GDP increased to almost 53%, whereas export to GDP reached 34,7% so that the foreign trade deficit has increased in comparison to the last year. International reserves increased from USD 2,1 bn in November 2020 to USD 2,5 bn in November 2021 (see graph 7). At the same time, the exchange rate remains controlled by the NBT. Implementation of the plans to remove the currency restrictions could lead to an upgrade of the forecast outlook for Tajikistan.

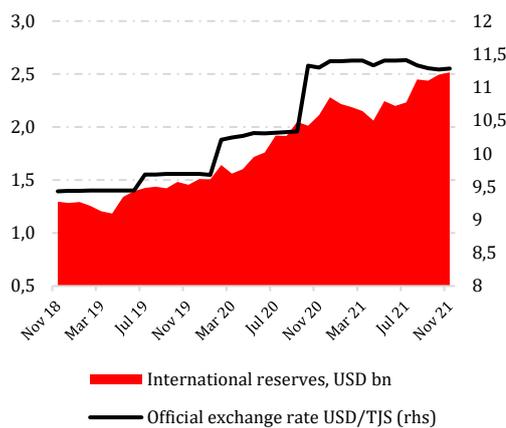
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Graph 7: International reserves and exchange rate



Source: RAEX-Europe calculations based on data from the WB, IMF, NBT

Stress factors:

- Despite positive dynamics over the last two years, financial dollarization remains high with the share of FX-loans and deposits at 32,9% and 44,5%, respectively as of December 2021 (very weak stress-factor)

The following developments could lead to an upgrade:

- Faster and stronger than expected recovery of the global economy, as well as the main trade partners, including Russia, which can lead to increase in remittances and improvement of the external position of Tajikistan;
- Significant development of the financial market and improvement of the banking system: growth of loans to the economy, reduction of NPLs, decrease of financial dollarization and realization of agreements with investors regarding troubled banks;
- Consistent further improvement of the monetary policy and the transmission efficiency, as well as liberalization of the exchange rate regime.

The following developments could lead to a downgrade:

- COVID-19 pandemic and implementation of new lock-down measures in the country and turbulence in the global economy, which would lead to decrease in remittances, further deterioration of the external position, as well as a deeper contraction of local economy;
- Significant expansion of budget expenditures in order to smooth the negative effects from the COVID-19 pandemic and to finalize infrastructure projects in the energy sector, which will create risks of government debt growth;
- Further hikes in inflation and dollarization levels due to external shocks.

ESG Disclosure:

Inherent factors

- Quality of fiscal policy; quality of monetary policy; natural resources; natural and climatic threats; environmental threats; Level of corruption, CPI; Government Effectiveness Index; quality of the business environment; position in Doing Business Ranking; level of investment in human capital, adjusted for inequality; Rule of Law Index; transparency of government policymaking Index; level of information transparency of the government; Political Stability and Absence of Violence/Terrorism Index; natural disasters, constant exposure to difficult natural conditions.

Drivers of change factors

- Due to the global climate change the distortions in the usual ice and water accumulation were recorded during the autumn 2019 – winter 2020. This led to the lack of water in the lakes, used as sources for the

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Rogun HPP. As a result, in July 2020 the break in the electricity export from Tajikistan to neighboring countries was observed. Due to the fact that Rogun HPP is the strategically important project for Tajikistan in terms of export diversification and improvement of the external position, potential distortions in water accumulating in the future can lead to deterioration of already weak country's external position. Thus, the factor in our sovereign methodology which could be directly affected by this is **Level and dynamics of production** and **current account balance and export to GDP**.

Next scheduled rating publication: N/A. The full sovereign rating calendar can be found at [Sovereign Rating Calendar 2022](#).

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RATING HISTORY:

Date	Review reason	SGC		Outlook	
		National currency	Foreign currency	National currency	Foreign currency
06.08.2021	Scheduled revision of both types of ratings for the country	B	B-	Stable	Stable
05.02.2021	Scheduled revision of both types of ratings for the country	B	B-	Negative	Negative
07.08.2020	Scheduled revision of both types of ratings for the country	B	B-	Negative	Negative
07.02.2020	Scheduled revision of both types of ratings for the country	B	B-	Negative	Negative
09.08.2019	Scheduled revision of both types of ratings for the country	B	B-	Negative	Negative
10.05.2019	First assignment of both types of ratings	B	B-	Developing	Developing

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Minute's summary

The rating committee for Tajikistan was held on 4 February 2022. The quorum for the rating committee was present. After the responsible expert presented the factors, which influenced the rating assessment, the members of the committee expressed their opinions and suggestions within the framework of the Sovereign methodology. The chairman of the rating committee ensured that every member of the committee expressed his/her opinion before proceeding to the voting.

The following methodology was used for the rating assessment: [Methodology of assigning sovereign government credit ratings](#) – Full Public Version (from August 2020). Descriptions and definitions of all rating categories can be found under the [Rating scale](#) section. The user of the rating shall read the methodology in order to have a full understanding of the rating procedure.

The definition of default can be found on the Agency's website in the section for [Internal policies](#).

These ratings are unsolicited. The rated entity did not participate in the rating process

Main sources of information: IMF, World Bank, National Bank of Tajikistan, Tajstat

ESG Disclosure

We consider Environmental, Social, and Governance (ESG) risks and opportunities in the creditworthiness analysis of our Sovereign entities. The disclosure document can be found on the Agency's website in the section: [ESG factors in RAEX-Europe's Credit Ratings](#)

Limits of the Credit Rating

During the rating assignment process, Rating-Agentur Expert RA GmbH (the Agency) used publicly available information that was considered to be reliable, complete and non-biased. The responsible expert performed the rating assessment of the country with information considered as the most reliable and up to date in accordance to the overall position of the country and the Agency's internal criteria for selecting data providers. The information and data used for this specific assessment can be considered as of sufficient quality.

Regulatory use

SGC ratings can be used for regulatory purposes according to the ESMA definition.

Conflict of interest

The responsible expert was neither influenced nor biased by third parties during the rating assessment. All employees involved in the rating assessment and revision of the rated entity have reported absence of conflicts of interests before initiation of the rating process.

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Office responsible for preparing the rating

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