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REPUBLIC OF TAJIKISTAN

May 2020

REQUEST FOR DISBURSEMENT UNDER THE RAPID CREDIT FACILITY—PRESS RELEASE; STAFF REPORT; STAFF STATEMENT; AND STATEMENT BY THE EXECUTIVE DIRECTOR FOR THE REPUBLIC OF TAJIKISTAN

In the context of the Request for Disbursement under the Rapid Credit Facility, the following documents have been released and are included in this package:

- A **Press Release** including a statement by the Chair of the Executive Board.
- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on May 6, 2020, following discussions that ended on April 17, 2020, with the officials of the Republic of Tajikistan on economic developments and policies underpinning the IMF arrangement under the Rapid Credit Facility. Based on information available at the time of these discussions, the staff report was completed on April 29, 2020.
- An **Informational Annex** prepared by the IMF staff.
- A **Debt Sustainability Analysis** prepared by the staffs of the IMF and the International Development Association.
- A **Staff Statement** updating information on recent developments.
- A **Statement by the Executive Director** for the Republic of Tajikistan.

The documents listed below have been or will be separately released:

Letter of Intent sent to the IMF by the authorities of the Republic of Tajikistan*

*Also included in Staff Report

The IMF's transparency policy allows for the deletion of market-sensitive information and premature disclosure of the authorities' policy intentions in published staff reports and other documents.

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PRESS RELEASE

PR20/207

IMF Executive Board Approves a US$189.5 Million RCF Disbursement to Tajikistan to Address the COVID-19 Pandemic

FOR IMMEDIATE RELEASE

- The IMF Executive Board approved a disbursement of US$189.5 million for budget support to help Tajikistan meet urgent balance of payments and fiscal needs stemming from the COVID-19 pandemic.
- The pandemic is having a significant human and economic impact on Tajikistan's economy.
- To preserve macroeconomic stability, the authorities are taking steps to increase health spending, strengthen social protection for vulnerable groups, and support businesses during the shock.

Washington, DC – May 6, 2020. The Executive Board of the International Monetary Fund (IMF) has approved a disbursement to the Republic of Tajikistan under the Rapid Credit Facility (RCF) equivalent to SDR 139.2 million (US$ 189.5 million, 80 percent of quota). These funds will help meet the urgent balance of payments and fiscal financing needs stemming from the outbreak of the COVID-19 pandemic and will help prevent severe economic and human disruption and preserve fiscal space for essential COVID-19-related health and social expenditure.

The economic and social impact of the crisis is expected to be substantial in Tajikistan. The economy is currently projected to contract by 2 percent this year and the overall budget deficit could rise to 7.7 percent of GDP.

Following the Executive Board discussion, Mr. Tao Zhang, Managing Director and Chair, made the following statement:

"The COVID-19 pandemic has had a severe human and economic impact in Tajikistan. Trade and transportation disruptions have led to a sharp drop in remittances and government revenues and created urgent balance of payments and fiscal financing needs.

"The authorities have responded with an action plan and measures to contain the pandemic. Health spending and targeted support to the most vulnerable households and sectors in the economy are the immediate priorities, and a temporary widening of the budget deficit is appropriate. The authorities are committed to full transparency and reporting of resources deployed for the emergency response, including publication of quarterly reports and ex-post audits of crisis-related spending. Over the medium term, the authorities are committed to fiscal consolidation and prudent borrowing policies to reduce the budget deficit and put debt on a sustainable path. The authorities are also committed to exchange rate flexibility and improving the functioning of the FX market to support growth and to external adjustment, while avoiding excessive volatility and economic disruption. Monetary policy will remain vigilant to liquidity and inflation developments.

"The IMF's financial assistance under the RCF will provide a sizable share of the financing needed to implement the anti-crisis measures. Additional concessional and grant financing from the international community will be critical to close the remaining financing gap."

INTERNATIONAL MONETARY FUND

REPUBLIC OF TAJIKISTAN

April 29, 2020

REQUEST FOR DISBURSEMENT UNDER THE RAPID CREDIT FACILITY

EXECUTIVE SUMMARY

Context. Macroeconomic developments in 2019 were favorable, although the outlook was challenging owing to large fiscal and external imbalances. While still weak, the banking sector was recovering from the 2015-16 shocks. Against this background, trade and transportation disruptions associated with the COVID-19 pandemic have had a severe impact on the macroeconomic outlook. Remittances have dropped sharply, and government revenues have declined while health and social spending is being ramped up. The impact of the shock is expected to be the greatest in 2020Q2-Q3.

Request for Fund support. The shock has opened a large and urgent balance of payments financing gap estimated at about $384 million for 2020 and a fiscal gap of similar size. The authorities have received debt relief from the IMF's Catastrophe Containment and Relief Trust (CCRT). They have also requested a disbursement of 80 percent of quota (SDR 139.2 million) under the Rapid Credit Facility's (RCF) "exogenous shock" window (see attached Letter of Intent). The Fund's emergency support will help meet the external and fiscal financing needs and catalyze donor support to prevent severe economic disruption and preserve fiscal space for essential COVID-19-related health expenditure.

Macroeconomic policies. The authorities shared staff's main policy recommendations, namely: (i) increasing fiscal space in the near term to respond to the urgent health and social spending needs by reallocating lower-priority spending; (ii) restoring debt sustainability by implementing fiscal consolidation over the medium term; (iii) relying on grants and concessional loans for budget financing; (iv) improving the functioning of the FX market including by gradually removing the Article VIII restriction and multiple currency practices once the shock eases; and (v) ensuring liquidity provision to viable banks and maintaining strong bank supervision. Based on authorities' fiscal consolidation plans, debt is assessed to be sustainable. The authorities have committed to enhance the transparency and governance of their COVID-19 policy response through the publication of an ex-post audit of associated spending and procurement processes. The risk of debt distress remains high, but the capacity to repay the Fund is adequate.

Approved By
Juha Kähkönen (MCD) and Martin Sommer (SPR)

The staff team comprised of Padamja Khandelwal (head), Mazin Al-Riyami, Sanan Mirzayev, Farid Talishli (all MCD), Abdul Naseer (MCM), Juan Yépez Albornoz (SPR), Yuri Sobolev (resident representative), Nailya Menlasheva, Jami Chiniev (local economists), and Tahmina Kamarova (office manager). During March 27 – April 17, 2020 the team met remotely with the First Deputy Prime Minister, the Chairman of the National Bank of Tajikistan, the Minister of Finance, the Minister of Economic Development and Trade, the Economic Advisor to the President, and other senior officials. Paul Inderbinen (ED) and Ilhomjon Rajabov (Advisor, OED) joined the discussions. The team was supported from HQ by Gintare Gedrimaite and Jimmy Hatem (MCD).

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RECENT ECONOMIC DEVELOPMENTS

1. **Economic developments were favorable in 2019**. Reported real GDP growth reached 7.5 percent, supported by agriculture, industry, and services. Inflation picked up to 8 percent, partly due to base effects, but remained within the NBT's target range (7 ± 2 percent). Banking sector indicators (profitability, asset quality, provisioning) improved and credit started recovering, although the two formerly largest banks remained defunct and deposit withdrawal restrictions remained in place.

2. **The fiscal and current account deficits narrowed**. Tax and non-tax revenues dropped due to a moratorium on tax inspections and advance payments, newly granted exemptions from the VAT, and a short-lived ban on mineral exports. Despite the decline in revenues, the fiscal deficit narrowed to 2.1 percent of GDP (from 2.8 percent in 2018) due to lower-than-expected capital expenditure on the Roghun hydro-power project. Public debt decreased as a share of GDP to 44.6 percent. Meanwhile, the current account deficit narrowed to 2.3 percent of GDP (from 5 percent of GDP in 2018) on the back of stronger remittances and a significant increase in gold exports. Supported by the NBT's domestic gold purchases, international reserves reached close to 6 months of imports. The real exchange rate appreciated as somoni remained stabilized against the USD, reflecting inflation differentials and movements in partner currencies.

3. **The COVID-19 pandemic has significantly worsened the macroeconomic situation in 2020**. While there have been no confirmed cases of COVID-19 yet in Tajikistan, the authorities have taken containment measures to prevent an outbreak. Trade and transportation challenges with trading partners (China, Uzbekistan, Iran, Russia, and Kazakhstan) have significant negative bearing on industrial production, construction, and services. The sharp decline in oil prices and travel disruptions with Russia have severely affected migrant worker mobility and remittances, which declined by almost 50 percent (y-o-y) in March and first half of April, and the Tajik somoni has come under pressure. The National Bank of Tajikistan (NBT) has provided FX liquidity to banks, reduced reserve requirements on deposits, and allowed depreciation of the exchange rate by 5 percent. Prices of consumer staples have increased, pushing headline inflation above 9 percent and breaching the upper bound of the NBT's target range in March. The NBT hiked the policy rate by 50 basis points to 12.75 percent to contain inflationary pressures. The decline in economic activity has also led to a significant decline of budget revenues over the first three months of 2020. At the same time, the budget is experiencing expenditure pressures associated with containment measures, health checks at the border, establishment of quarantine zones, and other prophylactic and disinfection actions.

IMPACT OF THE SHOCK ON THE OUTLOOK

4. **Before the COVID-19 shock, the macroeconomic outlook was already challenging owing to large fiscal and external imbalances**. Construction for specific projects, a high priority for the government, was expected to widen fiscal and current account deficits over the medium term. Further, limited exchange rate flexibility and gaps in the implementation of reforms to the

monetary policy framework and the financial sector were expected to hamper efforts to transition to inflation targeting, reduce dollarization, and deepen the financial sector. Uneven structural reforms perpetuate the weak business environment. Together, these factors would reduce prospects for investment and inclusive job-creating growth in the near and medium terms. Growth was projected at 4.8 percent in 2020 and to moderate to 4 percent over the medium term. The fiscal deficit was projected at 4.3 percent of GDP, while the current account deficit was projected near 5½ percent of GDP. Public and publicly guaranteed debt was projected to rise over the horizon and was considered to be on an unsustainable path under these policies.

Text Table 1. Tajikistan: Selected Economic Indicators, 2017-25

	2017	2018	2019	2020	2021	2022	2023	2024	2025
			Est.			Proj.			
			(Percent of GDP, unless indicated otherwise)						
Real GDP (growth in percent)	7.1	7.3	7.5	-2.0	7.5	4.5	4.0	4.0	4.0
Consumer prices (12 month percent change, period average	7.3	3.8	7.8	8.1	6.9	6.5	6.5	6.5	6.5
Total revenue and grants	29.7	29.1	27.4	25.6	26.3	26.6	26.8	26.9	26.9
Of which: Tax revenue	21.6	21.3	20.4	19.0	19.7	20.2	20.5	20.7	20.8
Current expenditure	17.0	17.2	17.1	19.8	17.0	16.9	17.0	16.9	17.0
Capital expenditure	18.6	14.6	12.4	13.5	13.7	12.3	12.4	12.4	12.3
Overall balance (including PIP)	-6.0	-2.8	-2.1	-7.7	-4.4	-2.6	-2.5	-2.5	-2.5
Total public and publicly-guaranteed debt	50.4	47.9	44.6	52.8	52.8	52.4	52.2	52.0	51.5
Of which: Domestic debt	9.8	9.2	8.3	8.3	7.3	6.7	6.1	5.5	5.1
Reserve money (percent change, eop)	21.0	7.0	20.1	6.8	12.4	10.3	10.4	10.2	10.1
Broad money (percent change, eop)	21.8	5.1	16.9	5.1	12.9	10.9	10.7	10.7	10.5
Credit to the private sector (percent change, eop)	-20.2	1.3	7.7	2.9	11.7	10.7	11.0	10.9	10.9
Current account balance	2.2	-5.0	-2.3	-7.8	-4.7	-4.6	-4.4	-4.3	-4.2
Net international reserves (millions of USD)	765	997	1352	1322	1348	1404	1470	1540	1611
Gross reserves (months of next year's imports, eop)	3.8	4.1	5.8	5.1	4.8	4.7	4.7	4.7	4.6

Sources: National authorities and IMF staff estimates

5. **COVID-19 is slowing economic activity substantially in 2020**. The impact of the COVID-19 shock is likely to be the greatest in 2020Q2-Q3. As a result, output in 2020 is expected to fall by 2 percent due to a sharp trade slowdown, limitations on migrant worker mobility and remittances, and disruptions in mining, services, and construction (Text Table 1). Despite lower oil prices, currency depreciation and supply difficulties for food and other essentials are likely to contribute to inflationary pressures. Second-round effects are likely to be limited owing to subdued aggregate demand. Already fragile credit growth is expected to stagnate in the face of declining confidence.

6. **The rapid deterioration in the external position has opened a large and urgent balance of payments gap, which current estimates suggest is about USD 384 million.** The current account deficit is projected to widen to 7.8 percent of GDP in 2020 (from 2.3 percent in 2019), due to a combination of sharply lower remittances and lower non-gold exports. On the other hand, imports of goods and services are likely to fall by 9 percent due to the closure of the border with China and lower domestic absorption, which will likely lead to a slightly lower trade deficit. Current estimates indicate a balance of payments need of $384 million. Tajikistan has already received debt relief from the IMF's CCRT ($11 million). The authorities have requested additional support under

the RCF of 80 percent of quota (SDR 139.2 million). Without further IMF financing and support from other donors, central bank reserves would fall significantly to 3.6 months of imports in 2020 or the exchange rate could fall in a destabilizing manner due to weak confidence, resulting in higher inflation and bank NPLs. It is envisaged that, with concerted support from the Fund and development partners, official reserves could be maintained above 4.5 months of prospective imports and otherwise excessive exchange rate depreciation pressures could be contained to a manageable level. The Fund emergency support also helps catalyze donor support and preserve fiscal space for essential COVID-19 related health and social expenditures. The RCF financing is justified because the balance of payments need is urgent and there is insufficient time to design and finance a program requiring upper tranche conditionality (UCT).

7. **The fiscal position is also deteriorating sharply, opening a fiscal gap estimated at USD 373 million**.[1] The COVID-19 shock is expected to lead to a reduction in revenues (1.8 percent of GDP) relative to the 2019 outturn owing to weaker imports, as well as the introduction of temporary VAT exemptions on imports of consumer staples and tax relief for businesses. On the spending side, in 2020, the initial budget spending allocation included about 1.9 percent of GDP for health spending. This expenditure will be protected, and an additional 2 percent of GDP in health spending has been allocated for COVID-19. Social transfers to vulnerable households will increase by 0.5 percent of GDP, by expanding the coverage of targeted social assistance to all districts in Tajikistan and increasing the real benefit levels. The authorities envisage that benefits will mitigate the effects of higher unemployment by supporting food security for vulnerable groups.

Text Table 2. Tajikistan: General Government Finances, 2019-20
(Percent of GDP)

	2019	2020		Difference	
	Est.	Budget	Proj.	20 Proj. - '19 Est.	20 Proj. - '20 Bud.
Revenue	27.4	29.7	25.6	-1.8	-4.0
Taxes	20.4	22.4	19.0	-1.4	-3.4
Grants	2.2	3.1	2.1	-0.1	-1.0
Other Revenue	4.8	4.1	4.5	-0.3	0.3
Current expenditure	17.1	20.4	19.8	2.7	-0.5
Compensation of Employees	6.7	7.1	7.1	0.4	0.0
Other	4.8	6.6	6.3	1.5	-0.3
o.w. COVID19	0.0	0.0	2.0	2.0	2.0
o.w.other than COVID19	4.8	6.6	4.3	-0.5	-2.3
Interest payments	0.9	1.2	1.2	0.3	0.0
Transfers and subsidies	4.7	5.5	5.2	0.5	-0.3
o.w. COVID19	0.0	0.0	0.5	0.5	0.5
o.w.other than COVID19	4.7	5.5	4.7	0.0	-0.8
Capital expenditure	12.4	14.5	13.5	1.2	-1.0
of which: domestically financed	6.8	5.8	6.8	0.0	1.0
Roghun	2.2	2.6	4.1	2.0	1.5
Non-Roghun	4.7	3.1	2.6	-2.0	-0.5
of which: externally financed	5.6	8.7	6.8	1.2	-2.0
Roghun	1.5	2.2	0.0	-1.5	-2.2
Non-Roghun	4.1	6.5	6.8	2.7	0.2
Overall balance (including PIP)	-2.1	-5.2	-7.7	-5.6	-2.5

Sources: National authorities and IMF staff estimates.

8. **Budgetary cuts in non-priority areas have provided some fiscal room this year and signal the authorities commitment to consolidation**. On the current spending side, the authorities have reallocated the budgeted amount of current spending and cut some lower-priority items to reduce the overall budgeted envelope by 0.5 percent of GDP (Text Table 2). They have also identified cuts to budgeted capital spending by 1 percent of GDP, including to domestically financed non-Roghun capital expenditures (LOI ¶ 6). These changes have already been approved through a budget resolution signed by the Prime Minister and will be implemented in a supplementary budget with Parliamentary approval expected by end-June. Despite these cuts, the fiscal deficit is expected

[1] The difference between the fiscal and the BoP gaps is explained by the CCRT debt relief of $11 million, which will accrue to the NBT.

to widen to 7.7 percent of GDP in 2020. Roghun spending will be maintained in line with the project's previously contracted schedule. Public and publicly guaranteed debt is expected to rise to 52.8 percent of GDP.

9. **Bank balance sheets are likely to weaken**. Bank capitalization, provisioning, and asset quality have been improving since the 2015-16 crisis, although NPLs still remain high, near 25 percent.[2] Although the net open FX position is small, dollarization of loans and deposits is high, over 50 percent, creating risks from unhedged borrowers. Stress scenarios that were run during the recent Article IV consultation indicated that the banking sector has relatively strong capital buffers and would be able to withstand a moderate currency depreciation. A large currency depreciation could however prove difficult.

10. **Over the medium term, fiscal consolidation and greater exchange rate flexibility will help ensure macroeconomic stability.** The immediate impact of COVID-19 is expected to largely dissipate by end 2020, with growth recovering strongly in 2021. Over the medium term, as lower oil prices are expected to persist, remittances from Russia are likely to see some long-lasting effects. Fiscal consolidation will help reduce debt vulnerabilities, while greater exchange rate flexibility will be key to ensuring price competitiveness and a faster adjustment once the immediate effects of the shock dissipate.

11. **The impact of the COVID-19 pandemic is subject to a considerable margin of uncertainty and could be worse than estimated**. Given that the shock is still unfolding, there is considerable uncertainty about projections. If the disruptions to economic activity and external demand are more severe or last longer than assumed presently, the external and fiscal financing pressures could be much larger than projected. In such an event, the authorities agreed to boost health spending and mobilize additional donor support. If donor financing were unavailable, they committed to take additional fiscal measures to ensure fiscal sustainability and identify additional cuts to lower-priority spending. If the downturn in remittances were greater than expected, they would allow needed exchange rate flexibility to promote external adjustment. The authorities considered the RCF disbursement and the building of a track record through implementation of ex ante commitments could serve as a bridge to an UCT program if the magnitude of negative impact of the shocks on the economy amplifies. They plan to start preparing such a program, which will be needed to catalyze longer-term donor support.

POLICY DISCUSSIONS

To support Tajikistan through the COVID-19 shock, the RCF is anchored on forward-looking commitments for fiscal consolidation that would help achieve debt sustainability. A gradual increase in exchange rate flexibility would help facilitate a smooth external adjustment while monetary policy

[2] Reported FSIs include data for the two largely defunct banks (AIB and TSB), which makes them difficult to interpret, as the defunct banks have high levels of reported capital and high NPLs.

would need to be vigilant on second round effects. These policies are considered essential for maintaining macroeconomic stability.

A. Fiscal Policy

12. **Staff agreed that widening of the fiscal deficit to 7.7 percent of GDP in 2020 is appropriate, provided enough donor financing is mobilized and transparency is strengthened**. A wider fiscal deficit is needed to allow for higher health and social spending and to accommodate the decline in revenues (see ¶7 above). The authorities have launched an action plan accompanied by a costing exercise for medical supplies and equipment, although they noted that these are in short supply globally and prices could change. To ensure transparency and accountability, and the quality of additional health and social spending, authorities will issue quarterly spending reports. In addition, both the expenditure and the related procurement process would each be subject to ex-post audits by the Chamber of Accounts, and ex-post validation of deliveries in a year's time, with results published on the external website of the Ministry of Finance. At the same time, to manage fiscal pressures the Budget Commission has issued a Resolution signed by the Prime Minister to approve the changes to the 2020 budget (described above in ¶8). The higher deficit in 2020 will be financed with concessional financing or grants to avoid a further deterioration in debt sustainability.

13. **Staff and the authorities agreed on the implementation of fiscal consolidation measures of 2 percent of GDP in 2021-22 to ensure debt sustainability.** While the decline in tax revenues and increased health and social spending in 2020 will likely ease in 2021, staff estimates that an additional fiscal consolidation of 2 percent of GDP will be needed over the medium term to achieve a fiscal deficit target of approximately 2½ percent of GDP and stabilize debt. Staff and the authorities agreed that deficit targets of 4.4 percent of GDP in 2021, and 2.6 percent of GDP in 2022 were appropriate. The authorities agreed that detailed policies underpinning the medium-term fiscal consolidation will be included in the FY2021 and FY2022 annual budgets. The FY 2021 budget is expected to be submitted to Parliament by end-November 2020.To underpin this fiscal adjustment, the authorities would implement a combination of revenue and expenditure measures to ensure that priority capital spending could be financed domestically to reduce the reliance on external financing. In the context of the ongoing tax reform which is supported under a WB project and with IMF TA, they would prioritize broadening of the tax base, including by phasing out the existing inefficient tax incentives to yield 0.5 percent of GDP starting in 2021.[3] The authorities would also refrain from granting new tax incentives. The high tax rates would be rationalized only after a

Text Table 3. Tajikistan: Composition of Fiscal Adjustment, 2021-23
(In percent of GDP)

	2021	2022	2023
Overall revenues and grants	0.5	0.5	0.5
Tax revenues	0.5	0.5	0.5
Total expenditure and net lending	0.0	-1.5	-1.5
Current expenditures	0.0	0.0	0.0
Capital expenditures	0.0	-1.5	-1.5
Fiscal adjustment due to measures	0.5	2.0	2.0
Improvement in Overall Balance (incl. PIP)	3.3	5.1	5.2

Source: National authorities and IMF staff estimates.

[3] Tax incentives in Tajikistan are excessive and erode the revenue base without leading to private investment. See Nurturing Tajikistan's Growth Potential, Country Economic Memorandum, World Bank, 2019.

broadening of the tax base has been secured. As the economy recovers in 2022, capital spending would be prioritized to reduce it by 1.5 percent of GDP, while improving the efficiency of public investment projects (Text Table 3). Despite this consolidation, the risk of debt distress would remain high, and further fiscal consolidation would be needed over the medium term to put debt on a downward path and rebuild policy space to manage future shocks.

14. **Owing to commitments to fiscal consolidation and avoidance of non-concessional borrowing, Tajikistan's public debt is assessed as sustainable, but the risk of debt distress remains high**. Public debt is expected to spike above 50 percent of GDP in 2020 in reaction to the outbreak of the COVID-19 pandemic. However, based on the authorities' commitment to fiscal consolidation and avoiding non-concessional borrowing, debt stabilizes over the medium term and is assessed as sustainable in a forward-looking sense (see attached DSA). The risk of debt distress remains high as two debt indicators breach thresholds, leading to a high external risk rating. Tajikistan's debt is vulnerable, especially to export shocks and contingent fiscal liabilities. A more severe or prolonged COVID-19 shock could heighten debt vulnerabilities. On the other hand, greater-than-expected progress with economic diversification or higher energy and non-energy exports would improve debt sustainability over the longer term.

B. Monetary and Exchange Rate Policy

15. **The NBT emphasized that monetary policy would remain vigilant to inflationary and liquidity pressures**. Supply difficulties have led to temporary price increases for some food and other essentials, pushing inflation beyond the NBT's target range. Given the transitory nature of the shock and slack in the economy, staff and the authorities agreed that second round-effects are unlikely. Monetary policy would accommodate the temporary increase in inflation due to the supply shock, but the NBT will shift to a tightening bias if second round effects were to come into play as the economy recovers. The NBT has already stepped up FX liquidity provision to banks and eased reserve requirements on bank deposits. It also plans to provide emergency liquidity assistance in domestic currency, in line with IMF TA recommendations, to help ensure financial sector stability in the face of possible deposit outflows from banks. Given past governance challenges in banks, the NBT remain committed to maintain strong oversight and supervision to ensure financial sector confidence. Staff and the authorities agreed that as non-performing loans increase, loan classification and provisioning rules would be transparently and fully applied. To the extent that bank capital or other metrics fall below minimum prudential requirements, banks would be required to implement credible restoration plans.

16. **The NBT agreed that smoothing excessive exchange rate volatility would be key to avoid economic disruption in the near term.**[4] Staff welcomed the recent move to align the official and parallel market rates, although the parallel market rate has continued to depreciate. In the near term, to the extent that the COVID-19 shock is expected to be mostly temporary, the NBT agreed that smoothing excessive volatility would be key to avoid economic disruption, while some

[4] Tajikistan's de jure exchange regime is managed floating, but the de facto regime is stabilized.

exchange rate flexibility would facilitate the needed external adjustment and protect reserves. The authorities committed to gradually remove the existing Article VIII restriction by progressively allowing exchange rate flexibility to reflect FX supply and demand (while avoiding an overshooting), once the shock has eased and conditions permit.[5] Staff emphasized that FX intervention would be needed to avoid the emergence of external private arrears. The authorities were concerned that the removal of the Article VIII restriction may lead to increased volatility in the exchange rate or sharp loss of reserves and considered that IMF technical assistance would be helpful in this regard. They also committed to remove the existing multiple currency practices (MCPs) by setting appropriate NBT guidelines.[6] Staff stressed that improving data collection regarding FX supply and demand, exchange rates in the official and parallel markets, and associated transaction volumes would help improve the functioning of the FX market.

FINANCING ISSUES

17. **Staff estimates that a single disbursement of 80 percent of quota (SDR 139.2 million) will be needed given the magnitude of the financing requirement.** Staff proposes access under the "exogenous shock" window of the RCF. It is not feasible to implement a UCT-quality Fund-supported program in the near term due to the high degree of uncertainty regarding the duration and scale of the COVID-19 impact and the practical difficulties of holding extensive discussions with the authorities in the current no-travel environment. However, the authorities' track record of servicing IMF repayments and the size of the financing gap justify the access. Discussions are well advanced to obtain grant funding from the World Bank Group (WBG) (USD 47 million) and Asian Development Bank (ADB) (USD 86 million), and other development partners. Discussions with the Eurasian Fund for Stability and Development (EFSD) for a concessional financing operation (USD 40-60 million) are also ongoing.

18. **Capacity to repay the Fund would remain adequate**. Fund credit outstanding would peak at 14.7 percent of gross international reserves and 17.7 percent of exports of goods and services. However, Tajikistan continues to be at a high risk of debt distress. The possibility of a protracted pandemic is the main risk associated with Tajikistan's capacity to service its debt owed to the Fund. Support under the CCRT mitigates near-term servicing risks.

19. **The authorities have requested that the RCF disbursement should be channeled to the budget** (LOI ¶3). The RCF funds will be disbursed to the NBT and on-lent to the government to provide space for virus-related spending, and the central bank should not lend to the government while the domestic financial sector is too shallow to provide the necessary budget financing. The authorities have made a commitment to establish a framework agreement between the NBT and the government on responsibilities for servicing financial obligations related to the RCF disbursement. The NBT and the Ministry of Finance will agree and sign a Memorandum of Understanding to: (i)

[5] Please see the Informational Annex for a description of the Article VIII restriction.

[6] Please see the Informational Annex for a description of the existing MCPs.

commit to maintain funds received from the IMF in a government account at the NBT, pending their use, (ii) require the government to hold foreign exchange balances only with the NBT, and (iii) clarify the responsibilities for repaying Fund resources. The Letter of Intent includes the authorities' commitment to undergo a safeguards assessment, which would need to be completed before Executive Board approval of any subsequent arrangement, and to authorize the central bank's external auditors to hold discussions with staff.

STAFF APPRAISAL

20. **The COVID-19 pandemic and sharp decline in oil prices have severely impacted remittances and created an urgent and immediate balance of payments need**. Tajikistan is a fragile, low-income country, heavily dependent on remittances from migrants in Russia. Lower oil prices and travel disruptions have severely impacted remittances. Fiscal revenues have also seen a sizable decline. The impact of the virus is expected to last through 2020Q2-Q3, opening a sizable and immediate balance of payments financing gap, estimated at about $384 million. The NBT has adjusted the official exchange rate by 5 percent and increased FX interventions, although the parallel market exchange rate continues to be under pressure.

21. **The temporary widening of the budget deficit in 2020 should be accommodated, but fiscal consolidation will be needed over the medium term to stabilize debt**. The overall fiscal deficit is expected to widen in 2020 owing to a sharp decline of tax and non-tax revenue and higher health and social spending. The authorities have approved a budget resolution implementing reallocation and cuts to lower-priority spending to offset some of the COVID-19 impact. They have also committed to enhance the transparency and governance of their policy response through the publication of an ex-post audit of COVID-19 related spending and procurement processes. Revenue and expenditure measures will be specified in future budgets to reduce the fiscal deficit to 2.6 percent of GDP by 2022. Debt is expected to stabilize (as a share of GDP) and become sustainable, based on authorities' commitment to these efforts.

22. **Some exchange rate flexibility will be essential to ensure price competitiveness and support growth, while avoiding excessive volatility and economic disruption**. The NBT depreciated the exchange rate by 5 percent in March. Some exchange rate flexibility would facilitate faster external adjustment and stepped up FX interventions can be used to smooth excessive market volatility during the crisis. As the shock eases, gradual removal of the existing Article VIII restriction and existing multiple currency practices will help improve the functioning of the FX market and will be supported by improving data on the parallel market rates and transaction volumes.

23. **The monetary policy stance will need to remain vigilant to liquidity and inflation developments**. The NBT has provided FX liquidity and reduced reserve requirements on bank deposits to ease liquidity and monetary conditions. The NBT is gradually moving to an inflation targeting regime. In this regard, the currency depreciation may push inflation further outside the NBT's target range albeit a slowing economy is expected to dampen second-round effects. Although

monetary policy transmission remains weak, a tightening bias would be needed if second-round effects come into play as the economy recovers.

24. **Credible restoration plans will be needed to address the likely deterioration in financial sector balance sheets to maintain financial sector stability**. Given the high level of dollarization and weak banking sector, sizable currency depreciation could weaken bank balance sheets. As banks are characterized by high NPLs and weak governance, it will be important to maintain strong oversight and supervision. Loan classification and provisioning rules should be applied fully and transparently, with credible capital restoration plans for banks that fall below the minimum prudential requirements.

25. **Staff supports the proposed disbursement under the RCF of 80 percent of quota (SDR 139.2 million)**. Staff support for the RCF is based on the large and urgent balance of payments needs and the catalytic effect of IMF support for other external financing. While public debt is at high risk of debt distress, staff assesses that debt remains sustainable and Tajikistan's capacity to repay the Fund remains adequate. . The possibility of a protracted pandemic is the main risk associated with Tajikistan's capacity to service its debt owed to the Fund. Support under the CCRT mitigates near-term servicing risks.

Table 1. Tajikistan: Selected Economic Indicators, 2016-25

(Quota: SDR 174 millions)

(Population: 9.1 million; 2018)

(Per capita GDP: US$827; 2018)

(Poverty rate: 27 percent; 2018)

(Main exports: mineral products, aluminum, cotton; 2018)

	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
				Est.	Proj.					
	(Annual percent change; unless otherwise indicated)									
National accounts										
Real GDP	6.9	7.1	7.3	7.5	-2.0	7.5	4.5	4.0	4.0	4.0
GDP deflator (cumulative)	5.3	4.7	5.0	4.4	5.6	5.2	5.3	5.2	5.4	5.4
Headline CPI inflation (end-of-period)	6.1	6.7	5.4	8.0	7.4	6.9	6.5	6.5	6.5	6.5
Headline CPI inflation (period average)	5.9	7.3	3.8	7.8	8.1	6.9	6.5	6.5	6.5	6.5
	(In percent of GDP; unless otherwise indicated)									
General government finances										
Revenue and grants	29.9	29.7	29.1	27.4	25.6	26.3	26.6	26.8	26.9	26.9
Tax revenue	20.7	21.6	21.3	20.4	19.0	19.7	20.2	20.5	20.7	20.8
Expenditure and net lending	38.9	35.6	31.9	29.5	33.4	30.7	29.2	29.3	29.4	29.4
Current	17.1	17.0	17.2	17.1	19.8	17.0	16.9	17.0	16.9	17.0
Capital	15.8	18.6	14.6	12.4	13.5	13.7	12.3	12.4	12.4	12.3
Overall balance (excl. PIP and stat. discrepancy) 1/	-5.4	-3.4	1.6	1.1	-3.1	1.6	1.7	0.4	0.3	1.4
Overall balance (incl. PIP and stat. discrepancy) 1/	-9.0	-6.0	-2.8	-2.1	-7.7	-4.4	-2.6	-2.5	-2.5	-2.5
Domestic financing	7.1	-2.8	2.2	0.8	0.0	0.0	0.0	0.0	0.0	0.0
External financing	1.8	7.8	1.0	1.4	7.7	4.4	2.6	2.5	2.5	2.5
Total public and publicly-guaranteed debt	42.1	50.4	47.9	44.6	52.8	52.8	52.4	52.2	52.0	51.5
Monetary sector										
Broad money (12-month percent change)	37.1	21.8	5.1	16.9	5.1	12.9	10.9	10.7	10.7	10.5
Reserve money (12-month percent change)	71.1	21.0	7.0	20.1	6.8	12.4	10.3	10.4	10.2	10.1
Credit to private sector (12-month percent change)	-4.9	-20.2	1.3	7.7	2.9	11.7	10.7	11.0	10.9	10.9
Velocity of broad money (eop)	3.7	3.4	3.6	3.5	...	...	...	...	...	...
Refinancing rate (in percent, eop/ latest value)	11.0	16.0	14.8	12.3	...	...	...	...	...	...
	(In percent of GDP; unless otherwise indicated)									
External sector										
Exports of goods and services (U.S. dollar, percent change)	9.1	25.1	-0.8	11.4	-6.9	14.8	9.8	7.6	7.4	7.5
Imports of goods and services (U.S. dollar, percent change)	-12.0	-5.6	16.5	5.9	-11.2	11.7	6.2	5.5	5.3	5.2
Current account balance	-4.2	2.2	-5.0	-2.3	-7.8	-4.7	-4.6	-4.4	-4.3	-4.2
Trade balance (goods)	-27.1	-21.2	-25.1	-23.7	-21.3	-22.0	-21.6	-21.3	-21.0	-20.5
FDI (net)	3.0	0.9	3.3	2.3	1.2	2.5	2.3	2.0	2.1	2.0
Total public and publicly guaranteed external debt	32.4	40.6	38.7	36.3	44.6	45.4	45.7	46.1	46.4	46.5
Exports of goods and services, in millions of U.S. dollars	900	1,125	1,116	1,243	1,158	1,329	1,458	1,568	1,684	1,810
Imports of goods and services, in millions of U.S. dollars	-2,927	-2,764	-3,220	-3,409	-3,028	-3,383	-3,594	-3,792	-3,994	-4,201
Current account balance, in millions of U.S. dollars	-291	159	-378	-185	-608	-388	-407	-407	-416	-424
Total public and publicly guaranteed external debt, in millions of U.S. dollars	2,243	2,815	2,828	2,893	3,347	3,701	3,927	4,159	4,400	4,636
Gross official reserves (in millions of U.S. dollars)	653	1,032	1,160	1,464	1,429	1,446	1,498	1,564	1,634	1,706
In months of next year's imports	2.8	3.8	4.1	5.8	5.1	4.8	4.7	4.7	4.7	4.6
In percent of broad money	34.8	50.5	57.7	64.0	65.4	61.1	59.5	58.5	57.6	56.7
Memorandum items:										
Nominal GDP (in millions of somoni)	54,471	61,093	68,844	77,292	80,017	90,514	99,575	108,992	119,437	130,971
Nominal GDP (in millions of U.S. dollars)	6,953	7,144	7,520	8,110	7,836	8,301	8,757	9,200	9,672	10,199
Nominal effective exchange rate (Index 2010=100)	67.4	62.4	58.7	59.3	...	...	...	...	...	...
Real effective exchange rate (Index 2010=100)	79.0	76.3	72.2	75.8	...	...	...	...	...	...
Average exchange rate (somoni per U.S. dollar)	7.83	8.55	9.15	9.53	...	...	...	...	...	...

Sources: Data provided by the Tajikistan authorities, and Fund staff estimates.

1/ The 2016 overall balance includes 6.1 percent of GDP for bank recapitalization in addition to regular fiscal operations.

Table 2. Tajikistan: General Government Operations, 2016-25

(In millions of somoni, unless otherwise indicated)

	2016	2017	2018	2019		2020		2021	2022	2023	2024	2025
				Budget	Est.	Budget	Proj.			Proj.		
Overall revenues and grants	16,295	18,124	20,025	21,234	21,180	23,727	20,520	23,781	26,472	29,207	32,113	35,185
Total revenues	14,951	16,523	18,042	19,232	19,453	21,230	18,800	21,944	24,557	27,211	30,033	33,022
Tax revenues	11,280	13,168	14,653	16,318	15,768	17,912	15,203	17,876	20,128	22,312	24,691	27,189
Income and profit tax	2,385	3,073	3,431	3,771	3,814	4,233	3,771	4,459	4,905	5,369	5,884	6,452
Payroll taxes	1,383	1,574	1,729	1,810	1,688	1,951	1,748	1,977	2,175	2,381	2,609	2,861
Property taxes	277	300	358	352.0	370	423.9	389	442	484	528	576	630
Taxes on goods and services	6,571	7,504	8,368	9,505	9,079	10,523	8,615	10,176	11,559	12,935	14,297	15,797
International trade and operations tax	665	717	766	881	816	781	680	822	1,004	1,099	1,325	1,449
Nontax revenues	3,671	3,355	3,389	2,915	3,686	3,318	3,596	4,068	4,429	4,899	5,342	5,834
Of which: Extra-budgetary funds	2,223	2,137	1,525	1,732	2,094	2,030	1,949	2,204	2,378	2,654	2,956	3,302
Grants	1,344	1,602	1,983	2,002	1,726	2,496	1,720	1,837	1,915	1,995	2,080	2,163
Of which: Public Investment Program (PIP) financing	1,344	1,432	1,882	1,702	1,726	2,196	1,720	1,837	1,915	1,995	2,080	2,163
Total expenditures and net lending	21,214	21,769	21,940	24,660	22,804	27,910	26,709	27,764	29,110	31,971	35,099	38,456
Current expenditures	9,292	10,372	11,860	14,735	13,224	16,308	15,876	15,381	16,852	18,480	20,241	22,313
Expenditures on goods and services	6,301	6,953	7,817	10,153	8,900	10,996	10,757	10,184	11,215	12,307	13,323	14,700
Wages and salaries	3,796	4,362	4,653	5,359	5,213	5,695	5,716	6,299	6,916	7,618	8,289	9,163
Others	2,505	2,591	3,164	4,794	3,687	5,301	5,041	3,885	4,298	4,689	5,034	5,538
Of which: COVID-19	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	1,567	n.a.	n.a.	n.a.	n.a.	n.a.
Interest payments	376	281	769	886	663	930	942	859	864	948	1,073	1,202
External	321	268	629	762	594	789	741	817	849	933	1,057	1,187
Domestic	55	13	139	125	69	142	201	41	15	15	15	15
Transfers and subsidies	2,616	3,138	3,275	3,695	3,661	4,382	4,177	4,339	4,774	5,225	5,846	6,410
Transfers to households	2,476	2,880	3,087	3,574	3,446	3,918	3,954	4,087	4,496	4,921	5,513	6,045
Of which: Social benefits and social assistance	184	222	224	294	275	318	672	374	411	450	614	673
Subsidies and other current transfers	139	259	188	121	215	464	223	252	278	304	333	365
Capital expenditures	8,597	11,391	10,077	9,917	9,574	11,602	10,833	12,382	12,258	13,491	14,858	16,143
Externally financed (PIP and Rogun)	3,329	3,011	4,929	5,536	4,301	6,987	5,410	7,291	6,207	5,198	5,414	7,293
Of which: Rogun	…	…	1,348	1,291	1,166	1,765	0	1,745	1,990	2,073	2,161	2,247
Domestically financed	5,268	8,380	5,148	4,381	5,273	4,615	5,423	5,091	6,051	8,292	9,443	8,850
Of which: Rogun	2,353	5,202	3,352	2,111	1,674	2,111	3,319	2,344	2,274	2,369	2,470	2,568
Of which: Non-Rogun	2,915	3,179	1,796	2,270	3,599	2,504	2,104	2,747	3,777	5,923	6,974	6,282
Net lending	3,325	6	3	8	8	0	0	0	0	0	0	0
Statistical discrepancy ("+" = additional spending)	-105	-621	239	…	…	…	…	…	…	…	…	…
Overall balance (incl. PIP) 1/	-4,920	-3,644	-1,914	-3,426	-1,624	-4,183	-6,189	-3,983	-2,638	-2,764	-2,986	-3,271
Overall balance (excl. PIP and PIP-related grants) 1/	-2,934	-2,066	1,133	408	826	607	-2,499	1,472	1,653	438	348	1,859
Overall balance (incl. PIP and excl. bank recapitalization)	-1,600	-3,644	-1,914	-3,426	-1,624	-4,183	-6,189	-3,983	-2,638	-2,764	-2,986	-3,271
Total financing (incl. PIP)	4,815	3,023	2,153	3,426	1,749	4,183	6,189	3,983	2,638	2,764	2,986	3,271
Net external	962	4,762	658	1,949	1,108	1,035	6,189	3,983	2,638	2,764	2,986	3,271
Disbursements	1,985	5,916	1,699	2,540	2,115	…	7,497	5,454	4,291	4,210	4,492	6,978
Of which: the IMF's RCF	0	0	0	0	0	0	1,968	0	0	0	0	0
Of which: the WB	n/a	n/a	n/a	n/a	n/a	n/a	480	n/a	n/a	n/a	n/a	n/a
Of which: the ADB	n/a	n/a	n/a	n/a	n/a	n/a	878	n/a	n/a	n/a	n/a	n/a
Of which: other donors	n/a	n/a	n/a	n/a	n/a	n/a	480	n/a	n/a	n/a	n/a	n/a
Of which PIP disbursement							3,690					
Amortization	-1,023	-1,154	-1,041	-591	-1,006	…	-1,308	-1,472	-1,653	-1,445	-1,507	-3,707
Net domestic	3,853	-1,738	1,496	1,476	641	3,148	0	0	0	0	0	0
Of which : NBT	2,998	-2,308.8	1,324	…	341	…	0	0	0	0	0	0
Of which : Commercial banks (including Tbills/Bonds)	803	-106	-286	…	-286	…	0	0	0	0	0	0
Of which : others	52	40	-54	…	9	…	0	0	0	0	0	0
Of which : Privatization proceeds/Sales of gold and pr. Mtl. to NBT	0	637	511	…	577	…	0	0	0	0	0	0
Memorandum items:												
Recapitalization bonds–NBT	120	120	…	…	…	…	…	…	…	…	…	…
Recapitalization bonds–commercial banks	3,319	…	…	…	…	…	…	…	…	…	…	…
Public Debt (Percent of GDP)	42.1	50.4	47.9	…	44.6	…	52.8	52.8	52.4	52.2	52.0	51.5

Sources: Tajikistan authorities, and Fund staff estimates.

1/ The 2016 overall balance includes TJS 3,320 million for bank recapitalization in addition to regular fiscal operations.

Table 3. Tajikistan: General Government Operations, 2016-25

(In percent of GDP, unless otherwise indicated)

	2016	2017	2018	2019		2020		2021	2022	2023	2024	2025
				Budget	Est.	Budget	Proj.			Proj.		
Overall revenues and grants	29.9	29.7	29.1	27.5	27.4	29.7	25.6	26.3	26.6	26.8	26.9	26.9
Total revenues	27.4	27.0	26.2	24.9	25.2	26.5	23.5	24.2	24.7	25.0	25.1	25.2
Tax revenues	20.7	21.6	21.3	21.1	20.4	22.4	19.0	19.7	20.2	20.5	20.7	20.8
Income and profit tax	4.4	5.0	5.0	4.9	4.9	5.3	4.7	4.9	4.9	4.9	4.9	4.9
Payroll taxes	2.5	2.6	2.5	2.3	2.2	2.4	2.2	2.2	2.2	2.2	2.2	2.2
Property taxes	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5
Taxes on goods and services	12.1	12.3	12.2	12.3	11.7	13.2	10.8	11.2	11.6	11.9	12.0	12.1
International trade and operations tax	1.2	1.2	1.1	1.1	1.1	1.0	0.9	0.9	1.0	1.0	1.1	1.1
Nontax revenues	6.7	5.5	4.9	3.8	4.8	4.1	4.5	4.5	4.4	4.5	4.5	4.5
Grants	2.5	2.6	2.9	2.6	2.2	3.1	2.1	2.0	1.9	1.8	1.7	1.7
Of which: Public Investment Program (PIP) financing	2.5	2.3	2.7	2.2	2.2	2.7	2.1	2.0	1.9	1.8	1.7	1.7
Total expenditure and net lending	38.9	35.6	31.9	31.9	29.5	34.9	33.4	30.7	29.2	29.3	29.4	29.4
Current expenditures	17.1	17.0	17.2	19.1	17.1	20.4	19.8	17.0	16.9	17.0	16.9	17.0
Expenditures on goods and services	11.6	11.4	11.4	13.1	11.5	13.7	13.4	11.3	11.3	11.3	11.2	11.2
Wages and salaries	7.0	7.1	6.8	6.9	6.7	7.1	7.1	7.0	6.9	7.0	6.9	7.0
Others	4.6	4.2	4.6	6.2	4.8	6.6	6.3	4.3	4.3	4.3	4.2	4.2
Of which: COVID-19	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	2.0	n.a.	n.a.	n.a.	n.a.	n.a.
Interest payments	0.7	0.5	1.1	1.1	0.9	1.2	1.2	0.9	0.9	0.9	0.9	0.9
External	0.6	0.4	0.9	1.0	0.8	1.0	0.9	0.9	0.9	0.9	0.9	0.9
Domestic	0.1	0.0	0.2	0.2	0.1	0.2	0.3	0.0	0.0	0.0	0.0	0.0
Transfers and subsidies	4.8	5.1	4.8	4.8	4.7	5.5	5.2	4.8	4.8	4.8	4.9	4.9
Transfers to households	4.5	4.7	4.5	4.6	4.5	4.9	4.9	4.5	4.5	4.5	4.6	4.6
Of which : Social benefits and social assistance	0.3	0.4	0.3	0.4	0.4	0.4	0.8	0.4	0.4	0.4	0.5	0.5
Subsidies and other current transfers	0.3	0.4	0.3	0.2	0.3	0.6	0.3	0.3	0.3	0.3	0.3	0.3
Capital expenditures	15.8	18.6	14.6	12.8	12.4	14.5	13.5	13.7	12.3	12.4	12.4	12.3
Externally financed (PIP and Rogun)	6.1	4.9	7.2	7.2	5.6	8.7	6.8	8.1	6.2	4.8	4.5	5.6
Of which: Rogun	...	...	2.0	1.7	1.5	2.2	0.0	1.9	2.0	1.9	1.8	1.7
Domestically financed	9.7	13.7	7.5	5.7	6.8	5.8	6.8	5.6	6.1	7.6	7.9	6.8
Of which: Rogun	4.3	8.5	4.9	2.7	2.2	2.6	4.1	2.6	2.3	2.2	2.1	2.0
Of which: Non-Rogun	5.4	5.2	2.6	2.9	4.7	3.1	2.6	3.0	3.8	5.4	5.8	4.8
Net lending	6.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Statistical discrepancy ("+" = additional spending)	-0.2	-1.0	0.3	...	...	...	...	...	...	...	...	...
Primary balance	-2.2	-5.5	-1.7	-3.3	-1.2	-4.1	-6.6	-3.5	-1.8	-1.7	-1.6	-1.6
Overall balance (incl. PIP) 1/	-9.0	-6.0	-2.8	-4.4	-2.1	-5.2	-7.7	-4.4	-2.6	-2.5	-2.5	-2.5
Overall balance (excl. PIP and PIP-related grants) 1/	-5.4	-3.4	1.6	0.5	1.1	0.8	-3.1	1.6	1.7	0.4	0.3	1.4
Overall balance (incl. PIP and excl. bank recapitalization)	-2.9	-6.0	-2.8	-4.4	-2.1	-5.2	-7.7	-4.4	-2.6	-2.5	-2.5	-2.5
Total financing (incl. PIP)	8.8	4.9	3.1	4.4	2.3	5.2	7.7	4.4	2.6	2.5	2.5	2.5
Net external	1.8	7.8	1.0	...	1.4	1.3	7.7	4.4	2.6	2.5	2.5	2.5
Disbursements	3.6	9.7	2.5	...	2.7	...	9.4	6.0	4.3	3.9	3.8	5.3
Of which: the IMF's RCF	0.0	0.0	0.0	0.0	0.0	0.0	2.5	0.0	0.0	0.0	0.0	0.0
Of which: the WB	n/a	n/a	n/a'a	n/a	n/a	n/a	0.6	0.0	0.0	0.0	0.0	0.0
Of which: the ADB	n/a	n/a	n/a'a	n/a	n/a	n/a	1.1	0.0	0.0	0.0	0.0	0.0
Of which: other donors	n/a	n/a	n/a'a	n/a	n/a	n/a	0.6	0.0	0.0	0.0	0.0	0.0
Of which PIP disbursement							4.6					
Amortization	-1.9	-1.9	-1.5	...	-1.3	...	-1.6	-1.6	-1.7	-1.3	-1.3	-2.8
Net domestic	7.1	-2.8	2.2	...	0.8	3.9	0.0	0.0	0.0	0.0	0.0	0.0
Of which : NBT	5.5	-3.8	1.9	...	0.4	...	0.0	0.0	0.0	0.0	0.0	0.0
Of which : Commercial banks (including Tbills/Bonds)	1.5	-0.2	-0.4	...	-0.4	...	0.0	0.0	0.0	0.0	0.0	0.0
Privatization proceeds/Sales of gold and precious metal to NBT	0	1.0	0.7	...	0.7	...	0.0	0.0	0.0	0.0	0.0	0.0
Memorandum items:												
Recapitalization bonds–commercial banks	6.1	...	...	...	...	...	...	...	...	...	...	...
Public debt (in percent of GDP)	42.1	50.4	47.9	...	44.6	...	52.8	52.8	52.4	52.2	52.0	51.5
Nominal GDP (in millions of somoni)	54,471	61,093	68,844	77,292	77,292	80,017	80,017	90,514	99,575	108,992	119,437	130,971

Sources: Tajikistan authorities, and Fund staff estimates.

1/ The 2016 overall balance includes 6.1 percent of GDP for bank recapitalization in addition to regular fiscal operations.

Table 4. Tajikistan: Accounts of the National Bank of Tajikistan, 2016-25
(End-of-period stock, unless otherwise specified)

	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
				Proj.						
	(In millions of somoni)									
Net foreign assets	3,306	9,483	10,398	13,123	14,122	15,016	16,303	17,797	19,434	21,198
Gross assets	5,143	11,400	12,111	14,621	15,712	16,574	17,886	19,447	21,155	22,992
Gross liabilities	1,837	1,920	1,713	1,498	1,590	1,558	1,583	1,650	1,720	1,794
Net international reserves 1/	2,770	6,748	9,403	13,093	14,089	14,982	16,267	17,759	19,396	21,158
Gross international reserves 1/	5,142	9,104	10,937	14,184	15,231	16,073	17,362	18,901	20,586	22,399
Gross reserve liabilities	2,372	2,356	1,534	1,091	1,142	1,091	1,095	1,142	1,191	1,241
Net domestic assets	8,742	5,089	5,196	5,608	5,875	7,465	8,501	9,580	10,722	11,995
Net credit to general government 2/	2,261	-48	1,276	1,616	1,616	1,616	1,616	1,616	1,616	1,616
General government	2,261	-47	1,296	1,771	1,616	1,616	1,616	1,616	1,616	1,616
Credit to the private sector	114	-652	-1,294	-1,098	-735	370	1,059	2,129	3,295	4,514
Net claims on banks / other fin corporations	-452	-1,158	-1,688	-1,509	-1,158	-103	537	1,548	2,651	3,800
NBT bills	-739	-1,335	-1,944	-1,759	-3,207	-3,352	-4,213	-4,201	-4,498	-4,749
Credit to nonbank / non-financial institutions 3/	566	506	395	411	423	472	523	580	644	714
Other items net	6,367	5,793	5,214	5,090	4,993	5,479	5,825	5,835	5,810	5,864
Reserve money	12,048	14,573	15,594	18,731	19,996	22,482	24,804	27,377	30,156	33,193
Currency in circulation	8,390	11,659	13,173	16,068	17,197	19,334	21,331	23,544	25,934	28,546
Bank reserves	3,465	2,391	2,026	1,938	2,084	2,432	2,757	3,117	3,506	3,931
Required reserves	484	578	600	550	397	451	527	611	706	811
Somoni	167	195	247	246	92	107	145	189	239	295
Foreign exchange	317	383	353	303	304	344	381	422	467	516
Other bank deposits	2,981	1,813	1,427	1,388	1,687	1,981	2,230	2,506	2,800	3,121
Other deposits	193	523	394	725	716	716	716	716	716	716
	(12-month growth in percent)									
Reserve money	71.1	21.0	7.0	20.1	6.8	12.4	10.3	10.4	10.2	10.1
Net foreign assets	103.7	186.8	9.6	26.2	7.6	6.3	8.6	9.2	9.2	9.1
Gross international reserves	48.8	77.1	20.1	29.7	7.4	5.5	8.0	8.9	8.9	8.8
Net international reserves	72.3	143.7	39.3	39.2	7.6	6.3	8.6	9.2	9.2	9.1
Net domestic assets	61.4	-41.8	2.1	7.9	4.8	27.1	13.9	12.7	11.9	11.9
	(12-month growth in percent of reserve money)									
Reserve money (12-month percent change)	71.1	21.0	7.0	20.1	6.8	12.4	10.3	10.4	10.2	10.1
Net foreign assets	23.9	51.3	6.3	17.5	5.3	4.5	5.7	6.0	6.0	5.8
Gross international reserves	24.0	32.9	12.6	20.8	5.6	4.2	5.7	6.2	6.2	6.0
Net international reserves	16.5	33.0	18.2	23.7	5.3	4.5	0.0	0.0	0.0	0.0
Net domestic assets	47.2	-30.3	0.7	2.6	1.4	8.0	4.6	4.4	4.2	4.2
Net credit to general government	46.8	-19.2	9.1	2.2	0.0	0.0	0.0	0.0	0.0	0.0
Credit to the private sector	-3.7	-6.4	-4.4	1.3	1.9	5.5	0.0	0.0	0.0	0.0
NBT bills	-7.9	-5.0	-4.2	1.2	-7.7	-0.7	0.0	0.0	0.0	0.0
Other items net	4.2	-4.8	-4.0	-0.8	-0.5	2.4	1.5	0.0	-0.1	0.2
Memorandum items:										
Net international reserves (in millions of U.S.dollars)	351.6	765.2	997.2	1,351.6	1,322.2	1,348.0	1,403.7	1,470.0	1,539.9	1,611.3
Net international reserves (percent of broad money)	18.7	37.5	49.6	59.1	60.5	57.0	55.8	55.0	54.3	53.6
Official exchange rate (somoni/U.S. dollars; eop)	7.88	8.82	9.43	…	…	…	…	…	…	…

Sources: National Bank of Tajikistan, and Fund staff estimates.

1/ Excludes eurobond proceeds, nonmonetary gold and foreign assets denominated in non-convertible currencies. Projections include domestic purchases of monetary gold.

2/ Increase in 2019 is accounted by 1,300 mln deposit withdrawal by the Government.

3/ Includes net credit to public non-financial corporations and credit to private non-financial institutions.

Table 5. Tajikistan: Monetary Survey, 2016-25

	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
				Proj.						
				(In millions of somoni)						
Net foreign assets	3,306	9,483	10,398	13,123	14,122	15,016	16,303	17,797	19,434	21,198
Gross assets	5,143	11,400	12,111	14,621	15,712	16,574	17,886	19,447	21,155	22,992
Gross liabilities	1,837	1,920	1,713	1,498	1,590	1,558	1,583	1,650	1,720	1,794
Net international reserves 1/	2,770	6,748	9,403	13,093	14,089	14,982	16,267	17,759	19,396	21,158
Gross international reserves 1/	5,142	9,104	10,937	14,184	15,231	16,073	17,362	18,901	20,586	22,399
Gross reserve liabilities	2,372	2,356	1,534	1,091	1,142	1,091	1,095	1,142	1,191	1,241
Net domestic assets	8,742	5,089	5,196	5,608	5,875	7,465	8,501	9,580	10,722	11,995
Net credit to general government 2/	2,261	-48	1,276	1,616	1,616	1,616	1,616	1,616	1,616	1,616
General government	2,261	-47	1,296	1,771	1,616	1,616	1,616	1,616	1,616	1,616
Credit to the private sector	114	-652	-1,294	-1,098	-735	370	1,059	2,129	3,295	4,514
Net claims on banks / other fin corporations	-452	-1,158	-1,688	-1,509	-1,158	-103	537	1,548	2,651	3,800
NBT bills	-739	-1,335	-1,944	-1,759	-3,207	-3,352	-4,213	-4,201	-4,498	-4,749
Credit to nonbank / non-financial institutions 3/	566	506	395	411	423	472	523	580	644	714
Other items net	6,367	5,793	5,214	5,090	4,993	5,479	5,825	5,835	5,810	5,864
Reserve money	12,048	14,573	15,594	18,731	19,996	22,482	24,804	27,377	30,156	33,193
Currency in circulation	8,390	11,659	13,173	16,068	17,197	19,334	21,331	23,544	25,934	28,546
Bank reserves	3,465	2,391	2,026	1,938	2,084	2,432	2,757	3,117	3,506	3,931
Required reserves	484	578	600	550	397	451	527	611	706	811
Somoni	167	195	247	246	92	107	145	189	239	295
Foreign exchange	317	383	353	303	304	344	381	422	467	516
Other bank deposits	2,981	1,813	1,427	1,388	1,687	1,981	2,230	2,506	2,800	3,121
Other deposits	193	523	394	725	716	716	716	716	716	716
				(12-month growth in percent)						
Reserve money	71.1	21.0	7.0	20.1	6.8	12.4	10.3	10.4	10.2	10.1
Net foreign assets	103.7	186.8	9.6	26.2	7.6	6.3	8.6	9.2	9.2	9.1
Gross international reserves	48.8	77.1	20.1	29.7	7.4	5.5	8.0	8.9	8.9	8.8
Net international reserves	72.3	143.7	39.3	39.2	7.6	6.3	8.6	9.2	9.2	9.1
Net domestic assets	61.4	-41.8	2.1	7.9	4.8	27.1	13.9	12.7	11.9	11.9
				(12-month growth in percent of reserve money)						
Reserve money (12-month percent change)	71.1	21.0	7.0	20.1	6.8	12.4	10.3	10.4	10.2	10.1
Net foreign assets	23.9	51.3	6.3	17.5	5.3	4.5	5.7	6.0	6.0	5.8
Gross international reserves	24.0	32.9	12.6	20.8	5.6	4.2	5.7	6.2	6.2	6.0
Net international reserves	16.5	33.0	18.2	23.7	5.3	4.5	0.0	0.0	0.0	0.0
Net domestic assets	47.2	-30.3	0.7	2.6	1.4	8.0	4.6	4.4	4.2	4.2
Net credit to general government	46.8	-19.2	9.1	2.2	0.0	0.0	0.0	0.0	0.0	0.0
Credit to the private sector	-3.7	-6.4	-4.4	1.3	1.9	5.5	0.0	0.0	0.0	0.0
NBT bills	-7.9	-5.0	-4.2	1.2	-7.7	-0.7	0.0	0.0	0.0	0.0
Other items net	4.2	-4.8	-4.0	-0.8	-0.5	2.4	1.5	0.0	-0.1	0.2
Memorandum items:										
Net international reserves (in millions of U.S.dollars)	351.6	765.2	997.2	1,351.6	1,322.2	1,348.0	1,403.7	1,470.0	1,539.9	1,611.3
Net international reserves (percent of broad money)	18.7	37.5	49.6	59.1	60.5	57.0	55.8	55.0	54.3	53.6
Official exchange rate (somoni/U.S. dollars; eop)	7.88	8.82	9.43	…	…	…	…	…	…	…

Sources: National Bank of Tajikistan, and Fund staff estimates.

1/ Excludes eurobond proceeds, nonmonetary gold and foreign assets denominated in non-convertible currencies. Projections include domestic purchases of monetary gold.

2/ Increase in 2019 is accounted by 1,300 mln deposit withdrawal by the Government.

3/ Includes net credit to public non-financial corporations and credit to private non-financial institutions.

Table 6. Tajikistan: Balance of Payments, 2016-25

	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
					Proj.					
	(In millions of U.S. dollars, unless otherwise indicated)									
Current account	-291	159	-378	-185	-608	-388	-407	-407	-416	-424
Balance on goods and services	-2,027	-1,639	-2,104	-2,165	-1,870	-2,055	-2,136	-2,223	-2,309	-2,391
Balance on goods	-1,885	-1,517	-1,888	-1,920	-1,667	-1,824	-1,889	-1,961	-2,027	-2,093
Exports	668	873	874	1,001	870	1,014	1,115	1,195	1,291	1,396
Imports	2,553	2,390	2,762	2,921	2,537	2,838	3,004	3,156	3,319	3,489
Balance on services	-142	-122	-216	-245	-203	-231	-247	-262	-282	-297
Balance on income	1,164	1,215	1,226	1,331	896	1,138	1,177	1,229	1,282	1,330
Balance on transfers	572	583	500	650	366	530	552	588	611	638
Capital and financial account	488	515	380	527	79	283	344	363	376	385
Capital transfers	179	135	176	166	233	180	200	239	260	265
FDI	207	63	249	190	93	208	199	187	199	206
Portfolio Investment	0	500	0	-73	0	0	0	0	0	0
Other capital flows 1/	103	-183	-44	245	-247	-105	-56	-64	-83	-86
Errors and omissions	-151	-143	-267	166	…	…	…	…	…	…
Overall balance	46	531	-265	176	-528	-104	-63	-44	-40	-39
Financing items	-46	-531	265	-176	528	104	63	44	40	39
Use of international reserves (- increase)	-46	-531	265	-176	145	93	58	44	40	39
Financing gap	0	0	0	0	384	11	5	0	0	0
IMF (RCF Disbursement)	0	0	0	0	193	0	0	0	0	0
CCRT	0	0	0	0	11	11	5	0	0	0
Other Exceptional financing	0	0	0	0	180	0	0	0	0	0
ADB	0	0	0	0	86	0	0	0	0	0
WB	0	0	0	0	47	0	0	0	0	0
Other	0	0	0	0	47	0	0	0	0	0
	(in percent of GDP, unless otherwise indicated)									
Current account	-4.2	2.2	-5.0	-2.3	-7.8	-4.7	-4.6	-4.4	-4.3	-4.2
Balance on goods and services	-29.2	-22.9	-28.0	-26.7	-23.9	-24.8	-24.4	-24.2	-23.9	-23.4
Balance on goods	-27.1	-21.2	-25.1	-23.7	-21.3	-22.0	-21.6	-21.3	-21.0	-20.5
Exports	9.6	12.2	11.6	12.3	11.1	12.2	12.7	13.0	13.4	13.7
Imports	36.7	33.4	36.7	36.0	32.4	34.2	34.3	34.3	34.3	34.2
Balance on services	-2.0	-1.7	-2.9	-3.0	-2.6	-2.8	-2.8	-2.8	-2.9	-2.9
Balance on income	16.7	17.0	16.3	16.4	11.4	13.7	13.4	13.4	13.3	13.0
Balance on transfers	8.2	8.2	6.6	8.0	4.7	6.4	6.3	6.4	6.3	6.3
Capital and financial account	7.0	7.2	5.1	6.5	1.0	3.4	3.9	3.9	3.9	3.8
Capital transfers	2.6	1.9	2.3	2.0	3.0	2.2	2.3	2.6	2.7	2.6
FDI	3.0	0.9	3.3	2.3	1.2	2.5	2.3	2.0	2.1	2.0
Portfolio Investment	0.0	7.0	0.0	-0.9	0.0	0.0	0.0	0.0	0.0	0.0
Other capital flows 1/	1.5	-2.6	-0.6	3.0	-3.1	-1.3	-0.6	-0.7	-0.9	-0.8
Errors and omissions	-2.2	-2.0	-3.5	2.0	0.0	0.0	0.0	0.0	0.0	0.0
Overall balance	0.7	7.4	-3.5	2.2	-6.7	-1.3	-0.7	-0.5	-0.4	-0.4
Memorandum items:										
Nominal GDP (In millions of U.S. dollars)	6,953	7,144	7,520	8,110	7,836	8,301	8,757	9,200	9,672	10,199
Remittances, inflows (In millions of U.S. dollars)	1,867	2,237	2,183	2,322	1,814	2,192	2,285	2,405	2,533	2,642
(in percent of GDP)	26.9	31.3	29.0	28.6	23.2	26.4	26.1	26.1	26.2	25.9
Current account balance (In percent of GDP)	-4.2	2.2	-5.0	-2.3	-7.8	-4.7	-4.6	-4.4	-4.3	-4.2
Net international reserves (In millions of U.S. dollars)	351.6	765.2	997.2	1351.6	1322.2	1348.0	1403.7	1470.0	1539.9	1611.3
Gross reserves 2/	653	1032	1160	1464	1429	1446	1498	1564	1634	1706
(in months of next year's imports of goods and services)	2.8	3.8	4.1	5.8	5.1	4.8	4.7	4.7	4.7	4.6
(in percent of IMF's Reserve Adequacy metric: Fixed)	70.1	90.8	99.8	115.7	108.7	97.5	95.3	96.6	100.2	109.0
(in percent of IMF's Reserve Adequacy metric: Floating)	85.2	111.5	123.5	140.0	130.7	116.3	113.1	115.1	119.4	132.3
Total Public and Publicly Guaranteed (PPG) external debt 3/	2,243	2,815	2,828	2,893	3,347	3,701	3,927	4,159	4,400	4,636
(in percent of GDP)	32.4	40.6	38.7	36.3	44.6	45.4	45.7	46.1	46.4	46.5
Debt service on PPG external debt (In millions of U.S. dollars) 3/	163	171	187	172	201	210	220	201	208	381
(in percent of exports of goods and services)	18.2	15.2	16.8	13.8	17.3	15.8	15.1	12.8	12.3	21.1

Sources: Tajik authorities; and Fund staff estimates.

1/ The large drop in other capital flows from 2019 to 2020 refelcts the postponement of a large construction loan.

2/ Excludes 2017 Eurobond proceeds. Projections include domestic purchases of monetary gold.

3/ External debt is defined as debt to nonresidents and excludes central bank debt liabilities.

Table 7. Tajikistan: Capacity to Repay the Fund, 2018-30 1/

	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030
Outstanding IMF credit													
In millions of SDRs	40.5	22.2	148.3	141.8	139.2	139.2	139.2	125.3	97.4	69.6	41.8	13.9	0.0
In millions of US dollars	56.0	30.6	205.4	197.1	193.4	193.4	193.4	174.1	135.4	96.7	58.0	19.3	0.0
In percent of exports of goods and services	5.0	2.5	17.7	14.8	13.3	12.3	11.5	9.6	7.0	4.6	2.6	0.8	0.0
In percent of external debt service	0.0	15.6	94.5	89.7	86.3	96.1	92.9	43.4	30.9	20.7	18.5	5.5	0.0
In percent of gross reserves	4.8	2.1	14.9	14.1	13.3	12.7	12.2	10.5	8.9	7.3	4.5	1.5	0.0
In percent of GDP	0.7	0.4	2.6	2.4	2.2	2.1	2.0	1.7	1.2	0.8	0.5	0.1	0.0
In percent of quota	23.2	12.7	85.2	81.5	80.0	80.0	80.0	72.0	56.0	40.0	24.0	8.0	0.0
Obligations to IMF based on existing credit													
In millions of SDRs	0.0	0.0	11.7	6.5	2.6	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
In millions of US dollars	0.0	0.0	16.3	9.1	3.6	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
In percent of exports of goods and services	0.0	0.0	1.4	0.7	0.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
In percent of external debt service	0.0	0.0	8.1	4.3	1.6	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
In percent of gross reserves	0.0	0.0	1.2	0.6	0.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
In percent of GDP	0.0	0.0	0.2	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
In percent of quota	0.0	0.0	6.7	3.7	1.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Obligations to IMF based on existing and prospective credit													
In millions of SDRs	0.0	0.0	11.7	6.5	2.6	0.0	0.0	13.9	27.8	27.8	27.8	27.8	13.9
In millions of US dollars	0.0	0.0	16.3	9.1	3.6	0.0	0.0	19.3	38.7	38.7	38.7	38.7	19.3
In percent of exports of goods and services	0.0	0.0	1.4	0.7	0.2	0.0	0.0	1.1	2.0	1.8	1.7	1.6	0.8
In percent of external debt service	0.0	0.0	7.5	4.1	1.6	0.0	0.0	4.8	8.8	8.3	12.4	10.9	5.3
In percent of gross reserves	0.0	0.0	1.2	0.6	0.2	0.0	0.0	1.2	2.5	2.9	3.0	2.9	1.4
In percent of GDP	0.0	0.0	0.2	0.1	0.0	0.0	0.0	0.2	0.4	0.3	0.3	0.3	0.1
In percent of quota	0.0	0.0	6.7	3.7	1.5	0.0	0.0	8.0	16.0	16.0	16.0	16.0	8.0
Memorandum items:													
Gross reserves (in millions of US dollars)	1,160	1,464	1,382	1,399	1,451	1,517	1,587	1,659	1,520	1,317	1,299	1,325	1,370
Quota (in millions of SDRs)	174	174	174	174	174	174	174	174	174	174	174	174	174

Sources: Tajik authorities; and Fund staff estimates.

1/ Includes one disbursement of 80 percent of quota under the Rapid Credit Facility in 2020.

Table 8. Tajikistan: Financial Soundness Indicators

(Percent)

	2018Q1	2018Q2	2018Q3	2018Q4	2019Q1	2019Q2	2019Q3	2019Q4
Capital adequacy								
Regulatory capital to risk-weighted assets	23.7	23.2	22.6	22.1	23.0	22.9	22.0	21.4
Regulatory Tier 1 capital to risk-weighted assets	29.2	29.1	29.1	29.2	30.2	30.2	29.2	28.2
Asset quality 1/								
Nonperforming loans net of provisions to regulatory capital	30.2	28.4	29.0	23.1	20.9	18.1	27.3	17.0
Nonperforming loans to total gross loans	34.3	32.6	32.4	31.1	30.0	25.5	31.5	26.1
Earnings and profitability								
Return on assets (ROA) 2/	1.4	1.7	2.0	1.9	1.9	2.5	2.3	2.1
Return on equity (ROE) 2/	5.3	6.4	7.3	7.0	7.0	9.2	8.3	7.7
Interest margin to gross income	64.3	59.3	59.8	65.3	69.9	65.1	64.8	66.4
Noninterest expenses to gross income	75.0	65.7	62.3	56.0	60.4	58.4	59.0	60.3
Liquidity								
Liquid assets to total assets	32.0	31.6	31.5	30.8	29.8	26.4	25.7	27.7
Liquid assets to short-term liabilities	81.5	77.8	76.7	72.3	70.6	62.8	63.7	67.4
Sensitivity to market risk								
Net open position in foreign exchange to regulatory capital	-14.7	-12.7	-8.3	-9.6	-8.6	-5.3	-6.2	-1.7
Additional								
Capital to total assets	27.0	27.1	27.0	27.0	27.2	27.6	27.9	27.4
Large exposures to regulatory capital	58.7	62.3	65.2	62.9	57.5	59.2	63.3	71.4
Trading income to total income	12.1	16.6	18.4	15.7	13.2	15.2	16.3	14.4
Personnel expenses to noninterest expenses	59.2	59.2	59.3	58.7	60.1	60.3	61.1	60.0
Customer deposits to gross customer loans	114.8	114.6	115.4	115.4	114.6	111.1	105.2	102.5
Foreign-currency-denominated loans to total gross loans	58.2	58.1	57.0	57.2	55.9	52.1	51.0	50.5
Foreign-currency-denominated liabilities to total liabilities	57.5	56.8	54.0	53.2	51.0	49.4	49.4	46.7

Source: National authorities and IMF staff estimates.

1/ Nonperforming loans including customer and interbank loans - overdue more than 30 days.

2/ Annualized net income before tax to average assets or capital.

Appendix I. Letter of Intent

Ms. Kristalina Georgieva
Managing Director
International Monetary Fund
700 19th Street, N.W.
Washington, D.C. 20431
USA

Dushanbe, April 29, 2020

Dear Ms. Georgieva:

1. The COVID-19 pandemic and sharp decline in oil prices have severely disrupted trade and transport and weakened the macroeconomic outlook and the external and fiscal positions in Tajikistan. The pandemic is slowing economic activity substantially. The closure of the border and travel disruptions with China, Uzbekistan, Iran, Russia, and Kazakhstan have affected migrant worker mobility and remittances and have significant negative bearing on industrial production, construction, and services. Travel restrictions and lower oil prices are already suppressing remittances inflows from Russia, which declined by around USD 80 million (50 percent y-o-y) in March and the first half of April 2020. With the decline in remittances, our external position has deteriorated, and the NBT recently depreciated the exchange rate by 5 percent. Border closures and the slowdown in economic activity have also led to a significant decline of budget revenues over the first three months of 2020. In addition, the budget is experiencing expenditure pressures associated with containment measures, health checks at the border, establishment of quarantine zones, other prophylactic and disinfection actions.

2. The COVID-19 shock has fundamentally changed the macroeconomic outlook for Tajikistan in 2020. The downturn in remittances is likely to last several months leading to a sharp drop in consumption and higher unemployment, as well as FX market pressures. Supply difficulties for food and other essentials and recent currency depreciation are likely to increase inflationary pressures. The fiscal deficit is also expected to widen substantially, as the revenues are declining while the government needs to spend to contain the spread of the virus, treat sick patients, and provide support for the poor.

3. The rapid deterioration in the external accounts and fiscal positions has opened a large balance of payments gap, which preliminary estimates suggest is USD 384 million (4.7 percent of 2019 GDP). In this regard, we request financial support from the IMF for an amount of 80 percent of quota (SDR 139.2 million) under the “exogenous shock” window of the Rapid Credit Facility (RCF).

We also request that the full amount of this disbursement be made to the account of the Ministry of Finance at the National Bank of Tajikistan to provide immediate budget support. We have been actively engaging with donor community to obtain grant funding from the World Bank Group (WBG) (USD 47 million) and Asian Development Bank (ADB) (USD 86 million), and other development partners. Discussions with the Eurasian Fund for Stability and Development (EFSD) for a concessional financing operation (USD 40-60 million) are ongoing. We will continue making every effort to secure the needed financing, and we expect that IMF's emergency financing will catalyze additional support from development partners. While the starting level of reserves appear adequate, external financing in the near term will be essential to prevent a sharp drop in international reserves and an overshooting of the exchange rate, which could lead to an immediate and severe economic disruption. Given the high level of dollarization in the financial sector (above 50 percent), an excessive exchange rate depreciation could aggravate credit risk and raise nonperforming loans, which would weaken the banking sector which is still recovering from the 2015-16 shocks. The financing will also help meet health and social spending needs to mitigate the impact on poor and vulnerable groups and avoid a procyclical fiscal response. We remain committed to policies that help reduce poverty by fostering stability and provide effective protection for the most vulnerable.

4. The Government is committed to enhancing governance, and ensuring transparency and accountability in this process. We will ensure any funds provided for addressing the impacts of COVID-19 will be put to best possible use. We have created a high-level Inter-agency Task Force, chaired by Deputy Prime Minister and comprised of Ministries of Health, Transport, Foreign Affairs, National Security, and other government agencies. The Task Force has launched an action plan to respond to COVID-19, including through border and sanitary control, quarantine, and treatment facilities. The Task Force will guide spending decisions, and the usual budgetary procedures and controls will apply. We will prepare quarterly reports on the spending of emergency funds and publish the results on the external website of the Ministry of Finance. In addition, to ensure quality of this additional spending, we will subject the health spending, including procurement of urgently needed medical supplies, and social spending to ex-post audits by the Chamber of Accounts and ex-post validation of deliveries in a year's time, which will also be published on the external website of the Ministry of Finance. The government will also improve the transparency of its procurement processes in line with international best practices.

5. The Government of Tajikistan is implementing actions to contain the economic and health damage caused by the COVID-19 and to ensure macroeconomic stability. Our policy response is underpinned by our commitment to containing the health effects of the epidemic in a timely way, to fiscal consolidation once the effects of COVID-19 subside, and to exchange rate flexibility to ensure

price competitiveness and faster adjustment to shocks, while avoiding excessive volatility and economic disruption.

6. In 2020, the initial budget allocation includes TJS 1.5 billion for health spending, about 1.9 percent of GDP, excluding PIP expenditures. Total additional COVID-19 related spending is expected to be 2.5 percent of GDP, of which health spending for COVID-19 is expected to increase by 2 percent of GDP above the initial budget allocation. Currently, our targeted social assistance provides benefits in 40 out of 68 districts. We will maintain and expand the coverage of targeted social assistance to people who are vulnerable in the current situation and to all districts in Tajikistan. Through this channel, we will increase social transfers by about 0.5 percent of GDP to mitigate the effects of higher unemployment through a temporary real increase in benefit levels. On the tax side, in order to prevent price increases, we have granted VAT exemptions for imports of essential consumer staples (such as wheat, sugar, and cooking oil). These exemptions are temporary and will be phased out as the supply constraints ease. These VAT exemptions will help support the poor as the consumer staples are a large part of their consumption basket. We are also considering providing tax relief for small and medium-sized businesses in affected sectors (by delaying the 2020 tax filing deadline and ensuring that advance tax payments are based on the current economic situation and not the past economic outcomes). Together with a weakening in economic activity, these measures are expected to result in a decline in tax revenues by 1.4 percent of GDP in 2020 relative to the 2019 outturn but will help protect businesses and the financial sector from an adverse impact. To offset the deteriorating fiscal position, we have identified cuts to capital expenditures of 1 percent of GDP, including to lower-priority domestically financed capital spending of 0.5 percent of GDP, and to current spending of 0.6 percent of GDP relative to the 2020 budget envelope to help generate savings. We have issued a Budget Resolution signed by the Prime Minister on April 24, 2020 to ensure that these reductions are implemented in line with our intentions. In 2020, we need to maintain spending on Roghun in line with the previously contracted engineering schedule. The total envelope for Roghun financing over the period 2020-2022 is expected to be about USD 1.1 billion.

7. Over 2021-22, we will be making strong policy efforts to ensure fiscal and debt sustainability. Albeit significant improvement of the fiscal deficit in 2021 is likely as the shock and unforeseen consequences of the pandemic dissipate, we will also implement additional fiscal consolidation measures. Our main goal will be to achieve an overall fiscal deficit of 4.4 percent of GDP in 2021 and 2.6 percent of GDP in 2022, respectively, which is estimated to require implementation of fiscal consolidation measures worth 2.0 percent of GDP over 2021-22. This consolidation will help stabilize public debt at a sustainable level. To underpin this fiscal adjustment, we will implement a combination of revenue and expenditure measures to ensure that more of our priority capital

spending can be financed domestically and reduce the reliance on external financing. We have already established a working group to review the effectiveness of existing tax exemptions. In the context of the ongoing tax reform which is supported under a WB project and with IMF TA, we will prioritize broadening of the tax base, including by phasing out the existing inefficient tax incentives to yield 0.5 percent of GDP starting in 2021. We will refrain from granting new tax incentives. The high tax rates will be rationalized only after a broadening of the tax base has been secured. As the economy recovers in 2022, we will prioritize our capital spending to reduce it by 1.5 percent of GDP, while improving the efficiency of public investment projects.

8. The detailed policies underpinning the medium-term fiscal consolidation program will be included in the FY2021 and FY2022 budgets. Right now, our immediate focus is on containment and prevention efforts to protect the health and safety of our citizens. However, we will prepare a supplementary FY2020 budget by end-June 2020 and subsequently start work on the formulation of next year's budget and the specification of a medium-term macroeconomic plan within the fiscal parameters mentioned above by end-November 2020. We will engage early with Fund staff on the design of fiscal measures underpinning the consolidation in the budgets.

9. We are also making strong efforts to improve debt profile and management. Prior to the crisis, we were in the advanced stages of securing sukuk financing or issuing other sovereign bonds under favorable capital market conditions. This financing is now uncertain under current global financial market conditions, but if it were to be realized in the future, it will be used to refinance more expensive borrowings and improve our debt profile. Our external debt would not rise as a result of this transaction. We are also actively seeking external grants to minimize recourse to future borrowing and are seeking the Fund's assistance in that regard. We commit to avoid any other non-concessional borrowing until the Roghun power purchase agreements have been finalized and debt is on a sustainable path over the long term.

10. In addition to the recent move to align the official and parallel market exchange rates, we will continue to allow greater exchange rate flexibility to facilitate external adjustment. Given the temporary nature of the shock, the NBT will also use foreign exchange (FX) interventions to smooth excessive exchange rate volatility and avoid economic disruption (owing to high levels of dollarization and external liabilities). Once the shock has eased and conditions permit, we commit to gradually remove the existing Article VIII restriction and allow the exchange rates to reflect FX supply and demand. We will also remove existing multiple currency practices by issuing corrective guidelines. We will also improve data collection regarding FX supply and demand, exchange rates in the official and non-official markets, and associated transaction volumes to help improve the functioning of the FX market.

11. We will remain vigilant to inflationary pressures and will stand ready to step up liquidity provision to viable banks through Emergency Liquidity Assistance, in line with IMF TA recommendations, to help ensure financial sector stability in the face of possible outflows from banks. We have eased bank reserve requirements on domestic currency and FX deposits to support bank liquidity and private sector credit. We will continue to maintain strong oversight and supervision to ensure financial sector stability. As non-performing loans increase, we will ensure that loan classification and provisioning rules are transparently and fully applied. To the extent that bank capital or other metrics fall below minimum prudential requirements, we will require banks to implement credible restoration plans.

12. We want to note that the Covid-19 shock is still unfolding and is subject to considerable uncertainty. If the shock turns out to be more intense than expected, we would boost fiscal spending for treatment and containment costs. If the downturn in remittances is more pronounced, we would allow greater exchange rate flexibility to promote external adjustment. We would also mobilize additional donor support to close financing gaps. We remain committed to take additional fiscal measures to ensure fiscal sustainability and identify additional lower-priority spending that can be cut in case donor financing is unavailable. Non-concessional borrowing to finance Roghun will be considered only as a last resort over the medium term.

13. Tajikistan's capacity to repay the Fund remains adequate and we will continue meeting our financial obligations to the IMF on a timely basis. The NBT and the Ministry of Finance will agree on and sign a Memorandum of Understanding before the approval of RCF by the IMF Executive Board. The MOU will: (i) commit the Government to maintaining funds received from the IMF in a government account at the NBT, pending their use, (ii) require the Government to hold foreign exchange balances only with the NBT, and (iii) clarify the responsibilities for repaying Fund resources.

14. We intend to avoid introducing measures or policies that would exacerbate balance of payments difficulties. We will not impose new or intensify existing restrictions on the making of payments and transfers for current international transactions, trade restrictions for balance of payments purposes, or multiple currency practices, or enter into bilateral payments agreements which are inconsistent with Article VIII of the Fund's Articles of Agreement.

15. In line with IMF safeguards policy, the NBT is committed to undergo an update of the safeguards assessment before the approval of any new subsequent arrangement by the IMF Executive Board. We agree that the safeguards assessment will also review the framework between the NBT and the Government for the servicing of IMF lending. The NBT will continue to provide IMF

staff with access to its most recently completed audit reports and to authorize the NBT's external auditors to hold discussions with IMF staff.

16. We authorize the IMF to publish this Letter of Intent and the staff report for the request for disbursement under the RCF.

Sincerely,

/s/
Emomali Rahmon
President

INTERNATIONAL MONETARY FUND

REPUBLIC OF TAJIKISTAN

April 29, 2020

REQUEST FOR DISBURSEMENT UNDER THE RAPID CREDIT FACILITY—INFORMATIONAL ANNEX

Prepared By

The Middle East and Central Asia Department
(In Consultation with Other Departments)

CONTENTS

FUND RELATIONS

(As of March 31, 2020)

Membership Status: Joined April 27, 1993; Article VIII

General Resources Account

	SDR Million	Percent Quota
Quota	174.00	100.00
Fund Holdings of Currency	174.00	100.00
Reserve position in Fund	0.00	0.00

SDR Department

	SDR Million	Percent Allocation
Net Cumulative allocation	82.08	100
Holdings	22.24	27.09

Outstanding Purchases and Loans

	SDR Million	Percent of Quota
ECF Arrangements	20.88	12.00

Latest Financial Arrangements

Type	Approval Date	Expiration Date	Amount Approved (SDR Million)	Amount Drawn (SDR Million)
ECF[1]	Apr. 21, 2009	May 09, 2012	104.40	104.40
ECF	Dec.11, 2002	Feb.10, 2006	65.00	65.00
EFF	Jun. 24, 1998	Dec. 24, 2001	100.30	78.28

Projected Payments to the Fund[2]

	Forthcoming				
	2020	2021	2022	2023	2024
Principal	11.74	6.52	2.61		
Charges/Interest	0.06	0.03	0.03	0.03	0.03
Total	**11.81**	**6.55**	**2.64**	**0.03**	**0.03**

[1] Formerly PRGF.

[2] When a member has overdue financial obligations outstanding for more than three months, the amount of such arrears will be shown in this section.

Implementation of HIPC Initiative: Not applicable

Implementation of Multilateral Debt Relief Initiative (MDRI):

MDRI-eligible debt (SDR Million)[3]			69.31	
Financed by: MDRI Trust			69.31	
Remaining HIPC resources			--	
Debt Relief by Facility (SDR Million)				
		Eligible Debt		
	Delivery Date	**GRA**	**PRGT**	**Total**
	January 2006	N/A	69.31	69.31

Safeguards Assessment

The last safeguards assessment was completed in 2010. It recommended to improve the NBT's organizational structure, transparency, audit arrangements and accounting controls. Subsequently, an NBT reform action plan was drawn up, and since 2010 several measures have been implemented, including six-monthly reviews of NIR data by an external auditor during the 2009–12 ECF arrangement and the addition of non-executive members to the Board of Directors. The NBT financial statements continue to be audited in accordance with international standards and the results are published, albeit with some delays. The NBT is operating with substantial negative equity that amounted to TJS 6.4 billion (equivalent of USD 679 million) at end-2018. A 2018 IMF technical assistance mission recommended a staged recapitalization of TJS 500 million each year beginning early 2019 until positive statutory capital is achieved.

Exchange Rate Arrangements

Tajikistan's de jure exchange rate arrangement is managed floating and its de facto exchange rate arrangements is classified as stabilized.

With effect from December 9, 2004, the Republic of Tajikistan accepted the obligations of Article VIII, Sections 2, 3, and 4 of the Articles of Agreement. The Republic of Tajikistan maintains one exchange restriction and two multiple currency practices subject to Fund approval under Article VIII, Section 2(a) and Section 3 of the IMF`s Articles of Agreement. Foreign exchange shortages, evidenced by market participants` reports of undue delays in obtaining foreign exchange and external payment arrears, persist in the commercial foreign exchange market as a result of the setting of exchange rates by commercial banks used in foreign exchange transactions, due to informal guidance by the NBT, which do not reflect market conditions. As a consequence of this, not all demand for bona fide foreign exchange for current international transactions is satisfied, giving

[3] The MDRI provides 100 percent debt relief to eligible member countries that qualified for the assistance. Grant assistance from the MDRI Trust and HIPC resources provide debt relief to cover the full stock of debt owed to the Fund as of end-2004 that remains outstanding at the time the member qualifies for such debt relief.

rise to an exchange restriction. One multiple currency practice arises because of the absence of a mechanism to prevent a potential deviation of more than 2 percent between: (i) the prevailing market exchange rate and (ii) the official exchange rate, which is required to be used for converting domestic currency (somoni) to foreign currency, and vice-versa, between accounts of individuals and legal entities opened within the same commercial bank. The second multiple currency practice arises because of the absence of a mechanism to prevent a potential deviation of more than 2 percent between: (i) the somoni-Russian ruble exchange rate (calculated as a cross-rate using the official exchange rate of the USD to somoni), which is required to be used for mandatory ruble surrender transactions and (with a maximum variation of 0.5 percent) for the purchase/sale in the interbank market of rubles derived from the mandatory surrender and (ii) the market exchange rate banks may use for purchase/sale of Russian rubles derived from other sources. The Republic of Tajikistan also maintains exchange restrictions imposed for security reasons that have been notified to the Fund pursuant to Executive Board decision No. 144–(52/51) Fund.

FSAP Participation

Tajikistan participated in the Financial Sector Assessment Program during 2007–08, and the FSSA report was been published at http://www.imf.org/external/country/TJK/index.htm. An FSAP Update mission was held in January-February 2015 and the associated FSSA was discussed by the Executive Board at the time of the 2015 Article IV consultation.

Article IV Consultation

The 2019 Article IV consultation with Tajikistan was concluded on January 13, 2020.

Resident Representative

Mr. Sobolev, Resident Representative of the Fund, started his assignment in Dushanbe in August 2016.

Technical Assistance

The following table summarizes the Fund’s technical assistance (TA) to Tajikistan since 2006.

Tajikistan: Technical Assistance, 2006-20		
Fund Department	**Area of Assistance**	**Mission Dates**
FAD, LEG	Tax Reform	March 2020-ongoing
STA	National Accounts Statistics	June 2019
MCM	Bank Supervision TA and Project Assessment Mission	May 2019
MCM	Bank Resolution	April 2019
MCM	Monetary policy modernization, Reserve Requirement Averaging, and liquidity management	April 2019
STA	Government Finance Statistics	November 2018
MCM	Central Bank Governance, independence, and Recapitalization	November 2018
STA	Balance of Payment Statistics	October 2018
STA	National Accounts Statistics	June 2018
MCM	Bank Supervision and Regulation Assessment	March 2018
MCM	Liquidity Forecasting and Emergency Assistance	March 2018
STA	Government Finance Statistics	October 2017
STA	National Accounts Statistics	September 2017
MCM	Medium-Term Debt Management Strategy	August 2017
MCM MCM	Banking Supervision Banking Supervision	August 2017 April 2017
MCM	Monetary Policy Framework and Implementation	April 2017
LEG	Bank Resolution Framework	October 2016
STA	National Accounts Statistics	July 2016
MCM	Monetary and Foreign Exchange Operations	April 2016
FAD	Accounting and Financial Reporting, Treasury Management, and Fiscal Oversight of State-Owned Enterprises	March 2016
STA	Monetary and Financial Statistics	October 2015
MCM	Financial Stability	October 2015
MCM	Reserve Management	September 2015
FAD	Improving Tax Disputes Resolution Processes in the Tax Committee	June 2015
MCM	Improving Accounting Controls at NBT	April 2015
STA	BOP	April 2015
FAD	Tax Administration	March 2015
STA	Monetary and Financial Statistics	December 2014
MCM	Bank Resolution	May 2014
FAD	PFM Reform	April 2014
FAD	Tax Administration	April/July/November 2014
STA	BOP	April 2014
STA	Monetary and Financial Statistics	December 2013
MCM	Improving Accounting Controls at NBT	October 2013

FAD	PFM Reform	August/November 2013
FAD	Tax Administration	June/November 2013
MCM	Banking Supervision	March 2013
FAD	Tax Administration	March 2013
MCM	Improving Accounting Controls at NBT	February 2013
STA	BOP	December 2012
STA	Monetary and Financial Statistics	November 2012
MCM	Improving Accounting Controls at NBT	November 2012
FAD	Tax Administration	June/August/Oct 2012
STA	National Accounts Statistics	May 2012
STA	Monetary and Financial Statistics	April 2012
FAD	Tax Policy Review	April 2012
FAD	Financial Monitoring of SOEs	March 2012
MCM	Improving Accounting Controls at NBT	February 2012
FAD	Tax Policy Review	May 2011
MCM	NBT Internal Audit	April 2011
MCM	BOP	March 2011
MCM	Improving Accounting Controls at NBT	January 2011
FAD	Public Financial Management (Regional Advisor)	November 2010
LEG	NBT Law	October 2010
MCM	NBT Recapitalization Strategy	September 2010
FAD	Public Financial Management Reforms	June 2010
FAD	Tax Policy and Administration	February/July 2010
MCM	NBT Recapitalization Strategy	October/Dec 2009
FAD	Public Financial Management (Budget Classification)	May 2007
STA	Report on Monetary and Financial Statistics National Accounts and Price Statistics (Regional Advisor)	June 2006
FAD	Fiscal ROSC	August 2006
MCM	Strengthening the Monetary Policy Framework and Liquidity Management	May 2006
LEG	AML/CFT	2006

RELATIONS WITH OTHER INTERNATIONAL FINANCIAL INSTITUTIONS

The World Bank work program on Tajikistan can be found on the following website:

https://www.worldbank.org/en/country/tajikistan

The Asian Development Bank work program on Tajikistan can be found on the following website:

https://www.adb.org/countries/tajikistan/main

The European Bank for Reconstruction and Development work program on Tajikistan can be found on the following website:

https://www.ebrd.com/tajikistan.html

STATISTICAL ISSUES

(As of April, 2020)

Assessment of Data Adequacy for Surveillance
General: Data provision has some shortcomings in the areas of national accounts, price statistics, and monetary statistics, but is broadly adequate for surveillance.
National accounts statistics: There are significant deficiencies in the statistical techniques for national accounts, most notably in quarterly national accounts and the informal economy. Efforts are needed to improve data quality so as to more accurately reflect developments in an evolving economy. Data on GDP from the expenditure side would help identify underlying economic trends.. Five IMF TA missions on national accounts were conducted during the period 2016–18 under the scope of the Enhanced Data Dissemination Initiative 2 (EDDI2) supported by the United Kingdom's Department for International Development (DFID). These missions assisted the National Statistics Agency (Tajstat) with the development of experimental estimates of annual GDP for 2016–18, which incorporate methodological improvements related to the 2008 SNA methodology. The questionnaires of major economic surveys were changed to collect discrete data from 2019. The overall progress with the implementation of recommendations is slow as reflected in the lack of revisions in the national accounts time series.
Prices statistics: The consumer price index (CPI) for Tajikistan is published monthly by the Tajstat. The index has national coverage. Expenditure weights, which include the value of consumption from own production, are updated annually. At the elementary index level, the Dutot formulation is used. This formulation is problematic in that it fails the commensurability test meaning that it does not perform well when items selected for pricing are of significantly different product sizes. Instead the Jevons formulation is recommended. At the higher level of aggregation, the modified Laspeyres formulation is used, in line with international recommendations. Seasonally unavailable prices are treated by the carry forward of last observed prices. This treatment can introduce a downward bias in the CPI and should be replaced by an appropriate imputation technique.
Government finance statistics: Fiscal accounts are based on cash transactions as recommended in the 1986 Manual on Government Finance Statistics. In 2010, the authorities introduced an administrative classification of the budget. To move towards the implementation of the *GFSM 2014* framework, the country had participated in a three-year regional project on GFS funded by the Swiss State Secretariat for Economic Affairs (SECO) ending at end-April 2020. The authorities have compiled the first annual fiscal data for the general government for the period 2015 to 2017 aligned with the *GFSM 2014*. Full transition to *GFSM2014* should be accelerated..
Monetary and financial statistics: STA provided technical assistance in the area of monetary and financial statistics (MFS) to the National Bank of Tajikistan (NBT) in 2002, 2006, 2012 and 2015 with the main objective to improve the quality of statistics. The provision of timely data on domestic gold production, exports and the NBT's domestic gold purchases would enhance surveillance of Tajikistan's external position. The NBT reports to STA monthly MFS data using the IMF's standardized report forms (SRFs) for the central bank, other depository corporations, and other financial corporations that are published in the *"International Financial Statistics"*.

Financial sector surveillance: Tajikistan has in the past reported the 12 core FSIs and 9 of the 13 encouraged FSIs for deposit takers, and one FSI for real estate markets on a quarterly basis for posting on the IMF's FSI website. However, the latest FSIs submitted to FI are for the period 2015Q3. In response to the NBT's request for TA in improving the calculation of FSIs, STA is planning to field a mission to update the compilation framework, develop additional FSIs based on the *2019 FSI Guide,* and encourage the authorities to resume reporting. Tajikistan has not reported data to the Financial Access Survey (FAS) since 2013. Until 2013, Tajikistan reported some data and indicators of the FAS, including the two indicators (commercial bank branches per 100,000 adults and ATMs per 100,000 adults) adopted by the UN to monitor Target 8.10 of the Sustainable Development Goals (SDGs).	
External sector statistics (ESS): Tajikistan participated in a 20-month project on Improvement of ESS in three Central Asian countries. Considerable improvements were made in coverage, periodicity, and timeliness of ESS. The balance of payments, IIP, and external debt statistics are currently compiled and disseminated quarterly applying the BPM6 framework and based on updated estimation methods. Tajikistan also started participating in the IMF's Coordinated Direct Investment Survey (CDIS). Improvements are still needed in estimation of shuttle trade, travel services, and remittances. Work also needs to be continued on expanding the coverage of reporters for ESS purposes and for maintaining consistency between datasets.	
Data Standards and Quality	
Tajikistan participates in the Enhanced-General Data Dissemination System (e-GDDS) since November 17, 2004 and implemented the e-GDDS on March 17, 2020 by launching a National Summary Data Page (NSDP). Metadata is updated regularly.	A Data ROSC was published on March 30, 2005.

Tajikistan: Table of Common Indicators Required for Surveillance
(as of April 22, 2020)

	Date of latest observation	Date received	Frequency of data[6]	Frequency of reporting[6]	Frequency of publication[6]	Memo Items:	
						Data Quality – *Methodological soundness*[7]	*Data Quality Accuracy and reliability*[8]
Exchange Rates	March 2020	April 2020	M	M	M		
International Reserve Assets and Reserve Liabilities of the Monetary Authorities[1]	February 2020	March 2020	M	W	W		
Reserve/Base Money	February 2020	March 2020	M	M	W	O, O, LO, O	LO, O, O, O, NO
Broad Money	February 2020	March 2020	M	M	M		
Central Bank Balance Sheet	February 2020	March 2020	M	M	W		
Consolidated Balance Sheet of the Banking System	February 2020	March 2020	M	M	M		
Interest Rates[2]	February 2020	March 2020	M	M	I		
Consumer Price Index	February 2020	March 2020	M	M	M	LO, LO, LNO, O	LO, LO, LO, O, O
Revenue, Expenditure, Balance and Composition of Financing[3]—General Government[4]	December 2019	February 2020	M	M	M	LO, LO, O, O	O, O, O, LO, LO
Revenue, Expenditure, Balance and Composition of Financing[3]—Central Government	December 2019	February 2020	M	M	M		
Stocks of Central Government and Central Government-Guaranteed Debt[5]	December 2019	March 2020	Q	Q	I		
External Current Account Balance	December 2019	April 2020	Q	Q	Q	LNO, LNO, O, O	LO, O, O, O, O
Exports and Imports of Goods and Services	December 2019	April 2020	Q	Q	Q		
GDP/GNP	December 2019	March 2020	M/A	M	I	O, LNO, LNO, LNO	LO, LO, LNO, O, O
Gross External Debt	December 2019	March 2020	Q	Q	I		
International Investment Position	December 2019	April 2020	Q	Q	Q		

[1] Includes reserve assets pledged or otherwise encumbered as well as net derivative positions.
[2] Both market-based and officially-determined, including discount rates, money market rates, rates on treasury bills, notes and bonds.
[3] Foreign, domestic bank, and domestic nonbank financing.
[4] The general government consists of the central government (budgetary funds, extra budgetary funds, and social security funds) and state and local governments.
[5] Including currency and maturity composition.
[6] Daily (D); Weekly (W); Monthly (M); Quarterly (Q); Annually (A); Irregular (I); Not Available (NA).
[7] Reflects the assessment provided in the data ROSC published on April 2005 and based on the findings of the mission that took place during April 2004 for the dataset corresponding to the variable in each row. The assessment indicates whether international standards concerning (respectively) concepts and definitions, scope, classification/sectorization, and basis for recording are fully observed (O), largely observed (LO), largely not observed (LNO), or not observed (NO).
[8] Same as footnote 7, except referring to international standards concerning (respectively) source data, statistical techniques, assessment and validation of source data, assessment and validation of intermediate data and statistical outputs, and revision studies.

INTERNATIONAL MONETARY FUND

REPUBLIC OF TAJIKISTAN

April 29, 2020

REQUEST FOR DISBURSEMENT UNDER THE RAPID CREDIT FACILITY—DEBT SUSTAINABILITY ANALYSIS

Approved By
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Prepared by staffs of the International Monetary Fund and the International Development Association.

Tajikistan: Joint Bank-Fund Debt Sustainability Analysis	
Risk of external debt distress	*High*
Overall risk of debt distress	*High*
Granularity in the risk rating	*Sustainable*
Application of judgment	*No*

This joint World Bank/ IMF Debt Sustainability Analysis (DSA) [1] indicates that Tajikistan's overall risk of debt distress remains high (unchanged from the December 2019 DSA). Public debt is expected to spike above 50 percent of GDP in 2020 in reaction to the outbreak of the COVID-19 pandemic. However, based on the authorities' commitment to fiscal consolidation, debt stabilizes over the medium term and is assessed as sustainable in a forward-looking sense (changed from the December 2019 DSA where debt was on a rising path).

Under the baseline, two debt indicators breach thresholds, leading to a high external risk rating. With planned medium-term fiscal consolidation program (including adjustment of 2 percent of GDP in 2021-2022) and the commitment to avoid non-concessional borrowing, these indicators are projected to stabilize below or near respective thresholds by 2030.

Tajikistan's debt is vulnerable, especially to export shocks and contingent fiscal liabilities. A more severe or prolonged COVID-19 shock could heighten vulnerabilities. Medium- and long-term fiscal consolidation, avoiding non-concessional external borrowing, diversifying exports, and containing contingent liabilities from SOEs would help reduce vulnerabilities and stabilize debt.

[1] Tajikistan is assessed to have a medium debt-carrying capacity. CI rating for Tajikistan is 2.90, which is based on the October 2019 WEO and the World Bank's 2018 CPIA.

COVERAGE AND BACKGROUND ON PUBLIC DEBT

A. Background on Debt and Debt Coverage

1. In recent years, external and financial sector vulnerabilities have contributed to an increase in debt. Tajikistan's external public- and publicly-guaranteed (PPG) debt rose from 24 percent of GDP in 2014 to near 36 percent of GDP at end-2019 mainly as a consequence of a sizable depreciation of the somoni as well as the issuance of a $500 million sovereign bond in 2017. Domestic PPG debt also increased from 3½ percent of GDP at end-2014 to 8 percent of GDP at end-2019, owing to a 6 percent of GDP recapitalization of banks in December 2016. As a result, the total PPG debt increased from 27½ percent of GDP in 2014 to 44.6 percent of GDP in 2019.

2. External debt made up the bulk of the total of PPG debt in 2019. External PPG debt accounted for about 81 percent of total PPG debt. Over 80 percent of external PPG debt was owed to multilateral and bilateral creditors. The single largest creditor was China, which held over 40 percent of the total PPG external debt. The Eurobond of USD 500 million issued in September 2017, with a maturity of 10 years, carried an interest rate of 7.125 percent.

3. The NBT is the main creditor and holder of largely non-marketable domestic government debt. Most of the government securities held by the NBT were issued at significantly below market terms, with some interest rates as low as 0.99 percent. Since 2016, the government has been accumulating interest and principal arrears to the NBT. In 2019, the arrears on domestic government securities issued for the NBT recapitalization were cleared after the NBT extended new credit to the government at a 2 percent interest rate with a one-year maturity. However, the government continues to run arrears against the NBT on bonds issued to recapitalize commercial banks during the 2015-16 shocks.

4. This DSA covers the central government, central bank, and government-guaranteed external and domestic debt. Debt coverage includes duly consolidated overall external and domestic debt and guarantees of the Central Government (CG), including extrabudgetary funds, and the social security fund. As debt recording and monitoring capacity is weak, this DSA does not include in its baseline: i) non-guaranteed liabilities of state-owned enterprises (SOEs), including liabilities associated with the modernization of an aluminum plant and the construction of a gas pipeline[2], (ii) contingent liabilities/fiscal costs associated with

[2] The Ministry of Finance does not record non-guaranteed debt of SOEs. In 2019, TALCO, a loss-making state-owned aluminum company, was allowed to borrow without a government guarantee. Subsequently, TALCO has signed a MOU to borrow $545 million from China to modernize its plant. The finalization of contract and associated disbursement are expected in 2020. Separately, Tajiktransgaz has borrowed $300 million from Chinese entities for the construction of the Tajikistan section of the Turkmenistan-China gas pipeline.

potential liquidation of two large and troubled financial institutions or iii) demand or guarantees triggered from any existing PPP agreements.[3]

	Subsectors of the public sector	Check box
1	Central government	X
2	State and local government	
3	Other elements in the general government	X
4	o/w: Social security fund	X
5	o/w: Extra budgetary funds (EBFs)	X
6	Guarantees (to other entities in the public and private sector, including to SOEs)	X
7	Central bank (borrowed on behalf of the government)	X
8	Non-guaranteed SOE debt	

BACKGROUND ON MACRO FORECASTS

5. **The assumptions in the baseline scenario are consistent with macroeconomic framework presented in the staff report**.[4] The main assumptions are:

- ***External.*** The current account deficit is expected to widen in 2020, but narrow over the medium term with fiscal consolidation. Remittances are expected to decline sharply in 2020 owing to a more challenging regional and global environment. Electricity exports are expected to rise in 2021 and over the medium term owing to Roghun. International reserves are supported by domestic purchases of monetary gold despite pressures from the balance of payments.

- ***Interest rates***. Effective average interest rates on external debt are projected to rise gradually over the medium-term as concessional financing is likely to be constrained and the authorities would gradually increase reliance on non-concessional external borrowing (after Roghun power purchase agreements are signed and debt is considered sustainable). Interest rates on domestic public debt, some of which are highly negative in real terms at present, are expected to remain below market rates.[5]

- ***Fiscal***. The fiscal deficit is expected to increase sharply in 2020 owing to lower revenues and higher health and social spending as a result of the COVID-19 pandemic. Over the medium-term, in line with authorities' plans for fiscal consolidation, the fiscal deficit is expected to decline to about 2½ percent of GDP. Spending on Roghun and other large infrastructure projects is expected to be accommodated by cuts to other non-priority spending.

- ***Growth.*** A sizable deceleration in 2020 is expected owing to the COVID19 shock, border closures, and associated drop in remittances. This will be followed by a recovery in 2021. Over the medium

[3] State and local governments are not allowed to borrow without a government guarantee.

[4] The baseline includes one disbursement of 80 percent of quota under the Rapid Credit Facility in 2020.

[5] Staff's baseline scenario assumes that the government continues to rely on external financing over the horizon. Over time, the development of domestic debt markets would be advisable. While such borrowing is likely to be more expensive, it would help reduce the vulnerabilities to external shocks.

term, a weak global environment, and uneven structural reforms are expected to weigh on growth. Inflation is expected to remain moderate.

6. **Macroeconomic assumptions under the current baseline scenario project a lower fiscal deficit over the medium term than under the 2019 DSA**. While real GDP growth estimates for the current year were larger in the 2019 DSA, medium term growth rate projections are broadly similar. A key difference is that the projected fiscal deficit in 2020 has risen as projections now incorporate a drop in revenues and an increase in government spending on treatment and containment costs for COVID-19. The projections also incorporate the government's commitments on 2 percent of GDP in fiscal consolidation measures in 2021-22, which are to be incorporated in the government's budgets in 2021-22 (see LOI ¶ 6). The authorities plan medium term fiscal consolidation to achieve fiscal deficit targets of 4.4 and 2.6 percent of GDP in 2021 and 2022, respectively, to stabilize debt. The external position was projected to remain weak in the 2019 DSA but is expected to improve because of fiscal consolidation. International reserves (in months of imports) are higher in the current DSA owing to domestic purchases of gold but are expected to decline gradually over the medium-term. The DSA also incorporates debt relief from the IMF's Catastrophe Containment and Relief Trust (USD 11 million) and disbursement under the Rapid Credit Facility (USD 193 million).

Tajikistan: Baseline DSA Assumptions, 2017-24

(In percent of GDP)

	2017	2018	2019	2020	2021	2022	2023	2024
Real GDP growth, percent								
2020 DSA	7.1	7.3	7.5	-2.0	7.5	4.5	4.0	4.0
2019 DSA	7.1	7.3	5.5	4.8	4.5	4.5	4.0	4.0
2017 DSA	4.5	4.0	4.0	4.0	4.0	4.0	4.0	4.0
Overall fiscal balance (incl. PIP)								
2020 DSA	-6.0	-2.8	-2.1	-7.7	-4.4	-2.6	-2.5	-2.5
2019 DSA	-6.0	-2.8	-3.8	-4.3	-4.3	-4.3	-4.3	-4.3
2017 DSA	-6.5	-5.4	-1.9	-1.8	-1.7	-1.7	-2.0	-2.2
Current account balance								
2020 DSA	2.2	-5.0	-2.3	-7.8	-4.7	-4.6	-4.4	-4.3
2019 DSA	2.2	-5.0	-4.5	-5.2	-5.3	-5.3	-5.4	-5.5
2017 DSA	-6.3	-6.2	-5.6	-5.1	-4.6	-4.3	-4.3	-4.2

Sources: National authorities and IMF staff estimates

7. **The baseline scenario assumes that fiscal financing needs will be met from external concessional sources in the near term, and non-concessional financing will be avoided until Roghun power purchase agreements are signed and debt is considered sustainable**. During 2020-22, fiscal financing needs are expected to be met mostly from concessional loans and grants, provided by

international finance institutions, export credit agencies, and traditional bilateral partners. Budget support loans and grants are expected to increase in 2020 but projected to remain low in 2021-22. There is uncertainty on the terms of future borrowing. For the purposes of this DSA, staff assume concessional borrowing after 2022 in line with the levels of recent years. The authorities are committed to avoid non-concessional borrowing until the Roghun power-purchase agreements are finalized and debt is considered sustainable. Therefore, residual financing needs are expected to be met from non- concessional borrowing starting only after 2022. Staff projections assume no new domestic financing at market determined rates, in line with the recent experience (see paragraph 3) and authorities' financing plans.

8. The realism tools largely suggest that staff forecasts are realistic. Under the baseline, debt accumulation over the projection horizon is smaller than in recent years. The contribution of primary deficits to future debt accumulation is expected to be lower compared to the past few years due to significant consolidation in medium and long-term. Another important reason for the difference is that the contribution of exchange rate depreciation to external and public debt accumulation is lower than in recent years. This is appropriate as the COVID-19 shock is expected to be temporary and the exchange rate adjustment is expected to be smaller. Staff projections of growth, while lower than estimates from recent years, are in line with weaker remittances and external demand going forward.[6]

COUNTRY CLASSIFICATION AND DETERMINATION OF SCENARIO STRESS TESTS

9. Tajikistan is assessed to have a medium debt-carrying capacity. Tajikistan's debt carrying capacity is currently assessed as medium based on the CI Index from the October 2019 WEO and the World Bank's 2018 CPIA. The 2017 DSA assessed Tajikistan's debt carrying capacity as weak. The upgrade from weak to medium debt-carrying capacity is mainly driven by a shift from CPIA to a composite indicator, which also incorporates other factors such as the import coverage of reserves and remittances.

Debt Carrying Capacity	Medium

Final	Classification based on current vintage	Classification based on the previous vintage	Classification based on the two previous vintages
Medium	Medium 2.90	Medium 2.83	Medium 2.90

10. Stress tests for PPPs' agreements, potential size of a rescue of the financial sector, and a commodity price shock are set at default levels. Stress test for PPPs' demand and guarantees is set at a default 1.73 percent of GDP. Stress test for the banking sector is set at default 5 percent of GDP. Default tailored tests for commodity prices are also applied since non-fuel commodity exports constitute an important part of Tajikistan's exports.

11. Tailored contingent liability stress test is designed to incorporate contingent liabilities from potential non-guaranteed debt of SOEs. The debt coverage for Tajikistan excludes non-government guaranteed debt of non-financial public corporations (NFPC) under the baseline given uncertainties on the

[6] There are weaknesses in national accounts statistics.

nature of the debt and lack of full financial information on SOEs. To illustrate the effects of contingent liabilities associated with large SOE debt that might have significant implications for debt sustainability, the size of shock is set at 10 percent of GDP. The shock reflects: (i) 6.5 percent of GDP based on available information on Barki Tojik arrears[7], which could be transferred onto the government's balance sheet; and (ii) 3.5 percent of GDP based on the loan agreements of Tajiktransgaz. Planned borrowings related to the modernization of the TALCO aluminum plant could pose additional contingent liability risks (6½ percent of GDP). However, it is not clear at this stage if the contract to finance the aluminum plant will materialize and what the contract would look like, including whether it would be considered debt, so it is not included in this DSA.

1	The country's coverage of public debt	The central government plus social security and extra budgetary funds, central bank, government-guaranteed debt		
		Default	Used for the analysis	Reasons for deviations from the default settings
2	Other elements of the general government not captured in 1.	0 percent of GDP	0	
3	SoE's debt (guaranteed and not guaranteed by the government) 1/	2 percent of GDP	10	Great uncertainty about the true size of liabilities and weak financial position and performance of SOEs
4	PPP	35 percent of PPP stock	1.73	
5	Financial market (the default value of 5 percent of GDP is the minimum value)	5 percent of GDP	5	
	Total (2+3+4+5) (in percent of GDP)		16.7	

1/ The default shock of 2% of GDP will be triggered for countries whose government-guaranteed debt is not fully captured under the country's public debt definition (1.). If it is already included in the government debt (1.) and risks associated with SoE's debt not guaranteed by the government is assessed to be negligible, a country team may reduce this to 0%.

DEBT SUSTAINABILITY

B. External Debt Sustainability Analysis

12. **Under the baseline scenario, external debt indicators improve significantly in comparison to 2019 DSA.** Under the 2019 DSA, three indicators breached and remained above thresholds, rising steadily during the projection horizon. Under the RCF baseline scenario debt is stabilized in the medium-term. Initial breaches in two external debt indicators in 2020 are partly due to financing needs associated with authorities' COVID-19 response and fall below or near the threshold in the medium term. Both indicators fall below 2020 levels by the end of projection horizon in 2030.

13. **Two external debt indicators start above respective thresholds in the first year of projections but fall below or near the threshold in the medium term (Figure 1)**. Baseline breaches involve one stock/solvency (PV debt-to-export ratio) and one flow/liquidity (debt-service-to exports ratio and debt-service-to revenue ratio) indicator. The flow indicator (debt service-to-exports ratio) is on downward path in and falls below threshold in the medium term. The temporary pick up in 2025 is due to Eurobond principal repayment and it stabilizes below the threshold by the end of the projection horizon.[8] The other flow indicator, debt service-to-revenue ratio, remains below threshold under baseline. Both solvency indicators are stable throughout the projection horizon. The initial breach in debt-to-exports ratio is mild and partly

[7] Barki-Tojik is a state-owned energy company in Tajikistan.

[8] A successful refinancing of the Eurobond would smooth the repayment profile and the profile of the external debt service indicators.

due to new borrowing to finance COVID-19 spending. The ratio declines near the respective threshold throughout the projection horizon.

14. **Under the stress scenarios, all external debt indicators breach respective thresholds**. Breaches in debt-to-exports ratio and debt-service-to exports are significant and point to debt vulnerabilities. Shocks to exports are the most extreme and impactful for these indicators. Under a shock to exports, the PV of debt-to-exports ratio reaches about 346 percent (versus 180 percent threshold), while the PV of debt service-to-exports ratio reaches 27 percent (versus 15 percent threshold) by the end of horizon. The contingent liability shock also causes a deterioration in external debt sustainability. The trajectory of the PV of external public debt-to-GDP ratio moves upwards by close to 11 percentage points from the baseline. This suggests the need for the government to improve debt recording and management practices (especially for SOEs) and rebuild fiscal buffers to address the rising contingent liabilities.

15. **The market-financing risks are moderate in the short-term**. Recent tightening of global financial conditions due to COVID19 pandemic has pushed the spread on Tajikistan's sovereign bond (1500bps) further beyond the benchmark (570bps) under the market module. Although gross financing needs in 2020 rise sharply due to response to COVID-19 pandemic it does not breach the 14 percent threshold. Authorities commitment to avoid non-concessional borrowing and commitment to fiscal consolidation should allow the market financing risk to be moderate or low in the medium term.

C. Public Sector Debt Sustainability Analysis

16. **Under the baseline, overall public debt improves significantly and points to lower risk in comparison to the 2019 DSA**. The public debt burden indicator (PV total debt-to-GDP) ratio stabilizes and remains below the 55 percent benchmark throughout the projection horizon.

17. **The standardized sensitivity analysis shows lower risks as the indicator remains below threshold under stress scenario.** Shock to combined contingent liabilities leads to the highest public debt figures. The shock causes a 12 percent deterioration in comparison to baseline debt ratio by 2030. This highlights the need for strengthened oversight of SOE sector and streamlined borrowing policies at a time when the government is already financing a large infrastructure project.

CONCLUSION AND RISK RATING

18. **The debt sustainability analysis under the new LIC DSF framework suggests that Tajikistan's risk of external and overall public debt distress is high**. These results are similar to the 2019 DSA findings, but debt stabilizes under the baseline.

19. **Tajikistan's risk of external debt distress remains high**. Two external debt-burden (debt service-to-exports ratio and PV of debt-to-exports ratio) indicators breach respective thresholds under the baseline. The Debt service-to-exports indicator stabilizes after the Eurobond repayment is completed and falls below the threshold by 2028. The PV of debt-to-exports ratio is on a downward path and but stays slightly above the threshold by the end of the horizon. In comparison to 2019 DSA, all debt burden ratios are stabilized during the projection horizon. External debt is most vulnerable to exports shocks and contingent liabilities.

Baseline scenario and standardized stress tests indicate the importance of containing contingent liabilities and broadening the export base.

20. Overall risk of public debt distress is high under the baseline due to breaches in external debt indicators. A contingent liability shock has the largest impact on public debt sustainability.

21. Under the baseline Tajikistan's public debt becomes sustainable owing to medium and long-term fiscal consolidation. External debt indicators that breach respective thresholds under the baseline fall below or near the threshold. All stock and flow indicators are on a stable trajectory during the projection horizon. It is also worth noting that while external debt risks are high, total public debt levels do not breach benchmarks in both the baseline and stress tests. Debt is assessed to be sustainable based on the authorities' commitment to fiscal consolidation measures of 2 percent of GDP in 2021-22 and to avoid non-concessional borrowing. The planned fiscal adjustment is a mix of revenue and expenditure measures. While the detailed revenue and expenditure measures will be specified in the coming months, the authorities plan to increase in tax revenues by 0.5 percent of GDP by phasing out tax incentives and broadening the tax base. They also plan to reduce capital expenditures by 1.5 percent of GDP in 2020, reflecting better prioritization of spending and improvements to the efficiency of public investment projects. In the case fiscal adjustment falls short or the authorities resort to non-concessional borrowing, the debt path may deteriorate, putting debt sustainability under pressure. A more severe or prolonged COVID-19 shock could heighten debt vulnerabilities. On the other hand, greater-than-expected progress with economic diversification or higher energy and non-energy exports would improve debt sustainability over the longer term.

22. Other measures should also be taken to reduce debt vulnerabilities. Diversifying exports and containing contingent liabilities will reduce the vulnerabilities of public debt to shocks. Improving debt management practices, including by smoothing the repayment profile could help address large breaches in the debt service-to exports ratio in the medium term. Further upgrading the debt recording and reporting practices, and enhancing the linkages between the medium-term debt management strategy and the government's borrowing plans would further help to contain debt vulnerabilities.

AUTHORITIES' VIEWS

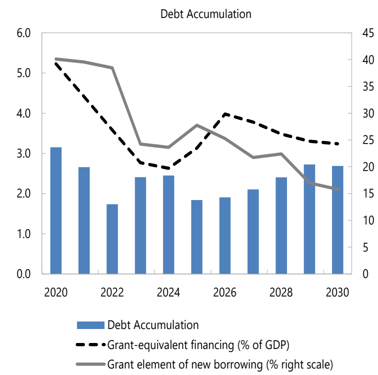
23. The authorities broadly agreed with overall assessment. They concurred with staff that debt vulnerabilities need to be better managed, including through a medium-term fiscal adjustment and seeking concessional borrowing to meet financing needs. They agreed that non-concessional borrowing would weaken debt sustainability and in case of such borrowing they would use it to refinance more expensive credits to improve their debt profile.

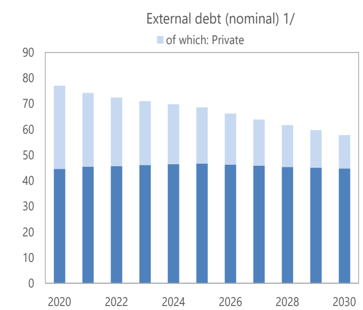
Table 1. Tajikistan: External Debt Sustainability Framework, Baseline Scenario, 2019-40

(In percent of GDP, unless otherwise indicated)

	Actual	Projections								Average 8/	
	2019	2020	2021	2022	2023	2024	2025	2030	2040	Historical	Projections
External debt (nominal) 1/	68.5	77.0	74.2	72.4	71.0	69.8	68.6	57.8	47.5	59.4	67.5
of which: public and publicly guaranteed (PPG)	36.3	44.6	45.5	45.7	46.1	46.4	46.7	44.8	44.1	32.3	45.7
Change in external debt	-2.0	8.5	-2.8	-1.8	-1.4	-1.2	-1.2	-1.9	-0.4		
Identified net debt-creating flows	-5.2	8.0	-3.3	-0.8	-0.4	-0.5	-0.5	-0.7	-0.3	0.5	-0.1
Non-interest current account deficit	1.5	5.6	2.5	2.5	2.3	2.2	2.0	1.4	1.1	4.5	2.3
Deficit in balance of goods and services	26.7	23.9	24.8	24.4	24.2	23.9	23.4	22.9	22.9	36.6	23.6
Exports	15.3	14.8	16.0	16.7	17.0	17.4	17.8	18.3	18.3		
Imports	42.0	38.6	40.8	41.0	41.2	41.3	41.2	41.2	41.2		
Net current transfers (negative = inflow)	-8.0	-4.7	-6.4	-6.3	-6.4	-6.3	-6.3	-6.3	-6.3	-9.1	-6.1
of which: official	-1.4	-0.3	-0.3	-0.5	-0.5	-0.5	-0.5	-0.5	0.0		
Other current account flows (negative = net inflow)	-17.2	-13.6	-15.9	-15.5	-15.5	-15.4	-15.2	-15.2	-15.6	-23.0	-15.2
Net FDI (negative = inflow)	-2.3	-1.2	-2.5	-2.3	-2.0	-2.1	-2.0	-2.0	-2.0	-2.9	-2.0
Endogenous debt dynamics 2/	-4.3	3.6	-3.3	-1.1	-0.7	-0.6	-0.5	-0.1	0.6		
Contribution from nominal interest rate	0.8	2.2	2.1	2.1	2.1	2.1	2.1	2.1	2.4		
Contribution from real GDP growth	-4.9	1.4	-5.5	-3.2	-2.8	-2.7	-2.6	-2.2	-1.8		
Contribution from price and exchange rate changes	-0.2	...	...	...	...	...	...	...	...		
Residual 3/	3.2	0.5	0.5	-1.0	-1.0	-0.8	-0.7	-1.2	-0.1	2.8	-0.9
of which: exceptional financing	0.0	-0.6	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Sustainability indicators											
PV of PPG external debt-to-GDP ratio	28.3	32.5	33.2	33.1	33.8	34.5	34.5	34.9	36.6		
PV of PPG external debt-to-exports ratio	184.4	220.1	207.5	198.9	198.4	198.1	194.1	190.3	199.9		
PPG debt service-to-exports ratio	13.1	18.9	16.7	15.5	13.0	12.4	22.1	14.1	21.6		
PPG debt service-to-revenue ratio	8.0	11.9	11.0	10.5	8.9	8.6	15.6	10.7	16.2		
Gross external financing need (Million of U.S. dollars)	1123.4	2078.5	1621.4	1791.0	1929.0	1830.9	1796.1	1458.5	1125.9		
Key macroeconomic assumptions											
Real GDP growth (in percent)	7.5	-2.0	7.5	4.5	4.0	4.0	4.0	4.0	4.0	7.0	3.8
GDP deflator in US dollar terms (change in percent)	0.3	-1.4	-1.5	0.9	1.0	1.1	1.4	2.6	2.6	-1.4	1.3
Effective interest rate (percent) 4/	1.2	3.1	3.0	3.0	3.0	3.2	3.2	3.8	5.4	2.0	3.2
Growth of exports of G&S (US dollar terms, in percent)	11.4	-6.9	14.8	9.8	7.6	7.4	7.5	7.1	6.7	9.4	7.0
Growth of imports of G&S (US dollar terms, in percent)	5.9	-11.2	11.7	6.2	5.5	5.3	5.2	6.7	6.7	3.2	5.1
Grant element of new public sector borrowing (in percent)	...	40.1	39.5	38.5	24.2	23.6	27.7	15.8	16.9	...	26.9
Government revenues (excluding grants, in percent of GDP)	25.2	23.5	24.2	24.7	25.0	25.1	25.2	24.3	24.3	25.1	24.5
Aid flows (in Million of US dollars) 5/	181.2	522.1	453.9	350.8	209.1	208.7	338.2	524.8	1018.7		
Grant-equivalent financing (in percent of GDP) 6/	...	5.2	4.4	3.6	2.8	2.6	3.1	3.2	3.4	...	3.6
Grant-equivalent financing (in percent of external financing) 6/	...	53.2	54.8	57.4	48.6	47.8	44.8	47.2	44.2	...	49.9
Nominal GDP (Million of US dollars)	8,110	7,836	8,301	8,757	9,200	9,672	10,199	14,051	26,777		
Nominal dollar GDP growth	7.8	-3.4	5.9	5.5	5.1	5.1	5.4	6.7	6.7	5.5	5.2
Memorandum items:											
PV of external debt 7/	60.5	65.0	62.0	59.8	58.7	57.9	56.3	47.9	39.9		
In percent of exports	394.9	439.6	387.1	359.2	344.4	332.2	317.4	261.2	218.4		
Total external debt service-to-exports ratio	95.8	149.7	122.0	121.2	121.3	108.0	99.3	59.8	28.3		
PV of PPG external debt (in Million of US dollars)	2292.5	2548.0	2756.3	2900.2	3111.1	3336.4	3514.2	4905.6	9790.0		
(PVt-PVt-1)/GDPt-1 (in percent)		3.2	2.7	1.7	2.4	2.4	1.8	2.7	2.3		
Non-interest current account deficit that stabilizes debt ratio	3.5	-2.9	5.3	4.3	3.7	3.4	3.2	3.3	1.5		

Definition of external/domestic debt	Residency-based
Is there a material difference between the two criteria?	No





Sources: Country authorities; and staff estimates and projections.

1/ Includes both public and private sector external debt.

2/ Derived as [r - g - ρ(1+g) + Ɛα (1+r)]/(1+g+ρ+gρ) times previous period debt ratio, with r = nominal interest rate; g = real GDP growth rate, ρ = growth rate of GDP deflator in U.S. dollar terms, Ɛ=nominal appreciation of the local currency, and α= share of local currency-denominated external debt in total external debt.

3/ Includes exceptional financing (i.e., changes in arrears and debt relief); changes in gross foreign assets; and valuation adjustments. For projections also includes contribution from price and exchange rate changes.

4/ Current-year interest payments divided by previous period debt stock.

5/ Defined as grants, concessional loans, and debt relief.

6/ Grant-equivalent financing includes grants provided directly to the government and through new borrowing (difference between the face value and the PV of new debt).

7/ Assumes that PV of private sector debt is equivalent to its face value.

8/ Historical averages are generally derived over the past 10 years, subject to data availability, whereas projections averages are over the first year of projection and the next 10 years.

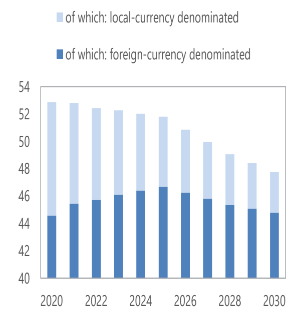
Table 2. Tajikistan: Public Sector Debt Sustainability Framework, Baseline Scenario, 2019-40

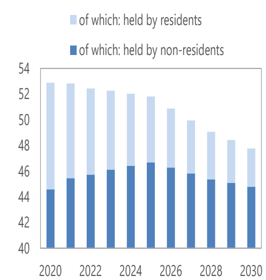
(In percent of GDP, unless otherwise indicated)

	Actual	Projections								Average 6/	
	2019	2020	2021	2022	2023	2024	2025	2030	2040	Historical	Projections
Public sector debt 1/	44.6	52.9	52.8	52.4	52.3	52.0	51.8	47.8	45.0	38.1	50.9
of which: external debt	36.3	44.6	45.5	45.7	46.1	46.4	46.7	44.8	44.1	32.3	45.7
Change in public sector debt	-3.3	8.3	-0.1	-0.4	-0.2	-0.2	-0.2	-0.6	-0.3		
Identified debt-creating flows	-3.0	7.5	-0.8	-1.2	-1.1	-1.1	-1.1	-0.6	-0.3	0.1	-0.1
Primary deficit	1.2	6.6	3.5	1.8	1.7	1.6	1.6	1.8	1.5	2.1	2.4
Revenue and grants	27.4	25.6	26.3	26.6	26.8	26.9	26.9	26.9	26.9	27.5	26.7
of which: grants	2.2	2.1	2.0	1.9	1.8	1.7	1.7	2.6	2.6		
Primary (noninterest) expenditure	28.6	32.2	29.7	28.4	28.5	28.5	28.4	28.7	28.4	29.5	29.1
Automatic debt dynamics	-3.7	1.0	-4.3	-3.0	-2.7	-2.7	-2.7	-2.4	-1.8		
Contribution from interest rate/growth differential	-2.4	1.0	-4.3	-3.0	-2.7	-2.7	-2.7	-2.4	-1.8		
of which: contribution from average real interest rate	0.9	0.1	-0.6	-0.7	-0.7	-0.7	-0.7	-0.6	-0.1		
of which: contribution from real GDP growth	-3.3	0.9	-3.7	-2.3	-2.0	-2.0	-2.0	-1.9	-1.7		
Contribution from real exchange rate depreciation	-1.3	...	...	...	...	...	...	...	...		
Other identified debt-creating flows	-0.6	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	-0.1	0.0
Privatization receipts (negative)	-0.7	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Recognition of contingent liabilities (e.g., bank recapitalization)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Debt relief (HIPC and other)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Other debt creating or reducing flow (please specify)	0.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Residual	-0.3	0.8	0.7	0.8	0.9	0.9	0.8	-0.1	0.0	0.7	0.4
Sustainability indicators											
PV of public debt-to-GDP ratio 2/	37.1	42.2	41.2	40.5	40.6	40.8	40.4	38.6	38.2		
PV of public debt-to-revenue and grants ratio	135.3	164.7	156.8	152.2	151.7	151.7	150.2	143.8	142.2		
Debt service-to-revenue and grants ratio 3/	9.4	12.4	12.7	12.4	10.7	10.3	16.7	10.8	14.6		
Gross financing need 4/	3.2	9.7	6.8	5.1	4.5	4.4	6.1	4.7	5.4		
Key macroeconomic and fiscal assumptions											
Real GDP growth (in percent)	7.5	-2.0	7.5	4.5	4.0	4.0	4.0	4.0	4.0	7.0	3.8
Average nominal interest rate on external debt (in percent)	1.3	2.5	2.3	2.0	2.0	2.1	2.1	2.1	3.0	0.2	2.1
Average real interest rate on domestic debt (in percent)	-2.3	-2.5	-4.4	-4.8	-4.8	-4.9	-5.0	-6.3	-6.5	-1.5	-5.2
Real exchange rate depreciation (in percent, + indicates depreciation)	-3.4	...	...	...	...	...	...	...	...	1.8	...
Inflation rate (GDP deflator, in percent)	4.4	5.6	5.2	5.3	5.2	5.4	5.4	6.9	6.9	6.7	6.1
Growth of real primary spending (deflated by GDP deflator, in percent)	0.1	10.2	-0.8	-0.3	4.4	4.1	3.8	3.5	4.1	7.8	3.9
Primary deficit that stabilizes the debt-to-GDP ratio 5/	4.6	-1.7	3.5	2.2	1.8	1.8	1.8	2.5	1.8	2.0	2.1
PV of contingent liabilities (not included in public sector debt)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		

Definition of external/domestic debt	Residency-based
Is there a material difference between the two criteria?	No

Public sector debt 1/





Sources: Country authorities; and staff estimates and projections.

1/ Coverage of debt: The central government plus social security and extra budgetary funds, central bank, government-guaranteed debt . Definition of external debt is Residency-based.

2/ The underlying PV of external debt-to-GDP ratio under the public DSA differs from the external DSA with the size of differences depending on exchange rates projections.

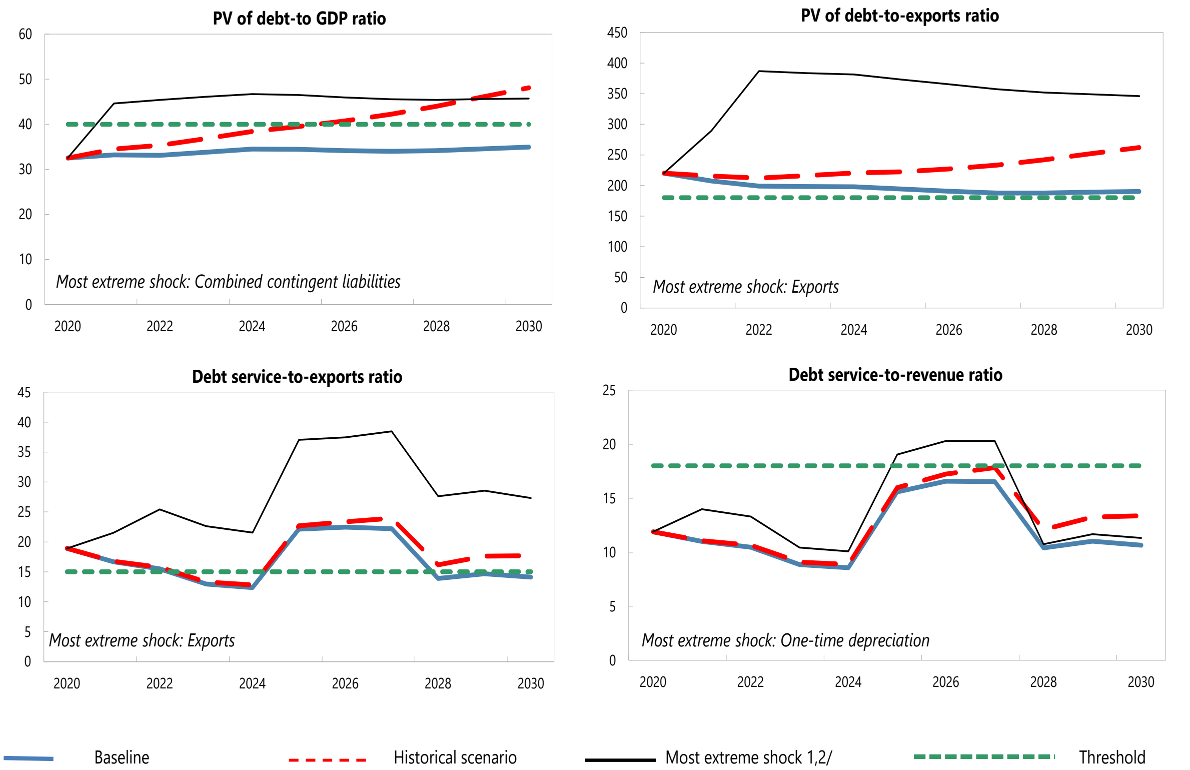
3/ Debt service is defined as the sum of interest and amortization of medium and long-term, and short-term debt.

4/ Gross financing need is defined as the primary deficit plus debt service plus the stock of short-term debt at the end of the last period and other debt creating/reducing flows.

5/ Defined as a primary deficit minus a change in the public debt-to-GDP ratio ((-): a primary surplus), which would stabilizes the debt ratio only in the year in question.

6/ Historical averages are generally derived over the past 10 years, subject to data availability, whereas projections averages are over the first year of projection and the next 10 years.

Figure 1. Tajikistan: Indicators of Public and Publicly Guaranteed External Debt under Alternative Scenarios, 2020–30



Customization of Default Settings		
	Size	Interactions
Tailored Stress		
Combined CL	Yes	
Natural disaster	n.a.	n.a.
Commodity price	No	No
Market financing	No	No

Note: "Yes" indicates any change to the size or interactions of the default settings for the stress tests. "n.a." indicates that the stress test does not apply.

Borrowing assumptions on additional financing needs resulting from the stress tests*		
	Default	User defined
Shares of marginal debt		
External PPG MLT debt	100%	
Terms of marginal debt		
Avg. nominal interest rate on new borrowing in USD	2.3%	2.3%
USD Discount rate	5.0%	5.0%
Avg. maturity (incl. grace period)	20	20
Avg. grace period	5	5

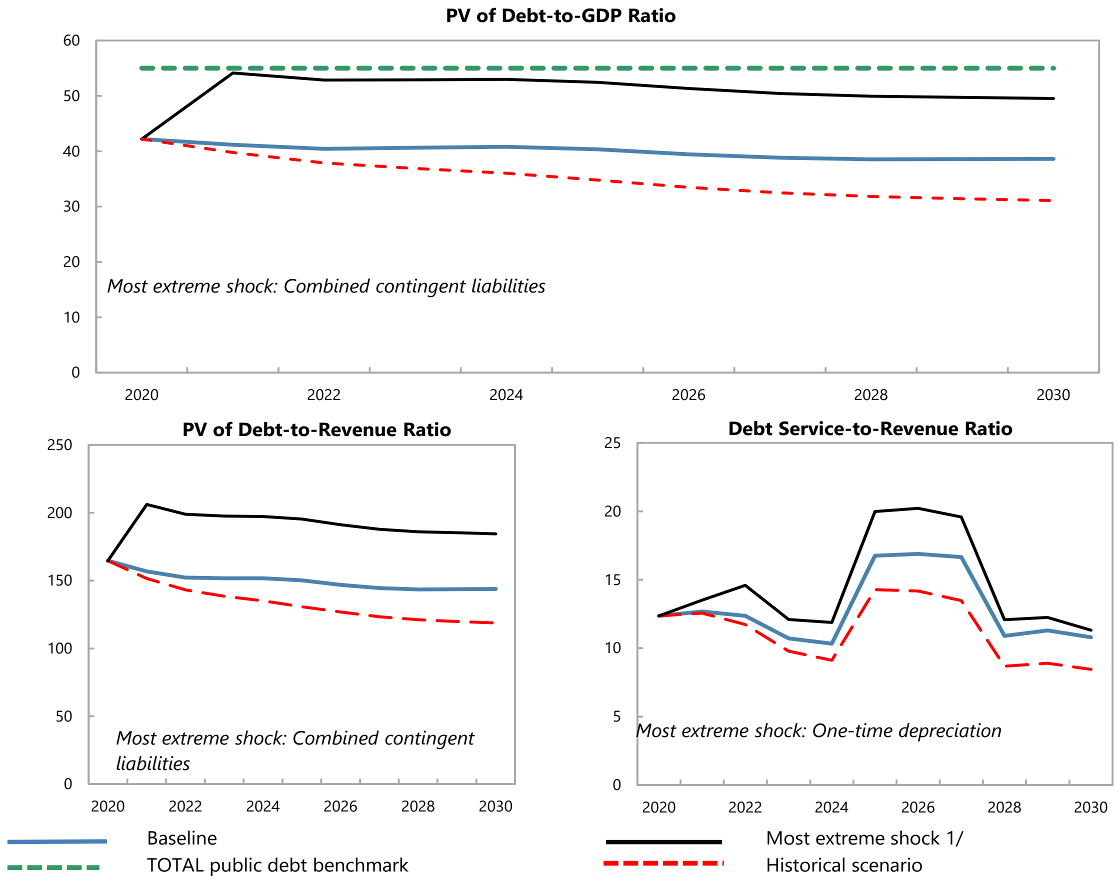
* Note: All the additional financing needs generated by the shocks under the stress tests are assumed to be covered by PPG external MLT debt in the external DSA. Default terms of marginal debt are based on baseline 10-year projections.

Sources: Country authorities; and staff estimates and projections.

1/ The most extreme stress test is the test that yields the highest ratio in or before 2030. The stress test with a one-off breach is also presented (if any), while the one-off breach is deemed away for mechanical signals. When a stress test with a one-off breach happens to be the most exterme shock even after disregarding the one-off breach, only that stress test (with a one-off breach) would be presented.

2/ The magnitude of shocks used for the commodity price shock stress test are based on the commodity prices outlook prepared by the IMF research department.

Figure 2. Tajikistan: Indicators of Public Debt Under Alternative Scenarios, 2020–30



Borrowing assumptions on additional financing needs resulting from the stress tests*	Default	User defined
Shares of marginal debt		
External PPG medium and long-term	91%	91%
Domestic medium and long-term	0%	0%
Domestic short-term	9%	9%
Terms of marginal debt		
External MLT debt		
Avg. nominal interest rate on new borrowing in USD	2.3%	2.3%
Avg. maturity (incl. grace period)	20	20
Avg. grace period	5	5
Domestic MLT debt		
Avg. real interest rate on new borrowing	0.0%	0.0%
Avg. maturity (incl. grace period)	1	1
Avg. grace period	0	0
Domestic short-term debt		
Avg. real interest rate	-3.0%	-3.0%

* Note: The public DSA allows for domestic financing to cover the additional financing needs generated by the shocks under the stress tests in the public DSA. Default terms of marginal debt are based on baseline 10-year projections.

Sources: Country authorities; and staff estimates and projections.

1/ The most extreme stress test is the test that yields the highest ratio in or before 2030. The stress test with a one-off breach is also presented (if any), while the one-off breach is deemed away for mechanical signals. When a stress test with a one-off breach happens to be the most exterme shock even after disregarding the one-off breach, only that stress test (with a one-off breach) would be presented.

Table 3. Tajikistan: Sensitivity Analysis for Key Indicators of Public and Publicly Guaranteed External Debt, 2020-30

(In percent)

	Projections 1/										
	2020	**2021**	**2022**	**2023**	**2024**	**2025**	**2026**	**2027**	**2028**	**2029**	**2030**
PV of debt-to GDP ratio											
Baseline	33	33	33	34	34	34	34	34	34	35	35
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2020-2030 2/	33	34	35	37	38	39	**41**	**42**	**44**	**46**	**48**
B. Bound Tests											
B1. Real GDP growth	33	34	33	33	34	34	34	33	34	34	34
B2. Primary balance	33	35	39	40	**41**	**40**	40	40	40	40	40
B3. Exports	33	36	**41**	**42**	**43**	**43**	**42**	**42**	**41**	**41**	**41**
B4. Other flows 3/	33	36	38	39	39	39	39	38	38	38	38
B5. Depreciation	33	**42**	35	36	37	37	37	37	37	39	40
B6. Combination of B1-B5	33	38	37	37	38	38	37	37	37	37	37
C. Tailored Tests											
C1. Combined contingent liabilities	33	**45**	**45**	**46**	**47**	**47**	**46**	**46**	**45**	**46**	**46**
C2. Natural disaster	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C3. Commodity price	33	35	36	37	37	36	36	35	34	34	34
C4. Market Financing	33	37	37	38	39	39	38	38	38	39	39
Threshold	40	40	40	40	40	40	40	40	40	40	40
PV of debt-to-exports ratio											
Baseline	**220**	**207**	**199**	**198**	**198**	**194**	**190**	**188**	**188**	**189**	**190**
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2020-2030 2/	**220**	**216**	**212**	**216**	**221**	**222**	**227**	**233**	**242**	**252**	**262**
B. Bound Tests											
B1. Real GDP growth	**220**	**207**	**199**	**198**	**198**	**194**	**190**	**188**	**188**	**189**	**190**
B2. Primary balance	**220**	**220**	**235**	**234**	**233**	**228**	**223**	**219**	**217**	**218**	**218**
B3. Exports	**220**	**289**	**387**	**384**	**381**	**373**	**365**	**357**	**352**	**349**	**346**
B4. Other flows 3/	**220**	**223**	**228**	**227**	**226**	**221**	**217**	**212**	**210**	**209**	**208**
B5. Depreciation	**220**	**207**	166	167	167	164	162	160	162	166	170
B6. Combination of B1-B5	**220**	**262**	**219**	**279**	**278**	**272**	**266**	**261**	**259**	**259**	**259**
C. Tailored Tests											
C1. Combined contingent liabilities	**220**	**279**	**273**	**270**	**268**	**262**	**256**	**252**	**250**	**250**	**249**
C2. Natural disaster	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C3. Commodity price	**220**	**240**	**234**	**228**	**222**	**211**	**201**	**195**	**190**	**188**	**186**
C4. Market Financing	**220**	**207**	**199**	**198**	**198**	**194**	**191**	**188**	**187**	**189**	**190**
Threshold	180	180	180	180	180	180	180	180	180	180	180
Debt service-to-exports ratio											
Baseline	19	17	16	13	12	22	22	22	14	15	14
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2020-2030 2/	19	17	16	13	13	23	23	24	16	18	18
B. Bound Tests											
B1. Real GDP growth	19	17	16	13	12	22	22	22	14	15	14
B2. Primary balance	19	17	16	15	14	24	24	24	17	17	17
B3. Exports	19	22	25	23	22	37	37	38	28	29	27
B4. Other flows 3/	19	17	16	14	13	23	23	24	16	17	16
B5. Depreciation	19	17	16	12	11	21	22	21	11	12	12
B6. Combination of B1-B5	19	19	21	17	16	29	29	30	20	21	20
C. Tailored Tests											
C1. Combined contingent liabilities	19	17	18	15	14	24	24	24	16	16	16
C2. Natural disaster	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C3. Commodity price	19	19	17	15	14	24	24	24	15	16	15
C4. Market Financing	19	17	16	13	13	22	23	24	16	15	14
Threshold	15	15	15	15	15	15	15	15	15	15	15
Debt service-to-revenue ratio											
Baseline	12	11	10	9	9	16	17	17	10	11	11
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2020-2030 2/	12	11	11	9	9	16	17	18	12	13	13
B. Bound Tests											
B1. Real GDP growth	12	11	10	9	8	15	16	16	10	11	10
B2. Primary balance	12	11	11	10	10	17	18	**18**	12	13	13
B3. Exports	12	11	11	10	10	17	18	**18**	13	14	13
B4. Other flows 3/	12	11	11	9	9	16	17	18	12	13	12
B5. Depreciation	12	14	13	10	10	**19**	**20**	**20**	11	12	11
B6. Combination of B1-B5	12	11	11	9	9	16	17	18	12	12	12
C. Tailored Tests											
C1. Combined contingent liabilities	12	11	12	10	10	17	18	18	12	12	12
C2. Natural disaster	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C3. Commodity price	12	12	11	10	9	17	17	17	11	12	11
C4. Market Financing	12	11	10	9	9	16	17	**18**	12	11	11
Threshold	18	18	18	18	18	18	18	18	18	18	18

Sources: Country authorities; and staff estimates and projections.
1/ A bold value indicates a breach of the threshold.
2/ Variables include real GDP growth, GDP deflator (in U.S. dollar terms), non-interest current account in percent of GDP, and non-debt creating flows.
3/ Includes official and private transfers and FDI.

Table 4. Tajikistan: Sensitivity Analysis for Key Indicators of Public Debt, 2020-30

(In percent)

	Projections 1/										
	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030
PV of Debt-to-GDP Ratio											
Baseline	42	41	40	41	41	40	39	39	39	39	39
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2020-2030 2/	42	40	38	37	36	35	33	32	32	31	31
B. Bound Tests											
B1. Real GDP growth	42	42	40	40	40	39	38	37	36	36	36
B2. Primary balance	42	43	47	47	47	46	45	45	44	44	44
B3. Exports	42	44	48	48	48	48	47	46	45	44	44
B4. Other flows 3/	42	44	45	46	46	45	44	43	43	42	42
B5. Depreciation	42	47	44	43	41	39	36	34	33	32	31
B6. Combination of B1-B5	42	41	41	40	39	38	36	34	33	33	32
C. Tailored Tests											
C1. Combined contingent liabilities	42	54	53	53	53	52	51	50	50	50	50
C2. Natural disaster	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C3. Commodity price	42	43	43	44	45	44	43	42	41	41	40
C4. Market Financing	42	41	40	41	41	40	40	39	38	39	39
TOTAL public debt benchmark	55	55	55	55	55	55	55	55	55	55	55
PV of Debt-to-Revenue Ratio											
Baseline	165	157	152	152	152	150	147	145	143	144	144
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2020-2030 2/	165	152	143	139	135	131	127	123	121	120	119
B. Bound Tests											
B1. Real GDP growth	165	160	150	148	147	144	140	137	135	134	133
B2. Primary balance	165	165	176	175	175	173	169	166	164	163	163
B3. Exports	165	167	180	179	179	177	174	170	167	165	163
B4. Other flows 3/	165	166	171	170	170	168	165	161	159	158	156
B5. Depreciation	165	180	168	161	155	146	136	128	123	119	115
B6. Combination of B1-B5	165	156	154	149	146	141	135	129	125	122	119
C. Tailored Tests											
C1. Combined contingent liabilities	165	206	199	198	197	195	191	188	186	185	184
C2. Natural disaster	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C3. Commodity price	165	171	169	172	172	169	163	156	153	151	149
C4. Market Financing	165	157	152	152	152	150	147	145	143	143	143
Debt Service-to-Revenue Ratio											
Baseline	12	13	12	11	10	17	17	17	11	11	11
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2020-2030 2/	12	13	12	10	9	14	14	13	9	9	8
B. Bound Tests											
B1. Real GDP growth	12	13	12	11	10	16	17	16	11	11	10
B2. Primary balance	12	13	14	13	12	18	18	18	13	13	13
B3. Exports	12	13	13	12	11	18	18	18	13	14	13
B4. Other flows 3/	12	13	13	11	11	17	17	18	12	13	12
B5. Depreciation	12	14	15	12	12	20	20	20	12	12	11
B6. Combination of B1-B5	12	12	12	12	10	16	16	16	11	11	10
C. Tailored Tests											
C1. Combined contingent liabilities	12	13	19	13	12	18	18	18	12	12	12
C2. Natural disaster	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C3. Commodity price	12	13	13	12	12	18	18	18	12	12	12
C4. Market Financing	12	13	12	11	10	17	17	18	12	11	11

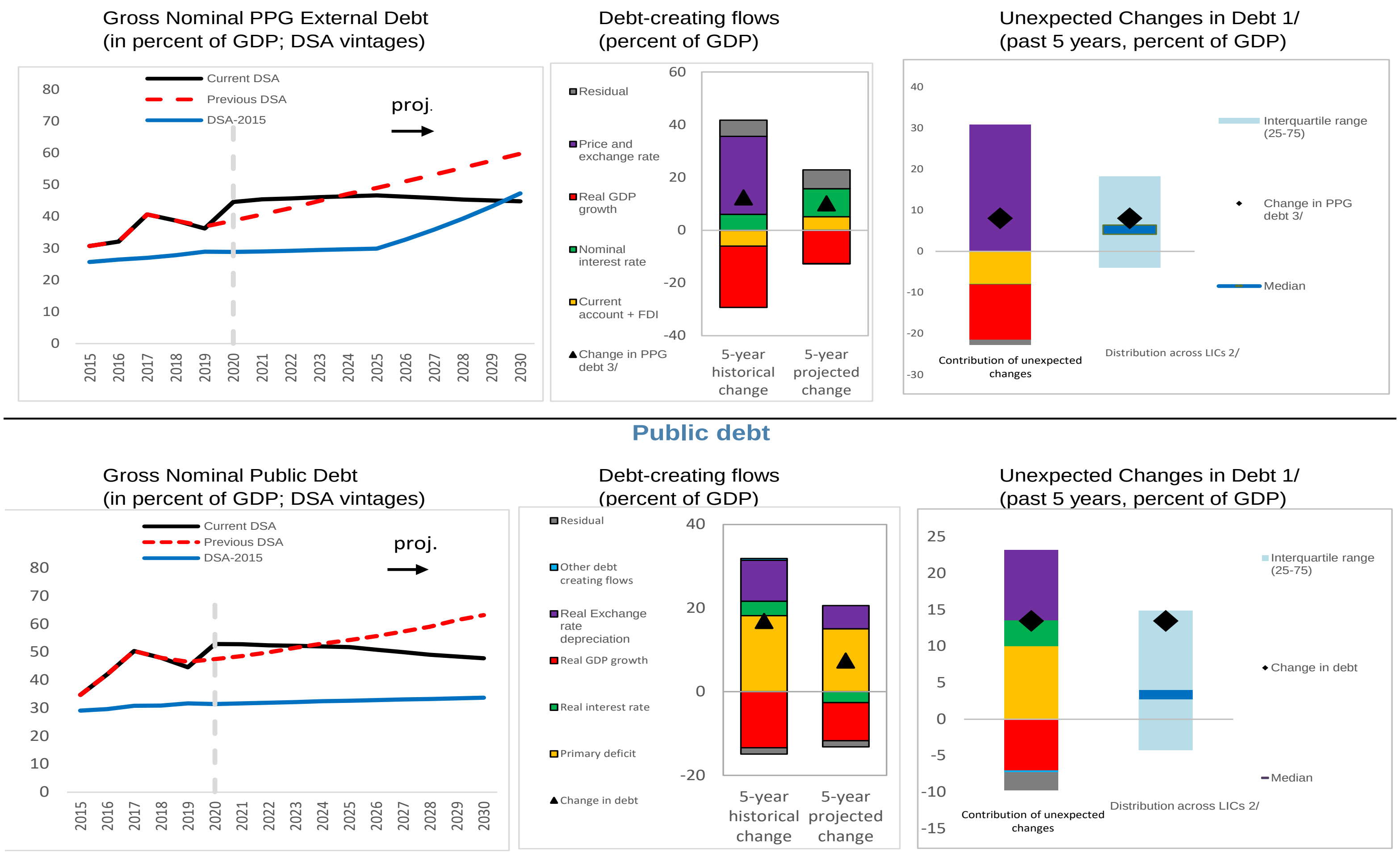
Sources: Country authorities; and staff estimates and projections.

1/ A bold value indicates a breach of the benchmark.

2/ Variables include real GDP growth, GDP deflator and primary deficit in percent of GDP.

3/ Includes official and private transfers and FDI.

Figure 3. Tajikistan: Drivers of Debt Dynamics – Baseline Scenario External Debt



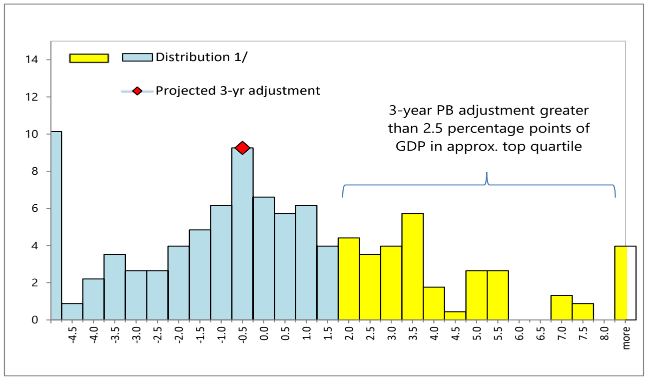
1/ Difference between anticipated and actual contributions on debt ratios.

2/ Distribution across LICs for which LIC DSAs were produced.

3/ Given the relatively low private external debt for average low-income countries, a ppt change in PPG external debt should be largely explained by the drivers of the external debt dynamics equation.

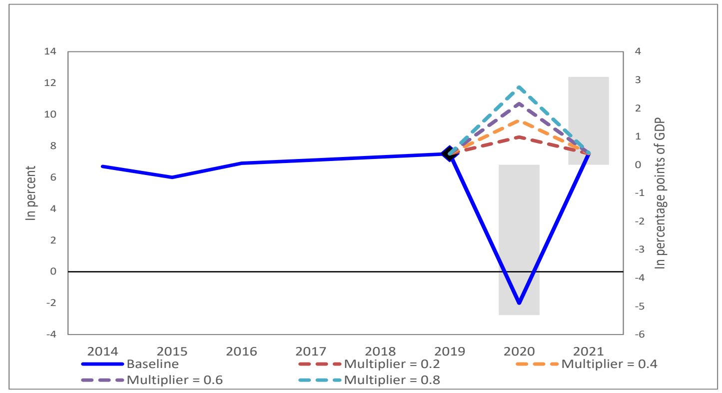
Figure 4. Tajikistan: Realism Tools

3-Year Adjustment in Primary Balance (Percentage points of GDP)



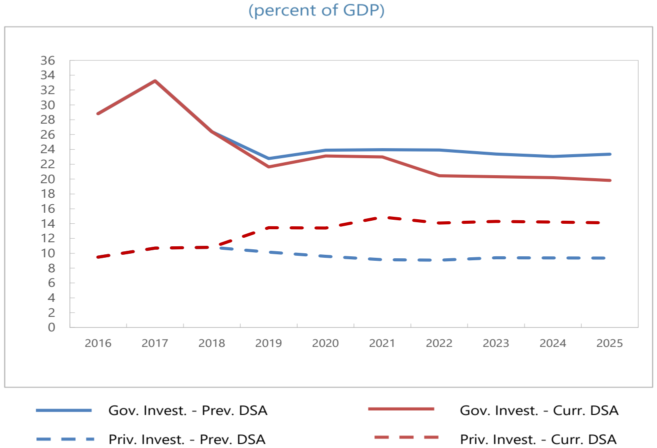
1/ Data cover Fund-supported programs for LICs (excluding emergency financing) approved since 1990. The size of 3-year adjustment from program inception is found on the horizontal axis; the percent of sample is found on the vertical axis.

Fiscal Adjustment and Possible Growth Paths 1/



1/ Bars refer to annual projected fiscal adjustment (right-hand side scale) and lines show possible real GDP growth paths under different fiscal multipliers (left-hand side scale).

Public and Private Investment Rates (percent of GDP)



Contribution to Real GDP growth (percent, 5-year average)

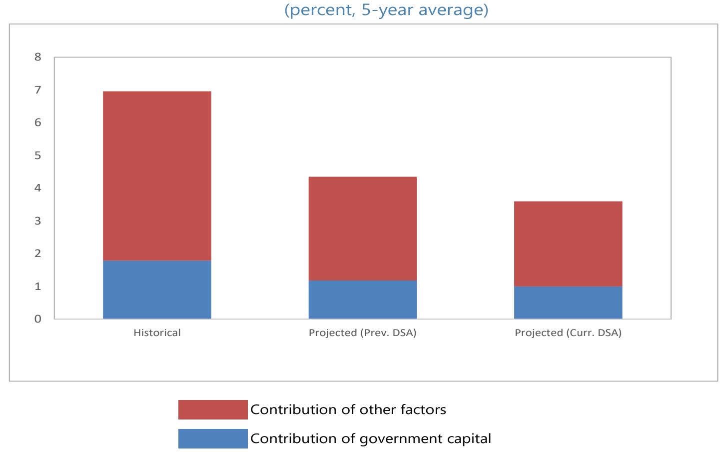
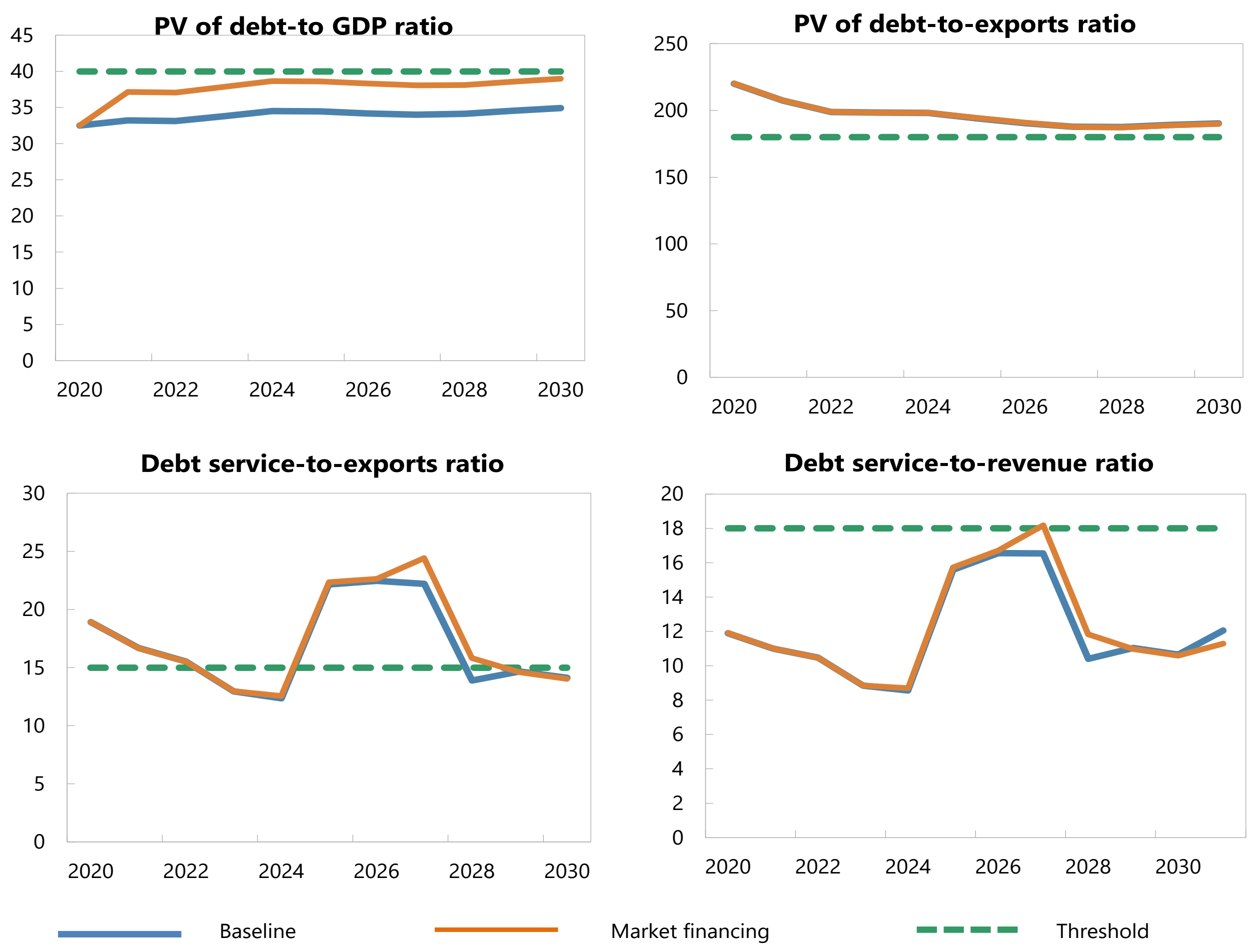


Figure 5. Tajikistan: Market-Financing Risk Indicators

	GFN 1/	EMBI 2/
Benchmarks	14	570
Values	10	1500
Breach of benchmark	No	Yes
Potential heightened liquidity needs	Moderate	

1/ Maximum gross financing needs (GFN) over 3-year baseline projection horizon.
2/ EMBI spreads correspond to the latest available data.



Sources: Country authorities; and staff estimates and projections.

Statement by the Staff Representative on the Republic of Tajikistan
May 6, 2020

This statement provides information that has become available since the staff report was finalized. This information does not alter the thrust of the staff appraisal.

VAT exemptions. Since the Letter of Intent was signed, Parliament has approved VAT exemptions for construction materials for 10 guest houses, and for the import of flowers and silkworms. These exemptions were submitted to Parliament a few months ago and only now have been approved. They have not yet been signed by the President. While likely to not be quantitatively large, the exemptions are inconsistent with the authorities' commitment in the LOI to refrain from granting new tax incentives. The authorities recognize this and have provided written assurances that they will identify and implement offsetting measures to keep the 2020 budget deficit at the agreed level. The offsetting measures will not impact health or COVID related spending. The authorities have also reaffirmed their commitment to not provide any new tax incentives or exemptions.

Statement by Mr. Inderbinen on Republic of Tajikistan
May 6, 2020

The authorities of Tajikistan very much appreciate the assistance by the Fund in the challenging economic circumstances caused by the COVID pandemic. Support by the Fund is critical to the authorities' response, both in terms of policy dialog and emergency financing. Access under the RCF will facilitate further donor funding needed to close the fiscal and balance of payments gaps. The authorities also gratefully acknowledge the recent assistance under the Catastrophe Containment and Relief Trust.

Recent Developments and Policy Response

While an outbreak of COVID-19 has until now been averted, the economic impact of the crisis on Tajikistan is severe. Growth had been robust going into the crisis; at 7.5 percent, the outcome for 2019 was substantially higher than the staff projection at the time of the 2019 Article IV report. The fiscal position had strengthened thanks to lower-than-envisaged capital expenditure, and the current account deficit had narrowed to 2.1 percent of GDP.

The pandemic is causing a substantial alteration in the economic outlook and the fiscal and external positions. Declining oil prices and the ensuing worsening of economic conditions in Russia have greatly reduced the prospects for migrant workers and the flow of remittances, which have already declined by almost half in March and mid-April. Disruptions of trade and transport with Tajikistan's major partners is affecting activity in industrial production, construction and services. Output is expected to drop by 2 percent in 2020, the current account deficit is projected to increase to close to 8 percent, and the balance of payments and fiscal gaps are substantial. Access under the RCF will be critical in closing the gap, and the authorities are making good progress in securing further financing from other donors.

The authorities are undertaking significant steps to limit the spread of the disease, protect the health sector, and limit the impact of containment measures on the economy. They have launched an action plan, which includes measures to enforce border security, set up a quarantine regime and ensure sanitary control. The response is being coordinated by a high-level Task Force under the Prime Minister, which includes the Ministries for Health, Transport, National Security and Foreign Affairs.

The authorities expect COVID-related health expenditure to increase by 2 percent of GDP over the original 2020 budget. Social spending is to be increased by 0.5 percent of GDP in order to cushion the effects on employment and economic activity. Efforts will be made to increase the coverage of targeted social spending. To support SMEs, the authorities are considering deferring tax filings and adjusting pre-payments of tax to current business prospects. VAT exemptions have been granted on basic consumption goods in support of the poor. These exemptions are temporary, and compensation will be sought in the budget, should any further VAT exemptions previously submitted to parliament be approved.

The authorities have committed to robust safeguards to ensure an effective and transparent use of emergency spending. Allocation of expenditure will be guided by the high-level Task Force. In addition to the ordinary budgetary procedures, the authorities will compile quarterly reports on COVID-related spending, to be published on the website of the Ministry of Finance. Health and social spending, including the urgent procurement of medical equipment, will be subject to audits by the Chamber of Accounts, and the ex-post validation of deliveries will be posted on the webpage of the Ministry of Finance. In addition, the government intends to strengthen procurement processes in line with international best practice.

Monetary and Exchange Rate Policy

The National Bank of Tajikistan (NBT) is taking measures to support the economy and maintain the liquidity of financial institutions. The refinancing rate has been decreased from 12.75 to 11.75 percent, and banks' required reserve ratios for savings and similar liabilities have been decreased and are temporarily set at 1 percent in national currency (from 3 percent previously) and 5 percent in foreign currency (from 9 percent). Given the movements in trading partner currencies, the NBT has permitted a nominal depreciation of the somoni by around 5 percent. This follows the depreciation of 2.7 percent in August 2019. The NBT realizes that further exchange rate flexibility would be called for, if the crisis were to be protracted, and the impact on remittances to persist. Avoiding disorderly exchange rate adjustment will, however, be key under the current circumstances, also given the degree of dollarization in the financial sector and the denomination of external debt.

Once the crisis abates and conditions allow, the authorities are committed to gradually remove the current restrictions under Article VIII. Also, the authorities will revise the directives that give rise to the MCPs identified by staff. It should be noted that the findings on MCPs are based on the potentiality of deviations from market rates, which is to be discontinued in the course of the review of the Fund's MCP policy.

Fiscal Policy, Debt Sustainability, and Development Strategy

The authorities are taking significant measures to limit the effects of emergency spending and reduced revenue on the fiscal position. The supplemental 2020 budget will include cuts to non-priority capital expenditure in the amount of 1 percent of GDP. Non-priority current outlays will be reduced by 0.6 percent of GDP. A supplemental 2020 budget is expected to be approved by Parliament by end-June, in accordance with the recent Budget Resolution signed by the Prime Minister.

The authorities are cognizant of the need to maintain debt sustainability. As documented in the Debt Sustainability Analysis, over 80 percent of the external debt stock is claimed by multilateral and bilateral creditors. Going forward, if debt issuance were to be contemplated once market conditions allow, proceeds would be used for re-financing purposes to improve the debt profile. To ensure the sustainability of debt, the authorities are committed to adjust the fiscal position over the medium term. Their goal is to reduce the fiscal deficit to 2.6 percent of GDP by 2022, which will require a consolidation of 2 percent of GDP over the next two years. The authorities are committed to ensure transparency and accountability in this process.

Capital expenditure will be prioritized and reduced to 1.5 percent of GDP by 2022. At the same time, revenue mobilization will be strengthened in order to finance capital outlays increasingly through domestic sources. Efforts are in train, with the support of FAD and the World Bank, to reform the tax system. With a view to broadening the tax base, a working group has been established to review existing tax exemptions. The authorities will engage early with staff on the measures to be included in the formulation of measures to reach their medium-term fiscal consolidation target.

Tajikistan has an appropriately ambitious National Development Strategy for the period to 2030, which accords high priority to energy security and efficiency, as well as infrastructure improvement. Developing the country’s abundant hydropower resources, including through construction of the Rogun dam, is central to this strategy. Once completed, the Rogun power station will be a key source of clean energy for Central Asia, as well as neighboring South Asia. The authorities are confident that the medium-term fiscal framework outlined above will enable the financing of dam construction in a sustainable way; they are grateful for the input and engagement with staff to this effect. Importantly, the authorities are committed to avoid non-concessional borrowing until power purchase agreements have been completed and debt is on a long-term sustainable trajectory.

Conclusion

The authorities are most grateful to staff for the engagement over the past weeks to secure support under the RCF. They are committed to policy measures to achieve rapid economic recovery, and to maintain sustainable economic growth and further poverty reduction going forward. The authorities will remain closely engaged with staff, and they are interested in discussion on an ECF arrangement in the future.