

Explanatory Note to the Medium-Term Plan of Public Debt Management Reform of the Republic of Tajikistan for 2021-2023

The medium-term plan of public debt management reform was drafted on the basis of the Decree of the Government of the Republic of Tajikistan dated November 11, 2020, № 587 “On Public Debt Management Strategy of the Republic of Tajikistan for 2021-2023”.

The objective of drafting of this medium-term plan is to increase the public debt transparency, improve debt management system based on public debt accounting, analysis and monitoring, as well as increase the efficiency of decisions of the Government of the Republic of Tajikistan on public borrowing.

The reform plan aims to achieve these goals based on the three main principles:

- information availability;
- information coverage and completeness;
- timeliness of public debt publications for public use.

The Medium-Term Debt Management Reform Plan includes the following pillars, identifying the key reform areas:

1. Public Debt Management Regulatory Framework

This pillar provides for drafting and approval of the key statutory acts in the field of public debt management. The key reform priority is drafting and adoption of a new version of the Law of the Republic of Tajikistan “On Public and Publicly Guaranteed Borrowing and Debt”, that will include a definition of public debt management consistent with sound practices, as well as the requirement for the mandatory drafting of a Debt Management Strategy and annual reporting on the results of the Strategy implementation.

Along with this, special attention is given to the process of drafting and approving a new Medium-Term Public Debt Management Strategy for 2024-2026, including drawing up an annual calendar for the Strategy drafting. The calendar will outline the processes and actions to be taken (e.g. data collection, debt portfolio analysis, strategy development, circulation for comments, approval), timeframes and

identify specific responsible units within the Ministry of Finance and other relevant departments.

2. Public Debt Accounting and Reporting

To increase the transparency of the public debt management process of the Republic of Tajikistan, as well as to improve the position of the country in The Public Debt Reports Heat Map rating and other public debt reports that are published on the official websites of the World Bank and other development partners, timely publication of quarterly and annual reports, as well as public debt statistics on the official website of the Ministry of Finance of the Republic of Tajikistan is one of the priority areas of the reform.

Quarterly debt reports provide complete information on newly signed debt obligations, debt servicing and debt stock at the end of the reporting period. These reports include detailed information on creditors and related financial conditions (amounts, maturity, interest rate), type of debt instruments (external debt, domestic debt and guarantees) and a breakdown by sector (general public sector, central government, state-owned enterprises, and the National Bank), without dissemination of confidential information as agreed with the creditor. Debt service statistics provide information on the actual repayment of principal debt and interest payments for each category indicated above, as well as projections for the next reporting period. Quarterly public debt reports are published no later than the end of the second month of the next quarter. Annual public debt reports have the same coverage and completeness of information as quarterly debt reports and are published no later than the first quarter of the next year.

As a result of implementation of this measure, the general public, current and potential creditors can easily access periodic reports on public debt, public debt strategies, annual borrowing plans and other documents on public debt drawn up by the Ministry of Finance of the Republic of Tajikistan. All information will be available in Tajik, Russian and English on a single platform on the website of the Ministry of Finance of the Republic of Tajikistan.

Moreover, as part of the medium-term plan in the first half of 2022, installation of DMFAS, a modern public debt accounting and management software, is envisaged, and training on the use of this debt accounting software will be provided to the staff of the Ministry of Finance.

Using the DMFAS software, employees of the Main Department of Public Debt and Investments Promotion will be able to:

- 1) Keep records of information about total public debt, debt securities, as well as public guarantees, on-lending and grants.

- 2) Generate accurate projections and required standard and customized reports, including verification and control reports, and statistical bulletins.
- 3) Perform debt portfolio analysis that will serve as the basis for drafting debt management strategies.

3. Domestic Securities Market Development

In the context of the country's debt portfolio high foreign exchange risk, continuing devaluation of the national currency against foreign currency leading to additional cost of external debt servicing, developing the domestic securities market and issuing debt obligations in national currency can minimize the country's debt portfolio risks and serve as an alternative source of funding in the short term.

This pillar provides for adoption of a new policy for issuing government securities on the domestic market through transparent competitive auctions at market interest rates. As a result of a gradual increase in the volume and maturities of government securities, the demand for them from participants of the securities market will increase.

To improve cash management of the Main Department of Central Treasury of the Ministry of Finance, by the end of 2021 drafting and approval of the annual borrowing programs for treasury bills and bonds is planned, as well as the corresponding issuance calendars.

Annual borrowing plans will include information on indicative borrowings from official lenders and market-based borrowing from external and domestic sources for the coming fiscal year. Annual borrowing plans will include an issuance calendar of forthcoming government bills, indicating the auction date and target total debt issuance amounts for each respective auction. The auctions of government bills will be conducted as announced, and the results containing details of the total amounts of bids submitted and accepted, as well as the proposed and accepted yields to maturity, will be published on the Ministry of Finance website.

To ensure financial stability of the country, by the end of 2021, it is necessary to draft Guidelines for Issuing and Circulation of Government Securities and circulate the Guidelines for consideration to the Government of the Republic of Tajikistan.

4. Debt Sustainability Analysis

Public debt analysis is planned to be conducted at least once a year throughout the entire period of the reform plan implementation (2021-2023), taking into account the need to attract additional funding to complete construction of the country's strategic facility through the Non-Concessional Borrowing Policy (NCBP) and the

Sustainable Development Finance Policy (SDFP). As a result, all possible risks arising in the event of attracting non-concessional borrowings to maintain public finance sustainability will be taken into account.

At the same time, by the end of 2021, it is necessary to identify and analyze the existing obstacles to development of the efficient primary and secondary government securities markets that will allow for significant acceleration of the development of the domestic financial market in the country.

In this regard, building capacity of Ministry of Finance employees to conduct an in-depth analysis of the costs and risks of the debt portfolio and explain to management the trade-offs associated with various borrowing options to improve the overall quality of the debt management strategy appears the highest priority measure under this pillar and, in general, the entire medium-term reform plan.