

Approved
By the Decree of the
Government
Of the Republic of Tajikistan
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Public Debt Management Strategy Of the Republic of Tajikistan for 2021-2023

1. GENERAL PROVISIONS

1. The Public Debt Management Strategy of the Republic of Tajikistan for 2021-2023 (hereinafter referred to as the Strategy) is a document of medium-term planning and forecasting of the state main priorities in the field of public debt management, which determines the instruments for its implementation.

2. The strategy was developed on the basis of the provisions of the Constitution of the Republic of Tajikistan and sectoral regulatory legal acts of the Republic of Tajikistan, in accordance with the strategic goals and priorities of the national development, and is aimed at improving the efficiency of control over attracting external borrowings to the Republic of Tajikistan, as well as reducing the negative impact of the COVID-19 pandemic on the national economy and preventing uncontrolled accumulation of external debt.

3. To ensure the timely financing of public investment projects, budget support and balance of payments, the Government of the Republic of Tajikistan carries out external and internal borrowings within the framework of the priorities set by the National Development Strategy of the Republic of Tajikistan for the period up to 2030.

4. The implementation progress of the Strategy is subject to ongoing monitoring, and its implementation report is submitted annually to the Government of the Republic of Tajikistan and the Majlisi Namoyandagon Majlisi Oli of the Republic of Tajikistan.

2. GOALS AND OBJECTIVES OF THE STRATEGY

5. The key goals and objectives of the Strategy are as follows:

- effective and targeted use of the attracted external and internal financial resources based on an acceptable risk level;
- compliance with the policy of attracting concessional public borrowings;

- attraction of loans in coordination with the public investment program based on assessing the rate of return and effectiveness of projects, and improving the institutional framework for coordinating and monitoring their implementation;
- improvement of the debt management system based on public debt accounting, analysis and monitoring;
- development of the state securities market and ensuring the public debt sustainability;
- maintaining the optimal structure of the debt portfolio by gradually and consistently increasing the mobilization of domestic resources through the development of the state securities market to diversify the country's borrowing portfolio structure.

3. OUTCOMES OF THE PUBLIC DEBT MANAGEMENT STRATEGY FOR 2018-2020

6. During 2018-2020, the public and publicly guaranteed debt level in the Republic of Tajikistan was maintained within the limits recommended by international financial institutions, which was set at 60.0 percent of the gross domestic product, and in 2018 it was 48.8 percent, in 2019 year - 45.0 percent, and in 2020 - 49.0 percent of the GDP.

7. The public debt sustainability was ensured through strict compliance with the provisions of the Public Debt Management Strategy of the Republic of Tajikistan for 2018-2020. This document sets out the appropriate fiscal measures for the effective public debt management in order to minimize the monetary costs of servicing the existing debt and the newly attracted external borrowings. The low level of public debt made it possible to preserve a relative stability in the advancement of public finance policy, ensure the effective implementation of priority development projects, as well as timely and rigorous external debt servicing.

8. Until 2020, due to the increased economic performance of the real sector, including investments and services, the national economy demonstrated positive trends in its growth and, in general, the overall stability of the country's macroeconomic indicators was maintained.

9. In January-September 2020, the real GDP growth in the Republic of Tajikistan amounted to 4.2 percent, and the nominal GDP volume was 55,646.6 million somoni. Economic development was mainly supported by an increase in industrial output by 10.7 percent, in agricultural production by 8.1 percent, and in foreign trade turnover by 8.3 percent (y/y).

10. The foreign exchange policy was based on a floating regulated rate regime, and in 2018-2020 the official exchange rate of the somoni to the US dollar depreciated by an average of 9.4 percent over the year. The somoni depreciation in 2020, along with seasonal factors and other known external and internal factors, was also influenced by the impact of COVID-19 pandemic. In the period of 2018-2020, the threshold for attracting public debt

and publicly guaranteed debt in the Republic of Tajikistan was complied with, following the advice by international financial institutions.

11. In accordance with the previous strategy, the Government of the Republic of Tajikistan was implementing a moderate policy of providing public guarantees in the period from 2018 to 2020. The Ministry of Finance of the Republic of Tajikistan, in compliance with the requirements and procedures for issuing public guarantees in exceptional cases of public borrowings, borrowed 11.2 million US dollars with the public guarantee in the period from 2018 to October 1, 2020

12. The key indicators specified by this document, including the grant element in the attracted external borrowings, the ratio of nominal debt to gross domestic product, debt net present value to gross domestic product and to budget revenues, as well as their stable dynamics were achieved during the effectiveness of the Public Debt Management Strategy of the Republic of Tajikistan for 2018-2020.

13. Targeted risk profile indicators and debt portfolio cost had been set forth by the Public Debt Management Strategy of the Republic of Tajikistan for 2018-2020 in order to maintain an appropriate public debt portfolio structure in terms of costs, risks and balance.

14. Implementation of the analytical outputs using a number of acceptable financing models provided the opportunity to significantly reduce the public debt portfolio costs, maintaining in the same time the average risk level. Indicators and targets that inform the analysis of the key debt indicators trends, are shown below.

Targets and indicators of the Strategy

Indicators	Targets	2020* (*projected)
Minimal grant element in new loan agreements (%)	35	35
Debt NPV to GDP (%)	30	28.7
Weighted average interest rate of the debt portfolio (%)	0-3	2.3
Average time to maturity (years)	4-9	8.1
Average time to pay off domestic debt (years)	4-7	4.0
Average time to refinance (years)	4-7	7.9
Debt to be refinanced in 1 year (% of total debt)	≤17	6.9

Fixed rate debt (% of total debt)	≥85	99.7
Foreign currency debt (% of total debt)	≤85	80.3

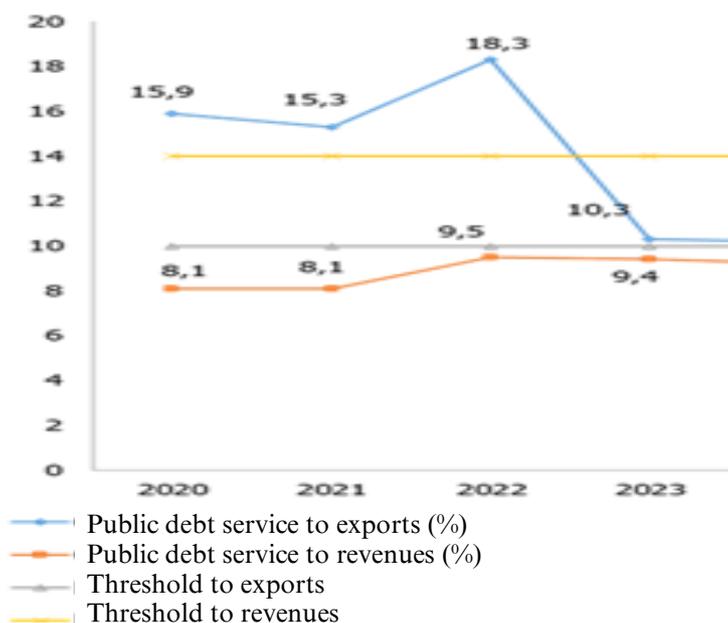
4. DEBT SUSTAINABILITY ANALYSIS

§1. External debt sustainability analysis

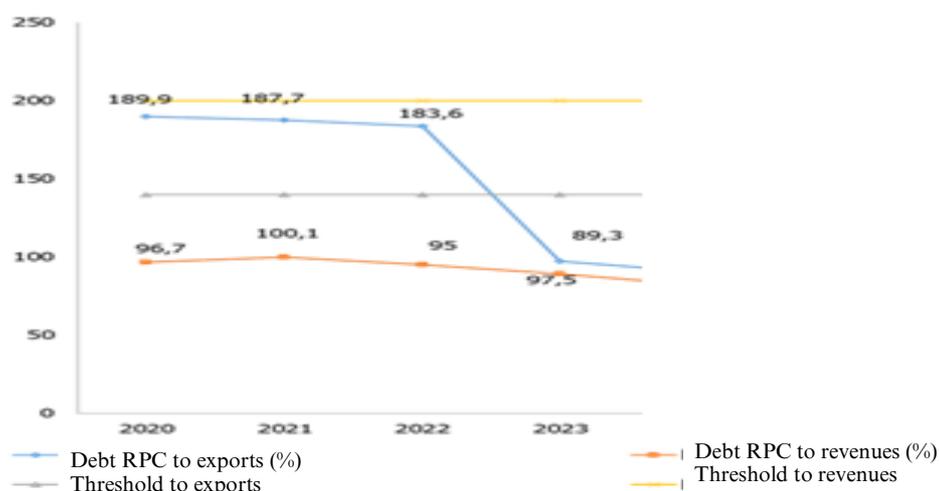
15. In accordance with the baseline (current) scenario, external debt indicators are improving compared to 2018-2019. According to the 2019 public debt sustainability analysis, only three indicators, including the present debt value to exports, debt service to exports and debt service to revenues, were relatively above the thresholds, and their projected values increase in the medium and long term. According to the baseline scenario, the volume of public debt will stabilize in the medium term. The initial mismatch of one external debt indicator (public debt servicing to exports) in 2020 was caused in part by funding needs related to the COVID-19 pandemic, and will meet the threshold over the medium term. By the end of the forecast period in 2023, these indicators will decrease compared to the level of 2020.

16. Two of the external debt indicators, including the ratio of the debt present value to gross domestic product and the ratio of the debt present value to exports, would exceed the set threshold value during the first year of this Strategy, but, subsequently, in the medium term, they will meet the established threshold value, since public debt management is improving and performance indicators improve as well.

Public Debt Service Ratios



Repayment Capacity (RPC) Indicators



The baseline includes two indicators, the first one is stocks/ repayment capacity (debt to export ratio) and the second one is flow/liquidity (debt to export and debt to revenues ratio). The debt service to export indicator has a downward trend and would fall below a set threshold in the medium term. Another indicator, debt service to revenues ratio, remains below the threshold. Both repayment capacity indicators remain stable throughout the entire Strategy forecasting period. The initial debt-to-export ratio mismatch appeared marginally and partly due to new borrowings related to Covid-19. This ratio decreases to reach the corresponding threshold throughout the implementation period.

17. In the stress scenario, all external debt indicators exceed the respective thresholds. In this scenario, the mismatch in debt-to-exports and debt service-to-exports ratios is significant and indicates lack of debt sustainability. Non-compliant export cases are the most extreme and significant for these indicators. Under inadequate terms for exports, the debt-to-export ratio reaches about 341 percent (against the threshold of 180 percent), while the debt-to-export ratio reaches 27 percent (versus the threshold of 15 percent) by the end of the horizon. An inappropriate contingent liability event also causes a deterioration in external debt sustainability. The trajectory of the external debt present value to gross domestic product ratio moves up by almost 11 percentage points against the initial level. In this regard, the Government of the Republic of Tajikistan will improve its debt accounting and management practices (especially for state-owned enterprises) and rebuild fiscal buffers to accommodate its growing contingent liabilities.

§2. Public Sector Debt Sustainability Analysis

18. Under the current baseline scenario, the general public borrowings attraction and management is improving and carries a lower risk compared to 2019. The public debt burden indicator (actual cost of total debt

to gross domestic product) is stabilizing and in the medium term remains below the threshold, which is set at 60 percent of gross domestic product.

19. According to this scenario, the standardized sensitivity analysis includes less risk, since the indicators in stress scenarios during this period remain below the established threshold. This condition brings the total contingent liabilities to the highest public debt levels. Such process could cause a deterioration in the base debt ratio, amounting to 12 percent by 2030. This situation predetermines the need to strengthen supervision over the activities of the state-owned enterprises and improve the borrowing policy in relation to the large infrastructure projects financing.

20. Macroeconomic assumptions under the current baseline scenario assume a lower state budget deficit in the medium term compared to 2019. Despite the fact that the real indicators of gross domestic product for 2020 exceeded the outcomes of debt sustainability analysis in 2019, the medium-term growth projections were similar. The key difference is that the projected budget deficit in 2020 is higher, as the forecast includes lower revenues and increased public spending related to the COVID-19 pandemic. The forecasted indicators demonstrate the need to strengthen public budget in 2021-23, including under the fiscal indicators of the IMF Fast Track Facility Framework implementation. The external debt position will remain weak in 2020, according to the public debt sustainability analysis forecasts, but it is expected to gradually improve due to fiscal strengthening. Debt sustainability targets for the period 2021-2023 are summarized below as follows:

Debt sustainability targets
for the period of 2021-2023

Indicator	2021	2022	2023
The Republic of Tajikistan' Public Debt to Gross Domestic Product	Below 60%	Below 60%	Below 60%
The Republic of Tajikistan' Public Debt Servicing to Exports of Goods and Services	Below 15%	Below 15%	Below 15%
The Republic of Tajikistan' External Public Debt Servicing to the Republican Budget Revenues	Below 25%	Below 25%	Below 25%
The minimum level of concessions in external borrowings	35%	35%	35%

Issuance of public guarantees (somon)	0	0	0
Placement of state T-Bills on an auction basis	100%	100%	100%
Share of government treasury bonds in the total structure of annual government securities issues	Positive dynamics	Positive dynamics	Positive dynamics

5. EXISTING STRUCTURE AND MACROECONOMIC FORECASTS, BUDGET INDICATORS RATIOS, PUBLIC DEBT TO GROSS DOMESTIC PRODUCT

21. The situation caused by the COVID-19 pandemic has resulted in a change in the forecasted macroeconomic indicators of Tajikistan for 2020.

Forecasted Macroeconomic Indicators

Indicator	2016	2017	2018	2019	2020	2021	2022	2023
Gross Domestic Product (million somoni)	54,471	58,910	68,844	77,354	83,517	92,640	102,894	114,972
Real growth of GDP (in%)	6.9	7.0	7.3	7.5	4.7	7.6	7.8	8.0
Foreign trade turnover (mln. USD)	3,930	4,410	4,224	4,524	4,528	4,902	5,142	5,376
Including export	899	922	1,073	1,174	1,218	1,310	1,426	1,519
Import	3,030	3,488	3,151	3,349	3,309	3,593	3,716	3,857
Inflation (in %)	6.1	7.0	5.4	8.0	9.8	6.9	6.8	7.1
Total state budget revenues, including grants (million somoni)	17,484	19,569	24,097	23,490	23,578	27,646	30,985	32,251

Interest costs (million somoni)	270.3	372.2	634.8	691.5	654.7	817.1	863.2	860.1
Total state budget expenditures (million somoni)	1,818	19,863	24,178	23,665	26,043	28,109	31,500	32,826
Total public debt (% of GDP)	44.8	51.5	48.8	44.9	45.5	44.71	42.64	43.78
Including external debt (in % to GDP)	32.7	40.3	38.9	36.0	37.5	40.6	39.5	37.0
Including domestic debt (in% of GDP)	12.1	11.2	9.96	8.95	7.93	7.06	6.36	6.21

6. RISK COST ASSESSMENT OF THE CURRENT DEBT PORTFOLIO

22. Depending on the goals, objectives and risks in public debt management, different strategies for public debt management are proposed, which are based on a comparative analysis of four borrowing strategy options.

23. The first option of the Strategy (C1) is the current strategy, the second option (C2) includes external concessional borrowing, the third option (C3) - development of the domestic securities market, the fourth option (C4) - external non-concessional borrowing.

Options for the alternative debt management scenarios

Risk Indicators	2020	As of the end of 2023			
	Current	C 1	C 2	C 3	C 4
Nominal Debt to GDP (%)	41,3	49,7	49,7	49,8	49,7

Net Debt Cost to GDP (%)		34,7	37,9	36,3	38,2	37,4
Interest payments to GDP (%)		1,1	1,1	1,0	1,1	1,0
Implied interest rate		2,6	2,5	2,3	2,6	2,3
Refinancing Risk	Debt within 1 year (% of total)	10,4	6,8	6,8	7,4	6,8
	Debt within 1 year (% of GDP)	5,2	3,4	3,4	3,7	3,4
	Average time to the external portfolio maturity (years)	8,4	10,4	11,6	10,4	10,3
	Average time to the domestic portfolio maturity (years)	1,7	1,7	1,7	1,7	1,7
	Average time to the total portfolio maturity (years)	7,3	9,8	10,9	9,6	9,6
Interest rate risk	Average time to maturity (years)	7,1	9,6	10,7	9,5	7,0
	Debt repayment after 1 year (as a percentage of the total amount)	14,2	9,4	9,4	9,9	33,2
	Fixed rate debt for 1 year (% of total)	95,8	97,1	97,1	97,1	73,3
	State Treasury Bills (T-Bills) (as a % of the total amount)	0,3	0,0	0,0	0,4	0,0
Currency risk	Debt in foreign currency, % of total debt	79,9	91,4	91,4	90,1	91,4

24. Comparative analysis identifies the possibilities and options (combinations) of different borrowings with a number of quantitative target indicators for the medium term, the implementation of which will ensure the implementation of the Strategy.

25. The existing public debt volume in the Republic of Tajikistan, as well as the negative impact likelihood of external and internal factors, can create difficulties in servicing it. At the same time, other macroeconomic risks remain and external debt servicing without creating additional burden to the budget will depend on the stability of the foreign exchange inflows into the country, as well as on the policy conditions and requirements for attracting new loans and borrowings, and control and analysis of the spending effectiveness of the public loans and credits.

26. This Strategy pays special attention to the development of the state securities market, which is one of the priority areas of fiscal and monetary policy. The goal of this Strategy is not to attract a huge amount of domestic borrowings, but to gradually develop the state securities market, increase the number of investors, diversify types of domestic borrowings by issuing new securities with maturities ranging from 2 weeks to 3 years and, on the basis of this, to ensure the provision for public debt and development of the secondary securities market at a sustainable level. For this purpose, the rules for the issuance and circulation of state securities of the Republic of Tajikistan were developed covering such issues as regulation, placement and circulation of state securities.

27. To achieve the above-mentioned goals, the following conditions must be adhered to:

- the issuance plan should be linked to the needs of the annual budget for domestic funding, as well as the changing funding requirements of the Treasury accounts throughout the year. Financing of the budget deficit will be provided by items in addition to debt (such as grants, privatization revenues), and net foreign and domestic borrowings.

- to agree on a plan for the total volume of issuance, repayment, financing and estimated interest payments between the Main Departments of the state budget, public debt and attracting public investments, and the Central Treasury of the Ministry of Finance in order to ensure a well-balanced state budget.

28. Due to the fact that the existing structure of commercial banks liabilities does not allow them to make long-term investments, the Ministry of Finance was proposed to revise the validity periods of state treasury bills. Based on it, short term practical measures will be introduced to align the validity period of the state treasury bills with the maturity of the certificates of deposit of the National Bank of Tajikistan, which is 56 days. That is, 6-8 week state treasury bills or 3-month state treasury bills will be considered for revision and to be offered in sequential multiple and more frequent auctions.

29. The domestic public debt structure as of October 1, 2020 includes only state treasury bills, as well as state securities allocated by financial institutions in exchange for debt claims on cotton farms, which are also part of the domestic public debt portfolio.

30. The terms of circulation of public debt securities issued to cover debts of cotton farms, recapitalization of the National Bank of Tajikistan

and capitalization of the Open Joint-Stock Company "Agroinvestbank" currently prevent them from entering the securities market. However, payments on public debt securities can be financed by a corresponding increase in the regular state treasury bill program over the coming years. This will lead to the gradual conversion of non-marketable domestic public debt bonds to the marketable bonds.

31. As the Republic of Tajikistan went through the process of becoming a member of international financial institutions, the membership fee in the form of promissory notes was drawn up. Taking into account that such membership contributions are made directly from the budgetary funds, the promissory notes with the value of 1.2 billion somoni will be excluded from the public debt accounting.

7. POTENTIAL BORROWING SOURCES

32. During the implementation of the Strategy, the borrowing sources will generally remain as they were. The main sources of external borrowing, as previously, will be loans provided by the International Monetary Fund, World Bank, Asian Development Bank, Islamic Development Bank, Arab Funds, European Bank for Reconstruction and Development, Asian Infrastructure Investment Bank and the People's Republic of China. In the medium term, the intention is to use recently attracted loan funds with a floating interest rate.

33. Bilateral external borrowing financing is expected to continue the trend of financing normally provided by multilateral lenders and will remain largely unchanged over the next three years. During the implementation of the Strategy, it is assumed that the trend of borrowing increase and its diversification across countries will continue. In this context, the possibilities for attracting concessional loans to implement top priority projects, including the construction of the Roghun Hydroelectric Power Plant, will be considered.

34. In subsequent periods, borrowings through the issuance of Islamic bonds to meet the growing needs of the state for additional funds to implement large infrastructure and energy projects are of particular interest due to a range of advantages they carry, including the potential of attracting quite large funds, no need for the request of resources and implementation of any soft activities on the part of the Republic of Tajikistan and potentially short timelines for raising the funds. At the same time, the continuation of the policy of borrowing from international markets would require the government to improve its debt management system in case of receiving large sums of money, since insufficient disbursement capacity can lead to ineffective storage of funds in the government's accounts and the accrual of interest on debt on bonds.

35. Financing from domestic sources will be offered to financial market participants through the issuance and placement on the domestic financial market of state securities and state treasury bills with maturities over 3 months at competitive interest rates. State Treasury bills will be placed at a discount price and redeemed at par. Over the next three years, the share of financing from domestic debt instruments is expected to increase.

8. PREFERRED STRATEGY DESCRIPTION

36. For the effective public debt management of the Republic of Tajikistan for the period 2021-2023, it is advisable to implement the strategy of concessional external borrowing with a gradual increase in the volume of borrowing from domestic sources and with terms and conditions acceptable to the state budget. Using this practice, i.e. the attraction of external concessional loans and the use of domestic resources, depends on the situation with the COVID-19 pandemic and its impact on the national economy sectors and the reduction in income sources. This version of the strategy, which will be implemented over the period of 2021-2023, will allow maintaining a sustainable level of external debt and its timely servicing.

37. This Strategy analyzes and introduces measures related to the significant amount of public debt of the Republic of Tajikistan, improving the quality of public debt management and achieving sustainable debt level through the effective and targeted use of attracted resources, as well as minimizing debt service costs in a long term.

38. Attracting concessional loans is considered to be an important focus area of the Strategy. The multilateral lenders are the international financial institutions that provide support to the economic development of the Republic of Tajikistan. The main objective of international financial institutions providing concessional lending funds is to ensure the development of the social, industrial, transport and other economic sectors of the Republic of Tajikistan.

39. In accordance with this Strategy, when attracting external borrowings, preference is given to concessional loans with at least 35 percent of the grant element.

40. In 2020, the devaluation of the somoni against the US dollar continued, which was influenced by the predominance of imports over exports, the depreciation of the currencies of the main trading partners and a number of other factors. The official exchange rate of the somoni to the US dollar as of October 1, 2020 was 10.3294 somoni per 1 US dollar against 9.4298 somoni for the same period in 2019. The devaluation of the national currency affected the cost of the public debt servicing. Due to the predominance of loans in foreign currency in the public debt structure, there is an annual foreign exchange risk. The continuing weakening of the national currency position to the US dollar over the past few years has been

disadvantageous to the Republic of Tajikistan. Due to the presence of currency risk and in order to reduce it, it is necessary to analyze the economic and political factors that might affect the exchange rates of currencies included in the public debt currency basket. Currently, the amount of debt repayment and servicing is highly dependent on the real risks associated with the public debt structure. Due to the fact that the accounting of state budget revenues is carried out in national currency but payments on external debt are made in foreign currency, the government bears significant risks in the event of a drastic change in the national currency exchange rate.

9. OUTCOMES AND CONCLUSIONS

41. During 2021-2023, the Government of the Republic of Tajikistan will introduce the necessary measures to ensure the sustainability of the state budget and public debt. Despite the fact that a significant change in the budget deficit will be associated with mitigating the impact of the unpredictable COVID-19 pandemic developments, the Government of the Republic of Tajikistan will introduce additional measures to strengthen the state budget. The main goal in this process will be to maintain the state budget deficit at the level of 4.4 percent of gross domestic product in 2021 and 2.6 percent in 2022, respectively, which will require introducing additional measures to strengthen the state budget by 2.0 percent of gross domestic product in 2021-2023 to ensure reaching these indicators. The implementation of such measures will contribute to maintaining the public debt at a sustainable level.

42. As part of the G-20 Initiative, the Government of the Republic of Tajikistan, the Export-Import Bank of China, the Paris Club, KfW Bank of the Federal Republic of Germany, Bank Natixis of the French Republic and the United States Department of Agriculture agreed to suspend loan repayments until the end 2021 year.

43. Conceptually, the Strategy implies the need to clearly define the scope of responsibilities, procedures and mechanisms for interaction and exchange of information between government agencies involved in the debt management process, as well as coordination of debt policy. In the absence of such interaction and coordination, the capacity to manage public debt, financial and economic processes and financial markets is limited.