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EXECUTIVE BOARD MEETING

EBS/20/86

April 30, 2020

To: Members of the Executive Board

From: The Secretary

Subject: **Republic of Tajikistan—Request for Disbursement Under the Rapid Credit Facility**

Board Action:	Executive Directors' **consideration** (Formal)
Tentative Board Date:	**Wednesday, May 6, 2020**
Proposed Decision:	Page 12
Publication:	Yes*
Questions:	Ms. Khandelwal, MCD (ext. 39767) Mr. Mirzayev, MCD (ext. 37521) Mr. Talishli, MCD (ext. 37835)
Document Transmittal in the Absence of an Objection and in accordance with Board policy:	After Board Consideration—Asian Development Bank, Asian Infrastructure Investment Bank, European Bank for Reconstruction and Development, Islamic Development Bank, Organisation for Economic Cooperation and Development, World Trade Organization

***The authorities have indicated that they consent to the Fund's publication of this paper.**

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.

Proposed Decision

The following decision, which may be adopted by a majority of the votes cast, is proposed for adoption by the Executive Board.

1. The Republic of Tajikistan has requested a loan disbursement in an amount equivalent to SDR 139.2 million (80 percent of quota) under the Rapid Credit Facility of the Poverty Reduction and Growth Trust.

2. The Fund notes the intentions of the Republic of Tajikistan as set forth in the letter from the President of the Republic of Tajikistan, dated April 29, 2020 and approves the disbursement in accordance with the request.

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