

Document
of Eurasian Fund for Stabilization
and Development

Eurasian Development Bank
Resources Manager of Eurasian Fund for Stabilization and Development

APPRAISAL REPORT

of Application

of the Republic of Tajikistan

for a Financial Credit to be provided by the Eurasian Fund for Stabilization and
Development to support its national budget in the context of the COVID-19 pandemic

in the amount of US\$ 50 million

June 2020

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Republic of Tajikistan

Fiscal year: 1 January – 31 December

National currency exchange rate as of 11 June 2020

Currency	TJS
1 EUR	11.6984
1 US\$	10.2897
1 RUB	0.1492
10 KZT	0.2577

Acronyms and Abbreviations

EDB	Eurasian Development Bank
EFSD	Eurasian Fund for Stabilization and Development
EU	European Union
FDI	Foreign direct investments
GDP	Gross domestic product
GNI	Gross national income
HPP	Hydro Power Plant
HU	Housing utilities
IMF	International Monetary Fund
MF	Ministry of Finance
NBT	National bank of Tajikistan
PU of EFSD	Project Unit of Eurasian Fund for Stabilization and Development, Eurasian Development Bank
RT	Republic of Tajikistan
WB	World Bank

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**Appraisal Report of EFSD Resources Manager on Application of Republic of
Tajikistan for Financial Credit to be Provided by EFSD to Support National
Budget in the Context of COVID-19 Pandemic**

Table of Contents

1. TERMS AND CONDITIONS FOR PROVISION OF FINANCIAL CREDIT RECOMMENDED BY MANAGER	3
2. MANAGER'S APPRAISAL REPORT	5
3. RATIONALE OF APPRAISAL.....	7
Appendix 1	16

1. TERMS AND CONDITIONS FOR PROVISION OF FINANCIAL CREDIT RECOMMENDED BY MANAGER

1. Beneficiary	Republic of Tajikistan
2. Total amount and currency of FC	US\$ 50,000,000 (fifty million)
3. Procedure and conditions for provision of Financial Credit	Lump sum in the amount of US\$ 50,000,000 (fifty million) upon entry into force of the Agreement and receipt of the Disbursement Request.
4. Program to be funded by Financial Credit	Program of Measures of the Government and National Bank of the Republic of Tajikistan to respond to impacts of the spread of COVID-19 on the economy, financial and social sectors.
5. Eligible expenses	Financing of national budget expenditures for 2020.
6. Financial conditions:	
6.1. Front-end fee: rate, accrual method, payment procedure	None
6.2. Interest: rate, accrual method, payment procedure	Interest rate: 1% (one percent) per annum (fixed) Accrual procedure: In amendment of para a) of Section 3.01 of the Standard Terms: "in the period from day 1 to day 360 following the Date of Disbursement of the Financial Credit, the interest rate will be 0.25% (zero point twenty five percent) per annum. In the period from day 361 following the Date of Disbursement of the Financial Credit through the date of the final repayment of the Principal, the interest rate will be 1% (one percent) per annum.
6.3. Interest margin: rate, accrual method, payment procedure	None
6.4. Commitment fee: rate, accrual method, payment procedure	None

6.5. Dates of payment (interest, interest margin, commitment fee)	Dates of Payment: 30 January and 30 July each year, starting from the first of the above dates after the Date of Disbursement of the Financial Credit by the Manager to the FC Beneficiary, and through the date of the final repayment of the Principal under the Financial Credit Agreement.
6.6. Term of Financial Credit, including grace period	Repayable within 20 (twenty) years as from the Effective Date of the Agreement, including a period during which no repayment of the Principal shall be required (Grace Period): not to exceed 10 (ten) years as from the said Effective Date. The Effective Date is determined per para 7.1 of the Agreement.
6.7. Principal repayment schedule	Equal installments of US\$ 2,500,000 (two million five hundred thousand) on 30 January and on 30 July each year, starting from 30 January 2031 and through 30 July 2040.
7. Main purpose	Support of the national budget and financing mitigating measures in the aftermath of COVID-19 pandemic to facilitate recovery of economic growth and prevent deterioration of the living standards of the population.
8. Principal risks and mitigation techniques	The key risk lies in the low cost-effectiveness in spending of budget resources. In particular, the build-up of nonproductive expenditures may result in increased debt service burden for the budget and hold up economic recovery after the crisis, while the underfunding of social spending will lead to a decline in living standards and cause negative sentiments in society. As a way of mitigating such risks, the Manager recommends the national authorities to: (a) improve the quality of information on spending of budget funds and provide public access to this information; (b) pursue more conservative budget policies in 2021-2022.

2. MANAGER'S APPRAISAL REPORT

This Appraisal Report provides an evaluation of the application of the Republic of Tajikistan (hereinafter - RT, Beneficiary) for an EFSD Financial Credit (hereinafter - FC) in the amount of US\$ 50 million, submitted to the Chairman of the Eurasian Fund for Stabilization and Development (hereinafter - EFSD) on 07/05/2020, and annexed to the letter # 2/0/7/323 (hereinafter - Application). The key purpose of the FC is to provide support for the Program of Measures of the Government and National Bank of the Republic of Tajikistan to respond to impacts of the spread of COVID-19 on the economy, financial and social sectors (hereinafter - Program).

Having reviewed the Application, the Eurasian Development Bank acting in its capacity as the Resources Manager of the EFSD (hereinafter referred to as Manager), hereby requests the EFSD Council to consider the following recommendations and Appraisal Report:

1. The Application conforms to the Mission of the Fund, its funding strategy and policies, the Fund's procedures and conditionality for provision of funding by the EFSD, as defined by the Treaty on the Establishment of the EFSD, Statute of the Fund and the relevant Regulation on EFSD Financial Credits.
2. The application has been filed in compliance with the requirements of the EFSD and signed by the Minister of Finance of the Republic of Tajikistan, representing the Republic of Tajikistan on the EFSD Council. The depth of elaboration of the Application in terms of the available data required for appraisal and availability of support documentation, reviewed in consultation with the authorities of Tajikistan, is deemed satisfactory.
3. The Financial Credit is requested for implementation of the Program, which contains the "Plan of Action of the Government of the Republic of Tajikistan to Prevent the Spread of COVID-19 Virus and Mitigate its Impacts on Social and Economic Sectors of Tajikistan". The Program is consistent with the Mission of the EFSD, as defined by the Treaty on the Establishment of the EFSD. It aims to provide support to businesses and population affected by the COVID-19 pandemic, with its ultimate goal of enabling economic recovery on a sustainable growth trajectory.
4. The purposes, the requested EFSD funds would be used for, are consistent with the requirements set forth in the EFSD's statutory regulations. The FC funds are intended to finance the budget deficit, which is expected to grow as a result of the shortfall in domestic revenues, and in view of the need for funding of extra expenses required to respond to the impact of the pandemic (including measures outlined in the Program).
5. The amount of the requested FC of US\$ 50 million, in the opinion of the Manager, appears justified. As estimated by the EFSD Project Unit, the requirement for additional financing of the RT budget deficit resulting from revenue shortfalls and the ensuing increases in certain expenditure items, will amount to about US\$ 380 million. With due account of the assistance, both already provided, and contemplated by other development institutions (see Table 2), the outstanding gap in funding the country's budget deficit accounts for about US\$ 60 million.

6. The Republic of Tajikistan is a low-income country according to the World Bank classification, and therefore, based on the Indicative Terms for EFSD Financial Credits, budget support funding must be provided at a fixed interest rate (1-3%). Meanwhile, given the substantial budget burden due to the implementation of anti-crisis response measures, and in view of the growing budget risks stemming from the dramatic slowdown of economic activities in 2020, the Manager recommends to consider adopting a reduced interest rate of 0.25% per annum for the first year of performance. As a result, up to about US\$ 375,000 of budget resources would be unlocked and made available in the first year following the disbursement of the FC, thereby enhancing Tajikistan's capacity to respond to the post-pandemic effects and to ensure economic recovery and growth. The provision of soft financing schemes is in keeping with the mandate of the EFSD as a Regional Financial Arrangement and a member of the Global Financial Safety Net, as well as in line with the practice of major international financial institutions that have eased the terms of emergency financing for low-income countries. Extension of this FC under these terms is consistent with the IMF Concessionality Guidelines in respect of Tajikistan (grant element equal to 42.46%).

7. The Republic of Tajikistan is in full compliance with all requirements, stipulated by the Treaty on the Establishment of the EFSD, the relevant Regulations of the EFSD and decisions of the EFSD Council, and the Commitment to make the initial payment in cash has been duly executed. The Government of the RT has no outstanding debts either to any of the EFSD member countries, or major international financial institutions, which is certified by the EFSD member countries and the Ministry of Finance of the RT. Given the concessional nature of the FC, its disbursement will not affect the solvency status of the country.

3. RATIONALE OF APPRAISAL

3.1 Assessment of Macroeconomic Condition and Solvency of Beneficiary

3.1.1. Economic condition in the Republic of Tajikistan in pre-pandemic time

In recent years, the Tajik economy has been demonstrating high growth rates. According to the official statistics, GDP growth was 7.5% in 2019, compared to 7.3% in 2018. Furthermore, Tajikistan's economy has maintained a steady high growth rate since 2015, when GDP grew at 6%, despite the aftermath of the regional crisis provoked by the devaluation of the Russian ruble and recession in the Russian Federation. In sectoral breakdown, the main growth drivers were manufacturing industry, retail and agriculture, whereas in the structure of GDP distribution - consumption and investments, largely financed by foreign capital.

2019 brought significant improvement to the balance of payments. The current account deficit dropped to 2.2% of GDP from 5% in 2018, which was facilitated by an upturn in the balance of trade (up 0.8% of GDP), and an increase in cash remittances (up 3% in dollar terms compared to 2018). The financial account, in turn, also benefited from leveraging by private sector businesses of trade credit and advances in the amount of \$212 million. As a result, the surplus of the balance of payments amounted to 2.1% of GDP, and the foreign exchange reserves reached US\$ 1.47 billion, which covered 5.2 months of imports. In addition, purchases of gold by the National Bank to replenish the reserves and the rising gold prices, contributed to the growth.

Inflation accelerated to 8% in 2019 up from 5.4% in 2018, while staying within the target range of 5-9% set by the NBT. The principal factor that triggered the rise in prices, was the surge in prices for foodstuffs imported from Kazakhstan (mainly wheat and flour). The share of food price growth increased to 6.1 p.p. (2.8 p.p. in 2018), while the input of non-food prices dropped to 1.2 p.p. (2.8 p.p. in 2018), while the share of prices for non-food products decreased to 1.2 p.p. (1.9 p.p.), whereas that of services remained at the level of 2018 (0.7 p.p.). Despite the accelerating inflation, the NBT reduced the rate of refinancing several times during the year, which dropped to 12.25% at the year-end (compared to 14% in the beginning), its lowest level since 2016.

The fiscal position of Tajikistan improved in 2019; its budget deficit narrowed to 2.9% of GDP compared to 3.7% in 2018, despite the shrinking budget revenues. All basic items of income (tax and non-tax revenues, grants) declined, resulting in an aggregate plunge of 3.7% of GDP. The dynamics of tax revenues are conditioned by the slowdown in wholesale trade, the increase in the share of the agricultural sector in GDP, because its tax rates are low, also by the enactment of a moratorium on advance tax payments, and by the introduction of new types of tax and customs benefits, in particular, on imports of raw materials for subsequent conversion at domestic facilities. The shortfall in revenues was offset by a significant reduction of public spending, primarily in capital expenditures financed by the leveraged external debt. The current expenses also contracted on all items except labor costs, which remained at the same level as in 2018. At the year-end of 2019,

the level of public debt was reported at 45.6% of GDP (48.8% of GDP at the end of 2018), including 36.6% of GDP, accounted for as external debt.

Despite the improvement in the budget performance indicators, significant fiscal risks still persist. Regarding the revenues, the risks stem from the proposed enactment of the new Tax Code effective on 1 January 2021 (this new Code is expected to reduce some tax rates in the coming years), as well as from the widely practiced tax and customs exemptions, which could lead to further lowering of the effective tax rate. As for the expenditures, the potential risk lies in the precarious financial condition of many state-owned companies, primarily the national public energy shareholding company "Barki Tojik", whose total debt exceeds 30% of GDP (most of which is payable to the Ministry of Finance of the Republic of Tajikistan). Further quasi-fiscal risks are attributable to the dire financial condition of two systemic banks that have been undergoing reorganization since 2016.

3.1.2 Assessment of the impact of the COVID-19 pandemic and falling oil prices on the social and economic situation, as well as on the budget of the Republic of Tajikistan in 2020.

The global slowdown in economic activities caused by the COVID-19 pandemic, in the absence of an OPEC+ arrangements, has led to a drop in demand and in oil prices, which adversely affected the national currencies of oil-exporting countries. The collapse of oil prices (to \$25/barrel down from \$45/barrel in early March), and the increased market volatility throughout March, resulted in depreciation of the currencies of Russia (13.8%) and Kazakhstan (14.9%). Given the heavy reliance of the economy of Tajikistan on the regional trade and economic processes, the external shocks put pressure on the somoni exchange rate, which forced the authorities to undertake a one-off exchange rate adjustment by 5.1% on 20 March, notably considering the dramatic drop in cash remittances (by 30% in March and by 40% in April). Ever since, the exchange rate remained unchanged, despite the strengthening of the Russian ruble. At the same time, the NBT did not carry out any interventions in support of the national currency.

The impact of the spread of COVID-19 on the real sector of Tajikistan in Q1 of 2020 was not significant. According to the official statistics of Tajikistan, the short-term development performance of major sectors of the economy in Q1 of 2020 displayed a growth of 7% (in the first 2 months the growth was 7.6%). The only sectors that reported a noticeable slowdown in growth were transportation and communications. And the volume of freight and passenger traffic grew at last year's rate, as did the volume of foreign trade of Tajikistan, despite the slowdown in the global trade activity.

However, given the impact of external shocks, as it results in weakening of the national currency, large-scale reduction in external demand and commercial flows, as well as in further deceleration of the economic activity, with tougher quarantine restrictions significant negative impacts of the crisis on the economy and population are expected for Tajikistan in 2020. According to preliminary estimates of the EFSD Project Unit, in 2020 the rate of economic growth in Tajikistan may slow down to 2.8% owing to weaker domestic demand and investment activity, as well as lower export volumes

(Table 1). In view of the rapid escalation in the number of cases in May 2020, global medical practice cannot rule out enforcement of stringent restrictions (such as lockdown, self-isolation, curfews), that will have a negative impact on economic activity. Moreover, the current situation in the People's Republic of China (PRC) and the Russian Federation enables us to project a significant drop in cash remittances and a slowdown in trade turnover by the end of 2020.

Currency shocks, lower external demand and high levels of uncertainty will negatively affect consumption and investment activity. In the event further developments evolve as predicted in the scenario of the ESFR Project Unit, with a 5.5% decline in the Russian economy and with average annual depreciation of the ruble exchange rate to 73 rubles per dollar, the cash remittances may drop by 27%, resulting in a significant reduction in household consumption patterns and a serious pressure on the balance of payments. The increasing uncertainty and limited access to credit resources will lead to reduced investments in fixed assets, especially in the private sector.

The impacts of the shock will also exacerbate the inflationary pressures, which could impair the socio-economic situation in the country and accelerate growth of poverty in the country. The projected weakening of the TJS exchange rate by 9.2% at the year-end, will contribute to a rise in prices of imported goods, which constitute a large share of the consumer basket. At the same time, the decline in domestic demand will hold down inflationary pressures, which is why the EFSD Project Unit predicts that inflation will remain within the previous year's range (about 8%).

According to the current estimates of the EFSD Project Unit, deterioration of the external sector performance will produce a balance of payments deficit of US\$ 309 million. The main causes for degradation of the balance of payments dynamics are reduction of cash remittances from the Russian Federation and foreign direct investments, most importantly, from the People's Republic of China. At the same time, the decline in oil prices and real incomes by the year-end will facilitate the improvement of the foreign trade balance, which will, to some extent, offset the adverse impact on the balance of payments. The level of international reserves, according to the evaluation of the 'external gap' by the year-end of 2020, will diminish from US\$ 1.47 to US\$ 1.16 billion.

According to the current estimates provided by the EFSD Project Unit, the budget deficit may increase to 5.6% of GDP, thereby generating a fiscal gap of US\$ 380 million. The main factor behind the widening of the budget deficit is the drop in tax revenues due to reduced imports, significant slowdown in economic activity, and enactment of additional tax and customs benefits. Additional spending on anti-COVID activities will also put pressure on the budget, while the government intends to cut low-priority items of expenditure to release extra funds for responding to the pandemic. However, it should be pointed out that the authorities intend to maintain capital expenditures at a fairly high level, including financing of the Rogun Hydropower Plant.

In 2021, according to the estimates of the EFSD Project Unit, the economic growth in Tajikistan is expected to recover to pre-pandemic levels, driven by increased consumption and the inflow of foreign investments. However, despite the strong confidence in recovery of the real sector, the budget deficit will remain at 4.4%, including

due to the adoption of the new Tax Code, which is expected to reduce some rates and, thereby, cut tax revenues. The current account and the balance of payments will also remain in deficit, which will put pressure on the reserves. Notwithstanding the expected recovery of foreign trade volumes to pre-pandemic levels, its share in the GDP will decline. Amid the still persisting serious structural and institutional problems and the high vulnerability of the economy to external shocks, the EFSD intends to continue active communication with the Tajik authorities, as well as coordination with other donors in promoting important structural reforms in the context of follow-up programs of budget support funded by the EFSD.

Table 1. Tajikistan: Key macroeconomic performance indicators

	2017	2018	2019	2020	2021
National accounts and prices (%)					
Real GDP growth	7.1	7.3	7.5	2.8	7.5
CPI (Dec, YoY)	7	5.4	8	8	7
Money and credit (%)					
Broad money	21.8	5.1	16.9	13	13.4
Key interest rate	15.1	14.2	13.7	12	11.5
Public finance (% of GDP)					
Revenues and grants	29.7	33	27	24.9	23.1
Tax revenues	21.4	23.1	19.7	18	17.5
Non-tax revenues	2.5	1.6	2.5	1.5	1.2
Grants	2.4	2.9	2.1	3.3	2.1
Special funds	3.6	4.1	2.6	2.2	2.3
Budget expenditures	36.1	34.7	29.8	30.6	27.5
Revenue expenditures	22.2	23.1	21.6	20.6	18.7
Capital expenditures (including recredited funds)	13.8	11.7	8.2	10	8.8
Budget balance	-6.3	-1.7	-2.8	-5.6	-4.4
External sector					
Current account transactions	2.2	-5	-2.2	-6.4	-6
Exports of products and services	15.7	14.8	14.8	13.5	12.8
Imports of goods and services	38.6	42.8	40.6	37.9	36.3
Cash remittances	35.4	33.9	30.4	22.5	22.9
Gross reserves in months of imports of goods and services	5.6	4.8	5.2	4.3	3.5

Sources: NSC of RT, NBT, MF of RT, EFSD estimates

3.1.3 Assessment of debt sustainability and solvency

Over the past five years, the Republic of Tatarstan has noticeably increased the level of debt liabilities. The level of public debt at the year-end of 2019 amounted to 48.4% of GDP, compared to 25% in 2014. The main growth drivers were the depreciated national currency, as well as the issue of Eurobonds in 2017 in the amount of US\$ 500 million. Meanwhile, the country's solvency relies on the concessional nature of foreign debt, which means that about 82% of external liabilities are represented by concessional loans. Moreover, the main creditor for the external debt of Tajikistan is China, with its share accounting for about 40% of all external liabilities. The terms of financing provided by the PRC are preferential, with average interest rates of around 2%.

The negative impact of the current crisis will drive up the level of public debt. The decline in real GDP, the widening budget deficit and the weakening of the national currency will raise the level of public debt to 48.4% of GDP, compared to 45.6% at the beginning of the year. And if the economy is hit by a more massive shock than forecasted by the baseline scenarios, it will have little or no capacity to absorb the impact. Furthermore, should major heavily leveraged companies require government support, Tajikistan might plunge into a debt crisis.

In the medium term, the debt sustainability of the country may prove to be even more vulnerable. Given the persistent budget deficit, the country will have to repay about 50% of its total public debt between 2020 and 2025, which will result in a dramatic surge of its medium-term financing requirements. For a longer term, from 2025 to 2027, Tajikistan will have to make large repayments on its Eurobonds. All of the above factors, especially given the context of an adverse external environment, only demonstrate the high vulnerability of Tajikistan's debt sustainability and underscore the need for concessional credit terms.

3.2 Government Measures to Contain the Spread of COVID-19

The epidemic broke out in Tajikistan later than in the neighboring countries. Despite the explosive spread of viral infection globally starting in early 2020, the first cases in Tajikistan were not officially reported until 30 April 2020. As of 25 May, 2,929 COVID-19 positive cases had been diagnosed in the country. The negative effect of the pandemic began to transpire indirectly somewhat earlier, with a drop in the volume of incoming cash remittances.

Notwithstanding the prolonged absence of cases in the country, the Government of Tajikistan prepared in advance a plan of action to prevent the spread of COVID-19 virus and mitigate its impact on the socio-economic sectors of the Republic of Tajikistan. Measures to stem the spread of the viral epidemic include the procurement of necessary equipment (ambulances and ventilators), construction of a 5,000-bed mobile infectious diseases hospital, supply of pharmaceuticals, food for patients and doctors, and personal protective equipment, as well as raising doctors' salaries and providing social assistance to the worst-affected people.

In addition, the authorities are considering a package of measures in support of economic activity, tentatively estimated at US\$180 million. The main mechanisms of support to encourage economic activity include granting of additional tax and customs benefits, procurement of seeds and equipment for the agricultural sector in order to ensure implementation of import-substitution programs, and additional funding for the health care sector.

3.3. Support from Other Development Partners

Tajikistan has already obtained anti-crisis budget support funding provided by the IMF (US\$189.5 million), and is currently negotiating with the World Bank and the Asian Development Bank (US\$116 million). Tajikistan is also exploring the options for deferrals on repayment of its public debt, pursuant to the recent G-20 decisions¹. In addition to the support provided, the IMF also carried out a debt write-off in the amount of US\$ 11 million. At the same time, according to estimates of the EFSD Project Unit, the outstanding gap in the budget, given all donors provide their support, amounts to at least US\$ 60 million.

Table 2. Donor support provided and expected (US\$ million)

	Budget support	Investment support
IMF - emergency aid	189.5	–
IMF - debt write-off	11	-
World Bank	30	11.3
ADB	86	
European Union through bilateral and multilateral agencies	-	52
European Investment Bank	-	32
The G20 initiative to defer repayment of public debt to sovereign creditors. For the RT - Eximbank of PRC, USA, France. Net of bilateral development funds.	84	-
Other	-	About 4.4
Total	316.5*	99.7

** Net of estimates for deferred repayment of public debt. Prospects for deferral by the PRC are least assured, while payments to the PRC account for more than 98% of external payments to bilateral creditors in 2020.*

3.4 Program of Measures of the Government and National Bank of the Republic of Tajikistan to Respond to Impacts of the Spread of COVID-19 on the Economy, Financial and Social Sectors

The Government of Tajikistan has applied for support to the ESFD and other donors, as well as expressed its readiness to follow their recommendations to ensure

¹ The G20 Initiative, agreed by their finance ministers and central bank governors on 15 April 2020, to defer public debt service payments for the poorer countries.

stabilization of the economy at a time of crisis. The amount of support requested from the EFSD totals US\$ 50 million. One of the key prerequisites to qualify for the funding is the availability of an approved plan of action to prevent the spread of COVID-19 and mitigate its impact on the socio-economic sectors of the Republic of Tajikistan. The plan should also include the implementation of specific macroeconomic, social and financial policy measures. In particular, it is expected that a balanced fiscal regulation framework will be in place in times of crisis. In order to maintain social stability, there is a need to ensure timely and full-scale funding of social sectors and welfare support for vulnerable groups from the national budget. In order to uphold the confidence of investors and donors, the Government undertakes to ensure timely payments towards its external public debt service obligations. Coherence and coordination of fiscal policy measures with monetary and foreign exchange regulations, as well as appropriate macroprudential supervision, will ensure inflation control, macroeconomic and financial stability.

The main objectives and measures outlined in the Program, and the steps to implement them, are contained in the Matrix of Measures and Intentions of the Government and the National Bank of Tajikistan (see Table 3 below). The status of implementation of measures and the proof of intentions to uphold the above policy measures are presented in accordance with Letter No. 2(a)7/368 of the Minister of Finance of the Republic of Tajikistan dated 1 June 2020 (Appendix 1 attached hereto).

Table 3. Matrix of Measures of the Government and National Bank of the Republic of Tajikistan to respond to impacts of the spread of COVID-19 on the economy, financial and social sectors

Purpose	Measures	Current status
1. Improving the effectiveness of measures to combat the crisis.	Approval of the plan of action to prevent the spread of COVID-19 and mitigate its impact on the socio-economic sectors of the Republic of Tajikistan.	Implemented. Preliminary version of the plan of action was approved by the Prime Minister on 19 March 2020. On 05 June 2020, Decree No. 1544 of the President of the Republic of Tajikistan "On preventing the impact of infectious diseases contracted from COVID-19 on the socio-economic sectors of the Republic of Tajikistan" was signed and published.
2. Improving the effectiveness of performance of the healthcare sector	Approval of amendments to the budget to ensure retention of the approved budget for financing the health sector and social benefits in the amount of	Implemented. Based on the preliminary version of the Plan of Action and with due

	TJS 1.8 billion from the national budget (equivalent to US\$180 million), and another TJS 1.8 billion to control the spread of the Coronavirus.	consideration of the adjusted projections of budget revenues and expenditures, the Ministry of Finance of the Republic of Tajikistan adopted a budget resolution on 24 April 2020. Pursuant to this resolution, the Ministry of Finance is drafting a bill "On Amendments to the National Budget of the Republic of Tajikistan for 2020," which will be submitted to the Government and Parliament for consideration in June 2020.
3. Pursuing responsible and balanced budget policies.	Reduction of low-priority expenditures and reallocation of funds towards education, health care and social protection, as well as maintenance of these expenses in the amounts sufficient for the ongoing and legally approved reforms in these sectors for the year 2020. Intention to reduce the national budget deficit for 2021 to 4.4% of GDP ² .	Implemented. The reallocation of expenses is addressed in the amendments contained in the budget resolution. Intention to reduce the deficit is confirmed in the letter of the Ministry of Finance to the EFSD (No. 2 (a) 7/368 dated 01.06.2020).
4. Ensuring proper service of the public debt.	Timely execution of external public debt service obligations.	Implemented. As of 26 May 2020, public debt service liabilities had been met on time and in amounts as stipulated by agreements, including revisions and supplements thereto (Letter #2(a)7/354 of May 26, 2020 from the Ministry of Finance to the Manager).

² The deficit will be estimated according to the IMF Government Finance Statistics Manual 2014.

<p>5. Ensuring sustainability of the banking sector</p>	<p>In order to ensure sustainable operation of the banking sector and solvency of the credit institutions, as well as to provide access to credit resources for business entities, the National Bank of Tajikistan will undertake appropriate regulatory measures, such as reviewing the rate of refinancing and the statutory reserves ratio, in order to assure compliance with the inflation target, as well as to promote further growth of the national economy. The National Bank will continue to closely monitor inflationary pressures and, as the institution of last resort, will be ready to increase the volume of liquidity provision to viable banks by way of emergency liquidity support to assist in maintaining stability of the financial sector performance in cases of potential outflow of funds from banks.</p>	<p>Implemented Such intentions of the NBT were confirmed by the letter of the NBT to the Ministry of Finance No. 13.2-139 / 2139 dated May 29, 2020.</p>
<p>6. Pursuing balanced monetary policies</p>	<p>Given the high degree of uncertainty, the National Bank of Tajikistan intends to continue to pursue appropriate monetary policies, with due account of macroeconomic developments. Owing to the weakening of the national currency exchange rate, reduction of cash remittances and the negative impact of other external factors, the National Bank of Tajikistan, in view of the temporary increase of the overall inflation rate, will take appropriate action, in particular, to adjust the monetary policies, if prices rise above the target level of $6 \pm 2\%$ for annual inflation, and will seek to revert the inflation rate to the target range by 2022. Flexibility of the exchange rate will be maintained to restore the foreign trade balance.</p>	<p>Implemented Such intentions of the NBT were confirmed by the letter of the NBT to the Ministry of Finance No. 13.2-139 / 2139 dated May 29, 2020.</p>

APPENDIX 1

**Letter No. 2 (a) 7/354 of the Minister of Finance of the Republic of Tajikistan
addressed to A. Shirokov, Acting Executive Director of the EFSD Project Unit
(attached as a separate file)**