TAJIKISTAN – DEBT SUSTAINABILITY ANALYSIS (DSA)[1]

COVID-19 and its impact on the global economy are slowing Tajikistan's economic growth. Tajikistan's economy is expected to grow 5.2% in 2020–2021, nearly 1.3% below its recent historical average (Table 1). Growth will then converge to 4% by 2024. Average annual inflation (GDP deflator) is projected at 6.8% in 2020–2024, well above its recent trend.

Countercyclical fiscal policy is adding pressure to Tajikistan's persistent budget imbalances. Countercyclical spending to cushion the pandemic's impacts will widen fiscal deficits to 4.7% of GDP in 2020–2021, reversing the budget consolidation achieved in 2018–2019. Normalizing expenditure levels are expected to ease budget imbalances back to 3% of GDP by 2022–2024.

Steady growth counters upward pressures on the debt ratio from sustained fiscal deficits. Public debt peaked at 50.4% of GDP in 2017, following sharp currency depreciations and fiscal deficits since 2014. Solid economic growth and budget consolidation since 2017 brought this ratio down to 45.4% in 2019, but debt remains moderately high. Countercyclical fiscal expansion and slower growth are expected to nudge up debt to 47.6% of GDP in 2020, which will stabilize in the medium term (Table 2 and Graph 1).

Fiscal vulnerabilities and uncertainty cloud the outlook despite a relatively stable baseline debt ratio. Lower-than-expected real GDP growth in 2020–2021, at 3.2% instead of baseline 5.2%, could push the public debt ratio higher, to 48.4% of GDP by 2024 (Graph 2).[2] Concessional foreign loans, which represent 70% of total Government debt, keep borrowing costs low and mitigate rollover and interest-rate risk. However, their denomination in foreign currencies expose the country to significant currency risk. Eurobonds issued in 2017 to the amount of $500 million, or 12% of total debt, carry moderate coupon rates that will require bullet payments at maturity. The outlook is clouded by concerns about the continuation of the Rogun hydropower construction project, which is not reflected in the baseline but carries investment and borrowing requirements that may double the outstanding public debt stock, according to the IMF.[3]

Tajikistan's reserves position is strong, but external risks are substantial. International reserves amount to 4.6 months of imports and almost one year of external debt service (Table 3). Main risks stem from Tajikistan's heavy dependence on remittances, which are being crippled by the pandemic and its impact on the Russian Federation's economy, where most expatriate workers reside. In addition, the Rogun project entails heavy dependence on foreign financing.

Financial assistance from ADB will not further aggravate the vulnerabilities facing Tajikistan. The $50 million proposed ADB grant will have no impact on the country's debt, will increase the operational resources of the government and thereby improve fiscal space and stabilize the debt to GDP ratio. Loans already approved or under proposal by the International Monetary Fund ($189.5 million) and the Eurasian Development Bank ($50 million), both on broadly concessional terms, jointly represent 6.6% of the country's public debt stock of $3.7

[1] The macroeconomic, fiscal, and debt forecasts for 2020–2021 are based on ADB's Asian Development Outlook (ADO) 2020 and IMF's World Economic Outlook (WEO) April 2020, while the forecasts for 2022–2024 rely on IMF's WEO October 2019. The DSA refers to the gross debt of the General Government.

[2] The Shock Scenario (Growth) shown in Graph 2 reflects average real GDP growth of 3.2% for 2020–2021, the forecast in WEO April 2020. This is significantly lower than the baseline assumption of 5.2% average growth, the forecast in ADO 2020.

[3] IMF's latest Article IV Consultation, summarized in the Press Release 20/12 dated January 17, 2020, warns that the fiscal deficits from the Rogun project would put Tajikistan's public debt on an unsustainable path. National authorities did not authorize the publication of the Article IV Staff Report.

billion. These loans will neither significantly affect the debt ratio nor increase the annual debt service obligations of the Government (Graph 3).

Tajikistan: Public Debt Sustainability Assessment

(variables expressed in percentage of GDP, unless otherwise indicated)

Table 1: Baseline Scenario

	Actual					Est.	Forecast					Avg.	Avg.
	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	15-19	20-24
Public Debt	**27.7**	**34.7**	**42.1**	**50.4**	**47.9**	**45.4**	**47.6**	**46.4**	**46.5**	**46.8**	**47.0**		
Macroeconomic Indicators													
Real GDP Growth (%)	6.7	6.0	6.9	7.1	7.3	5.0	5.5	5.0	4.5	4.0	4.0	6.5	4.6
Inflation (%, based on GDP Deflator)	5.5	0.1	5.3	4.7	5.0	7.5	9.0	8.0	5.8	5.6	5.8	4.5	6.8
Depreciation of Local Currency against US dollar (%)	11.4	31.7	12.7	12.0	6.9	1.1	5.3	4.4	4.3	4.3	4.3	12.9	4.5
Interest Rate on Government Debt (%, average effective)	2.3	1.9	1.9	1.3	2.5	2.5	2.7	3.0	3.1	3.5	3.8	2.0	3.2
Fiscal Indicators (General Government)													
Revenue	28.4	29.9	29.9	29.7	29.1	27.8	28.1	28.1	28.1	28.1	28.1	29.3	28.1
Primary Expenditure	28.0	31.4	38.3	35.2	30.8	30.7	33.5	29.9	29.8	29.6	29.5	33.3	30.5
Interest Payments	0.6	0.5	0.7	0.5	1.1	1.1	1.1	1.3	1.3	1.5	1.6	0.8	1.3
Primary Balance	0.4	-1.5	-8.3	-5.5	-1.7	-2.9	-5.4	-1.7	-1.7	-1.5	-1.4	-4.0	-2.3
Overall Balance	-0.1	-2.0	-9.0	-6.0	-2.8	-4.0	-6.4	-3.0	-3.0	-3.0	-3.0	-4.8	-3.7

Table 2: Baseline Scenario - Change in Public Debt

	Actual					Est.	Forecast					Cum.	Cum.
	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	15-19	20-24
Change in Public Debt	**-1.4**	**7.0**	**7.4**	**8.3**	**-2.5**	**-2.5**	**2.2**	**-1.2**	**0.0**	**0.3**	**0.2**	**17.8**	**1.5**
Identified debt-creating flows	-1.4	7.0	7.4	8.3	-2.5	-2.5	2.2	-1.2	0.0	0.3	0.2	17.8	1.5
Primary deficit	-0.4	1.5	8.3	5.5	1.7	2.9	5.4	1.7	1.7	1.5	1.4	19.9	11.7
Automatic debt dynamics 2/	-0.3	5.3	-0.3	-0.8	-2.1	-4.0	-3.2	-2.9	-1.7	-1.3	-1.2	-1.9	-10.3
Contribution from interest rate/growth differential 3/	-2.7	-1.1	-3.3	-4.1	-4.6	-4.4	-4.9	-4.4	-3.1	-2.7	-2.6	-17.4	-17.7
Of which contribution from real interest rate	-0.8	0.5	-1.0	-1.3	-1.1	-2.1	-2.5	-2.1	-1.1	-0.9	-0.8	-5.1	-7.5
Of which contribution from real GDP growth	-1.8	-1.6	-2.2	-2.8	-3.4	-2.3	-2.4	-2.3	-2.0	-1.8	-1.8	-12.3	-10.2
Contribution from exchange rate depreciation 4/	2.4	6.4	3.0	3.3	2.5	0.4	1.7	1.4	1.4	1.4	1.4	15.5	7.4
Other identified debt-creating flows	-0.7	0.3	-0.7	3.6	-2.1	-1.4	0.0	0.0	0.0	0.0	0.0	-0.2	0.1
Residual, including asset changes	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Debt-Stabilizing Primary Balance (' - ' means deficit)							-3.2	-2.9	-1.7	-1.2	-1.2		

1/ Indicate coverage of public sector, e.g., general government or nonfinancial public sector. Also whether net or gross debt is used.
2/ Derived as [(r - p(1+g) - g + ae(1+r)]/(1+g+p+gp)) times previous period debt ratio, with r = interest rate; p = growth rate of GDP deflator; g = real GDP growth rate; a = share of foreign-currency denominated debt; and e = nominal exchange rate depreciation (measured by increase in local currency value of U.S. dollar).
3/ The real interest rate contribution is derived from the denominator in footnote 2/ as r - π (1+g) and the real growth contribution as -g.
4/ The exchange rate contribution is derived from the numerator in footnote 2/ as ae(1+r).
5/ Derived as nominal interest expenditure divided by previous period debt stock.
6/ Assumes that key variables (real GDP growth, real interest rate, and other identified debt-creating flows) remain at the level of the last projection year.

Table 3: - External Indicators

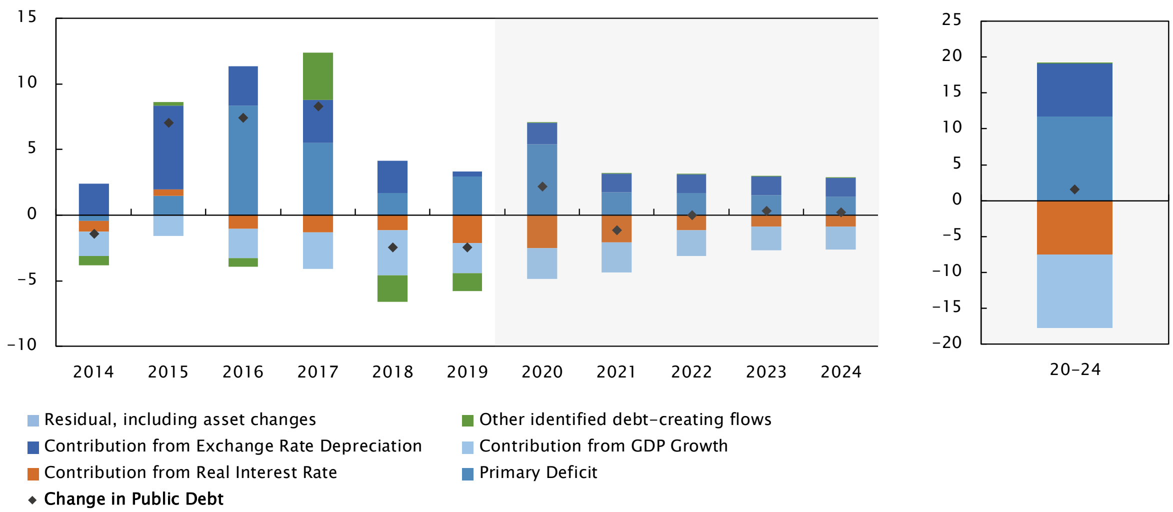
	Actual					Est.	Forecast				
	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Debt Service (% of Reserves) A/ B/	235.1	286.2	318.8	232.4	100.7	115.0					
Imports of Goods and Services (% of Reserves) B/	634.9	648.6	593.2	428.7	249.3	261.6	271.7	283.4	294.2	303.4	313.1
Interest Payments of Gov. External Debt (% of Reserves) B/	4.8	5.9	7.0	5.8	5.5	5.7	5.9	6.2	6.4	6.6	6.8

A/ Debt Service in year t is the sum of interests payments in yeat t, ST debt outstanding at end of year t-1, and amortization payments of MLT debt in year t.
B/ Reseves are stocks measured at end of the preceding year.

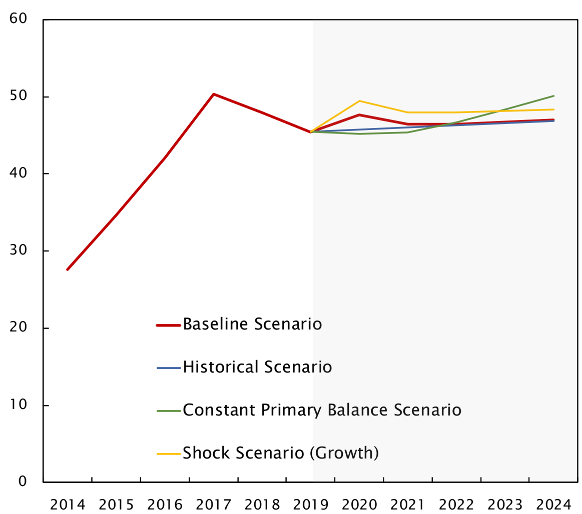
Tajikistan: Public Debt Sustainability Assessment

(variables expressed in percentage of GDP, unless otherwise indicated)

Graph 1: Change in Public Debt and Its Drivers (percentage points)



Graph 2: Public Debt – *Baseline and Alternative Scenarios*



Graph 3: Public Debt – *Baseline and ADB Loan Scenarios*