

English transcript of Mr. Ari Aisen's (AA) answers to the questions of Mr. Tohiri Safar (TS), reporter of the Liberty Radio

AA: Yes, thank you. The GDP growth has finalized in 2011 at about 7.5 percent and inflation has been going down when it's now about 9.3 percent for the year 2011. So, I think these are quite reasonable numbers and it supports the recovery in the country. In terms of growth I would point out that the services, agriculture and construction sectors really have been behind that good performance. Remittances are also growing at around 30 percent and the exchange rate has stabilized. So we can see a good macroeconomic environment for the end of this year.

TS: Could you please name some of the most acute problems that Tajik economy still has?

AA: Sure, despite of this good performance, of course, there are some problems; I would say that in general the economy still remains very vulnerable to external shocks. Some of the reasons of the vulnerability, I would point out, that there is small private sector base, which could actually be useful when the country is hit by a shock in terms of being more resilient. Also, I would point out to a low financial intermediation, so there is a need for banks to improve their balance sheets and non-performing loans to fall further and intermediation to increase.

The country also has a high debt to GDP ratio reasonably in terms of its... I wouldn't say it's too high, but it is high enough that it doesn't allow the government to engage in much more debt, especially if it is not concessional.

Also, I would like to point out that there is still low stock of international reserves so part of the program objectives that the IMF program is trying to achieve is to continuously help the National Bank of Tajikistan increase its stock of international reserves, because that is very important in terms of facing external shocks and building strength when an external shock hits.

TS: Do you the numbers of the international reserves?

AA: Yes, I would say that for now the stock of international reserves is above around 430 million dollars that covers about one and a half months of imports. So, it is still low for a low income country and needs to go up. It would be at least good to have two and a half or three months of coverage of import. It takes some time, it is a gradual process, but we expect that with a discipline and recent performance and the performance going forward this is

achievable and over the years Tajikistan will be able to boost its stock of international reserves.

TS: So, the last question: the IMF said that Tajikistan has a number of challenges for going forward including the potential risk from the deterioration of the global economic environment, could you please say more about this?

AA: Yes, I think that in the case of Tajikistan, the major risk is really what is going to happen in the Russian economy, because the remittances are a very important inflow that keeps growth because remittances are related services and trade and it is also very important source of foreign exchange. So the stability of foreign exchange market hinges a little bit on that and to the major extent on that flow so it is very important. And it is also important in the terms of exports. There is demand for exports coming from Russia and from Tajikistan. This actually will likely to reduce in the case if Russia feels very strongly a shock from the international scenario and also the foreign direct investment. So, to the extent that Russia keeps growing at a reasonable rate we don't expect Tajikistan to suffer a lot.

Some other channels, by which Tajikistan can be affected, are through the value of commodity prices and the volumes. So, aluminum is the major export good in Tajikistan, also cotton, so, of course, they are important sources of foreign exchange as well. On the good side, if oil prices fall, then, this will benefit the balance of payments of Tajikistan. Of course, if the oil prices fall down, that will imply a deterioration in Russia. So, we have to keep in mind the net effect of all these variables. Finally we've just pointed out to one channel which is a little less important to Tajikistan, but not completely, which is really financial flows. If there is a major deceleration in the global economy, of course, banks that are exposed to financial flows coming from abroad might be hurt, so bank credit lines might dry out a little bit and also it may affect rollover needs of some banks, but as I said banks here are still small and the country is not very financially developed yet so this is not a most important channel from a global slowdown.