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«The Role of Subregional Cooperation in Mitigating the Consequences of the Global Economic Crisis»

THE IMPACT OF ECONOMIC CRISIS ON THE SPECA MEMBER COUNTRIES AND THE ROLE OF SUBREGIONAL COOPERATION

(ANALYTICAL REPORT)

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TABLE OF CONTENTS

INTRODUCTION

1	THE IMPACT OF THE CRISIS: NATIONAL EXPERIENCES AND TRANSMISSION CHANNELS	3
1.1.	Azerbaijan.....	3
1.2.	Afghanistan	4
1.3.	Kazakhstan	6
1.4.	Kyrgyzstan	9
1.5.	Tajikistan	10
1.6.	Turkmenistan.....	13
1.7.	Uzbekistan	14
2	ANTI-CRISIS MEASURES	15
2.1.	Azerbaijan.....	15
2.2.	Afghanistan	16
2.3.	Kazakhstan	17
2.4.	Kyrgyzstan	20
2.5.	Tajikistan	21
2.6.	Turkmenistan.....	22
2.7.	Uzbekistan	22
3	THE ROLE OF SUBREGIONAL COOPERATION AND RECOMMENDATIONS FOR ITS DEVELOPMENT	23
3.1.	The importance of interregional relations in fighting the spread of crisis	23
3.2.	Collective measures adopted under the auspices of subregional organizations	23
3.3.	Bilateral agreements between the countries in the region	24
3.4.	Areas of subregional cooperation to further improve the effectiveness of current anti-crisis measures	27
	CONCLUSIONS	30
	REFERENCES	32
	APPENDIX	35

INTRODUCTION

The global financial crisis has taken its toll on the economies of many countries and this is why the search for ways to overcome the consequences of the crisis has become the main preoccupation in the area of economic policy for the majority of countries around the globe.

The purpose of this report is to study the impact of economic crisis on the SPECA member countries and to analyze the measures currently undertaken by the Governments of these countries to combat the consequences of the crisis and ensure effective subregional cooperation.

The main tasks include research of the national experiences, channels of transmission of crisis-related phenomena and domestic response to the crisis, as well as the discovery of possible areas of subregional cooperation aimed at improving economic growth in the region.

SPECA is one of the promising areas of regional cooperation intended to serve as an umbrella for strengthening the economic integration of Central Asian States. The positive outcomes accumulated in the course of SPECA projects demonstrate its priority and role of creating effective regional cooperation and thus increasing the role of Central Asian countries in the global community.

The conclusions presented in this report are aimed towards a search for a better set of conditions for integration into the global world and equal partnerships with the world's political and economic actors.

1. THE IMPACT OF THE CRISIS: NATIONAL EXPERIENCES AND TRANSMISSION CHANNELS

1.1. AZERBAIJAN

Economic impact of the crisis. Azerbaijan has suffered from the consequences of the crisis to a lesser degree than the structurally similar economies of Russia and Kazakhstan due to factors, such as a poorer development of the stock market, a small investment portfolio, an insignificant share of commercial banks' stock belonging to commercial enterprises (with the exception of insurance companies), a limited use of shares for mortgage purposes, and a relatively insignificant share of foreign debt of local enterprises. At the same time the country is very dependent on the global markets since approximately 60% of Azerbaijan's GDP is generated from the oil sector.

The channels of transmission of external shocks. In addition to what is mentioned above, the financial crisis has taken its toll on the state and development prospects of the economy, manifesting itself in the following areas:

- Decline in oil revenues;
- Deterioration of the strategic assets of the country's Oil Fund and foreign reserves of the National Bank;
- Liquidity deficit in the banking sector;

- Growing fluctuations of the national currency's exchange rate and interest rates; and
- Crisis in the construction sector.

Correlation between external shocks and internal economic circumstances. The decline in oil revenues followed a sharp decline of crude oil prices from 145 US dollars per barrel in August down to 36 US dollars per barrel in November 2008. In fact, oil extraction and refining accounted for 53% and 54% of the GDP in the last two years respectively. Oil extraction accounted for 92% of industrial output in 2008. According to the National Bank, the total deposit base in Azerbaijan's commercial banks declined from 4,088 million manats in August 2008 to 3,211 million manats by May 2009, whereas foreign debt increased from 1,598 million manats to 1,928 million manats.

The crisis is having a very negative impact on the non-extraction sector, particularly the construction sector. Loans for the construction of commercial enterprises reached 5,606 million US dollars as of February 2009 with a risk of non-repayment of these funds within the established timeframes. The share of overdue loans has been growing since October 2008 and reached 2.7% of total loans by the beginning of March 2009.

The impact of the crisis on vulnerable groups. Another negative consequence of the crisis is the decline of industrial output, layoffs of workers and the deterioration of their material well-being. The food security programme as well as other state measures have played a key role in supporting food industry. Against the background of growing poverty in third world countries, Azerbaijan crossed the main threshold of poverty several years ago. This is why the potential food deficit has not had an impact on the poor populations, mostly due to the general economic growth of the country and increased state aid (social benefits and targeted social assistance).

The advantage of this country compared to other countries that have suffered greatly from the global crisis boiled down to the fact that while integrating itself rapidly in the global economy Azerbaijan never forgot about its own national interests. Azerbaijan believes that the goals set forth in the Millennium Declaration reflect to a certain degree the state's contribution to the global efforts aimed at improving the lives of the people. Although this country may face significant difficulties, there is a potential for future success in the implementation of the MDGs.

1.2. AFGHANISTAN

Economic impact of the crisis. In the opinions of experts, the global financial crisis has not had a strong impact on the economy of Afghanistan due to the poor economic linkages of the country with the global community. The exchange rate of the Afghan dollar against the US dollar remains unchanged since 2007 at the level of 52 Afghan dollars to one US dollar. It is expected, however, that crisis-related phenomena in the western financial system will sooner or later have an impact on Afghanistan since donor countries will naturally reduce the number of foreign investments when their financial situation deteriorates.

In the assessment of the impact of the global crisis one needs to take into account the factor of availability of natural resources, which many countries are interested in lately. As a result, Afghanistan was supposed to obtain the necessary financing from their revenues to develop its own economy and cover social needs. Its top priority was to create jobs for the majority of the youth. However, statistics show that GDP growth slowed down from 11.5% in 2007 to 7.5% in 2008.

The channels of transmission of external shocks. Donor countries (mostly western) are suffering from extreme crisis and may therefore suspend their aid to the Government of the Islamic Republic of Afghanistan for an indefinite period of time. This may jeopardize the pledges undertaken by the donor countries at the most recent Afghanistan-related conference in Paris. At that conference international donors pledged 20 billion US dollars of assistance to Afghanistan. Germany promised to allocate 140 million Euros in 2008 and 170 million Euros in 2009 which includes 30 million Euros for food. On the whole, international donor aid to Afghanistan will be limited since the use of the aid received by Afghanistan lacks transparency. However, Afghanistan has received 2.6 billion US dollars from the Target Reconstruction Fund and 63 million US dollars from the Target Fund for Law and Order (2007).

As for direct investments, they will continue as there is a high risk of investing in Afghanistan and these were only made with an intention to receive specific profits. Deterioration of the security situation will indeed have an impact, but there is no direct link to the financial crisis here. However, state support of the donor countries to the Government of the Islamic Republic of Afghanistan is linked to the crisis. The crisis will also limit private assistance offered to Afghanistan by many NGOs and foundations from Germany which sector is significant. These inputs may also shrink.

As for private banks and entrepreneurs in Afghanistan, if they do not invest a greater share of their capital in other banks then this crisis may not have great impact on the Afghan economy after all. Otherwise if the Afghan private sector seeking to receive greater revenues does invest its capital in foreign banks, it may suffer significantly. In this case the International Bank and the International Chamber of Commerce should inform the Afghan entrepreneurs and banks on the degree of the loss or the lack there-of.

Interrelation of external shocks with internal economic circumstances. 16 banks with a total equity of 1.5 billion US dollars are currently active in Afghanistan. They have not made the mistakes of American or European banks of issuing large loans to residents. If Afghan banks do issue a loan amounting to 100,000 dollars, they take a security worth 200,000 dollars. Afghanistan has no commodity or currency exchanges where big amounts in foreign currency would come and go every day. The only large currency market where only private money changers are engaged is located in Kabul. They also insured themselves against crises using the simplest means possible and would not invest their money in foreign banks.

Thus, the economic crisis has not affected Afghanistan since the country lacks any significant trade relations with any country that did suffer from the crisis. The Afghan economy is still at the pre-crisis level while major businessmen involved in the supplies of food to Afghanistan from various countries may indeed be affected.

The impact of the crisis on vulnerable populations. At this point in time, ordinary residents of Afghanistan that simply make a living and do not have any opportunities to save have not felt the crisis. However, there is an assumption that if the crisis is prolonged, the population of Afghanistan may indeed suffer since the prices of imported food and other products may rise on the Afghan market.

Some estimates show that the unemployment rate in Afghanistan in 2008 was 40% with 53% of the population living below the poverty line. Despite significant progress in achieving the Millennium Development Goals, Afghanistan still faces many unresolved problems including poverty, unemployment and ensuring access to basic services and security.

There are four main inhibitors to offering effective aid:

- 1) Insufficient volume of general aid compared to other post-conflict situations;
- 2) The gap between aid promised and aid actually received;
- 3) Distribution of three fourths of aid outside of the national budget; and
- 4) Volume of conditional aid is three times the size of unconditional aid.

1.3. KAZAKHSTAN

Economic impact of the crisis. Kazakhstan's public debt in 2008 did not exceed 8.4% of the GDP with budget deficit being low at the level of 2.1% of the GDP. The main factors in the economic development of Kazakhstan in the current year boiled down to the demand and price of exported commodities on the international markets.

The greatest threat to the economy of Kazakhstan is posed by the long-drawn-out decline of world oil prices below 60 US dollars per barrel, which may lead to the contraction of industrial production and capital investments, as well as a growth in unemployment, inflation and a decline in consumption.

First and foremost, the crisis has had an impact on GDP growth rates. In 2006, GDP growth rate was 10.7%, in 2007 – 8.9%, in 2008 – 3.2%, then in the first six months of 2009 GDP declined by 2.3% compared to the first half of 2008 according to the Agency of Statistics of the Republic of Kazakhstan.

IMF projects that Kazakhstan's economic growth rate in 2009 will slow down to 1% whereas European Bank for Reconstruction and Development expects that Kazakhstan's GDP will decrease by 2%.

The Ministry of Economy and Budget Planning of the Republic of Kazakhstan projects that anti-crisis measures of the government along with the containment of unemployment in the unchanged internal and external development circumstances will lead to GDP growth at a level of 0.1 – 0.4% in 2009. However, IMF projects that on average global GDP will shrink by 1.3% in 2009.

Data of the Agency of Statistics of the Republic of Kazakhstan points in the same direction by showing some positive trends in the second quarter compared to the first

quarter of 2009 which had a 3% growth. Due to an increase in the extraction of crude oil and natural gas by 3.3%, there was an increase of the index of physical production volume in the mining sector in January – June 2009 which reached 101.8%.

This makes it possible to conclude that the decline of development indicators of the economy of Kazakhstan in the first six months bottomed out and its trajectory is entering a rehabilitation stage. Comprehensive measures aimed at the regulation of inflation processes lead to the slowing down of the growth of consumer market prices. Inflation reached 3.9% in June 2009 compared to December 2008, which is 1.8 percentage points lower than in June 2008. Over the six months of 2009, average annual inflation reached 8.7%, or 10.3 percentage points lower than in 2008. Alongside with the slowing down of inflation, real income of the population and salaries are growing. Average per capita real income grew by 3.2% and salaries also increased by 3.2%. The country maintains social stability.

There is a trend towards an insignificant growth of the volume of trade. Whereas in January and February retail trade was shrinking, in March trade volume increased by 3.8%, in April – by 0.6% and in May – by 0.7% compared to the previous month.

Devaluation of the tenge of February 2009 did not influence the growth of inflation in any meaningful way.

Channels of transmission of external shocks. In 2008, Kazakhstan witnessed a drastic decline of the growth of salaries and a reduction of capital investments in the processing industry. Regionally in the first quarter of 2009 there was a significant reduction of the volume of investments in the largest regions of the country – Astana (by 63.3%) and Almaty (by 45%). A significant shift occurred in the structure of financing due to the outflow of foreign capital from the country.

Despite the fact that the economy of Kazakhstan in 2007-2008 did not suffer in any significant way from the global financial and economic crisis, its negative consequences became evident in 2009 when a contraction of GDP was noticed for the first time in the recent history.

According to the Customs Committee of the Ministry of Finance of the Republic of Kazakhstan, its foreign trade in January–May 2009 went down by 40.6% compared to the same period last year. Exports shrank twofold, imports went down by 20.8%. These drops were influenced by the reduction of demand and the unfavorable price situation in external markets. The impact of these external factors also lead to the decline of production in such vital sectors as industry, construction, transport and power with a general contraction of GDP by 2.8% in the first half of the year (estimated value).

In the second half of 2009, one expects some reduction of oil prices and the prices of other raw materials (metals, grain). According to an IMF projection, the reduction of oil prices in the global market in 2009 will reach 46.4% compared to 2008. This trend of global prices may have a negative impact on the value of oil exports from Kazakhstan whereas physical export volumes in the second half of 2009 will actually grow as a result of the projected revival of the global demand.

Based on the results of the first five months of 2009 the Republic of Kazakhstan enjoys a surplus in its foreign trade with Kyrgyzstan, Uzbekistan and Tajikistan. The positive balance of Kazakhstan vis-à-vis these countries stems from an increase of the exports of grain, flour, diesel and furnace fuel by 1.3 times compared to the same period of the previous year.

Interrelation of external shocks with internal economic circumstances. According to the National Bank, the economy received 62.3 billion US dollars worth of loans in 2008 which is 2.7% higher than in 2007. Based on the results of 2008, despite a significant decline of global oil prices (mostly in the fourth quarter) the country's foreign reserves grew by 21% to the level of 46.7 billion US dollars including 27.3 billion US dollars worth of the National Bank's assets.

Inflation in 2008 was to 9.5% as compared to December 2007 which is almost 2 times lower than in 2007. Inflation over the period of December 2008 – June 2009 was 3.9% and in the period of January 2008 – January 2009 it reached 8.7%. That means that the country succeeded in containing inflation below 9% in 2009.

Since Kazakhstan does stand out due to its significant degree of integration in the global financial system, it suffered more than other SPECA countries. This was brought about by a high-level of foreign investments, export-orientation and heavy borrowing by the banks of Kazakhstan from foreign banks.

All revenues derived from the export of raw materials are channeled to the national welfare fund – “Samruk-Kazyna”, and from there the money is spent on supporting the economy of the Republic of Kazakhstan on a need basis. This makes it possible to alleviate the impact of external shocks.

Impact of the crisis on vulnerable populations. One notices an increase of the prices of imported goods due to the devaluation of the tenge which took place in February 2009. This led to an insignificant deterioration of the population's welfare. The State, however, undertook measures to support vulnerable groups by increasing the salaries of public servants by 25% on average as well as pensions and social benefits. Thus, basic pensions were increased by 14% in the course of amendments to the 2008 republican budget to support vulnerable groups. Minimum pensions grew by 24%. State disability benefits grew by more than 30% on average beginning from 1 July 2008.

On the labor market one could observe a reduction of the unemployment rate and growth of monetary income of the population. The unemployment rate in 2007-2008 fluctuated at a level of 6.3% - 8% and came up to 6.7% by the end of 2008 whereas real monetary income of the population increased by 3.3% last year.

According to the UN, Kazakhstan is one of the countries where some of the Millennium Development Goals (MDGs) have already been achieved and where the MDG strategy may envisage higher targets. Kazakhstan has already achieved some of the Millennium Development Goals, such as poverty reduction, access to primary education and the promotion of women's rights and progressed significantly in achieving all other goals. Nevertheless, there are still a number of problems that require increased attention from

the state. In particular, there is still a serious situation with children and maternal mortality, HIV/AIDS and tuberculosis. Another complicated issue is the state of the environment and the environmental-economic situation. Another challenge is ensuring universal access to drinking water – a purpose for which the “Drinking Waters” Programme for 2002-2010 is being implemented.

1.4. KYRGYZSTAN

Economic impact of the crisis. The negative impact of the global economic crisis on Kyrgyzstan turned out to be significant. GDP growth that reached 8.5% in 2007 and 8% in 2008 went down to 0.3% in the first half of 2009. Combined with sharp fluctuations of food and electricity prices, a growing deficit of electricity and a significant reduction of remittances from abroad, this slowdown did have an impact on the welfare of the population.

The reduction of economic growth rate in 2008 was caused by a decline of production in such sectors as construction, power, transport and communications. In 2009, one should expect that the demand for construction materials will continue to decline since this demand was fueled by loans issued at the end of 2007 and in the beginning of 2008 after which loans became scarce.

Under increased macroeconomic uncertainty in 2008, a significant reduction of investments took place. The share of total investments went down from 26.3% to 25.5% of the GDP in 2008, mostly due to the decline in private investments.

Current account deficit in 2008 increased and reached 12.3% of the GDP. Net capital inflows covered this deficit. At the same time one may observe an outflow of currency from the accounts in commercial banks abroad – a trend which will result in the reduction of the surplus of the capital transactions account by approximately 30.3% compared to 2007.

There is also a probability that citizens of the Kyrgyz Republic may lose their jobs in the neighbouring Republics and return home leading to an increase of the number of unemployed.

The energy sector of the Kyrgyz Republic is also facing significant challenges due to the low-water season and the insufficient water level in the Toktogul reservoir which led to the introduction of limitations on the consumption of electricity. This led to the decline of production and significant financial losses for enterprises.

Channels of transmission of external shocks. The economic slowdown in the neighbouring countries leading to a decline in demand for tourism-related services has had a general impact on the balance of international services, resulting in a 39.5% decline.

Due to the protracted global financial crisis the volume of remittances from Kyrgyz labour migrants is declining because they are losing their jobs.

The contraction of credit resources of investments from abroad may lead to the shrinkage of the deposit base of commercial banks and a slowdown of retail trade as well as a decline of domestic investments.

Interrelation between external shocks and internal economic circumstances. One of the factors contributing to the strong impact of the crisis on the country's economy is the state of management of the energy system. The losses of Kyrgyzstan due to rolling blackouts reached 2 billion US dollars. Low diversification of the real sector of the economy also played an important role in the spread of the crisis across the country.

Impact of the crisis on vulnerable populations. Problems in the sphere of energy, a decline of domestic and foreign demand for domestically produced goods, a decline of industrial output, growth of inflation, the reduction of real incomes of the population and reduced opportunities for business development are among direct consequences of the global financial crisis in the Kyrgyz Republic. These consequences of the crisis were the direct reason for growth of unemployment from 8.2% in 2008 to 18% in 2009.

Kyrgyzstan has achieved significant progress towards the implementation of its commitments enshrined in the Millennium Declaration (MD). Significant progress has been achieved in poverty reduction, in particular extreme poverty, and sustainable economic growth is evident. However, despite economic achievements, the process of delivering the fruits of economic growth to the poor populations of the country needs to be accelerated. In 2008-2009, Kyrgyzstan faced a number of internal and external shocks. International financial and food crisis has already reflected itself in a significant growth of prices and an economic slowdown. Due to the current economic situation in Russia and Kazakhstan, it is expected that the volume of remittances from Kyrgyz migrants in 2009 will shrink. These factors may have a negative impact on the progress achieved to date.

1.5. TAJIKISTAN

Economic impact of the crisis. In 2008, Tajikistan witnessed a significant growth of prices of main food items. The price of rice grew by 73%, milk – by 43.8%, beef – by 24.6% and potatoes by 8%. Two thirds of the households in this country have felt the impact of the global food crisis, since 93% of the territory of the country is covered with mountains and only 7% of land may be cultivated.

According to the State Statistical Committee of the Republic of Tajikistan, the trade balance in 2009 was negative at the level of 607.6 million US dollars. In other words, imports of goods exceeded exports by 3.2 times. Exports of goods in January – April 2009 came up to 277.7 million US dollars or 41.1% lower than in the same period of 2008. In particular, the exports of cotton fibers accounting for 10.4% of the total volume (28.2 thousand tons) declined by 12.5 thousand tons compared to the first four months of 2008. The average price of cotton fibers in 2009 compared to the same period of 2008 declined by 297 dollars to the level of 1,025 dollars per ton.

Imports declined alongside with exports. Imports of goods to the Republic in the first four months of 2009, according to the State Statistical Committee of the Republic of

Tajikistan, were at the level of 885.2 million US dollars or 11.3% (112.5 million US dollars) lower than in January–April 2008.

According to the projections of the International Grain Council, Tajikistan this year may become number 4 in the list of countries importing flour in the world. More than 60% of the market in this country belongs to imported goods. According to the Interstate Statistical Committee of the CIS, GDP growth in Tajikistan in the first quarter of 2009 was at a level of 3.5%.

Table. Main macroeconomic indicators, 2009

	As % of the previous month			Number of unemployed (as of the end of months, 1000's of persons)	Exchange rate of the national currency (somon) against 1 USD
	Industrial output	Capital investments	Retail trade		
January	82.0	21.1	99.0	43	3.671
February	88.5	71.1	100.3	44	3.738
March	112.3	190.0	97.8	45	3.815
April	90.1	56.6	98.3	45	3.941
May	102.9	160	100.9	...	4.374

Source: Interstate Statistical Committee of the CIS

For two consecutive years, the Republic has suffered from a serious energy crisis – first due to strong frosts, then to the scarcity of water in the rivers. Generation of electricity in 2008 declined by 15% due to this reason and a limit was introduced on the supplies of electricity at the level of 6-7 hours per day. Import of electricity from Uzbekistan and Turkmenistan in the amount of 4.2 billion kWt/h did not solve the problem.

From the last quarter of 2008 till May 2009, Tajikistan gradually devalued its currency – the somoni. The exchange rate of the US dollar appreciated against the somoni by 29.15% over the last nine months and as of July 16th it reached 4.3912 somoni for one US dollar. The depreciation of the somoni against the dollar in the first half of the year reached 26.29% and in the second quarter alone – 13.83%. Inflation in 2009 is projected to be at a level of 13%. Its rate in the first half of the year was 2.8% compared to 8.3% in the same period of 2008.

The Ministry of Economic Development of the Republic Tajikistan projects that GDP growth rate in the country will halve in 2009. Consumer price index may increase by 10-12 per cent. No increase of industrial output is expected whereas a growth of 6.7% is expected in agriculture and 10% in retail trade.

Channels of transmission of external shocks. The economy of Tajikistan which is dependent to a large degree on agriculture, foreign investments and remittances from

abroad is one of those that suffered most from the crisis in this region. The fall of international prices of aluminum and cotton has been an important factor causing a trade deficit of 12% of the GDP in the recent years. Furthermore, the energy crisis has taken its very negative toll on light and food industry.

The economy of the Republic is vulnerable to external shocks due to the narrow structure of exports and high dependence on imports. There has been a decline of the prices of the main export commodities – cotton and aluminum – that used to generate almost half of the country's GDP, two thirds of annual foreign revenues and one fourth of tax revenues.

Interrelation of external shocks with the internal economic circumstances. The plunge of global prices of the main export commodities of Tajikistan has worsened the situation in the country. Foreign trade of Tajikistan in January–April this year, including electricity and natural gas, came up to 1,169 million US dollars or 20.9% (306.4 million US dollars) lower than in the same period of the previous year.

According to the IMF, remittances account for half of Tajikistan's GDP. More than 650 thousand citizens of the Republic are currently working abroad, mostly in Russia, and it is expected that this figure will double in 3–4 years. In the meantime, the Russian Federation cut the quota for workers from Tajikistan by three times this year – from 600 thousand down to 200 thousand. Remittances from labour migrants contracted down to 696.6 million US dollars from January till June 2009 compared to 1,059 million US dollars in the same period of 2008.

Impact of the crisis on vulnerable populations. Repatriation of labor migrants may cause a surge of unemployment and crime. In the winter period, there was no water and electricity supply in the rural settlements in Tajikistan and three fourths of the rural population lived below the poverty line.

In 2007, Tajikistan had 60.4 thousand unemployed citizens and 15.5 thousand available vacancies, or one job for every three persons. In 2009, the total number of unemployed able-bodied citizens may exceed 751 thousand persons: the unemployed will also be joined by graduates of secondary schools, higher educational institutions and vocational schools as well as demobilized soldiers and returning labour migrants.

On 20 June 2009, the President of the country signed a decree on “Measures to Strengthen Social Protection and Increase the Salaries of the Employees in the Social Sphere”. Current rates of pay of those employed in the social sphere in Tajikistan will be increased by 15–30% in the next three months. According to the decree, salaries in the health sector are to be increased by 30% and in the sphere of education by 15% on average.

At present, roughly half of the state budget of Tajikistan is spent on social issues, mostly education and healthcare, but the ability of the State to finance social programmes is limited by the economic situation. Efforts of the country to achieve the Millennium Development Goals (MDGs) are seriously undermined by the growing food and energy prices as well as climate change. Due to the rapid growth of food and energy prices the achievement of MDGs appears to be problematic. The food crisis has had the most negative impact on the poorest groups of population. Two thirds of the households have

felt the impact of the crisis in Tajikistan, since 93% of the territory is covered with mountains and only 7% is available for cultivation. At the same time it is noteworthy that the ability of the state to finance these activities is limited by the growth rate of the real sector of the economy.

1.6. TURKMENISTAN

Economic impact of the crisis. It is believed that the negative impact of the global economic crisis on Turkmenistan has been insignificant due to the small degree of integration into the global economy. The country has not taken out any serious loans whereas revenues from the export of gas were used for the country's development. In 2008, Turkmenistan produced 70.4 billion cubic meters of gas of which more than 66% - 47 billion cubic meters - were exported. In 2008, average foreign revenues of Turkmenistan from the sale of its gas reached approximately 5 billion USD.

Turkmenistan's social and economic development model focuses primarily on the development of domestic capacity, enabling the country to minimize its dependence on the cataclysms of the global crisis manifested in the stably high growth rates of macroeconomic indicators. Traditionally more than 52% of the GDP is accounted for by industrial production. At the same time the contribution of services to the GDP is constantly growing with more than 20% in 2008 being a consequence of improved living standards of the population.

Nevertheless, growth of unemployment and prices has been observed from the start of the crisis.

Channels of transmission of external shocks. The global economic crisis has led to the decline of demand for the main Turkmen export commodities - gas, oil and oil products. This, in its turn, has led to the reduction of foreign revenues for the budget of the country. Such export commodities, as oil and oil products, textiles and food products have shown a negative reaction to the global crisis.

The main channel of transmission of external shocks is the impact of falling energy commodity prices leading to revenue shortfalls of the state treasury. At the same time the Russian economy is facing difficulties, which may have a serious spillover effect in the Central Asian States including Turkmenistan, since the reduction of the number of jobs will lead to the reduction of remittances of labor migrants that they send back home.

Interrelation of external shocks and domestic economic circumstances. In contrast to the general global trend, the general volume of investments from all sources in Turkmenistan grew in 2008 to the level of 28.8 trillion manats. In 2009, Turkmenistan is planning to extract approximately 75.8 billion cubic meters of gas representing almost a twofold increase compared to 2008. Thus, export revenues will serve as a "cushion" should the general situation deteriorate under the pressure of the global economic crisis. State regulation in the oil and gas sector has grown with the adoption of a law in August 2008 allowing the State to be actively involved in oil and gas project deals. State banks account for 97% of the entire system and they issue loans to state enterprises at low interest rates. The Central Bank itself issues loans in such strategic sectors as cotton. Of all countries in

the region, Turkmenistan is the least connected with the global markets. The country is practically closed from the inflow of foreign investments and does not have any linkages to the international capital markets.

The impact of the crisis on vulnerable population groups and key millennium development goals. Growth of inflation and the establishment of a specific exchange rate of the manat against the dollar at the beginning of the year devalued savings and raised the prices of essential commodities. The Government implemented a currency reform in an attempt to reduce the gap between the official and unofficial exchange rates. The currency reform strengthened the impact of the global financial crisis as a precondition for reduced living standards, growth of inflation and prices.

Turkmenistan has achieved progress in several areas of social development, in particular in healthcare. The statistical system in the country is facing difficulties in the provision of complete information and equal access to the database. According to the MDG monitor, the following results have been achieved in Turkmenistan across the 8 MDGs: *Goal 1. Eradication of extreme poverty and hunger* – accomplished; *Goal 2. Universal primary education* – accomplished; *Goal 3. Promotion of equality between men and women and the empowerment of women* – may be accomplished if the necessary changes take place; *Goal 4. Reduction of children's mortality* – may be accomplished if the necessary changes take place; *Goal 5. Improved maternal health* – may be accomplished; *Goal 6. Fight against HIV/AIDS, malaria and other diseases* – may be accomplished if the necessary changes take place; *Goal 7. Environmental sustainability* – may be accomplished if the necessary changes take place; *Goal 8. Global development partnership* – incomplete information.

1.7. UZBEKISTAN

Uzbekistan's GDP growth in January – June 2009 reached 8.2% compared to the same period of the previous year. Uzbekistan is one of the top countries of the world from the point of view of its GDP growth rates this year. Production of cotton fibers plays an important role in the economy of Uzbekistan (more than 38% of the GDP is accounted for by agriculture).

Economic impact of the crisis. A decline of the income of labour migrants that work predominantly in Russia and Kazakhstan has led to the decline of the volume of remittances to Uzbekistan. This, in its turn, led to the devaluation of the national currency (the som) and a surge of prices for all types of consumer goods and services.

Due to the reduction of demand on foreign markets, Uzbekistan reduced its production of cotton fibers by 13.2% in January – June 2009 compared to the same period of the previous year – down to 622,712 tons. Textile enterprises in the country reduced their production of cotton yarn by 11.6% over the reporting period down to 67,225 tons, and the production of cotton fabrics – by 27.8% down to 38,218 million square meters (Interfax).

Channels of transmission of external shocks. One expects a decline in investments as a consequence of the deterioration of the state of global financial markets in the donor countries - USA, China, Russian Federation and Germany.

Interplay of external shocks with the domestic economic circumstances. Due to the reduction of export revenues the National Bank of Uzbekistan reduced the volume of exchange-based conversion transactions for the importers of goods to the Republic.

External shocks were also complemented by the shortage of fresh water – the basic necessity for agricultural production and life itself in Central Asia and many other regions. Some estimates show that Uzbekistan suffers from a deficit of irrigation water in the amount of 20-25% of the basic consumption norm.

Impact of the crisis on vulnerable populations. There is also a possibility that several hundreds of thousands of labour migrants will have to return due to the economic downturn in the Russian Federation and Kazakhstan. Repatriation of labour may lead to growth of unemployment and negative social implications.

The achievement of all Millennium Development Goals (MDGs) will help in the improvement of the welfare of citizens of Uzbekistan, but the key to this is sustainable economic growth supported by an individual-centered social policy. Unfortunately, the current crisis leads to the situation where the economic downturn and unemployment slow down the implementation of these goals not only by Uzbekistan but also by all other countries suffering through the crisis. Uzbekistan's MDG report for 2009 is currently in the process of development.

2. ANTI-CRISIS MEASURES

2.1. AZERBAIJAN

On 16 January 2009, the President of the Republic of Azerbaijan announced a package of anti-crisis measures consisting of direct actions aimed at ensuring social aid and support for the population in the period of crisis. Social protection of the population is primarily pursued by supporting major enterprises that provide jobs to the people.

The aim of this programme is to minimize the impact of the global economic crisis on Azerbaijan and prevent this impact in all possible areas.

Objectives:

1. Prevention of artificial growth of prices and acceleration of their reduction by strengthening the control of consumer market and competition;
2. Strengthening anti-monopoly activities;
3. Prevention of unlawful interference of the State;
4. Control over the management of financial resources entering the country and participation in the relevant decision making;
5. Strengthening the priorities of the public investment programme;
6. Strengthening state control over equity investments;

7. Fulfillment of social commitments (in particular payment of outstanding salaries in the nearest few months); and
8. Strengthening food security.

Priorities: Aid to the real sector of the economy by restructuring public investment programmes. Special attention is paid to the support of major companies and exporting enterprises.

Activities:

1. Loans: continuation of lending to entrepreneurs, increasing the volume of privileged loans, subsidies for farmers and handover of fertilizers to them on special favourable conditions;
2. Implementation of the most important public investment programmes; and
3. Placing some of the foreign reserves maintained abroad in the most reliable and strong local banks, targeting these funds and control over their use exclusively in the real sector of the economy in the areas prioritized by the State.

Financing. Azerbaijan will not borrow to implement its anti-crisis plan. In 2008, the World Bank allocated 450 million USD to Azerbaijan for repairs and rehabilitation of the railways.

Results. The National Fund for the Support of Entrepreneurship has already been established through lending significant support in the amount of 130 million manats approved in 2009. Judging by the main social and economic performance indicators in January – April 2009 compared to the same period in 2008, Azerbaijan is succeeding in effectively countering the economic crisis.

2.2. AFGHANISTAN

The Government of the Islamic Republic of Afghanistan has not announced any anti-crisis measures. Instead it works hard on the implementation of three main documents drafted before the crisis struck: “Policy and Strategy of Rehabilitation and Development of Agriculture and Natural Resources of Afghanistan”, “Reviving our Nation: 6 National Priority Programmes” and “The Statement of the Secretariat of the Constitutional Commission of Afghanistan”. However, due to the unstable situation in the country the level of economic and financial development of Afghanistan is currently at roughly the same level as before 2008.

The aim of developing “*The Policy and Strategy within the Framework of Rehabilitation and Development of Agriculture and Natural Resources of Afghanistan*” boils down to the expansion and enrichment of the existing strategy “Development of Agriculture and Livestock Production” to cover the entire agricultural sector and the sector of natural resources (water, agricultural crops, livestock production, forestry, etc.). This document was developed in an attempt to mobilize external and internal investments and support for its implementation. The strategy reflects the provisions of existing national and sector strategies and a clear definition of roles and responsibilities between the main stakeholders in the sector, such as governments, private sector, farmer communities, international aid agencies and development partners.

2.3. KAZAKHSTAN

In autumn 2007, the Government of the Republic of Kazakhstan decided not to wait for the recommendations of international organizations and developed and started the implementation of a set of measures to support the economy. The anti-crisis programme of Kazakhstan was one of the first adopted in the CIS. These measures were aimed at ensuring macroeconomic stability and stimulation of economic activities in lending-dependent sectors of the economy and maintaining liquidity and stability of the financial system of the country. According to the presidential address to the people of Kazakhstan on 6 March 2009 "Through Crisis towards Renewal and Development," Kazakhstan has adopted proactive measures to fight the crisis.

According to the instruction of the Head of State, the Action plan of the Government was adopted for 2009 containing a set of anti-crisis measures (Roadmap).

Kazakhstan's anti-crisis programme is characterized by its high- level of precision. 14% of the GDP is allocated for the purposes of its implementation.

Aim: Alleviation of the negative consequences of the global crisis for the social and economic situation in Kazakhstan and ensuring the availability of the necessary foundation for future quality economic growth.

Objectives. To fulfill this aim the following five main objectives will be addressed:

- Stabilization of the financial sector
- Addressing the problems of the real estate market
- Supporting small and medium-sized enterprises
- Development of agriculture and related industries
- Development of innovative industrial and infrastructural projects

Priorities. In line with funds allocated for the support of economy and the coverage of activities, the main emphasis is made on supporting the financial sector of the economy.

Activities. The plan contains a broad spectrum of anti-crisis measures, in particular:

Stabilization of the financial sector:

- Additional capitalization of the four largest banks to allow them to create adequate reserves and strengthen the lending process within the country with consequent liquidation of the state capital in them on market conditions;
- Creation of the distressed assets fund to restructure the banks' assets by purchasing troubled assets;
- Provision of additional sources of liquidity to ensure timely servicing of the banks' liabilities (in particular, expansion of the array of security instruments for REPO transactions);
- Measures to improve state regulation of financial markets (changing the method for the calculation of the banks' capitalization, toughening the requirements for risk management and internal control); and

- Elaboration of a working mechanism for a contribution-based pension system in the new circumstances (safeguarding pension savings and improving the population's financial awareness) .

Addressing the problems in the real estate market:

- Implementation of a mortgage and housing development programme to provide loans for the completion of residential complexes in the cities of Almaty and Astana through second-tier banks; and
- Measures to ensure affordability of housing (the right to purchase at established prices, financing the construction of housing for renting, provision of home loans to the priority categories of the population at interest rates not exceeding 4% annually).

Support for small and medium-sized enterprises:

- Loans to small and medium-sized enterprises from the "Samruk-Kazyna" Fund including microcredits to rural enterprises and entrepreneurs;
- Access to state orders from state agencies, state holdings and national companies to small and medium-sized enterprises within the framework of the new law on "Public Procurement"; and
- Reduction of administrative barriers to business development.

The development of agriculture and related industries and implementation of innovative industrial and infrastructural projects:

- Investments to support export-oriented sectors: grain, meat and dairy processing and the production of fruits and vegetables (investments in the development of agricultural enterprises and infrastructure);
- Approval by the Government of maximum tariffs for groups of electricity generating companies (for a term of 7 years and longer with inflation-related adjustments); and
- Abolishing the payment for connection to the electric grid and an additional set of measures on energy saving and the use of renewable sources of energy.

Social protection of the population:

- Measures to preserve real income of the population, increase social premiums, pensions and salaries for public servants (in 2009-2011 by 25%), and social benefits (by 9% annually);
- Creation of new jobs and ensuring employment in the public works sector, whenever needed; and
- Continuation of the formation of stabilization funds of essential goods by the Government.

Implementation of the "Roadmap"

The total financing of the Roadmap as of today reaches 191 billion tenge, including 51 billion tenge in the form of co-financing from the local budgets.

To implement the Strategy of regional employment and retraining within the framework of the Roadmap, changes and addenda have been introduced to a number of laws, primarily on the issues of employment and mandatory insurance and public procurement procedures.

Financing. Implementation of the Plan will make possible to offer financial assistance to the economy of Kazakhstan in the amount of 2,172 billion tenge: 1200 billion tenge from the National Fund.

From the National Fund, 4 billion USD (480 billion tenge) will be spent on the stabilization of the financial sector; 1 billion USD (125 billion tenge) to purchase common shares of the four system-forming banks (People's Bank of Kazakhstan, Kazkommertsbank, Alliance Bank and BTA Bank); 3 billion USD (355 billion tenge) in the form of a subordinated loan and a purchase of non-voting preferred shares; 3 billion USD (360 billion tenge) for the development of the housing sector; 1 billion USD (120 billion tenge) to support small and medium-sized enterprises (70% for the refinancing of current projects and 30% for the implementation of new projects); 1 billion USD (120 billion tenge) for the development of agriculture and related industries; 1 billion USD (120 billion tenge) for the implementation of innovative industrial and infrastructural projects.

Besides the resources of the National Fund, it is planned to allocate 2 billion USD in the process of establishing the fund for the implementation of the special home-lending programme and the development of the housing sector from the resources of the contribution-based pension funds. It is also planned to attract 3 billion USD of foreign direct investments and the resources of pension funds (in the financing of the projects of "Samruk-Kazyna Fund") for the implementation of innovative industrial and infrastructural projects in 2009.

52 billion tenge have been allocated in the first tranche from the republican budget for the capitalization of the Distressed Assets Fund in 2008. It is planned to increase the charter capital of the fund to 122 billion tenge in 2009.

Expenditures from the republican budget on the development of agriculture and related industries in 2009-2011 will come up to approximately 350 billion tenge.

The Government will ensure constant monitoring and control over targeted and effective spending of these resources. The main government operator in the implementation of the plan will be the "Samruk-Kazyna Fund". For these purposes the Government has already performed additional capitalization of the "Samruk-Kazyna Fund" in the amount of 607.5 billion tenge.

"Samruk-Kazyna Fund" and "KazAgro Holding" will borrow from the National Fund by issuing bonds in the amount of 4 billion USD and 1 billion USD respectively. Some changes will be introduced to the investment policy of the National Fund accordingly.

Results. The Government of the Republic of Kazakhstan anticipates attaining the following results in 2009-2010 through the implementation of its anti-crisis programme:

- to achieve real GDP growth at the level of 1-3% per year
- to contain inflation at the level of 7-9% per year
- to curb unemployment at a level of 8% of economically active population.

Second-tier bank lending to various sectors of the economy as of the end of June 2009 came up to 8,109.2 billion tenge having grown by 11.9% compared to the same period of the last year. The share of long-term loans was 82.5% and the share of loans in foreign currency was 52.5%. Total deposits in the banking system reached 5,967.5 billion tenge, or 34.8% more than in the respective month of the previous year and deposits of physical persons reached 1,606.7 billion tenge, having grown by 10.6% .

Average annual inflation over the six months in 2009 reached 8.7%, which is 10.3 percentage points lower than in June 2008. Against the background of slowing inflation, one can observe growth of real income of the population as well as salaries. Average real income per capita grew by 3.2%, salaries – also by 3.2%. Social stability is maintained in the country.

2.4. KYRGYZSTAN

Anti-crisis plan of the Kyrgyz Republic is spelled out in the Kyrgyz President's Country Renewal Path adopted in March 2009. The Plan may be divided in two parts. Part 1 is the path to overcoming the crisis through transformation (intended to take place over 10-15 years) and Part 2 is the anti-crisis plan for the nearest future.

Objectives. The main short-term objectives to be achieved:

- Maintaining macroeconomic stability
- Ensuring the stability of the banking system
- Food and energy security
- Ensuring economic growth through the support of domestic demand and creation of a favorable business and investment environment.

Priorities. The priorities of the long-term anti-crisis strategy include:

- Reforms of the national governance system
- Effective regulation of economic processes
- A performing social policy.

Key social parameters set forth in the Path in 2009-2011 include:

- Increase of life expectancy of citizens to 70 years
- Growth of average pension benefits by 45%
- Growth of nominal salary by 2.2 times
- Reduction of the total unemployment rate from 8% down to 7.3%.

Activities. The set of anti-crisis measures of the Kyrgyz Republic stands out for its comprehensiveness. Great attention is paid to the issues of demand stimulation: reorienting the investment flows towards the sectors that provide a quick return on investments; formation of a competitive environment ensuring a sustainable system of sales promotion and prevention of monopolies, etc. Other activities cover all areas within the socio-economic sphere. In particular, there is a provision for financial support to small and medium-sized enterprises, timely financing of social guarantees and fulfillment of commitments pertaining to the payment of single monthly benefits increased in 2009, a reduction in the number of inspections, licenses and permissions, placement of state

orders with domestic enterprises, construction of public housing with the use of budget resources, etc.

Results. In the first six months of 2009, GDP growth was 0.5%. Availability of a programmatic anti-crisis plan has undoubtedly made a contribution to this.

2.5. TAJIKISTAN

According to the Presidential Address to the Republic of Tajikistan (15 April 2009), the Government Anti-crisis Commission developed a plan of priority activities and started its practical implementation. This anti-crisis plan is not in the public domain though.

It is acknowledged in the Presidential Address that some of the symptoms of the impact of the financial crisis on the economy of Tajikistan were felt back in the fourth quarter of 2008 and became especially evident in the first quarter of 2009. One of them was the failure to generate the revenues envisaged in the state budget for the first time in the last eight years.

Objectives. Acceleration of economic reforms and ensuring sustainable socio-economic development of the country, development of small and medium-sized enterprises, increase of the domestic production of goods and export capacity of the country leading to a growing number of jobs, and the support of the banking system.

Activities. Plan of activities on the alleviation of the impact of the financial crisis on the Republic of Tajikistan was approved in December 2008.

However, the rapidly changing situation, expansion and deepening of the impact of the financial and economic crisis forced the Government to develop and adopt a short-term anti-crisis plan.

The "Plan of Additional Anti-Crisis Measures of the Government of the Republic of Tajikistan for the Short-Term Period" was approved in April 2009. These measures envisage ensuring macroeconomic stability, support for the real sector of the economy including small and medium-sized enterprises by implementing the "200 Days of Reform" Programme. The Programme also seeks the creation of new jobs, improvement of the investment climate and attraction of internal and external investments.

This document encompasses several short-term activities. The implementation of the Programme will make it possible to realize the government's social policy, ensure targeted use of the state budget resources, expand the cooperation with donor organizations to attract additional funds, create jobs and retrain labour migrants.

It is planned to finance these measures using state and other attracted resources.

Despite the decline of budget revenues by 9.8% and expenditures by 9.6% or 459 million somoni, financing of the social sphere has been preserved at the previous level. As for capital construction, which in the current circumstances ceased to be the priority, budget

allocations have been cut by 127 million somoni which accounts for 27.7% of the total expenditure cuts.

The Government needs additional 180-200 million USD to implement its anti-crisis plan (850 million somoni). The Government is currently engaging with the IMF, WB, ADB, IDB, EBRD and other financial organizations to attract resources for these purposes and an agreement has already been reached to allocate the preliminarily agreed amounts.

Results. Analysis of the statistical data of the Republic of Tajikistan points at fairly good economic progress in the crisis conditions compared to other CIS countries. Compared to the previous year, retail trade grew in January – April 2009 by 14.5%, GDP growth reached 2.9% and transportation of goods increased by 26.4%. There is a downturn, however, in industrial production – by 11.9%, but then, in comparison with other CIS countries, this result is above average (16%) in the conditions of the crisis.

2.6. TURKMENISTAN

To mitigate the consequences of the global financial crisis the Cabinet of Ministers of Turkmenistan passed a decision to create the Stabilization Fund of the country to be replenished by the surpluses of the state budget. This source of financing will enable the country to somewhat reduce the influence of the fuel and energy industry and mitigate the impact of external factors. The fund's resources will be targeted at the implementation of vital social programmes and further development of innovations in the country. Placement of a certain portion of the fund's assets in high-yielding, long-term assets of enterprises is an important and strategically sound step that will promote the formation in the country of an insurance fund oriented at the needs of future generations.

2.7. UZBEKISTAN

The anti-crisis programme of actions of Uzbekistan is demonstrating positive progress. The implementation of the programme planned for 2009-2012 will be the top priority in the socio-economic development of Uzbekistan this year. The anti-crisis programme is described in the book authored by President of the Republic of Uzbekistan *“The global financial and economic crisis and ways and measures to overcome it in the conditions of Uzbekistan”*.

The Programme and the anti-crisis action plan include the following areas of work:

1. Reduction of the tax burden:
 - Reduction of the single tax rate for micro-firms and small enterprises from 10% to 8% and by beginning 2009 – down to 7%
 - The number of small enterprises increased by 1.9 times and amounted to approximately 400 thousand in 2008
 - The volume of industrial production has grown by almost 22% in the reporting year.
2. Addressing the problems of employment:

Approximately 661 thousand new jobs were created in 2008, including 374 thousand in small enterprises, approximately 220 thousand in the service sphere and 97.8 thousand in the area of home-based employment.

3. Multi-faceted support to farming activities:

20.3 thousand heads of livestock were sold at auctions in 2008. In 2009, it is envisaged to sell 24.6 thousand heads more. 48.2 billion sums were allocated in 2008 in the form of privileged loans to purchase livestock.

4. Development of the financial and banking system:

- In 2008, total capital of the Republic's banks grew by 40% compared to 2007 and will double by 2010.
- Currently the capital adequacy ratio in the banking system of the Republic exceeds the established international standards defined by the Basel Banking Supervision Committee by almost three times.

5. Support for future economic growth and structural transformations.

- Exports have grown by more than 3.5 times since 2000 reaching 11.5 billion USD in 2008.
- Approximately 661 thousand new jobs were created in 2008.
- The anti-crisis programme envisages the implementation of 300 new investment projects in the real sector of the economy which will enable the country to reach GDP growth rates of almost 15% compared to the last year's performance (CentrAsia).

3. THE ROLE OF SUBREGIONAL COOPERATION AND RECOMMENDATIONS ON ITS DEVELOPMENT

3.1. The importance of interregional relations in fighting the spread of crisis

On the global scale, interregional cooperation and regional integration imply the interaction between the processes of globalization and regionalization. The practice of interregional cooperation makes it possible to effectively use new opportunities of political cooperation, economic and intercultural interaction and ensure stability and sustainable development taking new threats and challenges into account.

At present, the links between the Central Asian States, international donor community and the European Union are in the process of dynamic development. The relevant legislative and regulatory framework has been created whereas the activities of the UN agencies and international financial institutions are gaining momentum.

3.2. Collective measures adopted under the auspices of subregional organizations

The World Bank has allocated 59 billion USD to the developing countries to fight the global economic crisis. Loans in the amount of 9.4 billion dollars were issued to the countries of Europe and Central Asia.

A plan of joint measures to overcome the consequences of the global financial crisis was adopted within the framework of EurAsEC upon an initiative by the Russian Federation. Heads of Governments of the EurAsEC member States signed an agreement establishing an anti-crisis fund with the participation of the Republic Armenia. The fund's size will be 10 billion USD - 7.5 billion USD will be contributed by the Russian Federation and 1 billion USD by the Republic of Kazakhstan. The fund's financial resources will be distributed in the form of stabilization loans with appropriate conditions regarding maturity, serviceability and repayment in situations of cash deficiency when, for example, a party lacks financial resources for urgent social payments.

The Asian Development Bank (ADB) is allocating 102 million dollars to Tajikistan in 2009-2010 to overcome the consequences of the global financial crisis to be primarily spent on the realization of three projects. The first concerns assistance to the country to alleviate the impact of the global economic crisis. The second one is for the support of agriculture and the third one is for road construction.

On 15-16 June 2009, Yekaterinburg hosted the Summit of the Shanghai Cooperation Organization (SCO) "SCO - the Space of Economic Cooperation and Countering the Global Crisis". The Declaration adopted by the Heads of the member States of the Shanghai Cooperation Organization (Yekaterinburg, 16 June 2009) states that the current global economic and financial situation is testimony to the need to facilitate the cooperation of the global community in the area of control and management of international finances, joint prevention of the development and the spread of the risk of a financial crisis and preservation of stability of the economy.

The establishment of a customs union involving Russia, Kazakhstan and Belarus may begin on 1 January 2010 allowing to preserve jobs and open new markets for entrepreneurs. Kyrgyzstan also intends to join the customs union.

The European Bank for Reconstruction and Development approved its "anti-crisis" budget for 2009. Next year, its volume of investments will grow by approximately 20% - up to 7 billion Euros. This bank offers support to the banking sectors in the countries of its operation in the period of weak external financing.

3.3. Bilateral agreements between the countries of the region

Close interdependence of all Central Asian countries means that any task cannot be addressed in an isolated manner. Only a regional approach to solutions, in particular a solution to water and energy problems, may save stability in the region.

A regional meeting of the heads of water, fuel and energy sectors of Kyrgyzstan, Tajikistan and Uzbekistan was held in Bishkek on 9-10 June 2008, where one of the most important issues for Central Asia was discussed - the use of the resources of the Naryn-Syrdarya basin. During the negotiations the participants reached an agreement according to which Kyrgyzstan will supply 1 billion kWt/h of power to the neighbouring countries and perform additional water discharges in the amount of 1.2 billion cubic meters over and above own consumption. Uzbekistan expressed their willingness to sign a bilateral

agreement with Kyrgyzstan only on the use of hydropower and fuel resources of the Naryn-Syrdarya basin.

First and foremost, the strengthening of common interaction by joining the efforts of all Central Asian countries to address common regional problems is needed. Unfortunately, the activities of established regional structures (Central Asian Union, 1994; Central Asian Economic Forum, 2001; Central Asian Cooperation Organization, 2002) did not lead to any positive results.

The existing system of short-term agreements signed between Kazakhstan, Kyrgyzstan and Uzbekistan on a barter basis regarding the issues of rational use of hydropower resources of the Naryn-Syrdarya reservoir cascade, lacks sufficient effectiveness. According to these agreements, Kyrgyzstan is supposed to discharge 6.5 cubic kilometers of water from the Toktogul reservoir in the vegetation period, whereas Kazakhstan and Uzbekistan are supposed to accept surplus electricity at a price of 1 cent per kWt/h in the amount of 2.2 billion kWt/h and perform compensatory supplies of electricity, coal and gas to Kyrgyzstan in the amount corresponding to the value of electricity accepted.

In June 2006, railway transportation along the route Almaty – Tashkent – Nukus – Tashkent – Almaty was reestablished and road transportation along the route “Beineu – Akjigit – Border of Uzbekistan” was made possible. In March 2006, Uzbekistan and Kazakhstan signed an intergovernmental agreement on international road transportation envisaging the introduction of the new order of permission-free transportation. Reconstruction of the road along the route “Border of Uzbekistan – Akjigit – Beineu – Atyrau – Astrakhan” is under way to be completed in 2011.

A priority area is the participation of Kazakhstan and Azerbaijan in the international transport corridor project “Europe – Caucasus – Asia” (TRACECA). The Kazakhstan-Azerbaijan working group on the implementation of the TEA project (Trans-Europe-Asia) will lay a communication line under the Caspian Sea in the nearest future to connect communication systems of Asia and Europe.

Transportation of oil

In this areas, two issues have special importance: the agreement on the support and promotion of oil from Kazakhstan over the Caspian sea and the territory of Azerbaijan to the international markets via the Baku-Tbilisi-Ceyhan system signed by the Heads of States on 16 June 2006 in Almaty as well as the Agreement on Strategic Partnership and Allied Relations signed by the President of the Republic of Kazakhstan N. Nazarbayev during his visit of to Azerbaijan in May 2005.

Transportation of gas

Since 2005, a Kazakh-Kyrgyz JV “KyrKazGas” has been servicing the Kyrgyz section of the gas trunk line “Bukhara gas producing district – Tashkent – Bishkek – Almaty”. According to the investment agreement of 5 November 2004, JSC “KazTransGas” invested 9.5 million USD in 2005–2007 in improving the technical condition and modernization of the gas transportation system in Kazakhstan.

In 2006, a Kazakh-Tajik joint venture “Charyn Altyn” started its operations on the production of silver in the Gorno-Badakhshansky autonomous region of Tajikistan. In July 2006, the Kazakh company “Kazinvest Minerals” acquired Adrasmansky ore-mining and processing enterprise, JSC “Leninabadstroyaterial” and the utility enterprise in the city of Hudzhand.

Currently, the construction of the first section of a gas pipeline from Turkmenistan to China is nearing completion, scheduled for inauguration in December 2009.

Transit potential

Kazakhstan and Turkmenistan are of interest to each other as transit States to deliver energy commodities to the external markets – Kazakh oil in the southern direction to the Persian Gulf and Turkmen gas to the North – to Russia, Ukraine, EU countries and China. Construction of the railway link Uzen (Kazakhstan) – Kyzylkaya – Bereket – Etrek (Turkmenistan) – Gorgan (Iran) and reconstruction of a road “Astrakhan - Atyrau - Aktau - border of Turkmenistan” are also under way.

Kazakhstan and Turkmenistan are actively discussing the issues of the development of economic cooperation in the area of implementation of a number of strategically important multilateral projects, in particular the construction of a new railway link that will connect Kazakhstan, Turkmenistan and Iran, the construction of a Caspian gas pipeline with the participation of Kazakhstan, Russia and Turkmenistan and a gas pipe from Turkmenistan to China via Uzbekistan and Kazakhstan.

Fight against international terrorism

Regardless of all other considerations, Central Asian countries are beginning to face ever more explicitly problems that demand a common response. First and foremost, these include international terrorism, religious extremism, drug trafficking, international organized crime, illegal migration and smuggling of weapons. The worsening situation in Afghanistan is of special concern for all Central Asian countries.

The use of hydropower resources

The SPECA member countries actively cooperate to bring their hydropower resources together, since for decades this region had a single energy system, which was dominated by the hydropower sectors of Kyrgyzstan and Tajikistan and gas supplies from Turkmenistan and Uzbekistan. Addressing the issue of the rational use of water resources is important since an equitable solution to this problem is a prerequisite for socio-economic and environmental development of the Central Asian States.

Innovations and high-tech

There is a need for active participation of business communities from SPECA countries in the development of mutually beneficial innovative projects. EurasEC member States will establish a high-tech center, which will work on the joint development and implementation of innovative projects. The decision on the establishment of the center

was made by the Presidents of the Republic of Kazakhstan, Kyrgyz Republic, Republic of Armenia, Republic of Tajikistan and the Russian Federation during an informal summit of Presidents which took place on 19-21 December 2008 in Kazakhstan. This informal meeting was devoted to the issues of cooperation and joint solutions to economic problems in the conditions of a global crisis. It resulted in agreement on the creation of a joint fund of 10 billion USD to offer support to countries in overcoming the consequences of the global economic crisis and to establish the high-tech center for the joint development and implementation of innovative projects.

The following issues are also of great importance:

- Ensuring food security based on mutual interests in reciprocal supplies of agricultural products, primarily cereals, fruits and vegetables.
- Environmental cooperation. As a result of extensive exploitation of the environment, sustainability has been significantly undermined.
- Settlement of territorial and border disputes.

3.4. Areas of subregional cooperation for further improvement of the effectiveness of current anti-crisis measures

Protection of the environment

For further development of subregional cooperation on environment protection it is necessary to undertake steps to strengthen the legislative and institutional platform for regional cooperation in the countries of Central Asia, based on the generally accepted joint principles and norms of international law and in the context of economic integration, in particular by establishing the relevant bodies and ratifying international treaties. For example, it is very important to ensure cooperation in the Aral Sea basin. There is a need for regional cooperation in the preservation of the Aral Sea by developing and adopting an international convention on sustainable development of the Aral Sea basin that would establish priority issues of joint management of water resources and unify environmental standards and legislation related to them. Integrated management of natural resources is a vital instrument of sustainable development within the framework of this project. Cooperation between SPECA member countries on the environment protection should be based on a combination of a holistic approach to the environment of the entire region and special attention to challenges in connection with environmental situations around the Aral Sea basin, Syrdarya and Amudarya rivers, eastern Tien Shan and desertification.

Modernization of the existing world currency system

Necessary actions should be taken to eliminate the risks of further destabilization of the global monetary and financial system and the spread of contagion. Subregional cooperation is necessary for the creation of *a system of regional trade and currency settlement units* due to a growing need for timely redistribution of the burden from the current global reserve currency. To achieve this, there is a need to create regional currency and finance organizations.

Energy

A vital task for the economy of the region as whole is to ensure an integrated approach to the use of hydropower resources. Its optimal utilization, taking into account the interests of every country, may be and should be accomplished on the basis of interstate cooperation. This is a necessary precondition for the improvement of food independence, energy self-sufficiency, expansion of the export capacity and economization of investment resources. One of the main problems of the energy sector in Central Asia is the possible change of the regime of Syrdarya and Amudarya unless certain interstate agreements are put in place beforehand. One of the main disagreements between the upstream and downstream states is their different approaches to the utilization of the hydropower potential, creating certain obstacles for successful attraction of investments. This is why, it is necessary to reach agreements with all countries in the basins of these rivers on the acceptable mode of water use right at the pre-investment stage. *Establishment of real interstate structures* authorized to jointly manage water resources could significantly simplify subregional cooperation in the energy sphere. There are also a number of additional possible measures that could promote subregional cooperation, such as the selection of an optimal scheme of transportation of energy commodities, joint endorsement of the main principles of tariff, tax and customs policies in the sphere of energy and the adoption of certain measures to improve the national legislations of the countries in the region.

Development of transport infrastructure

Development of transport infrastructure will significantly improve regional economic cooperation. The region is landlocked and lacks direct access to major sea and ocean ports. Despite this and thanks to its geographical location, Central Asia is blessed with a high transportation and transit potential. To improve cooperation in this sphere one needs to attract more investments to reconstruct, modernize and repair motorways and railways, develop cooperation in the area of customs and harmonize national legislations of these countries in the area of transport and customs. At the same time, it is necessary to pay attention to the issues of security; interaction in this area, besides ensuring safe transportation of cargoes, also implies fight against transnational crime.

Investment cooperation

Central Asian countries should be interested in the development of direct investment funds since they promote qualitative and quantitative economic growth of countries. The main barriers to the inflow of investments in Central Asian countries are political instability, inflation, legislative drawbacks, excessive taxes, lack of a mechanism of protection of foreign investments, widespread corruption, underdevelopment of production and social infrastructures, insufficient provision of information, etc. Measures should be taken to eliminate these barriers to attract investments to this region.

Although the Central Asian States do have plenty of resources, the realization of opportunities present in this region is directly linked to the course of economic reforms, the legislative framework and political climate for investments. There is still a high level of informal barriers for investments. Elimination of these obstacles for foreign investors in

Central Asian countries could have a significant impact on business development; first and foremost in connection with investors that already have a presence on this market.

Free trade zone

Central Asian countries have a great potential to improve the welfare of the population by taking advantage of the abundance of natural resources, qualified workforce and huge unsaturated market. A more effective use of this capacity could be promoted by a greater degree of integration of the regional market, harmonization of free trade agreements, exchange of experiences in accession to the WTO and cooperation in the area of facilitation of trade procedures.

The development of the potential of the Central Asian countries will be further promoted by the announced establishment of the customs union between Russia, Kazakhstan and Belarus that could later be joined by Kyrgyzstan, Tajikistan and other CIS countries.

CONCLUSIONS

Central Asian countries have a long history of coexistence dating back centuries. Today, due to a variety of reasons Central Asia does appear in a high position in the global competitiveness rankings. There are a number of objective factors contributing to this including, in particular, the economic potential of the Central Asian countries, domestic market capacity, level of technological development, geopolitical location, etc. Furthermore, despite some progress in economic development many social problems remain unresolved in the countries of Central Asia. At present, the need for regional cooperation may be perceived as an axiom of sorts, and indeed countries of this region are closely interlinked geographically, culturally and ethnically.

SPECA is expected to secure technical assistance to the countries of Central Asia by implementing specific projects in the socio-economic sphere. Priority projects have been approved in the sectors of transport, energy, environment protection and support for the development of small and medium-sized enterprises. These areas are vital for this region since they play a determining role in the socio-economic development of the Central Asian States. Priority projects include transport infrastructure and facilitation of border crossing procedures, rational and effective use of energy and water resources of Central Asian countries, joint strategy of regional development and attraction of foreign investments, regional cooperation in developing a multiple approach to defining delivery routes of hydrocarbons to the global markets with the use of pipelines and reforming the region's industrial potential to establish internationally competitive industrial enterprises.

Transport projects are the ones progressing more successfully so far, since the EU in pursuit of its strategic objectives is most interested in the development of transport infrastructure to connect Central Asian markets with European ones. Transport policy within the framework of SPECA is based on the development of three transport corridors connecting Central Asia and Europe: through Russia, TRACECA (programme for the development of a Eurasian transport corridor) and through Iran and Turkey. As a result of the commissioning of the Serahs-Tedjen-Meshhed link in 1996 that connected the railways of Turkmenistan and Iran, the new "silk" route was finally formed. It connected the Pacific ports of China with Europe via Central Asia, Iran and Turkey. In 1996, the opening of the Alashonkou-Druzhba border crossing point enabled Eurasian transportation through the territory of Kazakhstan to the Chinese ports - Lanchzhou-Druzhba-Aktogay-Astana-Presnogorkovskya with a further link to the Trans-Siberian railway.

The reasons for such an active development of transport infrastructure reflect that, in the opinion of the majority of experts, the main trade flows in the XXI century will be concentrated in the triangle USA - Asia-Pacific region - Europe. That is why, establishing an effective transport structure along the APR-Europe corridor is gaining in strategic importance. Even today, the average annual growth of cargo transportation along this vector is 2-3%. Central Asia is becoming a natural transit bridge capable of connecting these huge regions, and the success of the development of transport infrastructure in this region is practically assured. This is where the strategic importance of SPECA lies for a

number of countries of this region that participate most actively in transport projects within the framework of the Programme.

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APPENDIX

Azerbaijan			
	2007	2008	2009 (Jan. - June)
GDP (in % compared to the relevant period of the previous year)	125.4	110.8	103.6
GDP per capita in USD	7,970	8,922	
Industrial output (in % compared to the relevant period of the previous year)	124	106	101.0
Agricultural output (in % compared to the relevant period of the previous year)	104	106	104.3
Unemployment rate, %	6.5	6.1	
Population growth, %	1.1	1.1	
Foreign debt, million USD	3,021		
Exports to the CIS countries (in % compared to the previous year)	119	147	74.2
Exports to other countries (in % compared to the previous year)	91.0	931.0	29.04
Imports from the CIS countries (in % compared to the previous year)	91.0	123.0	86.1
Imports from other countries (in % compared to the previous year)	120.0	127.0	94.57
Consumer price index (in % compared to the relevant period of the previous year)	116.7	121.6	103.7

Afghanistan			
	2007	2008	2009
GDP (in % compared to the relevant period of the previous year)	116.4	100	
GDP per capita in USD	1,255	1,274	
Industrial output (in % compared to the relevant period of the previous year)			
Agricultural output (in % compared to the relevant period of the previous year)			
Unemployment rate, %		40	
Population growth, %	1.7	2.0	
Foreign debt, million USD	3,021		
Exports to the CIS countries (in % compared to the previous year)	101.30	117.5	
Exports to other countries (in % compared to the previous year)			
Imports from the CIS countries (in % compared to the previous year)	116.20	112.30	
Imports from other countries (in % compared to the previous year)			
Consumer price index (in % compared to the relevant period of the previous year)	108.6	130.6	

Kazakhstan			
	2007	2008	2009 (Jan. - June)
GDP (in % compared to the relevant period of the previous year)	108.9	102.4	95.9
GDP per capita in USD	10,874	11,323	
Industrial output (in % compared to the relevant period of the previous year)	105	102	97.3
Agricultural output (in % compared to the relevant period of the previous year)	109	94	
Unemployment rate, %	7.3	6.6	7.2
Population growth, %	1.1	1.2	1.30
Foreign debt, million USD	96,133		
Exports to the CIS countries (in % compared to the previous year)	143	139	55.5
Exports to other countries (in % compared to the previous year)	122	151	48.5
Imports from the CIS countries (in % compared to the previous year)	132	120	70.2
Imports from other countries (in % compared to the previous year)	144	112	87.6
Consumer price index (in % compared to the relevant period of the previous year)	110.8	117.0	108.5
Kyrgyzstan			
	2007	2008	2009 (Jan. - June)
GDP (in % compared to the relevant period of the previous year)	108.5	107.6	100.3
GDP per capita in USD	1,831	2,025	
Industrial output (in % compared to the relevant period of the previous year)	107.00	115	81.1
Agricultural output (in % compared to the relevant period of the previous year)	102.00	100.6	103.4
Unemployment rate, %	8.1		
Population growth, %	0.7	1.0	1
Foreign debt, million USD	2,401		
Exports to the CIS countries (in % compared to the previous year)	150.0	104	63.0
Exports to other countries (in % compared to the previous year)	137.0	152	123.2
Imports from the CIS countries (in % compared to the previous year)	154	144.0	74.5
Imports from other countries (in % compared to the previous year)	123	149.0	77.2
Consumer price index (in % compared to the relevant period of the previous year)	110	125	112.5

Tajikistan			
	2007	2008	2009 (Jan. - June)
GDP (in % compared to the relevant period of the previous year)	107.8	107.9	102.8
GDP per capita in USD		1,984	
Industrial output (in % compared to the relevant period of the previous year)	110	96	86.7
Agricultural output (in % compared to the relevant period of the previous year)	107	108	
Unemployment rate, %	2.3	2.4	
Population growth, %	2.1	2.2	
Foreign debt, million USD	1,228		
Exports to the CIS countries (in % compared to the previous year)	123	98	90.3
Exports to other countries (in % compared to the previous year)	102	95	51.1
Imports from the CIS countries (in % compared to the previous year)	138	114	73.6
Imports from other countries (in % compared to the previous year)	150	153.0	92.2
Consumer price index (in % compared to the relevant period of the previous year)	121.5	120.4	108.8

Turkmenistan			
	2007	2008	2009
GDP (in % compared to the relevant period of the previous year)	111.60	111	
GDP per capita in USD	6,212	6,877	
Industrial output (in % compared to the relevant period of the previous year)			
Agricultural output (in % compared to the relevant period of the previous year)			
Unemployment rate, %			
Population growth, %	1.3	2.5	
Foreign debt, million USD	743		
Exports to the CIS countries (in % compared to the previous year)	127.4	130.6	
Exports to other countries (in % compared to the previous year)			
Imports from the CIS countries (in % compared to the previous year)	147.8	150.8	
Imports from other countries (in % compared to the previous year)			
Consumer price index (in % compared to the relevant period of the previous year)	109	118	

Uzbekistan			
	2007	2008	2009 (Jan. - June)
GDP (in % compared to the relevant period of the previous year)	109.5	109.0	108.2
GDP per capita in USD	2,425	2,672	
Industrial output (in % compared to the relevant period of the previous year)	112		109.1
Agricultural output (in % compared to the relevant period of the previous year)	106	105	
Unemployment rate, %	0.2	0.2	
Population growth, %	1.4	1.5	
Foreign debt, million USD	3,876		
Exports to the CIS countries (in % compared to the previous year)	142.9	125	
Exports to other countries (in % compared to the previous year)			
Imports from the CIS countries (in % compared to the previous year)	149.20	115	
Imports from other countries (in % compared to the previous year)			
Consumer price index (in % compared to the relevant period of the previous year)	106.8	113.5	

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Note:

Trade figures in 2009 cover the period January-May only. Registered unemployment for Tajikistan and Uzbekistan. For Azerbaijan, Kazakhstan and Kyrgyzstan, ILO- consistent figures are used.