CENTRAL ASIAN REPUBLICS

Economic recovery in the Central Asian Republics (CARs) continued in the first half of 2000. Inflation rates have fallen, and fiscal balances have improved. However, a more business-friendly institutional and regulatory environment is urgently needed to sustain economic growth.

Economic Indicator (percent)	1997	1998	1999	2000
GDP growth	3.4	0.8	2.8	4.1
Inflation rate	21.2	11.5	22.0	12.5

Economic Assessment. The economies of the CARs have sustained their recovery in 2000. Preliminary figures indicate that real GDP grew by a weighted average of 5.0 percent in the first quarter of 2000, compared with a contraction of 0.2 percent a year earlier. The rebound was driven mainly by the strong performance of Kazakhstan, the subregion's largest economy, which grew by 9 percent in the first quarter of 2000 compared with a 4 percent contraction in the first quarter of 1999. Continued recovery in Russia and rising world oil prices are among the major contributing factors. Other CARs also reported higher growth rates in the first quarter of 2000: 3.8 percent in Tajikistan, 3 percent in Uzbekistan, and 1 percent in the Kyrgyz Republic.

Fiscal balances have, in general, been improving, helped by increasing revenues and more prudent expenditure management. Kazakhstan and Uzbekistan have so far reported a deficit-to-surplus turnaround for their 2000 budgets. In Tajikistan, the budget has remained in deficit, but improved revenue management has resulted in rising tax collection. The Kyrgyz Republic is the exception, where large subsidies in April this year turned the fiscal surplus of 1.3 percent of GDP in the first quarter of 2000 into a deficit of 2.2 percent of GDP for the first four months of the year.

The four CARs have pursued tight monetary policies over the past few years. More recently, however, some of them have shown signs of loosening the monetary stance. Money supply (M2) in the Kyrgyz Republic expanded by 22 percent in the first quarter of 2000, up from 15 percent growth a year earlier. In Kazakhstan and Uzbekistan also, provisional data point to an eased monetary stance, with the benchmark refinancing rate falling by 4 and 12 percentage points respectively during the first half of 2000. In view of the continued fiscal difficulties being faced in Tajikistan, a tight monetary stance is expected to continue over the rest of 2000 to keep inflation under control.

Inflationary conditions, though varying greatly across the CARs, improved in the first half of 2000 compared with 1999. This is mainly a result of improved fiscal positions, continued tight monetary stance, or greater administrative control of utility prices. Unemployment though, appears less positive. In Kazakhstan, for instance, officially recorded unemployment rose

The Central Asian Republics comprise Kazakhstan, Kyrgyz Republic, Tajikistan, and Uzbekistan.

to 4.4 percent of the total workforce in May 2000, compared with 3.7 percent a year earlier. The latest figures in the Kyrgyz Republic also show a 7.2 percent rise in unemployment in July 2000.

The subregion's external balances are seeing some encouraging developments. Exchange rates, though gradually depreciating, have become more stable (except for Uzbekistan, where the national currency depreciated by 54 percent following exchange rate unification in May 2000). Stable exchange rates, together with rising world oil prices, have turned Kazakhstan's external trade balance from deficit to surplus, at 19.2 percent of GDP in the first quarter of 2000. However, unfavorable weather conditions in Tajikistan and Uzbekistan have adversely affected agricultural exports, and their trade deficits have continued to widen. Foreign debts have declined in Kazakhstan, due to improved export revenues, and debt servicing pressures eased in the Kyrgyz Republic, which has recently rescheduled most of its commercial debt repayments due in 2000. Tajikistan and Uzbekistan, on the other hand, accumulated a higher level of external debts in 1999 than the previous year. The official reserves positions remain manageable, with import coverage of 5.2 months on average for the CARs excluding Tajikistan, where foreign exchange reserves have declined.

Structural Issues. The institutional and regulatory framework for an integrated market-based economy needs to be strengthened in each country. Recent experience with privatization of state-owned enterprises has highlighted the importance of good governance and institutional development. In Kazakhstan and Uzbekistan for instance, the lack of transparency in the early rounds of privatization often resulted in local interest groups controlling newly privatized enterprises. Subregional economic cooperation, though recognized as a key to development, has progressed slowly because of persistent protectionism in the subregion. There is an urgent need to move forward more aggressively in this area.

Forecast. Growth prospects in the subregion for 2000 point to a continued recovery. Estimates, forecast earlier at 3.0 percent growth (compared with 2.8 percent achieved in 1999), is now raised to 4.1 percent growth, in view of continued strong growth in Kazakhstan of above 3 percent (compared with last year's 1.7 percent) and of a mild economic slowdown in Uzbekistan (compared with 4.4 percent growth in 1999). Although growth in the Kyrgyz Republic is likely to remain below last year's 3.6 percent, in Tajikistan it is expected to be above the 3.7 percent level of 1999.

Annual inflation in 2000 in Kazakhstan is expected to decline by 4 percent to about 17 percent. In the Kyrgyz Republic and Tajikistan, it is forecast at 20 percent and 15 percent, respectively. In Uzbekistan, however, inflation is likely to rise to 30 percent in 2000, in the wake of the sharp depreciation of the currency and larger public expenditures.

The subregion's prospects for the external sector in 2000 appear mixed. A current account surplus is expected in Kazakhstan, compared with the previous year's deficit. Increased agricultural output will also improve export earnings for the Kyrgyz Republic and Tajikistan. For Uzbekistan, on the other hand, the export outlook appears bleak as a result of continuing stagnation of cotton production and falling gold prices.