

## **North and Central Asia**

### ***Subregional overview***

***GDP growth was sustained for the fourth successive year in 2002***

The nine countries of North and Central Asia pulled through the global economic downturn in 2001 with remarkably little damage. In 2002, they headed for the fourth successive year of GDP growth, the longest sustained expansion since the beginning of their gradual transformation to a market-based economic system in 1992; Kyrgyzstan was an exception. The ongoing reform of policies and structures implemented by these economies in transition bolstered consumer and investor confidence, thus sustaining inward external resource transfers (both private and public) and steady growth in domestic demand. In particular, the flows of FDI into the subregion were unaffected by the global slowdown and expanded by 30 per cent to a record \$5.87 billion in 2001. Kazakhstan became the first country in the subregion to reach investment-grade status in 2002, a rating achievement that owed much to an ongoing surge in FDI and generally strong export performance. The necessary preparations, including reserve accumulation, were made by many countries to reduce their vulnerability to short-term fluctuations in resource prices and meet the relatively high foreign debt payments due in 2003. Central Asia also received a greater flow of international aid in return for its support in the war against terrorism in Afghanistan.

***Two large economies of the subregion were recognized as fully-fledged market economies ...***

The strong economic expansion in most parts of the subregion was underpinned by the continuing growth in the Russian Federation, where GDP had risen by more than 20 per cent since the 1998 financial crisis. This solid economic performance created demand for imports, including those from the subregional producers. It also encouraged domestic companies to seek market and investment opportunities in the other economies of North and Central Asia. Indeed, the Russian Federation was recognized in 2002 as a fully-fledged market economy, thus providing a favourable climate for inward investments and WTO negotiations, among other things. Market-economy status was also accorded to Kazakhstan, another large economy of the subregion. In October 2002, the Russian Federation was removed from the blacklist of the Financial Action Task Force on Money-Laundering, an international body that monitors money-laundering. This embodied concrete recognition of the successful efforts made by the Government to combat money-laundering in 2000-2002.

***... and two other economies exceeded their 1989 GDP level***

The economic policy stance of countries in North and Central Asia in 2002 continued to focus on ensuring durable and stable growth through, among other avenues, the maintenance of a more balanced budget, low inflation rates and relatively steady currencies. A matter of some concern, however, was the output of most subregional economies, which remained 25-30 per cent below the 1989 level. Only Turkmenistan and Uzbekistan managed to exceed their 1989 GDP level, by 8 and 2 per cent respectively in 2001. The challenges faced by the subregion in the short to medium

terms remained multifaceted. These ranged from energy sector reform, banking modernization and employment creation to poverty alleviation. In addition, concurrent efforts would have to be made to further enhance the subregion's competitiveness in international trade and investment markets, diversify its economic production and promote greater private sector participation in economic activities, including through the removal of bureaucratic barriers and a reduction of State involvement in the economy.

Along with the sustained economic recovery of the countries in North and Central Asia in the aftermath of the 1998 financial crisis in the Russian Federation there was a reduction in unemployment and, by extension, some progress in poverty alleviation. During the period 1999-2001, for example, the registered unemployment rate fell from 11.5 to just under 10 per cent in Armenia, from 3.9 to 2.8 per cent in Kazakhstan, from 12.2 to 8.7 per cent in the Russian Federation and from just over 3 to 2.6 per cent in Tajikistan. The rates of unemployment remained largely unchanged at a relatively low level in Azerbaijan and Kyrgyzstan. Notably, Uzbekistan reported the lowest unemployment rate (less than 1 per cent) among the subregional economies.

As a whole, however, the volume of employment in the North and Central Asian economies in 2001 was still 15-25 per cent below its 1989 level. Other factors contributing to the economic and social hardship of the unemployed included low levels of unemployment benefits and longer periods without jobs. Of particular concern was the large rise in unemployment of women and youth. The labour market conditions in 2002 tended to deteriorate somewhat, with unemployment going up in agriculture in some countries owing to poor weather conditions, and in the industrial sector as a result of the slow pace of restructuring and privatization. The number of registered unemployed in Kyrgyzstan and Tajikistan, for example, increased by 5.2 and 4.2 per cent respectively in the first half of 2002. There was some improvement in the labour market of the Russian Federation owing to the new labour legislation introduced by that country in 2002. The unemployment rate, at 7.7 per cent in the first six months of 2002, was about 1 per cent lower than in 2001.

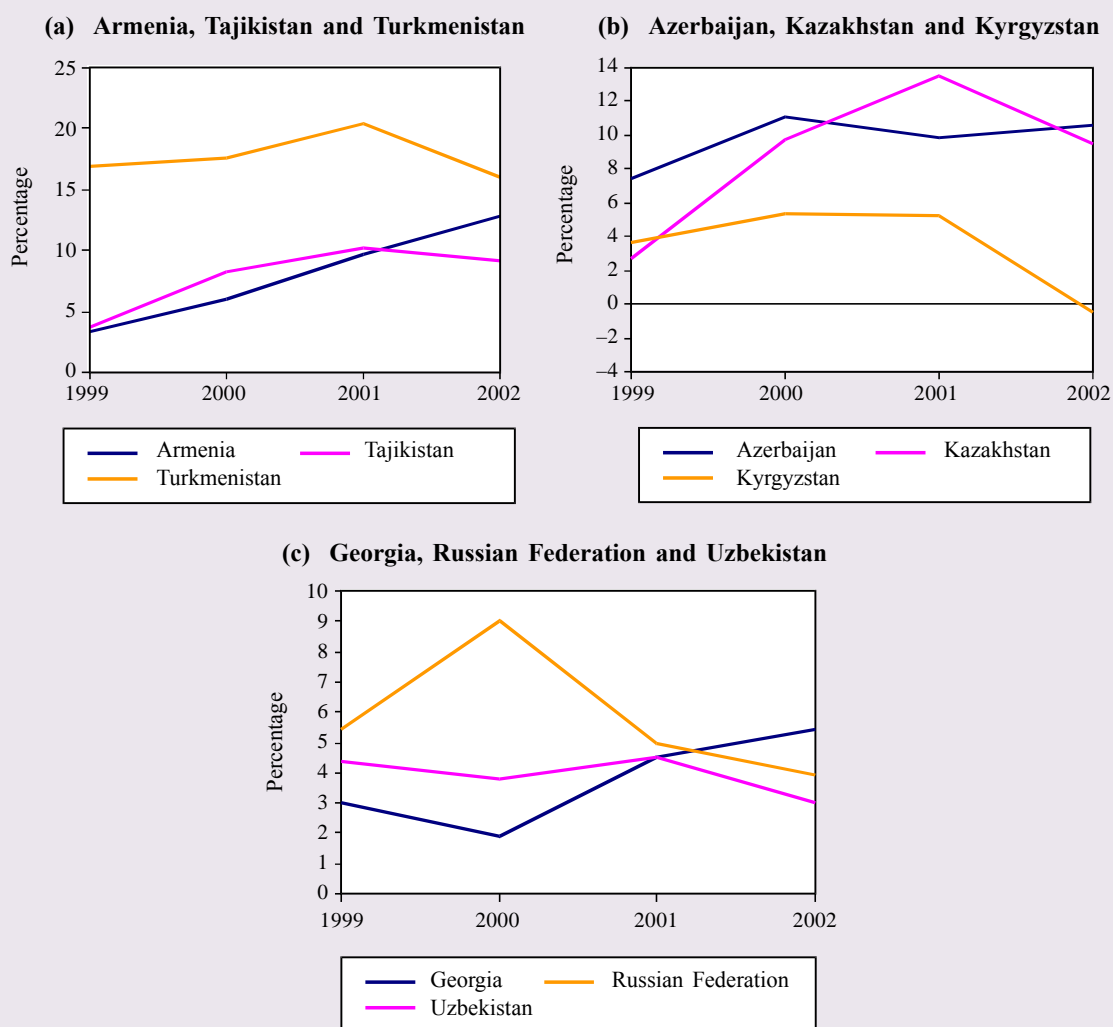
### ***GDP performance***

Positive growth was recorded virtually across the subregion, with Armenia, Azerbaijan, Kazakhstan, Tajikistan and Turkmenistan registering GDP expansion of 9-16 per cent in 2002 (figure II.6). The largest subregional economy, the Russian Federation, also showed a solid economic performance. GDP growth in 1999-2001 was mainly fuelled by exports, especially the high international prices of oil and gas, by new investment, including FDI, and by domestic consumption. Total output went up by 3.9 per cent in 2002 largely on the strength of industrial production, which grew by 3.7 per cent in the same period (table II.8). The agricultural sector as a whole performed moderately well, grain

***However, labour market conditions deteriorated in some countries***

***A solid economic performance was recorded by most economies of the subregion***

**Figure II.6. Rates of GDP growth in North and Central Asian economies, 1999-2002**



Sources: ESCAP, based on Economic Commission for Europe, *Economic Survey of Europe 2002*, No. 1 (United Nations publication, Sales No. E.02.II.E.7); web site of the Inter-State Statistical Committee of the Commonwealth of Independent States, <[www.cisstat.com](http://www.cisstat.com)>, 12 February 2003; and Economist Intelligence Unit, *Country Reports* (London, 2002), various issues.

Note: Data for 2002 are estimates.

production was maintained at a high level with a harvest of more than 85 million tons, and the modest amount of grain exports continued. Oil production reached 207 million tons, an increase of 8.2 per cent in the first seven months of 2002. It was expected to continue to grow over the next few years to enable the development of a strategic oil reserve to meet the country's domestic needs and help to stabilize prices in the international energy markets.

**Table II.8. North and Central Asian economies: growth rates, 1999-2002**

		<i>(Percentage)</i>		
		<i>Rates of growth</i>		
		<i>Gross domestic product</i>	<i>Gross agricultural output</i>	<i>Gross industrial output</i>
Armenia	1999	3.3	1.0	5.3
	2000	5.9	-2.0	5.9
	2001	9.6	12.0	3.8
	2002	12.9	4.0	14.2
Azerbaijan	1999	7.4	7.0	3.6
	2000	11.1	12.0	6.9
	2001	9.9	11.0	5.1
	2002	10.6	6.0	3.6
Georgia	1999	3.0	8.0	7.4
	2000	2.0	-15.0	11.0
	2001	4.5	6.2	-5.0
	2002	5.4	7.0	4.9
Kazakhstan	1999	2.7	28.0	2.7
	2000	9.8	-4.0	15.5
	2001	13.5	16.9	13.5
	2002	9.5	3.0	9.8
Kyrgyzstan	1999	3.7	8.0	-4.3
	2000	5.4	3.0	6.0
	2001	5.3	6.8	5.4
	2002	-0.5	3.0	-13.1
Russian Federation	1999	5.4	4.0	11.0
	2000	9.0	8.0	12.0
	2001	5.0	7.0	4.9
	2002	3.9	2.0	3.7
Tajikistan	1999	3.7	3.0	5.6
	2000	8.3	13.0	10.3
	2001	10.2	11.0	14.8
	2002	9.1	10.6 <sup>a</sup>	8.2
Turkmenistan	1999	16.9	26.0	15.0
	2000	17.6	..	30.0
	2001	20.5	..	11.0
	2002	16.0	17.0 <sup>b</sup>	19.0 <sup>b</sup>
Uzbekistan	1999	4.4	6.0	6.1
	2000	3.8	3.0	6.4
	2001	4.5	5.0	8.0
	2002	3.0 <sup>c</sup>	2.0 <sup>c</sup>	7.8 <sup>c</sup>

Sources: ESCAP, based on Economic Commission for Europe, *Economic Survey of Europe 2002*, No. 1 (United Nations publication, Sales No. E.02.II.E.7); web site of the Inter-State Statistical Committee of the Commonwealth of Independent States, <www.cisstat.com>, 12 February 2003; and Economist Intelligence Unit, *Country Reports* (London, 2002), various issues.

Note: Data for 2002 are estimates.

<sup>a</sup> January-August.

<sup>b</sup> January-June.

<sup>c</sup> January-September.

***Armenia and Azerbaijan had fast rates of GDP growth***

GDP in Armenia grew by 12.9 per cent in 2002, one of the fastest rates in the subregion. Strong expansion in industrial output, by more than 14 per cent during the same period, was attributable mainly to increased domestic and foreign investment, which, in turn, enabled restructuring in the sector and the resumption of production in formerly idle enterprises in the metallurgy and chemical sectors. New investment also contributed to greater efficiency in the energy sector and to improvements in agricultural infrastructure. In the process, it was estimated that some 20,000-25,000 new jobs were created in the country in 2002, mostly in industry and construction.

Azerbaijan faced the problems of weak bankruptcy procedures and accumulated inter-enterprise arrears in the State-owned enterprises. Falling output in that sector and inadequate structural reforms resulted in modest growth of 3.6 per cent in industrial production in 2002. The hydrocarbon sector, which was the main driver of industrial growth, was the principal beneficiary of inward FDI. Agricultural growth, although relatively healthy at 6 per cent in 2002, was considerably lower than the expansion of 11 per cent recorded in 2001. Poor weather and severe flooding adversely affected part of the 2002 harvest. GDP in Azerbaijan, however, continued to show a strong performance, gaining over 10 per cent in 2002.

***Modest GDP increase in Georgia***

There was a comparatively modest increase, just over 5 per cent, in Georgia's GDP in 2002, compared with 2001. Agriculture contributed almost one fifth of GDP; the gain was attributed primarily to higher agricultural production, although flooding in certain areas of the country damaged part of the agricultural harvest in 2002. Generally, however, the agricultural sector faced a variety of constraints and bottlenecks, including a chronic shortage of credit, modern agricultural machinery and high-quality inputs. Overall growth was expected to accelerate to 6.5 per cent in 2003, owing mainly to a rapid rise in investment related to the construction of a gas pipeline from Azerbaijan to Turkey via Georgia.

***Continued strong economic performance in Kazakhstan***

In Kazakhstan, GDP had grown by over 11 per cent a year on average in 2000-2001 owing to the positive impact of continued institutional and banking reforms and strong inflows of FDI. Despite the global slowdown, the strong economic performance was expected to continue; in particular, GDP increased by 9.5 per cent in 2002, compared with 2001. Both industrial and agricultural production displayed solid gains. Agricultural production grew by 3.0 per cent in 2002. A good harvest in 2002, in particular, brought the economy over 9 million tons of high quality wheat for export. Industrial output rose by almost 10 per cent in Kazakhstan in 2002 as a result of rising oil and gas output and heavy FDI in new oilfield and pipeline construction projects. In particular, oil production was expected to expand, from 40 million tons in 2001 to 45 million tons in 2002 and further to 60 million tons by 2005. Oil revenues

alone directly made up more than a quarter of the country's GDP and a more diversified economy remained a policy priority for the Government. Engineering plants were also restructured to better serve the booming oil and gas industry and other construction projects. However, the large burden of inter-enterprise debts and arrears remained a central problem for the corporate sector. The Government was expected to strengthen bankruptcy procedures as a remedial measure.

Kyrgyzstan was expected to show a contraction in GDP in 2002. In fact, GDP declined marginally by 0.5 per cent in 2002, a setback due largely to a decline of more than 13 per cent in industrial production. Agricultural output could not offset the slackening activities as it went up by 3 per cent in 2002, owing in part to insufficient liquidity for agricultural producers. Economic growth was constrained by a slowdown in market-oriented reforms and industrial restructuring, post-privatization reforms in the agricultural sector and the after-effects of a monetary squeeze. At the same time there was growing social tension, a problem induced partly by rising unemployment. As a result, GDP growth for 2002 as a whole, originally targeted at 4.5 per cent, contracted marginally. GDP was projected to expand by 5.8 per cent in 2003 and industrial production to increase by almost 10 per cent.

*A marginal decline in GDP in Kyrgyzstan*

The GDP of Tajikistan went up by 9.1 per cent in 2002 compared with 2001. Industrial production, up by 8.2 per cent over the same period, benefited from the continued growth in the aluminium sector. This sector had accounted for up to 60 per cent of industrial output in previous years and for more than half of the country's total export earnings. Agricultural output increased by 10.6 per cent in the first eight months of 2002, making it the fastest-growing economic sector. However, the growth prospects in Tajikistan were somewhat constrained by low levels of capital investment and relatively large deficits in the external current accounts.

*The industrial sector was an engine of GDP growth in Tajikistan ...*

Driven by the continued expansion of the oil and gas sector and a boom in construction, the GDP of Turkmenistan was forecast to go up by 16 per cent in 2002. In the first six months of 2002, value added by the various sectors of GDP went up by 17-19 per cent (table II.8). Within the industrial sector, priority was accorded to developing the oil and gas sector, construction activities and textile manufacturing. Hydrocarbons remained the principal engine of economic growth in Turkmenistan and energy-based activities have received the bulk of both State and foreign investment over the last few years. The agricultural sector met the production target of 2.3 million tons of wheat, a record grain harvest, in 2002. However, the cotton crop was poor owing to adverse weather conditions. Only about 0.5 million tons of cotton, or a quarter of the planned target, had been harvested by November 2002.

*... and the oil and gas sector in Turkmenistan*

***Steady economic progress maintained in Uzbekistan***

Uzbekistan recorded steady economic progress, with GDP growing by 3 per cent during the first nine months of 2002. The expansion was driven by higher industrial production, by almost 8 per cent compared with the same period in 2001, and agricultural output, by 2 per cent in the first nine months of 2002. In particular, the grain harvest increased from 4 million tons in 2001 to 5.3 million tons in 2002. However, heavy rain jeopardized the 2002 cotton harvest. Services comprised the fastest-expanding sector, growing by 12.7 per cent in the first half of 2002. To foster greater private activities and services, measures have been introduced to crack down on interference by local officials in the operations of small and medium-sized businesses and to lighten their tax burden.

***Inflation***

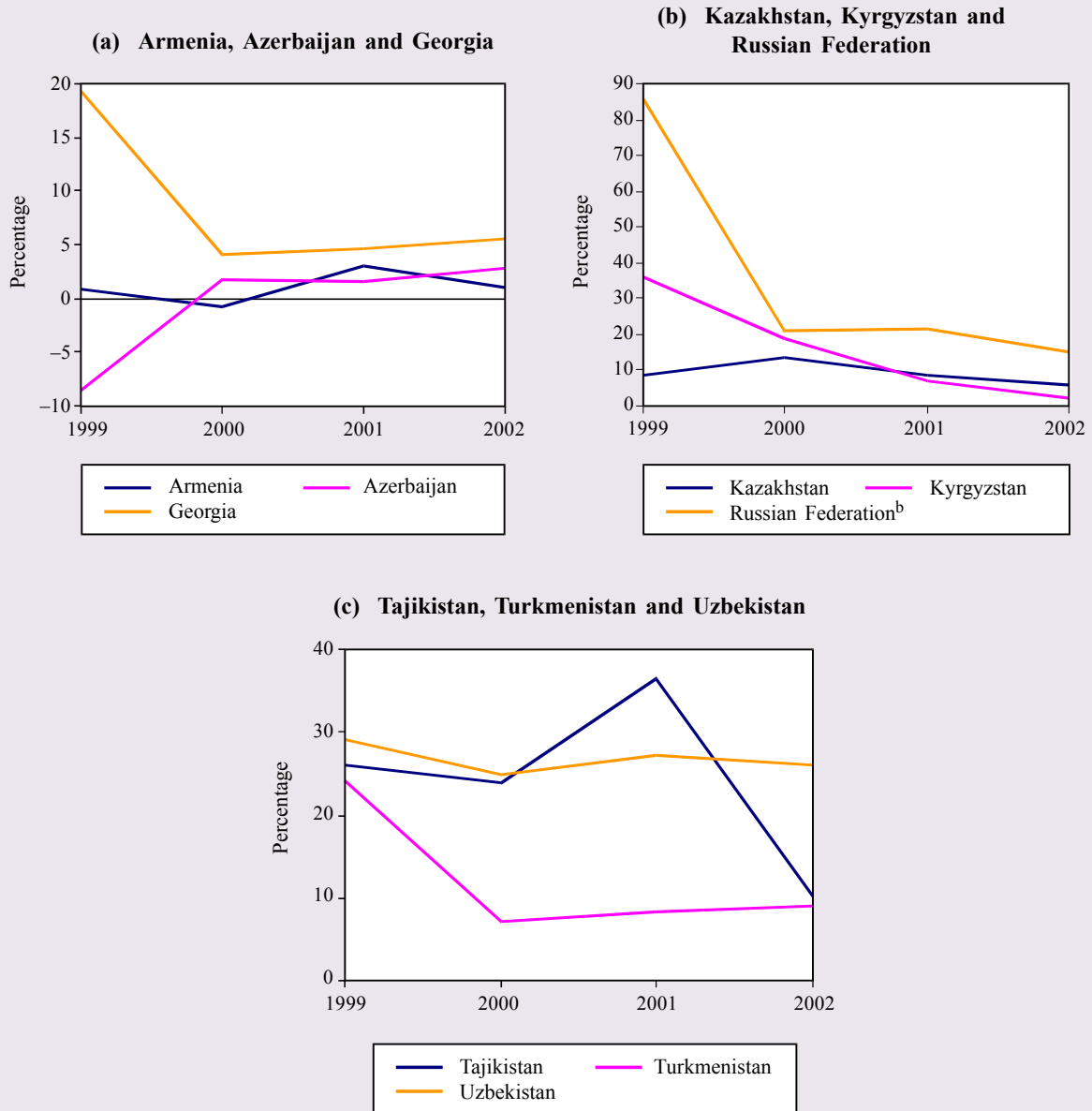
***Inflation was on a downward trend in most economies of the subregion ...***

A tight monetary policy and domestic currency stability contributed to relatively low rates of inflation in Armenia, Azerbaijan and Kyrgyzstan (figure II.7). In 2002, for example, consumer prices rose by only 1 to less than 3 per cent in the three countries (table II.9). This represented one of their remarkable achievements, given their high rates of inflation in the late 1990s and/or up to 2000. In particular, Azerbaijan has sustained great price stability in the subregion for the last four years. However, the elimination of preferential tariffs for energy and transport services in January 2002 and the increase in real wages by about 15 per cent in the first half of 2002 pushed up consumer price inflation marginally from 1.6 per cent in 2001 to 2.8 per cent in 2002. Kyrgyzstan recorded a year-on-year price deflation of 0.3 per cent in May 2002. However, the monthly consumer prices were pushed up in June 2002 as a result of higher prices for food products, which constituted a major part of the consumption basket in the country. Similarly, higher prices for food products and imported raw materials were expected to exert some inflationary pressure in Armenia, thus pushing consumer prices up more than 1 per cent by the end of 2002. Inflation could be higher in 2003, owing to large increases in the prices of Armenia's main import commodities.

***... despite higher rates for basic utilities in several countries***

There were sharp increases in utilities tariffs, such as communal services, rail transport, telephone calls and medicines, in the Russian Federation in January 2002. However, inflation had been on a downward trend since the late 1990s; the rate of increase in consumer prices fell further from almost 22 per cent in 2001 to 15.1 per cent in 2002 owing to easier supply conditions for food and other consumer goods, and more stable exchange rates. A rise in the utilities tariffs was one of the main reasons behind an increase in inflation in Georgia. In 2002, for example, consumer prices increased by 5.6 per cent, compared with less than 5 per cent in 2001.

**Figure II.7. Inflation in North and Central Asian economies, 1999-2002<sup>a</sup>**



Sources: ESCAP, based on Economic Commission for Europe, *Economic Survey of Europe 2002*, No. 1 (United Nations publication, Sales No. E.02.II.E.7); web site of the Inter-State Statistical Committee of the Commonwealth of Independent States, <www.cisstat.com>, 12 February 2003; and Economist Intelligence Unit, *Country Reports* (London, 2002), various issues.

Notes: Data for 2002 are estimates.

<sup>a</sup> Percentage changes in the consumer price index.

<sup>b</sup> December 2001 compared with December 2002 for the year 2002.

Higher pensions and public sector wages in Uzbekistan could push inflation up to 26 per cent in 2002. The country had been experiencing high rates of inflation for several years. However, monthly inflation was on a downward trend in the middle of 2002 owing to a seasonal fall in food prices and an increase in the production of consumer goods. In fact, Uzbekistan experienced deflation of almost 4 per cent in June 2002. Relatively stable domestic food prices and government price controls in Turkmenistan have helped to keep inflation at the relatively stable level of 7-9 per cent in the last few years. Consumer prices were expected to rise by 9 per cent in 2002, a sharp decline from inflation of 24 per cent in 1999.

Inflation was also on a downward trend in Kazakhstan, falling from 13.5 per cent in 2000 to 8.5 per cent a year later and to around 6 per cent in 2002. The Government aims to bring inflation down to between 4 and 6 per cent in 2003-2004. In 2002, however, consumer prices went up by 5.9 per cent, reflecting rising wages, large-scale hard-currency inflows and an amnesty for capital repatriation; the last two factors contributed to an expansion in the money supply, which served to fuel inflation in 2002. A tight monetary policy and a stable level of food stocks resulted in a substantial reduction of inflation in Tajikistan, from 36.5 per cent in 2001 to 10.2 per cent in 2002. However, higher domestic fuel prices and a rise in public sector salaries were expected to produce a moderate increase in consumer prices in 2003.

**Table II.9. North and Central Asian economies: inflation, 1999-2002<sup>a</sup>**

	<i>(Percentage)</i>			
	<i>1999</i>	<i>2000</i>	<i>2001</i>	<i>2002</i>
Armenia	0.8	-0.8	3.1	1.1
Azerbaijan	-8.6	1.8	1.6	2.8
Georgia	19.2	4.1	4.6	5.6
Kazakhstan	8.4	13.5	8.5	5.9
Kyrgyzstan	35.9	18.7	6.9	2.1
Russian Federation	85.7	20.8	21.6	15.1 <sup>b</sup>
Tajikistan	26.0	24.0	36.5	10.2
Turkmenistan	24.1	7.2	8.2	9.0
Uzbekistan	29.0	24.9	27.2	26.0

*Sources:* ESCAP, based on Economic Commission for Europe, *Economic Survey of Europe 2002*, No. 1 (United Nations publication, Sales No. E.02.II.E.7); web site of the Inter-State Statistical Committee of the Commonwealth of Independent States, <www.cisstat.com>, 12 February 2003; and Economist Intelligence Unit, *Country Reports* (London, 2002), various issues.

*Note:* Data for 2002 are estimates.

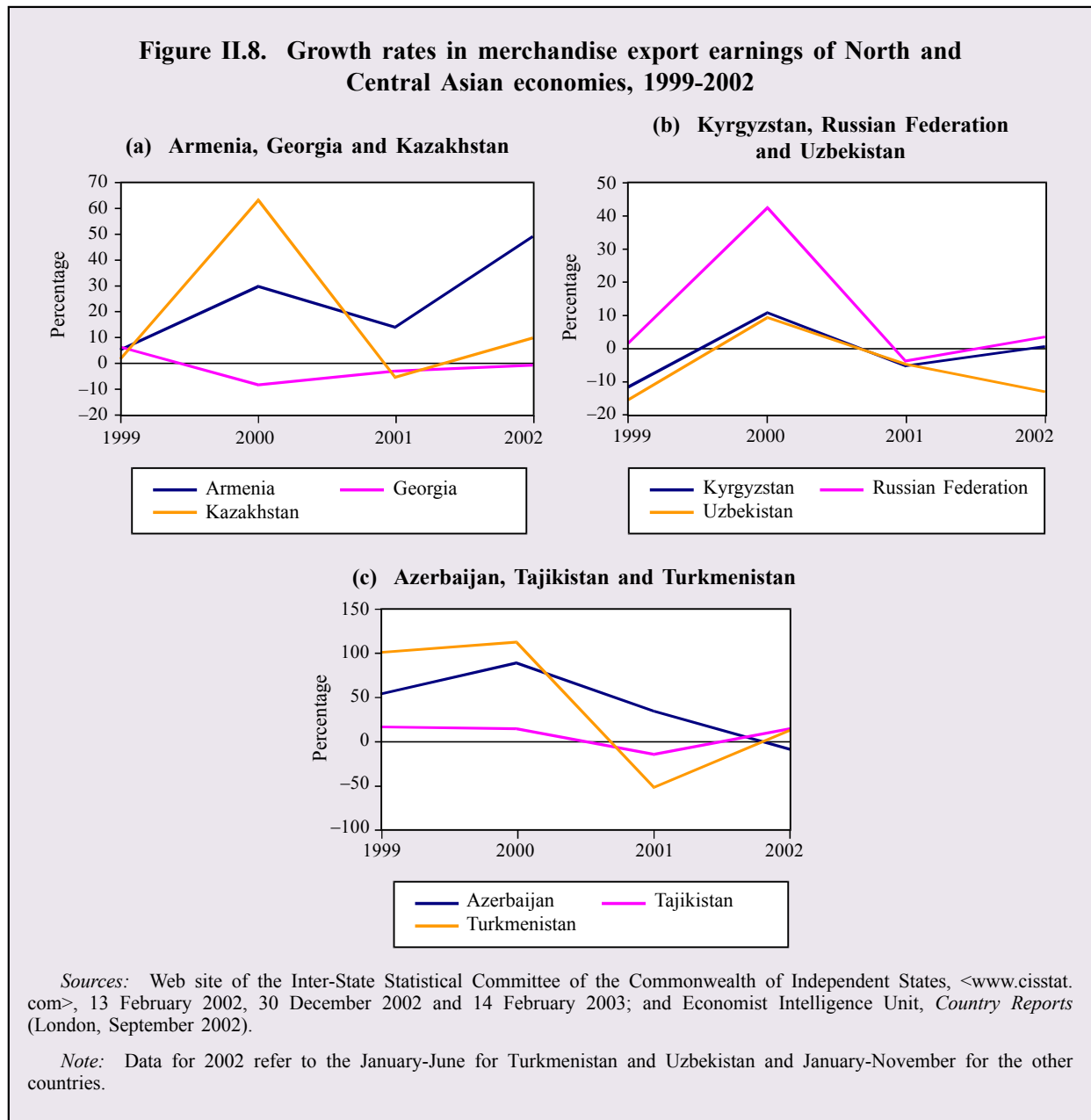
<sup>a</sup> Percentage changes in the consumer price index.

<sup>b</sup> December 2001 compared with December 2002 for the year 2002.

**Foreign trade and other external transactions**

*External trade*

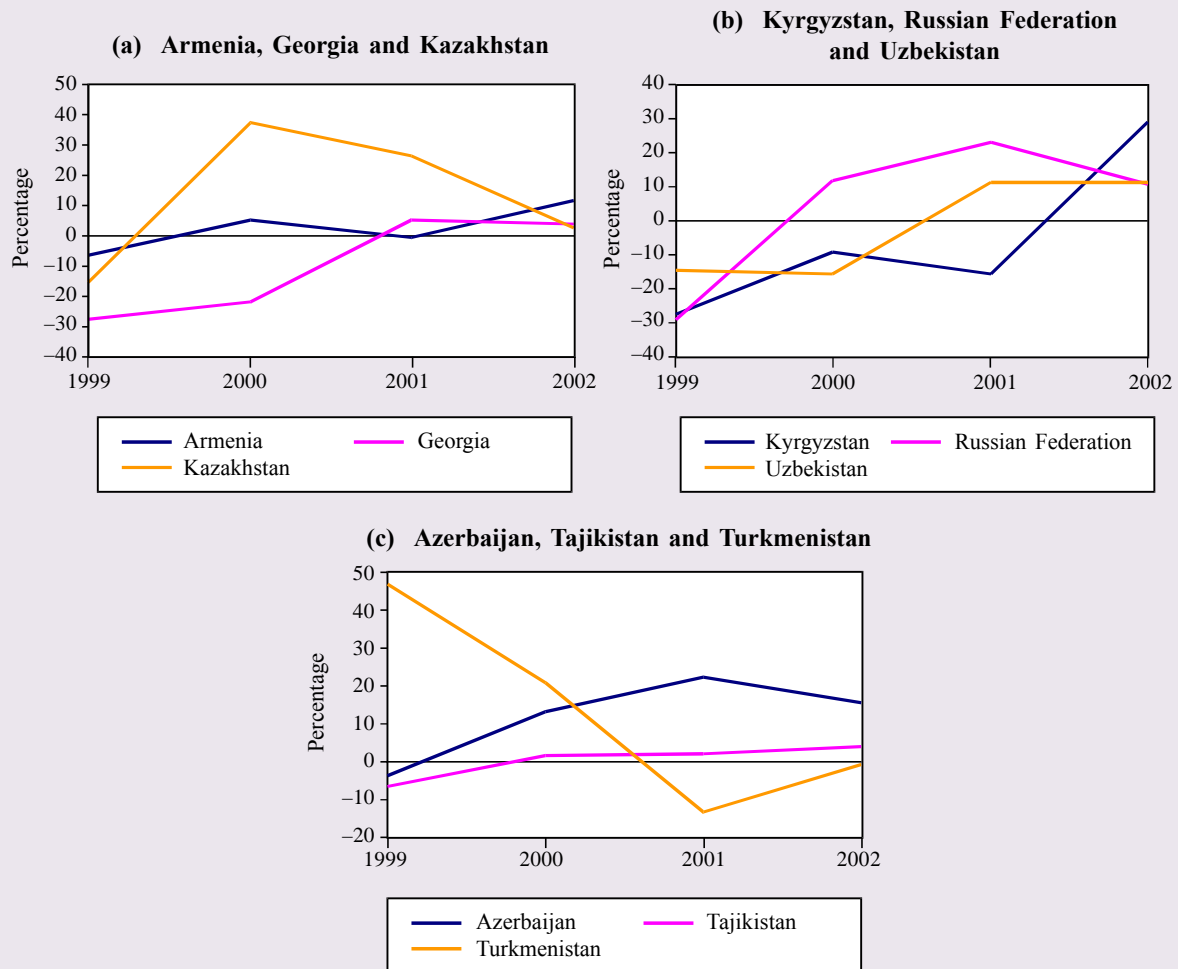
The value of external trade (both exports and imports) was on a substantial upswing virtually across North and Central Asia (figures II.8 and II.9). For the first 11 months of 2002, the expansion in trade was, by and large, at a double-digit rate. This provided a sharp contrast to the previous more subdued trade conditions in the subregion in 2001.



**Armenia is a new WTO member**

A recovery in the domestic processing of diamonds and other precious and semi-precious stones, plus an increase in world prices for these important export products, boosted the value of exports by about 50 per cent (to \$457 million) in Armenia during the first 11 months of 2002 (table II.10). The trade deficit was also lowered, from \$483 million in the first 11 months of 2001 to \$420 million in the same period of 2002, because of a moderate rise of around 12 per cent in import spending (to \$877 million) (table II.11). The country remained dependent on external fuel supplies and other mineral products, which together accounted for

**Figure II.9. Growth rates in merchandise import spending of North and Central Asian economies, 1999-2002**



Sources: Web site of the Inter-State Statistical Committee of the Commonwealth of Independent States, <www.cisstat.com>, 13 February 2002, 30 December 2002 and 14 February 2003; and Economist Intelligence Unit, *Country Reports* (London, September 2002).

Note: Data for 2002 refer to the January-June for Turkmenistan and Uzbekistan and January-November for the other countries.

**Table II.10. North and Central Asian economies: merchandise exports and their rates of growth, 1999-2002**

	Value (millions of US dollars)	Exports (f.o.b.)			
		Annual rate of growth (percentage)			
		1999	2000	2001	2002 Jan.-Nov.
Armenia	342	5.1	29.7	14.0	49.1
Azerbaijan	2 314	53.1	87.8	32.6	-11.0
Georgia	320	6.4	-8.4	-3.0	-0.5
Kazakhstan	8 647	1.6	63.2	-5.2	9.8
Kyrgyzstan	476	-11.6	10.6	-5.6	0.2
Russian Federation	99 198	1.5	42.2	-3.8	3.3
Tajikistan	652	15.4	13.9	-16.8	14.1
Turkmenistan	1 184	100.0	111.0	-52.7	11.0 <sup>a</sup>
Uzbekistan	2 025	-15.5	9.0	-5.0	-13.3 <sup>a</sup>

*Sources:* Web site of the Inter-State Statistical Committee of the Commonwealth of Independent States, <www.cisstat.com/>, 13 February 2002, 30 December 2002 and 14 February 2003; and Economist Intelligence Unit, *Country Reports* (London, September 2002).

<sup>a</sup> January-June 2002.

the bulk of import spending in 2002. In preparation for accession to WTO, Armenia amended its Customs Code and laws on VAT and excise taxation to comply with WTO requirements. In addition, new agreements on the outstanding issues of agricultural subsidies, customs procedures and the protection of intellectual property were reached between WTO and Armenia in 2002. The country became a member of WTO in December 2002.

Azerbaijan ran a trade surplus of \$281 million in the first 11 months of 2002, which was significantly lower than that recorded for the corresponding period of 2001 (\$705 million). In part, this decline was due to the strong expansion in imports (by over 15 per cent) in the first 11 months of 2002 on account of higher spending on machinery and equipment used for the construction of two new oil pipelines. There was also a hike in food imports in response to rising domestic demand, a development which partly reflected rising real wages in the oil and related sectors. However, there was a considerable fall of some 11 per cent in export revenue, from \$2,012.5 million in the first 11 months of 2001 to \$1,777.5 million in the same period in 2002. This setback was due mainly to lower oil prices and the restrictive measures introduced in 2002 to prevent oil export leakages.

*A lower trade  
surplus in  
Azerbaijan ...*

**Table II.11. North and Central Asian economies: merchandise imports and their rates of growth, 1999-2002**

	Value (millions of US dollars)	Imports (c.i.f.)			
		Annual rate of growth (percentage)			
		1999	2000	2001	2002 Jan.-Nov.
Armenia	877	-6.6	5.0	-0.9	11.6
Azerbaijan	1 431	-3.8	13.2	22.1	15.6
Georgia	684	-28.0	-21.8	5.1	3.9
Kazakhstan	6 363	-15.7	37.0	26.0	2.5
Kyrgyzstan	467	-27.4	-9.2	-15.7	28.7
Russian Federation	41 528	-29.5	11.8	22.6	10.7
Tajikistan	688	-6.7	1.8	1.9	3.9
Turkmenistan	1 554	46.8	20.9	-13.1	-1.0 <sup>a</sup>
Uzbekistan	2 341	-14.7	-15.8	11.0	11.0 <sup>a</sup>

Sources: Web site of the Inter-State Statistical Committee of the Commonwealth of Independent States, <www.cisstat.com>, 13 February 2002, 30 December 2002 and 14 February 2003; and Economist Intelligence Unit, *Country Reports* (London, September 2002).

<sup>a</sup> January-June 2002.

**... and a higher trade deficit in Georgia**

Georgia experienced a higher trade deficit, from \$328.3 million in the first 11 months of 2001 to \$354.5 million in the same period of 2002, which was attributable to lower export earnings (by 0.5 per cent). Owing to a temporary ban from July 2002 on one of its main export items, namely, non-ferrous scrap metal, export revenue reached \$293.1 million during the first 11 months of 2002, compared with \$294.6 million for the corresponding period of 2001. Import spending in the first 11 months of 2002 (at \$648 million) rose by about 4 per cent compared with the same period in 2001; energy was the main import item.

**There were also higher trade turnovers in other subregional economies**

Despite a narrow export base and lower oil prices, export earnings in Kazakhstan rose from \$7.95 billion in the first 11 months of 2001 to \$8.73 billion in the corresponding period of 2002. Imports continued to be dominated by technological goods and the value of import spending increased by 2.5 per cent in the first 11 months of 2002 to \$5.9 billion. The direction of trade was largely unchanged, with the Russian Federation being the largest trading partner of Kazakhstan, supplying more than half of the imports and taking over one fifth of the exports.

The value of Kyrgyzstan's foreign trade grew by 11.4 per cent during the first 11 months of 2002, to \$971.1 million. There was a marginal increase in export earnings (by 0.2 per cent), so that the large

increase in import spending of about 29 per cent contributed to a negative trade balance of \$94.5 million. However, higher world prices for gold and several agricultural exports from Kyrgyzstan and a recovery in electricity sales to neighbouring countries were expected to bring a modest pick-up in export earnings for 2002 as a whole.

Intensive negotiations for accession between the Russian Federation and WTO in 2002 were focused on the so-called systemic issues, including especially the harmonization of the country's trade standards with global norms. In addition, the Government made a number of policy and structural adjustments in several sectors of the economy, such as agriculture, energy, transport and tourism. Agricultural issues remained the most difficult obstacle to WTO membership. The reform of natural monopolies undertaken in 2002 was aimed at harmonizing domestic and export energy prices. A range of new legislation covering customs and tax codes as well as technical and sanitary standards was also adopted as part of the preparatory process for accession to WTO.

With regard to the foreign trade of the Russian Federation, there was a reduction in the trade surplus, from \$54.5 billion in the first 11 months of 2001 to \$53.3 billion in the corresponding period of 2002. However, the trade balance was expected to remain strong, thus contributing to higher international reserves and the recapitalization of the banking sector. Notably, the country limited its oil exports in order to prevent a sharp decline in world oil prices. Export revenue increased by 3.3 per cent, to \$94.5 billion, in the first 11 months of 2002. At the same time, imports increased by more than 10 per cent to \$41 billion.

Tajikistan's trade deficit was lowered from \$50.2 million recorded in the first 11 months of 2001 to \$7.5 million in the first 11 months of 2002. There was an increase of 14.1 per cent and about 4 per cent in export revenue and import spending, respectively. The trade surplus with CIS countries amounted to \$20 million in the first 11 months of 2002, compared with a trade deficit of \$12 million with other countries in the world. Tajikistan relied heavily on imported energy and raw materials from CIS countries for its aluminium production. Aluminium and cotton remained the principal sources of export earnings, accounting for up to seven tenths of total export earnings. In 2002, trading activities benefited considerably from the resumption of rail links with, and the lowering of transit tariffs in neighbouring countries.

Turkmenistan and Uzbekistan implemented their import-substituting industrialization policies in 2002 through the introduction of trade restrictions such as import licences, government certificates and limits on hard currency sales. During the first half of 2002, import spending from

**Import-substituting industrialization policies in Turkmenistan and Uzbekistan**

Uzbekistan nevertheless rose by 11 per cent owing mainly to an increase in imported machinery and equipment, which accounted for 44 per cent of all imports of goods and services. Export earnings declined from \$1.58 billion in the first half of 2001 to \$1.37 billion for the corresponding period of 2002, mainly owing to a decline in the value of cotton, food and energy exports.

The implementation of the import-substituting industrialization policy in Turkmenistan contributed to a reduction in the share of imports of machinery and equipment for construction and agriculture in total imports, from almost four fifths in the first six months of 2001 to just under two-thirds in the same period of 2002. The country was also developing its textile industry to raise domestic employment and add value to cotton-processing capacity and manufacturing activities. The share of textiles in total export revenue went from 2 per cent in 2001 to 6 per cent in the first half of 2002. However, the gas and oil sectors remained the main contributors to export earnings, with a relative share of more than four fifths. Turkmenistan's receipts from exports rose by 11 per cent to reach \$1.4 billion in the first half of 2002.

*Exchange rate developments*

**National currencies remained stable in most economies**

Tight monetary and sound fiscal policies, moderate and moderating inflation, and an improved or stable balance in the external current accounts enabled most countries of North and Central Asia to ensure considerable stability of their national currencies in 2002 (table II.12 and

**Table II.12. North and Central Asian economies: current account balance as a percentage of GDP, 1999-2002**

	<i>(Percentage)</i>			
	<i>1999</i>	<i>2000</i>	<i>2001</i>	<i>2002</i>
Armenia	-17.1	-14.6	-9.6	-7.8
Azerbaijan	-13.0	-3.2	-0.9	-8.0
Georgia	-4.5	-5.6	-4.2	-5.5
Kazakhstan	-1.0	2.3	-7.8	-6.0
Kyrgyzstan	-15.0	-5.5	-1.3	-6.0
Russian Federation	12.8	17.9	11.2	8.7
Tajikistan	-3.3	-6.3	-7.2	-9.2
Turkmenistan	-22.2	13.9	-2.5	-2.8
Uzbekistan	-1.0	0.5	-0.5	-1.0

*Source:* ESCAP, based on Economist Intelligence Unit, *Country Reports* (London, 2002), various issues.

*Note:* Data for 2002 are estimates.

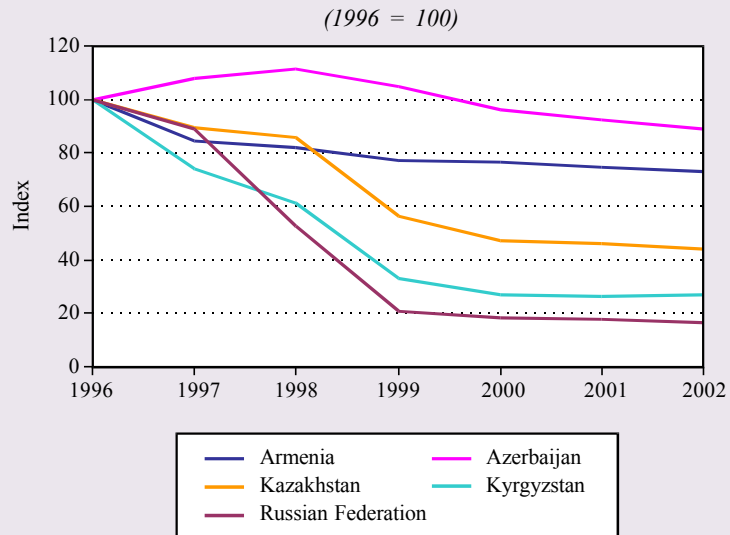
figure II.10). The exchange rates in Azerbaijan, Kazakhstan, the Russian Federation and Turkmenistan also benefited from the robust growth in oil and gas exports and the considerable inflows of foreign investment resources. Both Armenia and Tajikistan pursued a liberal foreign exchange regime with full convertibility of their currencies. In general, most currencies in North and Central Asia experienced some marginal depreciation relative to the dollar in 2002.

There were, however, some sharp adjustments in exchange rates. The exchange rate in Kyrgyzstan went up from just over 48 to 46 som to the dollar in the first nine months of 2002. In contrast, the Uzbekistan sum plunged from 920 to 1,400 per dollar in April 2002, a depreciation made to bring the official rate closer to the so-called parallel market rate. In the first quarter of 2002, for example, the spread between the official exchange rate and the black market rate was over 100 per cent. Unification of currency exchange rates was a key requirement of IMF in the implementation of structural reform and to remove the existing restrictions on the free convertibility of the national currency in the country. The use of foreign currency to pay for goods or services was also banned in July 2002 in order to strengthen the sum.

### Capital inflows

The growing confidence of foreign investors was underpinned by the liberalization of FDI policy regimes, a generally stable macroeconomic environment, a generally improved or stable balance on the external current accounts and better business conditions. Such confidence was manifested in higher inflows of external resources in several countries of North and Central Asia. In particular, FDI amounted to about \$6 billion in 2001, or more than twice the level of the mid-1990s.

**Figure II.10. Index of exchange rates against the United States dollar of selected North and Central Asian economies, 1996-2002**



Source: IMF, *International Financial Statistics*, vol. LV, No. 11 (November 2002).

Note: Data for 2002 are for January-September; in the case of Kazakhstan and Kyrgyzstan, the figures are for January-August.

**Higher capital inflows in Kazakhstan and the Russian Federation ...**

The hydrocarbon sector remained of great interest to foreign investors. For example, over four fifths of the FDI received by Kazakhstan in the first half of 2002 went to the energy sector, especially for the development of the offshore oil fields in the Caspian Sea, which was the biggest new project in the subregion. In absolute terms, net FDI into Kazakhstan rose from \$1.2 billion in 2000 to \$2.8 billion in 2001 and by a further 90 per cent to over \$2.1 billion in the first six months of 2002 compared with the same period in 2001. Such massive resources enabled the country to cover its large current account deficits in 2001-2002. However, Kazakhstan has also made a concerted effort to broaden its economic base by encouraging investment in other sectors, such as ferrous and non-ferrous metallurgy, transport, telecommunications and other infrastructure. Another large recipient of FDI, the Russian Federation, was able to attract \$2.5 billion in 2001. FDI increased by a further 25 per cent in the first half of 2002 over the same period in 2001.

***... and modest inflows in some other subregional economies***

FDI flows to other countries of the subregion were much more modest in magnitude. There was a higher level of FDI in Turkmenistan, from \$100 million in 2000 to \$130 million in 2001. The bulk of such resources were directed towards textile manufacturing and the construction sector. FDI had been on a relatively stable trend, averaging about \$100 million a year over the last decade. In the next 10 years, however, Turkmenistan was planning to attract some \$350 million in FDI annually to develop the oil and gas industry. In contrast, FDI flows into Armenia, Kyrgyzstan, Tajikistan and Uzbekistan in 2000-2001 were the lowest among the economies of North and Central Asia owing mainly to their geographical isolation and weak infrastructure.

***FDI flows remained low in Armenia, Kyrgyzstan and Georgia***

A considerable fall in FDI into Armenia, from \$104 million in 2000 to \$70 million in 2001, contributed to a lower surplus of its capital and financial accounts in 2001. The increase in FDI, by 14 per cent to \$19 million in the first quarter of 2002, was channelled mainly to the tobacco industry, the financial sector and exploration for copper and molybdenum ores. Kyrgyzstan was aiming to bring in \$150 million in FDI in 2002, compared with only \$25 million in 2001. Such resources were needed to sustain the public investment programme and enhance the efficiency of the services trade, in such areas as banking, insurance, information technology and tourism. However, FDI inflows rose by about 15 per cent only in the first six months of 2002, which was much below the government target. To encourage foreign investment, Tajikistan improved its legislation and adopted a three-year strategy of privatization of State assets, including the sale of airlines and railways. Uzbekistan was the destination of only \$70 million of FDI in 2001. New external resources to be secured for 2002 were expected to be in the form of debt to implement the import-substituting industrialization programme.

In other countries of the subregion, FDI in Georgia fell from \$131 in 2000 million to \$110 million in 2001 owing to the lack of adequate legal protection for external investment, the arbitrary application of regulations and the poor state of the energy sector in the country. However, higher FDI inflows were expected in 2002 in the light of more favourable incentives such as unlimited tax-free repatriation of capital and profits and of foreign-currency account holdings. Foreign investment laws in Azerbaijan were also improved in 2002 so as to strengthen the rule of law and reduce the vast number of regulations, totalling more than 600, applicable to FDI. The fundamental problem for the country was structural distortions and overconcentration of investment in the energy sector.

In addition to FDI, the countries in North and Central Asia also received credits and grants from multilateral organizations. In 2002, IMF and the World Bank allocated over \$600 million to Kyrgyzstan to cover government spending requirements and meet the debt-service burden. Kazakhstan was expected to receive \$700 million from the World Bank in 2002 to support the development of small and medium businesses, the private sector, public education, the health service and agricultural production. The World Bank was also assisting Tajikistan financially in completing the construction of two large hydroelectric power stations. A new system of dams and reservoirs would ensure better water supply for the whole region of Central Asia, reduce the deterioration of the drying Aral Basin and provide a better mechanism to deal with droughts, which had devastated the agricultural sector of Tajikistan in the last three years. Since joining the World Bank in 1992, Uzbekistan had received \$494 million to implement macroeconomic policy adjustments and structural reforms. In 2002-2004, the country was to be allocated loans worth \$350 million to fund projects in the health, agriculture, banking and water resources sectors.

*Considerable assistance of IMF and the World Bank to the subregional economies*

### ***Key policy issues***

The economic priorities for countries in North and Central Asia in 2002 were to maintain macroeconomic stability, carry out ongoing implementation of structural and institutional reforms, improve budgetary performance and reduce unemployment and poverty. A variety of policy measures were implemented, and the following brief review focuses on a number of key policy issues and policy outcomes.

### ***Fiscal performance***

The budgets of Azerbaijan, Kazakhstan and Turkmenistan remained vulnerable to shifts in world prices for their key exports (table II.13). Oil, gas and minerals contributed, for example, more than one quarter of fiscal

**Vulnerable budgets  
in some economies**

revenue in Kazakhstan in 2001. The budget deficit of the country, at 0.2 per cent of GDP in 2001, was expected to reach 2.5 per cent in 2002. For the period 2003-2005, the budget shortfall was targeted at 2 per cent of GDP. VAT remained the most important source of fiscal revenue in Azerbaijan, with a relative share of almost one third in the first four months of 2002. Despite higher public sector wages, the budget deficit target of 1.2 per cent of GDP was met on account of more buoyant oil prices. Likewise, oil and gas revenue enabled Turkmenistan to continue to supply gas, water, electricity and salt to the population free of charge, in addition to the subsidies allocated to the agricultural and industrial sectors in 2002. The budget deficit for 2002 was expected to be at the relatively low level of 0.7 per cent of GDP.

Revenue shortfalls had constrained Georgia's budget for several years. The actual tax collection was estimated to be about one half of the potential revenue owing mainly to a variety of exemptions of important goods from VAT. In 2002, the Government was expected to limit the budget deficit to 2.0 per cent of GDP through the pursuit of stricter financial discipline, the abolition of tax privileges, broadening of the tax base and better revenue collection. In particular, the tax code was amended and the Finance and Tax Ministries were merged to improve coordination and transparency and reduce tax evasion. Concerted efforts were also made in Armenia to crack down on tax evasion, including

**Table II.13. North and Central Asian economies: budget balance as a percentage of GDP, 1999-2002**

	<i>(Percentage)</i>			
	1999	2000	2001	2002
Armenia	-5.5	-4.6	-4.0	-3.2
Azerbaijan	-2.8	-1.9	-2.0	-1.2
Georgia	..	..	-4.0	-2.0
Kazakhstan	-4.8	-1.8	-0.2	-2.5
Kyrgyzstan	-2.5	-2.6	0.4	0.6
Russian Federation	-1.2	2.4	2.9	0.7
Tajikistan	-3.1	-0.6	-0.6	-1.0
Turkmenistan	0.9	0.4	0.9	-0.7
Uzbekistan	-3.2	-3.9	-3.6	-3.4

Sources: ESCAP, based on Economic Commission for Europe, *Economic Survey of Europe 2002*, No. 1 (United Nations publication, Sales No. E.02.II.E.7); and Economist Intelligence Unit, *Country Reports* (London, 2002), various issues.

Note: Data for 2002 are estimates.

through the introduction of a bill that set clear limits on cash transactions in payment for goods and services; three fourths of all domestic business transactions were estimated to have been conducted in cash. Higher fiscal receipts were expected and the budget shortfall was limited to 3.2 per cent of GDP in 2002. In the draft budget for 2003, tax revenues were forecast to rise by more than 13 per cent, thus contributing to a lower deficit of 2.6 per cent of GDP.

Kyrgyzstan experienced a better fiscal out-turn in 2001, when a surplus of 0.4 per cent of GDP was recorded. A consolidated budget surplus of 0.6 per cent of GDP was generally feasible in 2002. However, the low economic growth could undermine the fiscal performance of the country. Moreover, social spending to alleviate widespread poverty raised government expenditure by 23 per cent during the first four months of 2002. A draft budget set the same level of surplus at 0.4 per cent of GDP for 2003.

There has been a substantial increase in tax collections in the Russian Federation over the last three years. The improved fiscal performance resulted in a further budget surplus of 2.9 and 0.7 per cent of GDP in 2001 and 2002 respectively (table II.13). As a follow-up to the introduction of a flat 13 per cent income tax rate in 2000, taxes on small and medium-sized businesses were also simplified significantly in March 2002. In particular, these enterprises were provided with the option of paying a 20 per cent tax on profit or an 8 per cent tax on turnover values. The new approach was expected to satisfy both the needs of fiscal revenue generation and the interests of entrepreneurs, who had to pay VAT, sales tax, property tax and income tax under the previous tax regime. The draft 2003 budget envisaged a surplus of 0.8 per cent of GDP, thus conserving resources for the servicing of foreign debt.

*A new approach  
in fiscal policy  
in the Russian  
Federation*

Tajikistan had had low budget shortfalls of less than 1 per cent for several years. However, there was a surplus of 2.5 per cent of GDP in the first half of 2002, an outcome attributable largely to improved revenue collection following reform measures in tax administration, the establishment of a new Ministry of State Revenues and Duties and the introduction of progressive income taxation. Nevertheless, higher spending on social welfare and infrastructure in the second half of 2002 to meet the damage caused by several natural disasters could result in an overall deficit of 1 per cent for 2002.

*Varying budget  
deficits in Tajikistan  
and Uzbekistan*

Uzbekistan had sustained a budget deficit of around 4 per cent of GDP for some years. Corporate profit tax had been lowered from 35 per cent in 1998 to 24 per cent in January 2002 so as to induce greater tax compliance and more corporate investment. Consequently, there was

a fall in the relative share of corporate profit taxation in the total budget revenue, from 12 per cent in the first half of 2001 to 10 per cent in the corresponding period of 2002. The consolidated budget deficit could be marginally lower at 3.4 per cent of GDP for 2002 as a whole.

#### *Financial and banking reforms*

#### ***The banking sector was consolidated in most parts of the subregion***

The Central Bank of Armenia approved the first merger of two large commercial banks in February 2002 as part of banking sector consolidation, a process necessitated by the failure of many commercial banks to meet the normal industry standards for size and capital adequacy. A similar development was observable in Azerbaijan, where the number of the banks was reduced from 51 to 46 in 2002 after an increase in the minimum capital requirement from \$2 million to \$2.5 million. Further consolidation could be expected; on average, the capitalization of each of the remaining banks, at \$2.3 million, was still below the requirement. The total number of banks in Georgia also declined, from 228 in 1994 to 28 in 2002; of these, 10 accounted for the bulk of the assets, loans and total capital of the banking sector.

Further progress recorded by the Russian Federation in 2002 included the gradual deregulation of currency controls, the ongoing recapitalization of the banking system, the adoption of accepted international accounting and auditing standards and the introduction of a government-guaranteed deposit-insurance system. The new Federal Law on the Central Bank of the Russian Federation, adopted in 2002, preserved the independence of the Bank and increased the transparency of its operations. New and tighter measures on financial monitoring and supervision could lead to the closure of many of the existing 1,300 banks, as those institutions would have to meet tough capital adequacy requirements, internal control procedures and tests of management quality. As a further liberalization measure, the amount of corporate earnings of foreign currency to be sold to the Central Bank was lowered from one half to 30 per cent.

#### *Foreign debt*

#### ***High ratios of foreign debt to GDP in some economies ...***

Armenia, Georgia, Kyrgyzstan and Tajikistan had relatively high debt-to-GDP ratio levels of around 60-70 per cent in 2002. Most of the debt was owed to multilateral lenders, such as IMF and the World Bank, plus the Paris Club of international creditors. Two subregional economies, the Russian Federation and Turkmenistan, were also among the bilateral lenders, mainly through their energy exports to other countries in North and Central Asia. Armenia managed to reduce almost one tenth of its

foreign debt of \$900 million in a debt-equity swap. The Russian Federation agreed to write off debt worth some \$100 million in exchange for a controlling stake in four large enterprises. However, without new external borrowing, debt service could pose a problem in 2003 owing to the limited mobilization of domestic resources through taxation and export earnings. The restructuring of Kyrgyzstan's foreign debt by the Paris Club in March 2002 not only alleviated a potential debt payment crisis in 2003 but also improved the prospects for economic growth in the country. Georgia also secured some assistance to reschedule its debt with the Paris Club in 2002: to keep debt levels in check, new debt would be contracted only on concessional terms. Owing to low levels of FDI and limited domestic resources, Tajikistan financed its budget and current account deficits through external borrowings. As a result, the stock of external debt exceeded \$1 billion in 2002. Debt restructuring was apparently necessary to resolve foreign debt payment problems in the near term.

Kazakhstan and Uzbekistan had a relatively strong position in servicing their external debt owing to the strong export performance by the former country, and large resource inflows in both countries. Uzbekistan stabilized its foreign debt stock, which accounted for about 50 per cent of GDP in 2002. Kazakhstan's external debt was down from \$3.7 billion to \$3.15 billion in 2002. External resource inflows, including new bond issues, were expected to help to diversify the economy away from its heavy reliance on hydrocarbon resources. The foreign debt of the Russian Federation, at \$134 billion in 2001, was reduced by around 10 per cent in the following year; the necessary resources were being incorporated in the federal budget to meet the scheduled payments in 2002-2003. The external market for the Russian Federation's sovereign debt was noticeably improved with the spread on 10-year bonds dropping from 1,500 to 350 basis points over US treasuries in 2002. In this context, new international bonds of \$2 billion with maturities in 2010 and 2030 were issued by the Government in exchange for the residual foreign trade debt that had not yet been restructured. However, two large domestic companies started to tap resources in the international bond markets in April 2002. The State Debt Management Agency was created to administer and control the foreign debt incurred at the regional levels and in the corporate sector.

### *Structural reforms*

The more difficult steps in the implementation of structural reform undertaken by the countries of North and Central Asia in 2002 included reforming the so-called natural monopolies and fostering the development of SMEs and private business activities. Among the reform measures in the energy sector of Azerbaijan were the elimination of preferential

*... and stabilized  
debt stock in  
others*

*Continued reforms  
of natural  
monopolies*

consumer tariffs for electricity, gas and heating. Efforts were also made to improve tariff collection and privatize the energy distribution companies. Further liberalization of the energy sector was carried out by the Russian Federation, although overall control of the sector remained with the Government. The domestic tariff rates for natural gas were raised by 35 per cent and those for electricity by 32 per cent in January 2002. Higher revenue would help to improve the infrastructure and communal services and, at the same time, reduce excess consumption.

***Further progress  
in promoting SMEs  
in some subregional  
countries ...***

Private business activities and services were given further impetus in Kazakhstan, the Russian Federation and Uzbekistan through the efforts made to promote SMEs in 2002. Kazakhstan removed a number of business restrictions and also simplified the tax procedures for SMEs, including those for the registration of new businesses. Uzbekistan took several steps to establish a solid legislative framework for the development of SMEs. In particular, the share of SME production in GDP, which was estimated at 1.5 per cent at the beginning of 1990s, was to reach 31 per cent in 2000. In 2002, the Law on Guarantees of Freedom of Entrepreneurial Activity in Uzbekistan was adopted to protect business persons, establish new sources of credit for entrepreneurs and eliminate unnecessary government involvement in the SME sector. Taxes and red tape concerning SMEs were also reduced and streamlined in the Russian Federation. Small business accounted for around one tenth of GDP and employed some 12 million people (about 12 percentage of the total employment) in 2002.

***... and limited  
progress in  
some others***

Progress with structural reforms was slow in Kyrgyzstan and Georgia in 2002. In Kyrgyzstan, there were limited possibilities for export diversification except into gold production, while there was also a slow pace of restructuring and privatization. Georgia almost completed its privatization of small-scale businesses, but the privatization of large enterprises remained stalled owing to a lack of investor interest, which, in turn, reflected the tough conditions set for bidding. As mentioned earlier, Tajikistan's newly adopted three-year privatization programme envisaged the divestiture in 2002-2003 of small-scale industrial enterprises, including cultural and health-care facilities, construction companies, poultry and fish production units and pharmaceutical firms. The privatization of large-scale industrial enterprises such as Tajik Airlines, Tajik Aluminum and Tajik Railways was expected to be completed in 2004.

***Improved business  
environment in  
the Russian  
Federation***

The privatization programme of the Russian Federation for 2002 included the sale of 450 out of 9,810 State-owned companies and government stakes in 600 out of 4,354 other enterprises. The divestiture programme was expected to generate \$1.7 billion for the budget in 2003.

The focus of the programme was on the privatization of oil, gas, telecommunications and transport companies in which potential investors had a strong interest. At the same time, the Russian Federation took significant steps to improve the domestic business environment, such as adopting a new law on bankruptcy and amending the law on money-laundering in 2002. In particular, the former legislation established a clear basis for declaring a debtor bankrupt and spelled out the rights and obligations of debtors and creditors throughout the bankruptcy and financial recovery processes. The country was removed from the watch list of the Financial Action Task Force on Money-Laundering with the amended laws on money-laundering, as already noted.

### ***Poverty reduction efforts***

Poverty is another issue of significant policy concern in North and Central Asia. The process of market-based transition undertaken by these countries over the past decade has necessitated a series of ongoing economic and structural reforms and adjustments, some of which were discussed earlier. The changes in policy orientation, economic production and marketing have created considerable economic and, by extension, social disruptions and dislocations in the short and medium terms. Some of these transitional problems and difficulties have included, at one time or another, higher unemployment, lower purchasing power and disparities in the distribution of wealth and access among various socio-economic strata. The ongoing and, in several countries, strong economic recovery of the last few years has had a positive impact on social and human welfare. However, the agenda for poverty alleviation in consonance with the United Nations millennium development goals remains extensive in the subregion and, for that matter, in most developing countries in the world.

In 2002, around 82 per cent of the family units in Kyrgyzstan lived below the poverty line. In 2002, a loan of \$16 million was made by IMF under a three-year Poverty Reduction and Growth Facility to finance the country's poverty reduction strategy. The main objective in poverty alleviation was to reduce the poverty rate by 15-17 percentage points annually so that by 2005 no more than 30 per cent of the population would fall into the above category. As part of the process, social allowances were raised by an average of 20 per cent in April 2002 to help to counter an increase of 25 per cent in electricity tariffs. Average wages grew by around 15 per cent in the first half of 2002 in nominal terms owing to the deceleration in inflation. Despite continued growth in real wages, earnings in absolute terms remained very low compared with those in Kazakhstan and the Russian Federation.

***Extensive agenda  
in poverty  
alleviation***

***Challenging  
tasks in poverty  
reduction in some  
subregional  
economies***

The number of registered unemployed persons in Kyrgyzstan remained at just over 3 per cent over 2001-2002. Half of those unemployed were women and unemployment benefits amounted to around \$9.50 per month, or a little over one third of the monthly minimum subsistence level of \$32.

Over the last decade, the population of Tajikistan increased by 14 per cent to 6.2 million in 2002, while GDP fell by 64 per cent, resulting in higher unemployment and poverty. Policy efforts have been made to slow the rate of population growth, improve the general socio-economic situation and reduce disparities in the distribution of wealth. Official unemployment was at a relatively low level of 4.2 per cent of the workforce in 2002. Over half of the unemployed were women and the rate of unemployment was two thirds among young people in the age group 15-29. About 500,000 people were estimated to have left Tajikistan in search of seasonal employment in neighbouring countries. However, unemployment appeared to be on an upward trend in the short term owing to the low speed of restructuring and privatization in the industrial sector, which employed about 35 per cent of the workforce. In addition, poor weather conditions contributed to unemployment in the agricultural sector. In response, the Government was expected to create 41,000 new jobs in 2003. The minimum wage in Tajikistan was one of the lowest in CIS. The average monthly salary in Georgia was \$41 in 2001, although that level of earnings was still about a quarter lower than the minimum subsistence level. Unemployment in the country was 4 per cent in the first quarter of 2002; the standard unemployment benefit paid during the six-month period was about \$6 per month.

***Improved standards  
of living in the  
Russian Federation  
and Kazakhstan***

In 2002, the standard of living in the Russian Federation returned to the levels attained prior to the economic crisis in August 1998. Since that year, real incomes had increased by 24 per cent, real wages by 55 per cent and pensions by 28 per cent. However, one third of the population still lived below the minimum subsistence level, defined as less than \$55 per month. Around 28 per cent of the poor were men in the age group 31-59, while another 44 per cent were children aged 16 or younger. The death rate in the Russian Federation exceeded the birth rate by 70 per cent, resulting in a reduction in life expectancy from 70 years in the 1980s to 65 years in 2001. If these trends were to continue, the population would decline from 145 million in 2002 to 128-138 million by 2016. Among countries of the subregion, Kazakhstan came third behind the Russian Federation and Turkmenistan in per capita income, which was expected to rise to \$1,600-1,700, while the percentage of the population living below the poverty line was expected to be reduced to under 20 per cent over the period 2002-2004.