ECO ANNUAL ECONOMIC REPORT

July 2007

ECO SECRETARIAT, TEHRAN

Economic Cooperation Organization (ECO)
was established in 1985.Its members are
the Islamic Republic of Afghanistan,
the Republic of Azerbaijan, the Islamic Republic of Iran,
the Republic of Kazakhstan, the Kyrgyz Republic,
the Islamic Republic of Pakistan, the Republic of Tajikistan,
the Republic of Turkey, Turkmenistan and the Republic of
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FOREWORD

The ECO region is emerging as one of the faster growing parts of Asia and the Pacific. Sound economic policies pursued by member states since 2002 have contributed to a robust growth in the region which averaged 7.6% during 2005. Double-digit growth in exports, higher domestic demand and increased foreign direct investment marked this steady upward trend. In most cases, broad-based growth was accompanied by low inflation.

The ECO countries are pursuing privatization, trade liberalization and structural reforms. These are part of efforts aimed at closer integration with the global economy. The over-arching goal remains improvement in the quality of life of our people through stable and sustained economic growth. Implementation of integrated measures to reduce poverty and achieve the human development targets of the Millennium Development Goals (MDGs) are a high priority of ECO.

This Annual Economic Report has been prepared in cooperation with the Member States. Data available with International Organizations, including IMF, World Bank, ADB and UNESCAP have also been utilized. The report presents analysis of economic developments in the region, broadly, in three parts. The first comprises a brief review of the macro-economic performance of member states during 2004-2005 and a regional outlook for 2006-2007. The second part highlights major developments in the economies of the ECO countries, and the third contains tables of relevant economic indicators.

The report is meant to provide useful reference material about the economies of the region. We hope it will generate further interest in this area.

Khurshid Anwar
Secretary General

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Abbreviations

ADB	Asian Development Bank
ASEAN	Association of South East Asian Nations
CIS	Commonwealth of Independent States
CPI	Consumer Price Index
ESCAP	Economic and Social Commission for Asia and the Pacific
ECE	Economic Commission for Europe
ECO	Economic Cooperation Organization
EU	European Union
FAO	Food and Agriculture Organization
FDI	Foreign Direct Investment
GDP	Gross Domestic Product
GNP	Gross National Product
HDI	Human Development Index
HIPC	Heavily Indebted Poor Countries
ICT	Information and Communication Technology
IDB	Islamic Development Bank
ILO	International Labour Organization
IMF	International Monetary Fund
ITC	International Trade Centre
M2	Broad Money Supply
MDGs	Millennium Development Goals
MDRI	Multilateral Debt Relief Initiative
OECD	Organization for Economic Cooperation and Development
PPP	Purchasing Power Parity
PRGF	Poverty Reduction and Growth Facility
SESRTCIC	Statistical, Economic and Social Research and Training Centre for Islamic Countries
SME	Small and Medium-Sized Enterprise
UNCTAD	United Nations Conference on Trade and Development
UNFPA	United Nations Population Fund
UNSD	United Nations Statistics Division
VAT	Value Added Tax
WB	World Bank
WHO	World Health Organization
WTO	World Trade Organization

I. ECO Regional Development:

1.1 Macroeconomic Performance of ECO Region in 2005

Introduction

Despite many unfavourable factors, the economies of the ECO region continued robust growth at 7.6 % supported by strong growth in Azerbaijan, Kazakhstan, Pakistan, Turkey, and Turkmenistan. Continued high oil and non-oil commodity prices, favourable global environment and generally good economic policies underpinned this strong performance in the region. In most countries of the region, improved macroeconomic policies, reflected in low inflation, trade liberalization efforts, more flexible exchange rate regimes, and lower fiscal deficits have reduced uncertainty and improved the overall investment environment. More microeconomic structural reforms, such as privatization and regulatory reform initiatives, have also played a key role.

Nevertheless, the core development challenge facing the region is to ensure sustainable economic growth, macroeconomic balance and price stability by the ECO countries in order to achieve a better quality of life for a population of over 385 million. While notable progress has been achieved by the member countries in resolving fiscal, monetary, structural and other systemic difficulties, the remaining agenda for reform and restructuring is formidable.

In order to sustain growth and promote integration into regional and global economies ECO countries continued with their agenda of reforms and institutional innovation in sensitive and vulnerable areas, in particular, banking, capital markets, tax system, and corporate sectors.

As seen from table 1, GDP growth figures of member states for 2005 registered a steady positive swing. The fiscal situation in the region remained essentially satisfactory in 2005, with the budget balance as a percentage of GDP. The tight monetary policy contributed to sharp drop in the rate of inflation. However, significant risks to macroeconomic stability remained real.

The oil and gas exporting countries including Azerbaijan, Iran, Kazakhstan, and Turkmenistan continued to have high savings as reflected in relatively large current account surpluses. For these countries, the main policy challenge concerned managing oil revenues, so as to prevent an overheating of the economy, contain inflationary pressures, and limit the impact of the so-called Dutch disease on the international competitiveness of the non-oil sector. Steps over last several years to establish oil funds that accumulate and invest windfall revenues were aimed to help reduce upward pressure on prices and currencies, to promote the competitiveness of the non-oil sector. Moreover, the objective was also to help minimize the potential economic consequences should oil prices drop.

On the other side, external balances generally deteriorated in oil-importing countries such as Kyrgyzstan, Pakistan, Tajikistan and Turkey, although the adverse impact of higher oil prices on the current account of these countries was partly offset by increases in non-oil commodity prices particularly gold, metals and cotton, and in remittances. Remittances are particularly important in Turkey, Pakistan as also in Kyrgyzstan, Tajikistan and Uzbekistan.

Table 1: Basic Macroeconomic Indicators (2005)

	GDP Growth (%)	Inflation (%)	Fiscal Balance (% of GDP)	Current Acc. Bal. (% of GDP)	Foreign Dir. Inv. (Million US$)
Afghanistan	14.5	11.4	3.7	-1.0	173.73
Azerbaijan	26.4	9.6	2.7	2.7	4161.5
Iran	5.4	12.1	4.5	6.4	30
Kazakhstan	9.4	7.6	6.0	2.3	1721
Kyrgyzstan	-0.2	4.3	-3.9	-8.1	210.3
Pakistan	8.6	9.3	-3.0	-1.4	1524
Tajikistan	6.7	7.1	-3.8	-3.4	55
Turkey	7.4	7.7	-6.2	-6.4	8638
Turkmenistan	9.6	10.5	0.9	5.1	62
Uzbekistan	7.0	7.8	1.2	10.8	45.39
ECO region	7.6	9.1			16620.02

Sources: World Bank, IMF and ECO Secretariat database.

Taking into account the rising incidence of domestic macroeconomic imbalances including budget and current account deficits and high level of external dept in some ECO countries, the member states need to remain strongly committed to macroeconomic prudence and good governance, including modest tightening of the fiscal and monetary policies to contain inflationary pressures and rising current account deficits. At the same time, Governments have to continue implementing structural reforms to enable their economies to maintain competitiveness in a globalizing world economy. For the long term, ECO countries shall develop national strategies that trigger real policy changes focused on the achievement of the Millennium Development Goals.

For the transition economies of the region, the main policy priorities in 2005 were structural reforms to ensure economic diversification so as to reduce dependence on the export of natural resources to improve business climate and to boost economic competitiveness. Diversification of the production base remained a prominent target in most ECO countries as the narrow growth base, mainly consisting of oil, gas, and agriculture, impeded employment creation and growth of exports. Diversified economic sructure would facilitate sustain industrial growth and balance of payments stability.

In the following paras, the macroeconomic performance of ECO countries has been assessed in major sectors, namely, output and growth, macroeconomic policies and inflation, trade balance, exports and imports, foreign direct investment and external debt, human development indices of ECO countries and prospects for the ECO regional economy in 2006-2007.

Output and Growth

The world economy has proved considerably resilient over the last few years, and enjoyed one of its strongest years of growth in 2005. Despite tightening conditions in financial markets, natural disasters, and soaring oil prices, a robust growth continued in 2006.

Robust global growth, high commodity prices, low international interest rates, and generally accommodative monetary and fiscal policies underpinned average real GDP growth in the region as a whole at 7.6 % in 2005, representing a continuation of the very strong performance for a fourth year in a row. Nearly all ECO countries showed a GDP growth of more than 5% annually in 2003-2005. The recent growth demonstrated that ECO countries outperformed all developing countries as a group. During the past five years, real GDP growth averaged 6.2 % for the ECO region, compared to 4.0 % for all developing countries as a group. Moreover, ECO countries, like all developing countries, have outpaced global growth since 2002.

TABLE 2: ECO Region GDP and per capita GDP

	2000	2001	2002	2003	2004	2005
GDP (billion US $)	398.5	362.9	429.2	536.1	659.1	814.7
As % of World	1.4	1.3	1.3	1.4	1.5	1.7
Per capita GDP (US $)	1,125	1,007	1,166	1,440	1,740	2117
GDP growth rate (%) for ECO region	6.2	1.1	7.3	6.9	8.0	7.6
World GDP growth rate (%)	4.8	2.6	3.1	4.1	5.3	4.9

Sources: World Bank, IMF and ECO Secretariat database.

With a total population of over 385 million (about 6.0 % of the world population), the aggregate GDP of the ECO countries amounted to US$ 814.7 billion in 2005. This accounted for only 1.7 % of the world GDP. The economic recovery achieved by the ECO countries as a group in 2002 with average real GDP growth at 7.3 % accelerated significantly in 2004-2005 with the real GDP growth recorded at 8.0 and 7.6 % respectively compared to 1.1 % in 2001.

Strong growth continued in 2005, supported by strengthened economic performance in Turkey and Pakistan, the two largest economies of the region (other than Iran), and robust growth in most of the transition countries. Kazakhstan and Azerbaijan have attracted by far the bulk of FDI made in Central Asia and have built substantial oil and gas sectors that have buttressed very rapid rates of growth. A notable feature was strong growth recorded in 2004-2005 in Tajikistan and Uzbekistan, countries that have the lowest per capita incomes in Central Asia and that had seen various economic difficulties in recent years. Favourable commodity prices for the region’s main exports, including not only oil and gas but gold, cotton and aluminium as well, were the principal stimulus underlying the strong gains made during the last two years.

The ECO countries’ average per capita GDP in 2005 increased to US$ 2117. At the individual country level, Afghanistan (US$ 290) and Tajikistan (US$ 337.2) were the countries with the lowest per capita GDP in 2005, while Turkey had the highest (US$ 5,016) per capita GDP in the region in the same year.

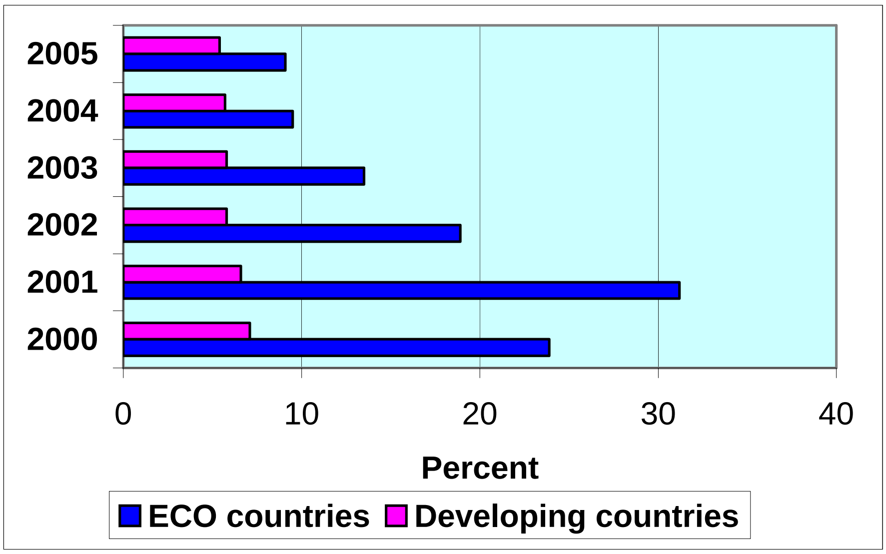
However, despite continued growth in recent years, the unemployment rate did not decrease in the largest economies of the region, namely, Iran, Pakistan and Turkey. As a result, average unemployment rate of the ECO region in 2005 increased slightly from 7.9 to 8.2 %.

Macroeconomic Policies and Inflation

The governments of ECO countries paid special attention and applied different fiscal and monetary policies over the last decade to contain inflation and maintain price stability in their economies. The external and fiscal positions of the member countries mostly remained satisfactory. So far, oil-exporting countries (except Iran) have been quite restrained in using their export receipts, with most of additional spending concentrating on capital goods, particularly infrastructure and housing as well as debt reduction. Most of oil-exporting countries limited the pass-through of oil price hikes in 2005, in some cases at the cost of substantially increasing subsidies on petroleum products. In 2005, particularly, in Iran domestic price of gasoline was at about 9 U.S. cents per litre. Implicit and explicit energy subsidies alone reached 17½ % of country's GDP in the fiscal year 2005/06.

In oil-importing countries, external balances generally deteriorated, although the adverse impact of higher oil prices on the current account of oil importers was partly offset by increases in non-oil commodity prices, especially metals, and in remittances. Remittances were particularly important in Pakistan and transition countries, including Kyrgyzstan, Tajikistan and Uzbekistan. Remittances in the above mentioned Central Asian member countries as well as in Azerbaijan, have grown dramatically in the past few years, outstripping official development aid and have been at a par with foreign direct investment (except for in Azerbaijan). Official data show a total of more than $2 billion received in remittances in 2005 in the Central Asian Member States; an increase of almost 3 times since 2003 (though some of the increase may be due to improved data coverage). Alternate estimates of IMF indicate that actual flows may be much higher. Economic growth in these countries has benefited from the rise of remittances through their impact on consumption. Remittances have been important for alleviating poverty and are a crucial source of external current account financing in Kyrgyzstan and Tajikistan, thus contributing to macroeconomic stability.

FIGURE-1: Average inflation rates in ECO member countries
(Annual % change in consumer prices)



Sources: ECO Secretariat database, World Bank and IMF.

Gross official Foreign Exchange reserves of ECO countries increased 28.6 % in 2005, reaching $125 billion at the end of 2005 and were estimated to reach more than $150 billion by end of 2006. These increases reflect sharp improvements in current account positions in some countries, and higher foreign investment and other capital inflows in others. All countries registered increases in reserves, with those of Iran up by about $13 billion and of Turkey up by $ 14.6 billion.

Monetary policy has remained largely accommodative, although tightening is now under way in several countries where inflation has picked up. As a result, with few exceptions, inflation was on decline in ECO member states since 2001 as may be seen from Figure-1.

The average inflation rate in the developing countries declined to 5.4 % in 2005. While in previous years inflation rate was at the double-digit levels in the ECO region, the ECO member states managed to curb the average inflation rate and bring it down to a low level of 9.1 % in 2005. Notwithstanding the hike in oil prices, consumer prices were kept mostly under control even in economies where inflation had been a problem, such as Iran and Turkey.

Implementation of tight monetary and fiscal policy in the last five years in Turkey in the framework of its programme of economic and structural reforms have led to impressive results, inflation has fallen from double digit to a single digit level (7.7 % in 2005), its lowest level in a generation. Azerbaijan and Kazakhstan experienced inflationary pressures as a result of tightened monetary policy. In Iran, inflation at around 12-15 % in the last two years resulted from increased spending of oil revenue. Expansionary fiscal and monetary policies helped sustain domestic demand and growth, but contributed in high liquidity growth and inflation. In Pakistan, inflation increased to the highest level in the last 8 years (9.3% in 2005) and was a result of steep rise in oil prices, shortages of essential food items, higher housing rents, and strong domestic demand. Implementation of more effective monetary policy reduced average inflation to a single digit level in Tajikistan. At the individual country level, Iran recorded the highest inflation rate of 12.1 % in 2005 and Kyrgyzstan the lowest rate of 4.3 % in the same year.

Trade Balance, Exports and Imports

The strong growth of the global economy in 2004 and 2005 was both reflected in and driven by strong growth in world trade. Overall global trade expanded by 10.2 and 7.3 % in 2004 and 2005. Accordingly, the economies of the region benefited from global trade recovery and moved towards further liberalization. Since 2002, there was a relatively strong expansion of external trade and most countries in the region recorded double-digit growth. Moreover, most countries in the ECO region recorded a significant expansion in export earnings in 2004-2005 and exports from of the region increased by around 20% in 2004 and 40% in 2005. The highest growth rates in the last two years were achieved both by oil-exporting countries such as Azerbaijan, Kazakhstan and Iran and non-oil-exporting countries like Turkey.

However, rapid income growth in the years under consideration, together with continued high oil prices, also led to a surge in imports in most ECO countries that outpaced exports’ growth resulting in trade balance deficits in most countries.

TABLE 3: ECO Trade (Billion US $)

	2000	2001	2002	2003	2004	2005
Exports	83.8	83.5	94.7	120	157.9	198.9
Imports	95.5	88.3	103.8	134.7	184.5	222.3
Total Trade Volume	179.3	171.8	198.6	254.8	342.4	421.2
Total Exports (Annual % change)	21.1	-1.1	14.9	18.8	20.3	26.0
Intra-ECO Exports	5.5	5.1	5.4	6.4	6.0	7.1

Sources: ECO Secretariat database, UNESCAP, World Bank and IMF.

With high average growth rates in the region's merchandise exports in 2000-2005 (except 2001), the region's share in the total merchandise exports of the world slightly increased to 1.6 % cross to 1.3 % in 2000. However, it was also observed that the exports cross the ECO region were heavily concentrated in Iran, Kazakhstan, Pakistan and Turkey. These countries accounted for 89.1 % of the total ECO members' exports in 2005, while Turkey alone accounted for about 37 %.

In Turkey, exports expanded impressively after the 2001 crisis owing to improved macroeconomic stability and better policy environment. The volume of merchandise exports in 2000-2005 increased 2.6 times, while it rose 40% in 2005 alone. Turkey's share in world exports rose 60 % from 0.4 % in 2000 to 0.7 % in 2005. Even more impressive was the mode of integration of Turkey into global markets. Turkey's export basket, although still dominated by unskilled labour intensive products, has been moving rapidly towards products characterized by a higher level of processing, medium to high technology content and the use of skilled labour. The major force, albeit not the only one, behind this shift has been the entry of Turkish-based firms into 'producer-driven' networks—automotive and information communication technology networks, which are capital and skilled-labour intensive industries.

In Pakistan, over the past 5 years, merchandise exports have recorded over 12% average annual growth having benefited from an enabling policy environment, low inflation, the low cost of credit, and general upturn in economic activity. In 2005 and 2006, merchandise exports grew by 16.6% and 15.4%, respectively, but started decelerating in the second half of the fiscal year 2006. Some of the deceleration stems from the high-base effect, but the underlying causes appear structural.

The main issue in Pakistani exports is heavy reliance on textiles as well as limited geographic diversification. Textile and clothing is Pakistan's main export industry. Its share in total exports has been around 60 % for the last 10 years, up from 50 % in the early 1990s. Thus a downturn in this segment has a significant overall impact. Conversely, immediately after the ending of quotas, textile exports accelerated strongly, to 16.8% in 2006 from 6.6% the year before. However, textile exports have come increasingly under competitive pressure from Bangladesh, China, and India, specifically in the higher value-added categories. This pressure, in turn, led to a fall in international export prices. Consequently, growth rates of Pakistani textile exports dropped.

In Iran, exports in 2005 increased by 36.7 %. While oil export volume remained flat, but higher crude prices led to a sharp increase in export receipts (132.6%). Most notable feature was rapid growth of non-oil exports by 53%, with an increase of 41% in exports of industrial goods and of over 20 % in petrochemicals.

In Kazakhstan, high world commodity prices helped ramp up exports by 40.0%; oil and metals accounted for more than two thirds of the increase. Imports also surged by 37%, driven largely by import of machinery, equipment and non-precious metals. The trade surplus improved by about 45% to $9.8 billion, but the deficit on the services, income and transfers account increased sharply. The latter stemmed from greater payments for construction, freight, insurance and information technology services, as well as a near doubling of income payments to foreign direct investors nearly all associated with oil sector development. Consequently, the current account surplus in 2005 improved only marginally from the previous year to $750 million (about 1.3% of GDP).

In Azerbaijan, trade account (in the balance of payments) recorded a record surplus of US$ 3.9 billion in 2005, propelled by burgeoning oil exports. The oil sector's large share in trade increased further to reach over 85% of exports and over 55% of imports. Exports increased twice in 2005, essentially due to a rise in oil exports from expanded production of new oil fields and the transport of oil through the newly completed BTC oil pipeline. Growth in imports decreased to 22% in 2005, mainly due to decreased imports of machinery and equipment for the oil and gas sector as major investment projects neared completion. However, strong domestic demand kept growth of consumer goods imports on the rise.

In Uzbekistan, the large surplus on the current account in 2004 was augmented in 2005. As exports remained resilient, the trade surplus was sustained and private transfers surged. Increases in international gold prices, combined with volume increases in non-commodity exports, helped boost export earnings substantially even though world cotton prices fell. Import growth was restricted by existing non-tariff barriers and apparent problems in accessing foreign exchange.

In Kyrgyzstan, the trade gap widened to $429 million during the year, reflecting a significant (40%) decline in gold exports and increases in imports largely due to high oil prices.

A deterioration in Tajikistan's terms of trade reflecting higher import prices for oil and gas and weaker cotton export prices, coupled with a rapid growth in consumer imports and a lower volume of cotton exports, led to an increase in the trade deficit (from 7 % in 2004 to about 12 % of GDP in 2005). However, the current account deficit in 2005 is projected to narrow slightly relative to 2004, mainly as a result of the rapid growth in foreign remittances, which are estimated to increase by almost 50 % from their 2004 level.

The ECO member states are continuously making efforts to promote intra-regional trade and implementing measures for improvement of regulatory frameworks and removal of tariff and non-tariff barriers in the region. The intra-regional trade situation is, however, far from satisfactory and one of the reasons is related to developments in the global markets. As growth in exports from the ECO region in last 2-3 years was largely driven by high oil and non-oil commodity prices, most of the growth was attributed to trade partners from other regions, including fast growing emerging market economies like China, India, and Russia.

Nevertheless, total intra-regional trade volume of ECO region increased to US$ 28.3 billion in 2005 (excluding Afghanistan) compared to USD 10.2 billion in 2002. The intra-export ratio of the ECO region in 2005 increased to 7.1 % from 6.0 % in 2004.

According to 2005 statistics, the share of intra-regional export of Iran was just 6.9 %, Kazakhstan 7.1 %, Pakistan and Turkey 9.6 % and 3.6 %, respectively. Intra-regional exports are more heavily concentrated in Central-Asian member states (except Kazakhstan), the ratio for Azerbaijan was 13.6 %, for Kyrgyzstan 29.1 %, for Tajikistan 31.1 %, for Turkmenistan and Uzbekistan 8.8 % and 28.6 % respectively.

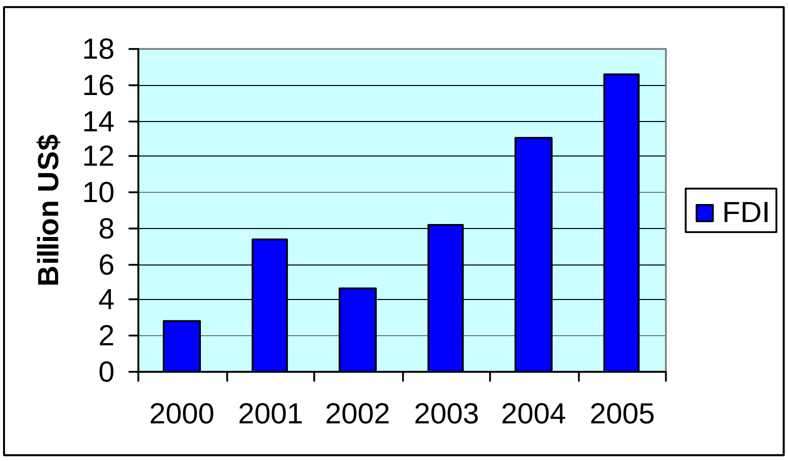
Foreign Direct Investment and External Debt

Global inflows of foreign direct investment (FDI) were substantial in 2005 and rose by 29% – to reach $916 billion – having already increased by 27% in 2004. Nevertheless, global inflows remained far below the 2000 peak of $1.4 trillion. Similar to trends in the late 1990s, the recent upsurge in FDI reflects a greater level of cross-border mergers and acquisitions, higher growth rates in some developed countries as well as strong economic performance in many developing and transition economies. Inflows to developed countries in 2005 amounted to $542 billion, an increase of 37% over 2004, while inflows to developing countries rose to the highest level ever recorded – $334 billion.

The governments in ECO countries recognizing importance of the attraction of FDI in order to insure sustainable economic growth and modernization through the influx of foreign capital, technologies and expertise took measures aimed at creation of favourable conditions for FDI. In most of the ECO countries, the governments are moving ahead with reduction and removal of trade barriers, deregulation of internal markets, privatization and liberalization of investment flows.

In particular, entry and operational conditions were liberalized and standards of treatment of foreign affiliates were strengthened. In some cases, liberalization has been extended to such service industries as telecommunications, transportation and power generation and distribution, previously closed to foreign investors. Most of the countries have concluded multiple bilateral treaties to protect FDI and avoid double taxation.

FIGURE-2: FDI in ECO countries (Billion US$)



Sources: IMF, UNCTAD, World Bank and ECO Data.

Most of ECO countries including Iran, Turkey as well as transition economies like Azerbaijan, Kazakhstan, Kyrgyzstan and Tajikistan, are introducing improvements in investment legislation with relevant provisions providing strengthened standards of treatment of foreign affiliates including guarantees of legal protection, national treatment, fair and equitable treatment, along with the free transfer of profits, repatriation of capital and dispute settlement.

In Iran, the new law for the attraction and promotion of foreign investment, approved in 2004, introduced significant measures to liberalize investments in the non-oil sector. By clarifying the scope of private sector participation in economic activities in Iran, the amendment of Article 44 of the Iranian constitution opens the door to a more ambitious strategy of private sector development that would help provide impetus to growth and employment over the medium term. The authorities' efforts to accelerate the pace of preparation and implementation of privatization are also aimed at attracting considerable interest from foreign investors to give impetus to increase of FDI inflows into Iran which were on a relatively stable level for the last few years.

Pakistan continued to attract large inflows of foreign investment. The surplus in the financial account of the balance of payments in 2005 reached a historical peak, reflecting a marked rise in FDI flows—destined for both new projects and entities slated for privatization. Strong foreign demand for Pakistani assets (including from oil-exporting countries in the Gulf region) was also reflected in the favourable terms for new bond placements in international capital markets. Global and regional conditions, together with Pakistan's strong record on the macroeconomic and structural reform fronts in recent years, bodes well for continued sizable FDI flows.

In Turkey, among the major steps carried out to promote external investment were constitutional amendments to allow international arbitration, the approval of a new FDI law in June 2003 to improve conditions for foreign investments and the establishment of an investment promotion agency. Following the creation of the Investment Advisory Council in 2004 (a forum for dialogue between the government and high level private sector representatives), the government embarked further on a wide range of structural reforms aimed at reducing red tape, improving the efficiency of the court system, accelerating privatization and bringing standards more in line with the EU. Political stability—identified by investors as one of the most important prerequisites for investment—has also contributed to a more favourable business environment.

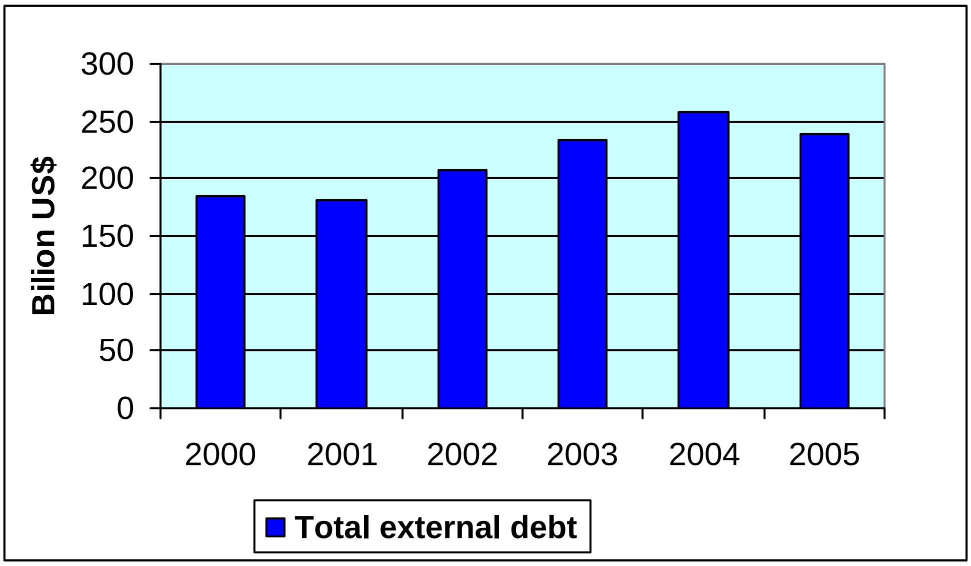
Despite increased competition for FDI, most transition economies of ECO continued to see strong capital inflows. The resource inflows, however, were uneven with the oil and gas sectors in Azerbaijan, Kazakhstan, and Turkmenistan remaining the most attractive areas for FDI. Among the founding member states, Pakistan and Turkey received increased FDI inflows.

In 2005, Kazakhstan continued receiving substantial inflows of FDI, including FDI in oil-related activity. Recognizing the importance of a diversified economic structure, the Government took steps to improve the overall investment climate for the private sector. The authorities took measures to create fair and competitive environment for businesses, including an enabling environment for SMEs, in particular by reducing the regulatory burden, to increase openness to foreign trade and investment in order to further strengthen competition and competitiveness of enterprises. Better business environment was and is aimed as one of important steps in achieving the stated medium-term goal for the country to become one of the world's 50 most competitive economies (under the World Economic Forum's rankings).

In recent years, in Azerbaijan, investment in hydrocarbons, most of it from foreign companies, has been the major driver in rapid expansion of total investment, which in turn has been the main stimulus to rapidly expanding GDP. In 2005, growth in total investment moderated, but still remained strong at 12.7%, reflecting a shift to production and exports from newly operationalized projects as the main source of economic stimulus. With completion of the Baku-Tbilisi-Ceyhan (BTC) oil pipeline in 2005 and the scheduled completion of other major investment projects at the ACG oil field and the Shah Deniz gas fields in 2007, FDI is expected to be markedly scale down. Recent years saw growing non-oil investment, particularly in residential sector.

The debt service burden on some of the member countries continued to be heavy. However, total regional debt which increased from US$ 204.8 billion in 2002 to around US$ 258.9 billion in 2004, decreased in 2005 to US$ 238.4. The external debt burden of Kyrgyzstan is large but receding. Total external debt at the end of 2005 was at 76.5% of GDP representing a substantial fall from recent levels. The Kyrgyzstan authorities were considering use of the Heavily Indebted Poor Countries (HIPC) debt restructuring initiative, under which participating countries may obtain a significant reduction in their external debt. Tajikistan and Turkey had relatively high debt-to-GDP ratio levels of around 35-50 % in 2005. Most of the debt was owed to multilateral lenders, such as IMF and the World Bank, plus the Paris Club of International Creditors. Turkmenistan is also among the bilateral lenders, mainly through their energy exports to other countries.

FIGURE-3: Total External Debt of ECO countries (Billion US$)



Sources: IMF, UNCTAD and World Bank and ECO Data.

The Paris Club debt restructuring and a debt write-off of US$ 1 billion significantly improved the debt profile of Pakistan in 2003. External debt as a percentage of GDP decreased from 53.4 % at end June 1999 to 27.7 % by end 2006. Retirement of some external debts and the replacement of expensive debt by soft loans from International Financial Institutions have helped in reducing debt servicing costs.

The strong export performance and sharp increase in export receipts in the last several years have led to a rise in gross Foreign Exchange reserves in Iran, and the external debt was kept at a low level of about 13-14 % of GDP.

The substantial FDI inflows enabled Azerbaijan and Kazakhstan to reduce their foreign debt burden. In net terms, Kazakhstan did not have significant external debt as most of the external obligations consisted of intra-company loans in the energy sector.

Prospects for the ECO Regional Economy in 2006-2007

According to preliminary estimation made by IMF[1], global economy expanded vigorously in 2006, growing 5.4 %, and is expected to continue to grow robustly in 2007 — with a modest deceleration to 4.9 %. This favourable outlook is based on the assumption that inflationary pressures will be successfully contained, growth of domestic demand will be better balanced across the advanced economies, that emerging and developing countries will largely avoid capacity bottlenecks, and that global financial market conditions will be more stable.

The short-term outlook remains favourable for countries of the region. ECO countries as a group are growing faster than the global economy as well as some other groups of countries. Generally accommodative macroeconomic policies are expected to ensure declining rates of inflation, lower fiscal deficits and improved current account positions, providing greater stability in exchange rates and a more stable environment for investment, both domestic and foreign. However, institutional progress in most countries has been slower and more uneven, especially in the financial sector and more efforts are needed in this area. Although substantial imbalances remain in the world economy, growth in major industrial countries is projected to be quite robust with slowing of the growth in US economy in 2007, while for ECO countries, the improved external environment, combined with high oil and non-oil commodity prices, strong domestic demand and buoyant intraregional trade will allow the region to grow in 2006-2007 at slightly decreased rates. Particularly, the oil and gas sector will continue to drive growth in the hydrocarbon-producing countries of ECO region such as Azerbaijan, Iran, Kazakhstan, and Turkmenistan.

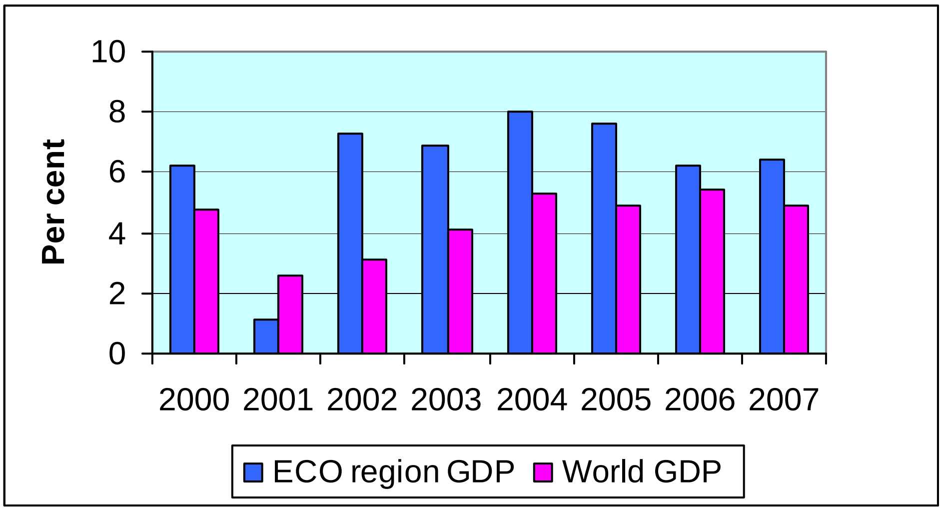
The economies of ECO countries generally showed significant resilience in the recent years. Despite geopolitical tensions, disease, natural disasters and high oil prices, development of the countries in the ECO region in recent years show that the economic fundamentals of the region are strong. In 2006, the economies of the region continued robust growth at 6.9 % representing a continuation of the very strong performance for a fourth year in a row. Nearly all ECO countries grew by more than 5% annually in 2003-2006 with strong growth recorded by oil-exporting countries (Azerbaijan, Kazakhstan and Turkmenistan) as well as oil-importing countries (Pakistan and Turkey).

In Afghanistan, in fiscal year 2006 (ended 20 March 2007) the agricultural sector, representing about a third of licit GDP, was hit by another drought. While continued expansion in construction and services partly compensated for this decline, overall GDP growth for the year is now expected to reach only about 8%, well below the targeted 12%. Assuming that the agriculture sector rebounds from the most recent drought, growth for fiscal year 2007 is expected to reach double digits again (around 12%).

[1] World Economic Outlook, IMF, April 2007.

In Iran, real GDP growth is estimated at 5.8 % in fiscal year 2006, boosted by high oil prices and strong fiscal and monetary stimuli. Oil GDP growth was modest owing to capacity constraints, while non-oil GDP growth was broad-based reaching 6.4 %. The additional oil revenue was used to sustain growth and job creation, with emphasis on addressing social needs. However, these have resulted in persistent double-digit inflation. Reflecting large current account surpluses, the external debt would continue to decline. GDP growth is projected at around 5 % in 2007. The outlook is subject to a high degree of uncertainty related to the volatility of oil prices, the international tensions over the nuclear issue and developments in Iran's relations with its major trading partners.

FIGURE-4: GDP growth rate (%)



Sources: IMF and ECO Data.

Note: Data for 2006 are estimates. Data for 2007 are forecasts.

In Turkey, due to further improvements in domestic and international confidence following the opening of accession negotiations with the European Union, GDP growth was strong at around 6% in 2006 and is projected to slow moderately to 5 % in 2007, largely reflecting the policy tightening. With the growing capital inflows putting upward pressure on the currency, an acceleration of the reforms is expected to improve the flexibility and competitiveness of the economy.

In Pakistan, after expanding at high rates in the preceding 2 years, the economy slowed in fiscal year 2006 (ended 30 June 2006), but still maintained a robust growth of 6.6%. GDP deceleration in 2006 was due to a sharp decline in agricultural growth and slower year-on-year growth in manufacturing, attributable to capacity constraints and the high-base effect. Services, in contrast, accounting for slightly more than half of GDP, gained further steam and recorded their fastest-ever growth rate of 8.8%. Agriculture and manufacturing have improved in the first half of fiscal year 2007 and services appear to be growing robustly, but somewhat less quickly than last year. However, the tight monetary conditions, emerging capacity constraints, infrastructure bottlenecks and issues of competitiveness in exports of textiles and clothing—on which the economy is over dependent—are some constraints on the way of economic growth. Nevertheless, the economy is projected to grow by solid 7 % in 2007.

In Azerbaijan, GDP leaped by 32% in 2006. The oil and gas sector, accounting for about 54% of GDP (a sizable rise from 42% in 2005), was the key contributor to the acceleration, as production and volume of exports surged by 48% and 60%, respectively. This was mainly due to a production upsurge at the Azeri-Chiraq-Guneshi (ACG) oil fields, operated by the Azerbaijan International Operating Company (AIOC). The Baku-Tbilisi-Ceyhan (BTC) oil pipeline, which can transport up to 1 million barrels a day, was formally inaugurated in July. This pipeline greatly increased oil transportation capacity from the ACG fields to international markets. In 2007, the economy is expected to continue growing at an exceptionally high rate of 29%, driven by oil production (from the ACG fields) and expected gas output (coming on stream from the Shah Deniz field) and its export, as well as an expansionary fiscal policy. It is expected to decrease further in 2008 to 17%, as growth in production of oil and gas moderates and FDI falls and hydrocarbons move to a less intensive phase of development.

In Kazakhstan, the economy continued to expand at a high and steady rate in 2006. Soaring hydrocarbon and mineral prices as well as robust private and public consumption and investment, were the main drivers of 10.6% GDP growth. The oil sector increased at around 5% year on year, after an average rate of about 14% in 2000–2004. Oil and gas play a crucial role in the economy, although growth in the non-oil sector has been faster over the last couple of years**.** Industrial value added production rose by 7.0% in 2006 (against 4.6% in 2005), mainly because of mining, industrial processing and production and distribution of electricity, gas, and water. Construction expanded by 38%, largely in the residential sector. Services, now constituting slightly over 50% of GDP, continued powering ahead at 10.7%, underpinned by a surge in finance (35%), telecommunications (26%), and transport (6.7%). Agricultural production was also buoyant at 8.0%, much higher than the 5-year average of 6%. In 2007, GDP is expected to grow at 8.6%. The major contributors to growth will remain unchanged. The non-oil economy is expected to expand at an average of around 10% a year, driven mainly by key sectors such as construction and services.

In Uzbekistan, the economy has shown robust performance over the past 3 years, with GDP growth in 2006 estimated at 7.3%. Exports, too, showed real vibrancy, fuelled by favourable price movements in international commodity markets, and to a degree by growth of noncommodity exports. Productivity gains in the agriculture sector also contributed. The transformation of large, agricultural cooperatives (*shirkats)* into private farms (now nearly complete), improved the incentive structure for production and has resulted in an increase of productivity of especially fruits and vegetables. Vigorous export performance coupled with surging remittances has led to a huge current account surplus. International prices of the country's major exports, cotton and gold, look favourable for the next couple of years. In addition, the economy will likely continue enjoying the benefits of higher energy prices after securing a significant increase in the export price of gas. External demand for exports should remain favourable, especially with the likely continued strong economic performance of the Russian Federation and neighbouring transition economies. In the absence of major shocks, buoyant exports are expected to boost the economy. Growth in 2007 is projected at over 7%. Trade and current account balances will likely maintain hefty surpluses.

In Turkmenistan, the economic situation remained very healthy in 2006 with GDP growth at around 9% according to IMF estimates. Growth was sustained by increased gas prices and exports. While the gas and oil industry grew rapidly in 2006, the cotton crop experienced shortfalls for the sixth consecutive year. In 2007, the economy will likely maintain its heavy reliance on exports of natural gas and cotton. With potential discovery of new gas fields (though not proven), Turkmenistan would increase both exports of natural gas to the Russian Federation and Ukraine and at the same time attempt to diversify its gas export destinations, to include, most likely, China and, possibly, Afghanistan, India, and Pakistan. GDP could grow by 9% a year due to increased exports of natural gas, however, with continued stagnation in agriculture.

In Kyrgyzstan, despite the challenging political environment, the Government managed to maintain macroeconomic stability and keep the Poverty Reduction and Growth Facility (PRGF) program with the IMF on track. Yet an accident in July 2006 at Kumtor—the country’s largest gold mine and accounting for about one third of industrial output and 5% of GDP resulted in gold output falling by about a third. This slowed economic growth in 2006 to 2.7%. Excluding gold production, GDP grew by about 5%, the main drivers were services, construction, and agriculture. Services grew robustly at 8.4% driven by trade, tourism, catering, and other retail services and it still has significant room for expansion, given its narrow and low base. Tourism rebounded in 2006 with a record 1 million tourists visiting the Issyk-Kul Lake, the country’s main tourist destination. Agriculture, accounting for about a third of the country’s GDP and a half of employment, recovered from a fall in output in the previous year, posting a moderate 1.5% expansion. Nongold industrial output was encouraging, bolstered by construction (up 8.5%), garments (19%), and some processing industries. GDP growth is projected to be at 6.5 % in 2007, underpinned by the rebound in Kumtor gold output and the launch of the new mines and by a sustained increase in nongold industry and services.

In Tajikistan, the economy expanded at a robust rate, real GDP growth in 2006 is estimated at 7 %, fuelled by a surge in construction activity and continuing strong remittance-financed demand for retail services. Aluminium and remittances, the mainstays of the economy, continued to drive growth in another strong year. The economy is forecasted to expand by 7.5% in 2007. Externally funded investments in infrastructure, including energy and transportation, will boost aggregate demand, though the major source of growth will continue to be remittance-backed consumption. On the supply side, services will continue to be an important source of growth, partly as a spill over from greater investment activity but mainly because of rising consumption. Aluminium production will continue to drive industry’s contribution to overall growth, but cotton’s contribution to agricultural growth is expected to diminish, despite favourable price dynamics.

The region’s short- and medium-term prospects depend critically on the implementation of structural reforms. The region’s improved growth performance has not been enough to make a large dent in unemployment rates or to bring about a significant reduction in poverty. Yet, the good macroeconomic performance of the last few years provides an opportunity to address these longstanding problems in the ECO region. A favourable economic outlook for 2007 will present a timely opportunity to put in place policies that will sustain the current growth momentum while maintaining financial stability including addressing the fragility of banking and financial systems and implementing structural policy reforms. In particular, macroeconomic policies need to address the risks and challenges associated with high oil prices, emerging inflationary pressures, and a more difficult global environment.

The implementation of such reforms and the combination of buoyant domestic, regional and international markets should significantly boost business investment in the region. Assuming robust growth in ECO countries over the next year and in the absence of major unforeseen shocks, aggregate GDP growth for ECO region is projected at 6.1 % in 2007.

Although economic growth in ECO region was projected to settle to more sustainable rates in 2007, oil and gas sector and intra-regional trade and strong consumer demand will remain a major driver of growth in ECO region over the next and coming years. Progressively, the whole of the region will benefit from the dynamism in intra-regional trade.

Overall confidence in the economic outlook for the region is high. Prospects for 2007 indicate a continuation of existing trends on the assumption that the world economy will continue robust growth in 2007, the region experiences no negative shocks, the volatility of financial markets will be contained and the unwinding of global imbalances will go on gradually. Nevertheless, the countries of the region will need to achieve an appropriate balance between macroeconomic stability and implementing structural reforms in order to ensure sustainable development. However, in the backdrop of strong economic performance in the last 4 years in the ECO region, new policy issues will inevitably arise in the years ahead. For ECO oil-exporting countries managing booming oil revenues remains the central challenge. While plans to further accelerate spending and major investment plans have been launched in oil and non-oil sectors, the challenge will be to ensure that this spending is accompanied by appropriate structural reforms so that they translate into increased productivity and higher potential output. In this regard, structural and institutional reforms that contribute to increased private sector investment and economic diversification are particularly important. In oil-importing countries, the major challenge is to adjust to the adverse terms-of-trade shock. Particularly, fiscal restraint and monetary tightening is needed to contain inflationary pressures. With fiscal deficits and external debt remaining relatively high in some oil-importing countries, fiscal consolidation will also be needed to move toward debt sustainability and contain balance of payments pressures.

Human Development Indices of ECO countries

Human development in ECO could be considered within overall socio-economic development process and the well being of people in the region. In this respect, the aim is to help people realize their own potential and develop their intellectual, technical, and organizational capabilities. This implies an active participation of the people in the development process through institutions that permit, and indeed encourage, such participation. People should have greater access to knowledge, education, better nutrition and health services, more secure livelihoods, satisfying leisure hours and a sense of participation in community activities. For this reason, human development is better measured in terms of basic education, health care, nutrition, water and sanitation, besides income, employment, and wages.

The UNDP Human Development Report for 2006 published recently gives Human Development Index (HDI) ranks for 177 countries of the world. Though average incomes have risen and fallen over time in the region, human development has historically shown sustained improvement, especially when measured by the HDI. When the ECO countries' HDI rankings are considered, except Afghanistan they fall among 83 in the group of medium human development countries in which the HDI lies between 0.500 and 0.799. Because of lack of data, Afghanistan was not included in HDI 2006 ranking. Kazakhstan with the highest HDI value (0.774) among the ECO countries in 2004 stands at 79th HDI rank in the world. The figures in Table 4 reflect the overall picture of progress in the elements of HDI in the ECO countries.

The HDI is not a comprehensive measure. It does not include important aspects of human development, notably the ability to participate in the decisions that affect one's life and to enjoy the respect of others in the community. A society can be rich, healthy, and well educated, but without this ability, human development is impeded. However, the HDI figures in Table 5 clearly illustrate the distinction between income and human well-being. By measuring average achievements in health, education, and income, the HDI can give a more complete picture of the state of a country's development than can incomes alone.

Table 4: Elements of Human Development Index in ECO Countries

	HDI rank	Life expectancy at birth (years)	Adult literacy rate (% age 15 and above)	Combined primary, secondary and tertiary gross enrolment ratio (%)	GDP per capita (PPP US$)	HDI value	Adjusted HDI
Countries	**2004**	**2004**	**2004**	**2004**	**2004**	**2004**	**2004**
Kazakhstan	79	63.4	99.5	91	7.440	0.774	-5
Turkey	92	68.9	87.4	69	7.753	0.757	-22
Iran	96	70.7	77.0	72	7.525	0.746	-24
Azerbaijan	99	67.0	98.8	68	4.153	0.736	12
Turkmenistan	105	62.5	98.8	75	4.584	0.724	-1
Kyrgyzstan	110	67.1	98.7	78	1.935	0.705	32
Uzbekistan	113	66.6	..	74	1.869	0.696	32
Tajikistan	122	63.7	99.5	71	1.202	0.652	34
Pakistan	134	63.4	49.9	38	2.225	0.539	-6
Afghanistan	..	46.0*	28.1	45	..	..	..
Developing countries	..	65.2	78.9	63	4.775	0.679	..
World	..	67.3	..	67	8.833	0.741	..

Note;(*) Data refer to estimates for the period 2000-2005.

Source: UNDP, Human Development Report, 2006.

The negative sign in the last column of the Table 4 (adjusted HDI, i.e. GDP per capita rank minus HDI rank) indicates that the GDP per capita ranks for Kazakhstan, Turkmenistan, Turkey, Iran, and Pakistan are better than the HDI rank. This highlights the importance of policies that translate wealth into human development and share of public expenditure on education and heath. In particular, well designed public policy and provision of services by governments, local communities and civil society can advance human development even without high levels of income or economic growth. This does not mean, however, that economic growth is unimportant. Economic growth is an important means to human development, and when growth stagnates over a prolonged period, it becomes difficult to sustain progress in human development. It is the quality of growth, not just its quantity that is crucial for human well-being. The positive sign of the adjusted HDI associated for other ECO countries shows better human development performance. In fact, countries can advance faster in human development than in economic growth, the latter being a necessary but not a sufficient condition for human development. Azerbaijan, Kyrgyzstan, Uzbekistan and Tajikistan have relatively lower income compared to some other ECO countries but higher HDI values, due to their different disparities for life expectancy, level of adult literacy rate and school enrolment ratio. In 2004, for which data was available life expectancy at birth in most of the ECO countries were above the developing countries average. Adult literacy rates of ECO countries (except Afghanistan, Iran and Pakistan) were higher than developing countries. Moreover, in 5 out of the 10 ECO countries literacy rate was more than 90 %.

To sum up the examination of HDI reveals the medium performance of the most ECO countries in terms of various elements of human development. Some ECO countries performed better than the developing countries in terms of life expectancy at birth and adult literacy rates, however, GDP per capita performance for most of ECO countries namely Azerbaijan, Kyrgyzstan, Pakistan, Tajikistan, Turkmenistan, and Uzbekistan were below the average of developing countries. Moreover, country performances of the ECO countries were more homogeneous and better than some other regions, except for Afghanistan, no country experienced significant reversals in the key human development indicators.

Compared to UNDP's previous year report, the 2006 report illustrated that among ECO countries Azerbaijan (from 101 to 99), Iran (from 99 to 96), Kazakhstan (from 80 to 79), Pakistan (from 135 to 134), and Turkey (from 94 to 92) progressed in their HDI ranking values of 177 countries, mainly due to increase in their GDP per capita values. Tajikistan kept its HDI ranking at 122, and the remaining ECO member states have experienced slight setbacks in their HDI ranking values of 177 countries in world.

Human development challenges remain large in ECO region, nevertheless many ECO countries are optimistically making rapid and sustained progress in most related areas, from expanding knowledge to improving survival and raising standards of living. This reflected as an increase in the share of public expenditure on education and health in the majority of the counties since they constitute the most important chain of effective human development strategies. Nevertheless, it is not enough to improve the set of initiatives and alter the allocation of public sector resources. It is also necessary to create an institutional framework, which guarantees to everyone gainful employment, access to productive assets and sufficient food to lead a healthy and nutritious life. There is a need to further encourage investments and policy reforms on human development which will also contribute to break the cycle of poverty. Advancing human development within the ECO region is integrated with regular budget processes, long-term development strategies and poverty reduction strategies.

Ultimately, the aim must be to meet the human development objectives of the Millennium Declaration and the Millennium Development Goals (MDGs). Enhanced regional cooperation and integration, both among the member countries and with the rest of the world, represents an important instrument for achieving these objectives. The ECO countries may give more priority to human resource development and organize joint relevant regional activities in a more coordinated and integrated manner. In this regard, the first meeting of ECO experts on human development, poverty alleviation and prospects of MDG implementation held in December 2006 was the first activity in this area. Overall, for ECO as a developing region, achieving respectable human development indicators remains an important challenge.

1.2. Developments in main fields of ECO cooperation

Trade and Investment:

An overview of ECO Trade Cooperation:

One of the main objectives of ECO is promotion of trade and investment among its member countries. In pursuance of this objective, the ECO Member States have been laying down the necessary regulatory framework for investment opportunities and taking measures towards progressive removal of trade barriers within the ECO region and expansion of intra- and inter-regional trade and investment trends.

While striving for the liberalization and promotion of trade and investment, the following strategy is being followed by ECO for this specific purpose:

i) Removal of tariff and non-tariff barriers in the region, thus providing regulatory and enabling environment for trade;
ii) Provide and develop a favourable regulatory investment framework for optimum utilization of economic resources;
iii) Increasing the interaction of private sector.

New policy guidelines were formulated by the 1st Ministerial Meeting on Commerce/Foreign Trade, held in March 2000 in Tehran, for boosting cooperation among the Member States. ECO Framework Agreement on Trade Cooperation was signed in the said meeting. This Agreement laid down the basic principles of cooperation in the field of trade and envisaged the launching of ECO Trade Agreement (ECOTA) for progressive removal of non-tariff barriers as well as gradual reduction of tariffs in the region.

One of the most important steps towards closer regional integration, the ECOTA was signed in the 2nd Ministerial Meeting in July 2003. ECOTA is comprehensive in terms of commodity coverage, and will be implemented gradually over a period of 8 years and will reduce tariffs to a maximum of 15 % over 80 % of the goods traded. The High Level Expert Group (HLEG) on Trade, Investment, and other Related Matters which met in January 2004, agreed on a resolution for preparation of a Protocol on Fast Track Approach for the early implementation of ECOTA, by reducing the highest tariff slab from 15 % to 10 % over a period of 5 years instead of 8 years. In this regard, the 2nd HLEG Meeting on Trade, Investment, and other Related Matters (Islamabad, March 17-19, 2005) finalized the draft text of the Protocol. However, due to some reservations/principles emerged during the 3rd HLEG meeting (Istanbul, July 5, 2005), the Protocol was not signed by the Member States. The 4th HLEG meeting (Kabul, 9-10 November 2005) proposed a new formulation for Principles on the Protocol of Fast Track Approach, which could not be finalized by the three Member States due to difference of opinion. The three founding Member States are expected to hold an exclusive meeting in the second half of 2007 to carry forward the Fast Track Approach.

The Third Ministerial Meeting on Commerce/Foreign Trade (Istanbul, July 7, 2005) approved a Protocol for the annexure of ECOTA on; (i) Rules of Origin, (ii) Anti-Dumping Measures, (iii) State Aid, and (iv) Intellectual Property Rights. Accordingly, the Protocol was signed by four signatory members to ECOTA, i.e. Afghanistan, Iran, Pakistan, and Turkey. Finalization and compilation of annexures of ECOTA is an urgent necessity for early implementation and application of tariff concessions under the provisions of ECOTA.

Realization of provisions of ECOTA will be a major step towards the establishment of Free Trade Area in the ECO region by 2015 as envisaged in the ECO Vision 2015, an important reference document of ECO adopted during the 15th Council of Ministers (COM) meeting (Astana, October 01, 2005).

The 1st phase of ECO/ITC project to promote intra-regional trade was successfully completed with the holding of its last activity on 13 December 2004 in Istanbul, Turkey i.e. 3rd Buyers/Sellers Meeting on Pharmaceuticals. The project aimed at promoting ECO region's trade through organizing Buyers/Sellers Meetings and similar activities, is jointly sponsored by ECO and International Trade Centre (ITC). The 16th and 17th Regional Planning Council (RPC) Meetings welcomed the allocation of US$ 50.000 from ECO Feasibility Fund (FSF) and urged ECO Secretariat to commence the 2nd Phase Project of ECO/ITC as soon as possible and approach ITC and other potential donors particularly IDB in order to finalize and secure relevant financial requirements. The Government of Turkey has pledged to provide technical and financial support to the various activities identified in the Project and have so far allocated the amount of US$ 150.000 for the commencement of 2nd Phase of the project. The 2nd phase of the project will start in 2007 and completed in 2010. Under the 2nd phase, Business Forum and Buyers-Sellers Meetings are scheduled to be held in Istanbul from 24-25 October 2007.

According to the Istanbul Communiqué, which was adopted during the 3rd Ministerial Meeting of Trade/Commerce (Istanbul, 7 July 2005), in order to promote trade and investment growth, a multi-dimensional regional trade and investment strategy will be devised based on the inputs from the Member States. The 17th RPC welcomed the following proposal of the Islamic Republic of Pakistan:

"Intra-regional trade remains below potential, and does not compare favourably with other regions such as ASEAN and EU. Sub-regional trade, (for example, the Pakistan–Afghanistan trade), on the other hand, reflects some very positive trends. To boost trade at the regional level, there is a need to commission a study on trading patterns in the region (laws, practices, preferences, barriers to freer trade, etc). The study on ECO trading regimes would, inter-alia, identify sectors and commodities (other than energy, where benefits of trade are self-evident) for which markets exist in the Member States and where meaningful trade can take place based on complementarity and principles of comparative advantage. There is also a need to pinpoint trading practices and regimes that impede freer flow of goods at the regional level. The study may be conducted by a professional institution/consultant and can be financed out of the ECO Feasibility Study Fund".

The First ECO Business Forum was held in October 2002 in Istanbul. It was aimed at strengthening ties and developing frequent contacts among business communities of the region. Keeping in view its importance in the promotion of trade and business activities in the region, the Business Forum will be institutionalized and its meetings are to be held on a regular and rotational basis. In this regard, the 17th RPC also emphasized that organization of Business Forum should be institutionalized as a mechanism for the improvement of relations between private sectors of the Member States. The Republic of Turkey has offered to host the 2nd Business Forum in the framework of the 2nd Phase of ECO-ITC Project on expanding intra-regional trade which is scheduled to be held on 24 October 2007.

Investment Promotion

Keeping in view the unrealized investment potentials of ECO Member States' economies, it is imperative for the ECO to promote investment in the region. In order to promote investment in the region, the 1st ECO Regional Trade and Investment Conference was held in Kish Island (Iran) on February 17-18, 2003 and also the 2nd and 3rd ECO Trade and Investment Conferences were held in Kabul, Afghanistan in 2003 and 2005 respectively, in which the draft Agreement on Promotion & Protection of Investment among ECO Member States (APPI) was considered. The HLEG on Trade, Investment, and Other Related Matters, after several meetings, finalized an Agreement on Promotion and Protection of Investment in the ECO region during its 3rd meeting held in Istanbul on 5 July 2005. The 3rd Ministerial Meeting on Commerce/Foreign Trade held in Istanbul on 7 July 2005 approved the Agreement and initially three Member States namely, Afghanistan, Azerbaijan, and Turkey have signed the same. However, this Agreement would come into force upon signature/ratification of at least four ECO Member States. In order to expedite early implementation of the Agreement, other Member States are being urged to sign it at the earliest. Iran and Pakistan agreed to sign the APPI during the 2nd Ministerial Meeting on Finance and Economy held on April 5-7, 2007 in Antalya, Turkey with the proposed amendment by Iran approved by the Meeting.

Trade Facilitation

Exchange of updated data/information relating to trade and investment among the ECO Member States has gained special significance. In this regard, ECO has held several Seminars. The 3rd ECO Seminar on Trade and Investment Information Networking held in Karachi, Pakistan on 31st January-01 February 2005 was the latest. In this Seminar, ECO Member States agreed to designate fresh Focal Points on Trade and Investment for prompt exchange and presentation of relevant data/information through the interactive ECO Web portal (www.tradeeco.org), which was developed with financial assistance of UNDP. The 17th RPC considered the vital importance of the exchange of trade related information among the ECO Member States and urged them to encourage e-commerce and extend their technical cooperation and assistance to the least developed ECO Member States in building up their web-portals and accessibility to the ECO market through e-commerce. An Iranian company has been nominated to reactivate and technically supervise the convenient operation of the ECO Web portal with the utilization of ECO Feasibility Fund.

In the five meetings of Council of Heads of Customs Administration (CHCA) held since 2000 major steps have been taken towards the strengthening cooperation in the field of customs among the Member States of ECO. In the 4th CHCA meeting held in Baku, Azerbaijan in May 2005, it was decided to establish a Sub Committee of Experts to consider/prioritize on harmonization and simplification of customs organizations and procedures of the ECO Member States. The Council decided that the Sub Committee of Experts shall be convened on permanent basis in order to give expert advice to the CHCA on different customs issues. At the forthcoming 2nd meeting of the Committee, the Draft ECO Agreement on Mutual Administrative Assistance in Customs Matters will be finalized, to be further approved by 6th CHCA.

There is an urgent need to follow the effective implementation and further updating/expanding the scope of the Agreement on Simplification of Visa Procedures for the Businesspersons of the Member States to further facilitate the contact and communication among the citizens of the Member States. Iran is the coordinating country for initiating the draft Action Plan on the Simplification of Visa Procedure for the Businessmen of ECO region. The First EGM on the subject agreement was held on September 4-5, 2006 and the Second Meeting to be held in 2007 would finalize the Revised Plan of Action for the Implementation/Revision of the Agreement and draft of Additional Protocol to the Agreement.

Finance & Economy

The 1st ECO Ministerial Meeting on Finance/Economy, held on 30 January 2004 in Islamabad, formed a High Level Experts Group (HLEG) comprising the Senior Officials (focal points) of the Ministries of Finance/Economy and regulatory agencies of the Member States. The Second ECO Ministerial Meeting on Finance/Economy held on April 5-7, 2007 in Antalya, Turkey decided to hold the Third Meeting in 2008 in Iran.

The 17th RPC welcomed the offer of the Islamic Republic of Pakistan for hosting the 1st meeting of the Heads of Central Banks of the Member States. The said Meeting held on April 23-24, 2007 in Karachi, Pakistan decided to form various technical level Working Groups with a view to prepare detailed reports related to specific areas of cooperation. The Working Groups would submit their report in the next meeting to be held in Tehran in the year 2008.

Trade Situation in the ECO Region

In 2005, ECO aggregate total trade amounted to 401.792 billion US dollars, a substantial increase over the year 2004. ECO share in the world trade amounted to 1.89 %. The total ECO intra-regional trade approximately amounted to US$21.700 billion which is 5.4 % of the World Trade.

Transport and Communications

Transport and Communications is among three main priority areas of economic cooperation within the framework of ECO activities and a lot of energy and resources have been spent by the Member States for identifying regional transport and communication projects and means of their implementation with the aim of establishing a smooth and efficient transport and communication network in the region to further not only regional but international integration as well. By entry into force of Transit Transport Framework Agreement (TTFA) from 19th May, 2006 the ECO has entered into the new phase in the way towards regional economic integration. The important objectives of the said Agreement are as follows:

i. To facilitate the movement of goods, luggage and passengers through the respective territories of the contracting parties and provide all necessary facilities for transit transport under the provisions of this Agreement.

ii. To ensure the safety of goods, luggage and passengers and avoidance of unnecessary delays during the transit traffic through territories of contracting parties.

iii. To cooperate and coordinate the efforts of the contracting parties to avoid the incidence of customs frauds and tax evasion and harmonizing necessary administrative affairs dealing with transit traffic.

In accordance with the article 36 of the TTFA, the Transit Transport Coordination Council (TTCC) is mandated to monitor, implement and coordinate matters related to transit transport among the contracting parties. The 1st Meeting of TTCC held in Baku on 25-26 September, 2006 decided to establish four technical committees such as Legal, Insurance, Road and Railway committee as auxiliary bodies of TTCC. The meeting also decided to refer all issues relating to customs activities envisaged in the Agreement and its Annex-VII (including provision of a mechanism for guaranteeing associations) to the sub-committee of the Council of Heads of Customs Administration (CHCA). The first meetings of the said committees are being held in 2007.

Since the Programme of Action for the ECO Decade of Transport & Communications (1998-2007) ends in 2007, the 17th RPC meeting supported the proposal to establish a HLEG to prepare the 2nd phase of the programme. The Meeting emphasized that the extended/revised programme should give high priority to implementation of the ECO Transit Transport Framework Agreement (TTFA). In this programme more than 110 national projects as well as joint regional projects have been envisaged including ECO Container and Passenger Trains, Multimodal project, ECO Road & Railway Maps, Telecommunication and postal projects.

A High Level Experts Group Meeting on ECO Road Map was held in ECO Secretariat on June 22-23, 2005. During this meeting, it was recommended that the member states may convey their amendments based on the UNESCAP standards as well as other standards identified by the meeting. The Secretariat has forwarded the amendments/views received from the member states to the Iranian authorities concerned for incorporation in the 2nd edition of the ECO Road Network Map. The Iranian authorities announced that preparation of the map was in its final stage and the blue print of the map would be circulated to Member States at the earliest (in 2007). The 3rd edition of the Railway Network Map has been published by the Iranian Railway and circulated among member states (in 2006).

The first phase of Multimodal Transport project was accomplished through holding a workshop in June 2004 in the ECO Secretariat. In the first phase some issues were considered and discussed, including physical and non-physical impediments, international and local corridors, customs clearance in Member States, etc. The second phase, which is under process, will be pursued by the second workshop, which is scheduled to be held on June 25-27, 2007. Within the framework of the second phase, country reports prepared by National Consultants from member states will be forwarded to the international consultant for preparation of a consolidated report.

Trans-Asian Railway Mainline Project including the ECO container and passenger trains between Istanbul and Almaty is one of the important projects in the field of railway transport in the region. Although some achievements have been gained in this connection, there are still some impediments in the way of smooth running of container train and movement of passenger train on the said route.

Container train. **A** new body, Working Group for Implementation of Trans-Asian Railway Mainline Project was established, and the first meeting of this body was held in Tehran in June 2006. The Working Group studied measures taken by the concerned member states and proposed necessary actions to be taken in this regard. Taking into consideration the critical role of Turkmenistan and Uzbekistan in implementation of Trans-Asian Railway Mainline Project, the Working Group suggested that a team of political and technical officials from the concerned Member States and the ECO Secretariat be organized to travel to the said two Member States for negotiations with their relevant authorities for finding a solution to the existing problems before holding the Second Working Group meeting in Astana, Kazakhstan in 2007. It is expected that in 9th meeting of the Heads of ECO Railway Authorities which is scheduled to be held on 12-14 June, 2007, the most important problems of the project namely Tariff /Rates and timetable will be finalized.

Passenger train. The 1st demonstration ECO Passenger Train opened on March 13, 2001 but due to physical and non physical obstacles including visa issues and other technical problems, the project has not yet become operational. The 1st working Group for implementation of Trans – Asian Railway Mainline, emphasized on the importance of this project and requested all en-route member states in particular Turkmenistan and Uzbekistan to be more active to resolve the remaining problems of this project. Meanwhile, the Meeting suggested that in order to find a solution for the existing problems on moving the passenger train project, the implementation of the project be pursued phase by phase similar to the successful strategy adopted by Iran and Turkey. 1st Meeting of the Working Group recommended that in order to launch the passenger train between Iran and Turkmenistan, a joint committee comprising the aforesaid countries and ECO Secretariat be established to follow-up the matter. Participation of Turkish delegation in this committee was also recommended. This committee will follow up the operationalization of the Istanbul-Tehran-Ashgabat Passenger Train within a reasonable time frame.

So far 13 meetings of Directors General of Telecommunications Companies have been held. Initially, the issues of Trans-Asian-Europe Fibre Optical Cable System (TAEFOS) and postal activities were in the agenda of Directors General meetings. Later on, on the basis of proposals of some member states on separation of these two issues from the other Telecomm issues, it was agreed that TAEFOS and Postal issues would be discussed in separate meetings. However, some important issues such as consideration of the possibility to establish a Data Base on manufacturers of the products for telecommunication companies and new technologies available in the ECO region, arranging the ECO exhibition of the same products on the regular basis, and considering the establishment of an Experts Group dealing with exchange of telephone traffic among member states were among the issues discussed by the meetings of Directors General of Telecommunications Companies.

The 1st and 2nd Meetings of the ECO Postal Authorities were held in Kyrgyzstan and Iran in April, 2004 and November 2005, respectively. During these meetings, a number of issues were discussed, such as technical training and consultancy services in postal activities, the issuance of Joint Stamp, organization of Common Philatelic Exhibitions, involvement of private sector in developing postal services and the progress made in enhancing the cooperation among the member states in postal field. As it was decided by these meeting, the Islamic Republic of Iran established a website which is linked to the ECO web site. Although the website is available for all member states to put the information on postal activities and cooperation as well as their updated list of postal products and technologies, so far no member country has done so. Moreover, the 3rd Meeting of the ECO Postal Authorities (Ankara-September 2006) elaborated on postal training courses, workshops, seminars and visits of the postal experts of ECO member states from the postal training centres. The meeting requested Pakistan to offer its postal training centre to be used as permanent training centre of ECO postal trainees. The Pakistan delegate agreed to this proposal and stated that after consultations with relevant authorities conditions and particulars of the relevant courses will be conveyed to the Member states through the ECO Secretariat. Furthermore, the Iranian and

Kazakh delegations distributed the ECO Joint Stamp that they had already issued, among the participating member states in the meeting.

Energy, Minerals & Environment

Energy

The 15th meeting of ECO Council of Ministers (COM) held in Astana on 1 October 2005, resolved for the energy sector to establish interconnection and parallel functioning of electric power systems in the ECO region by the year 2015 based on the outcome of the necessary studies in this field with a view to achieve better patterns of production, exchange and trade of electricity; to launch and/or facilitate the development of multiple oil and gas pipeline networks/routes in order to meet the region's energy requirements as well as to increase outlets for access to international market;

During the year 2005, the necessary actions to speed up the commencement of the feasibility study on the interconnection of ECO countries power systems were accomplished. The 96th CPR meeting considered and endorsed the IDB proposal to award the contract of consulting services to be performed for the above said feasibility study to the NESPAK-lead consulting consortium (Pakistan). Subsequently, a Contract on the Consultancy Services was negotiated and signed by the ECO Secretariat and Consultant in June 2005. Thus, the work on the subject feasibility study was commenced as of August 25, 2005, in close cooperation with the member states.

In order to promote regional Energy Trade, a Workshop on Regional Energy Trade in the ECO region was prepared and convened with the cooperation and financing of World Bank on 29-30 June 2005, in Tehran, with the participation of the representatives of WB, ADB, IDB and UNESCAP. On the basis of the presentations and discussions, the said Workshop made a number of important recommendations on possible steps of pursuing the regional energy trade, further analytical work that would be needed, etc. This work would involve an ECO-wide advisory working group and donors. Subsequently, the World Bank has indicated its interest to continue cooperation with ECO in this field and in 2006 arranged its financing from the Energy Sector Management Assistance Programme (ESMAP) for the first step of analytical work to be performed under the subject project.

In continuation of the training courses on energy efficiency and conservation organized for energy managers from the member states in Ankara in 2002-2003, the international courses on Energy Efficiency and Conservation were conducted in Turkey, during 2004-2006 under a new JICA Project on "Third Country Training Program" with the participation of the engineers from the ECO Member States.

To promote cooperation on the development of regional Oil and Gas transportation routes, the 4th High Level Experts Task Group (4th HLETG) meeting on Oil and Gas Pipeline Routes as well as a Workshop on the subject matter were convened on 4-6 May 2005 in Ceyhan Terminal of BOTAS Co., Turkey.

The Secretariat, in order to promote the development and utilization of new and renewable energy technologies in the ECO Region formulated its proposal on cooperation in the field of New and Renewable Sources of Energy (NRSE). The First ECO Workshop on New and Renewable Sources of Energy held in Ankara, Turkey on May 27-28, 2004 considered the proposals. The 15th RPC meeting took note of the development in these fields and adopted the proposal of the said event on the establishment of ECO Working Group on NRSE.

During the 10th Consultative meeting among the Executive Heads of the Subregional Organizations and UN ESCAP in Katmandu, 5-6 September 2005 the ECO Secretary General floored a proposal on cooperation to facilitate energy infrastructure development, power trade and interconnection. As a result, the meeting agreed to establish a Joint Working Group on Energy Trade and Interconnection to be led by UN ESCAP and ECO. As an initial step of that activity, both parties have nominated their focal points and started drafting Terms of Reference for the Working Group.

Minerals

Since ECO, during its fist decade of functioning, did not have any activity related to mineral industry, the ECO Secretariat in co-operation with relevant regional and sub-regional organizations prepared the Plan of Action in minerals sector which was considered and adopted by the 1st ECO Mineral Experts Meeting held in the year 2001 in Tehran.

The said meeting also recommended the publication of ECO Mineral Data Booklet (MDB). The concerned authorities of Turkey (the Project Manager) have collected the necessary data from the member states and published in 2006 the first version of that MDB, so that experts from the member states could analyze the data for identifying the potential, areas and ways for mining cooperation.

All the proposals and offers of the member states regarding the possible areas of regional cooperation in the field of minerals were considered by the 2nd and 3rd ECO Mineral Experts Group meeting held in Ankara and in Islamabad in 2003 and 2006, respectively. These meetings recommended further actions to follow up the matter of the establishing of an on-line dynamic and multipurpose ECO Mineral Data Bank and preparation of the Mineral Distribution Map of ECO.

Environment

The Plan of Action for Cooperation among ECO Member States on Environment (2003-2007) was adopted by the First ECO Ministerial Meeting on Environment convened in Tehran in 2002. The 3rd ECO Ministerial meeting on Environment held on 30 June 2006 in Almaty, Kazakhstan extended the term of that Plan of Action up to the year 2010.

The 3rd ECO Ministerial meeting on Environment endorsed the recommendations of the Task Force on creation of Institute of Environmental Science and Technology for ECO region, as well as the Strategic Plan for it and agreed that the functions of the Institute be carried out by the existing College of Environment in Tehran, provisionally, on project basis during the next four years.

It was decided also to establish a Task Force comprising of interested ECO member states' representatives in order to study the potentials existing in the region to develop Ecotourism and work out a regional programme for cooperation in this field.

The status of implementation of the above Plan of Action and other related issues were considered during four meetings of Working Group on Environment which were held in the years 2004-2006 in Ankara, Tehran (twice) and Islamabad.

The first 3 issues of the ECO Bulletin on Environment were published by the ECO Secretariat, using limited in-house resources, in 2005 and 2006. These are also available on the ECO Web site.

The theme of the Environmental Impact Assessment was comprehensively dealt by the ECO Expert Meeting on Environmental Impact Assessment held in Ankara, on 20-21 September 2005. The meeting discussed the role of environmental management in ECO region, the environmental management systems in the development projects, as well as environmental impact assessment.

The 15th RPC meeting appreciated the signing of the Memoranda of Understanding between ECO and the United Nations Environment Program (UNEP) in 2004 and advised the Secretariat to identify specific joint activities with UNEP for obtaining support and assistance for the implementation of the ECO Plan of Action on Environment.

An MOU was also signed between ECO and the World Meteorological Organization (WMO) in 2004 to cooperate and utilize the potential of WMO for promotion of ecology and protection of the environment. As an initial step of that cooperation the Workshop-Training Course on "PRECIS-Regional Climate Model" was conducted on 5-9 September 2005 in Alanya, Turkey, under auspice of the Regional Meteorological Training Centre of the World Meteorological Organization.

Agriculture, Industry and Tourism

Agriculture

ECO countries, with an abundance of agricultural resources and blessed with different types of soil, climatic and environmental conditions suitable for a wide range of varieties of the agricultural products, have great potential for agricultural development and ensuring food security.

Following the Joint FAO-IDB-ECO Meeting for Consideration and Finalization of Projects for Food Security Program held on 28-29 August 2005 in Tehran, the Regional Programs for Food Security (RPFS), prepared by FAO and ECO are based on a strategic framework for sustainable agricultural development and food security. The following regional projects were formulated jointly by member states, FAO and the ECO Secretariat under RPFS:

- Promoting regional food security in ECO Region
- Regional Program for Integrated Pest Management for Cotton
- Coordinated Research Project on Wheat crop Improvement
- Intra-regional Trade Promotion among ECO Member Countries
- Regional Project on support to Agricultural Extension
- Development and Maintenance of Pastures in ECO Region
- Regional Program for Combating Trans-boundary Animal Diseases
- Establishment of ECO Regional Plant Gene Bank

- ECO Regional Program for Drought Management and Establishment of ECO Regional Centre for Risk Management of Natural Disasters (especially drought monitoring and early warning)
- Agricultural Productivity Enhancement and Export Development in ECO Region.

Some of the major events organized in 2006 are as follows:

An important regional project, FAO-ECO Technical Cooperation Program (TCP) on "Strengthening the seed supply in the ECO Region with specific emphasis on Central Asia" is in the implementation phase with the financial contributions of US$ 365,000 and US$ 30,000-35,000 by FAO and ECO respectively along with technical support by ICARDA. The overall objective of this TCP is to enhance seed production, improve the marketing system, train the trainers in seed entrepreneurship, to introduce new technology, standards and regulations to stakeholders and to harmonize the seed regulations. Establishment of a system for holding of the regional seed conference regularly is another objective of the TCP. The 1st Meeting of National Focal Points (NFPs) on Seed, held in May 2006 approved the Work Plan of the project. A major event under the TCP would be the organization of First ECO Regional Seed Conference with the participation of private sector.

First ECO Meeting of Heads of Veterinary Organizations was held on 15-17 November 2006 in Tehran, Iran. The meeting considered Draft Articles of Association of ECO Permanent Commission for Prevention and Control of Animal Diseases (ECO-PCPCAD) and proposed some amendments. The meeting decided that the document would be considered by the 17th RPC in February, 2007.

The 1st ECO Experts Group Meeting (EGM) on the establishment of ECO Agricultural Biotechnology Network was held in Tehran on 22-24 April 2006. The experts approved a three-year project and work plan for establishment of the ECO Agricultural Biotechnology Network (ECO-ABN). It is planned that the Network will be operational within two years. The objectives of the ECO-ABN are Networking of National biotechnology institutes, researchers, scientists, engineers, administrators, linking regional activities, collaboration with International Organizations and laboratories, capacity building and enhancement of the relevant institutes of the member states and conducting joint studies and research projects. Harmonization of bio-safety protocols and testing in the ECO Region will also be facilitated through the Network.

The ECO-IDB-FAO Regional Workshop on Water Demand Management was held in Islamabad on 5-11 November 2006 with financial/technical assistance by IDB/FAO. The workshop worked out a Plan of Actions and Initiatives for better utilization of water use in the field of agriculture, which includes establishing an ECO Regional Water Management Centre (ECO-RWMC). It was recommended that the centre would be located in one of the ECO member countries, which would be determined through a feasibility study.

The ECO-IDB-FAO Workshops on "Trade, Competitiveness and WTO" and "Sustainable Agriculture Development" were held on 26-28 June 2006 and 29 May to 2 June 2006 respectively in Antalya, and Tehran. During the workshops, experts from member states discussed the main features and requirements of multilateral trading system as well as challenges of adjusting agricultural policies.

Industry

The Ministers in Tehran and Istanbul Declarations adopted by the 1st and 2nd Ministerial meetings on Industry held in January 2004 and November 2005 respectively, pointed out that the ECO region had a common vision about industry which could be summed up as “achieving sustainable development in accordance with resource endowments and comparative advantages of the Member States”. Based on this vision, the Ministers highlighted key issues faced in the region and took note of the importance of prioritization of the activities to be pursued by the ECO Member States for effective cooperation in industry sector.

The main events of Industry sector were as follows:

The 3rd Ministerial Meeting on Industry and the 2nd High Level Experts Group (HLEG) Meeting were held on 28- 30 November 2006 in Lahore. The Ministerial Meeting adopted (i) ECO Regional Strategy on Industrial Cooperation, (ii) Plan of Action for Establishment of the ECO Technology Transfer Centre (ETT Centre), (iii) Plan of Action for ECO Cooperation in the field of Entrepreneurship and SMEs Development (iv) Action Plan for Cooperation among ECO member states on Industrial Property Rights. The Meeting considered the Draft Statute of ECO Regional Institute for Standardization, Conformity Assessment, Accreditation & Metrology (RISCAM), presented by the HLEG and decided that the Headquarters of RISCAM would be located in Tehran, Iran. The Secretariats of the Technical Management Boards would be located in the following member states: Standardization and Accreditation Board in Turkey, Metrology Board in Kazakhstan, Conformity Assessment Board in Iran.

The First Meeting of the Heads of Standardization Organizations and other related Bodies of the ECO Member States was held on 17 January 2006 in Tehran. The Meeting considered and approved the ”ECO Regional Cooperation Strategy on Standardization” and “Statute of ECO Regional Institute for Standardization (RISCAM)” prepared by the 1st and 2nd EGM on the said subject.

In order to assist privatization authorities within ECO countries in sharing their experiences and getting acquainted with privatization trends at regional and international levels, the ECO-IDB Workshop on Privatization was held on 20-22 December 2006 in Ankara, Turkey.

The Meeting of the Steering Committee on Industry held on 16-17 September, 2006 at the ECO Secretariat agreed on the Draft ECO Regional Strategy on Industrial Cooperation by making necessary amendments for approval (through HLEG on Industry) to the 3rd ECO Ministerial Meeting on Industry. The meeting decided that the specialized committee, which is to be established under the draft strategy, may prioritize the project feasible for the region.

Tourism

The 1st HLEG Meeting on Tourism held on 11–13 December 2006 in Tehran considered current status of tourism in the region and discussed various issues relating to cooperation in tourism development including promotion of private sector in the field of tourism, simplification of visa procedures for tourists, etc. The meeting decided that ECO Cultural Institute (ECI) would prepare the ECO Tourism Guidebook in collaboration with the ECO Secretariat using necessary information from the member states. It was also decided that 80% of the cost of the preparation of the Guide Book would be covered by Iran. The Meeting agreed on a revised version of the Draft Plan of Action on Tourism and approved ECO Tourism Promotion Fund to finance development of the tourism sector. The meeting decided that private-sector parties should be invited to the next HLEG meetings. It was also agreed that the First ECO Tourism Fair will be held in Tehran on ECO Day, 28th November, 2007.

Human Resources and Sustainable Development

The issue of Human Resource Development has always been considered important for ECO member states. In pursuance of 15th COM meeting decision, Directorate of Human Resources and Sustainable Development was established to be in charge of Human Resource Development, Social Development, Drug Control Affairs, Health, Poverty Alleviation, etc. The new Directorate is fully functional since January 2006.

Human Development

MDGs implementation in ECO region

ECO region is making rapid progress towards achieving many of the Millennium Development Goals (MDGs) which were adopted along with Millennium Declaration in the United Nations Millennium Summit in September 2000. However, some member states are lagging behind or moving away from the targets. No country is currently on track to achieve all the MDGs by the set deadline i.e. 2015.

Eradication of extreme poverty and hunger is the first goal among the MDGs, with halving the proportion of people living on less than US$ 1 per day and halving the proportion of people who suffer from hunger by the year 2015 as targets set for this goal. Fortunately, the region has been making good progress towards eradicating extreme poverty. However, in contrast to poverty, hunger will not be halved by 2015 if recent trends continue as malnutrition indicators for the entire region are regressing.

In the ECO member countries, the number of people living under US$ 1 a day ranges from 1.5% to more than 19% where for some countries the figure was not even available. However, using the UNESCAP terminology for evaluating MDGs Progress, it could be expected that ECO region is on track and has made good progress toward achieving this goal. It will realize the goal by the time set i.e. 2015.

As the UNESCAP indicated,[2] four out of ten ECO Member States are regressive in achieving the target for reducing malnourishment, which means the situation there had worsened but at the same time five other member countries (except Afghanistan for which the information is not available) are early achievers which means they will acheive the target even earlier than 2015.

The progress towards achieving the child mortality target is too slow for the target to be achieved by 2015. Progress in bringing tuberculosis (TB) under control is rapid and most of the countries would be early achievers for this goal. However in some Central Asian member countries TB prevalence and deaths have continued to rise.

[2] A Future Within Reach. UNESCAP, September 2005.

In line with recommendation of 16th RPC, necessary arrangement was made for utilizing an international consultant and an expert from the UN Division for Sustainable Development who travelled to Tehran from 13-18 December 2006 and met ECO officials to deliberate on preparation of a draft Work Programme for the Secretariat on human and sustainable development.

The 1st Meeting of the HLEG on Human Development and MDGs was held in December, 2006 in Ankara, Turkey. The delegates from member states delivered Country Reports giving details of their national activities with regard to Human Development (HD) and prospects of MDGs implementation. The country reports addressed issues relating to poverty, unemployment, labour market issues, education, health and nutrition and social protection programmes providing social safety nets to the vulnerable. The next HLEG meeting on HD and MDGs implementation will be held in Islamabad in 2007.

Health

The 1st Meeting of HLEG on Health focusing on Avian Influenza was held on 12–13 March, 2006 in Tehran, Iran. Delegates from member states and some international organizations i.e. WHO, FAO and World Bank also attended the meeting. Participants deliberated on the status of Avian Influenza and agreed upon Outlines of the ECO Regional Plan of Action to cooperate in fighting against Bird Flu. Based on this Outline, Iran has already proposed a draft Plan of Action which was circulated to ECO Member States. Based upon the country reports/presentations and proposals of the participants, the ECO Secretariat has prepared and circulated a set of recommendations.

The Workshop on “ECO School Earthquake Safety Review” was held on 1-2 June 2006 in Istanbul hosted by the Ministry of National Education of the Republic of Turkey and in cooperation with Organization for Economic Cooperation and Development (OECD) and GeoHazards International (GHI). Recognizing the high level of seismic hazard of the ECO countries and collapse of many school buildings in the past earthquakes in the region (e.g. October 8, 2005 earthquake in Pakistan), the proposal was made to develop a Plan of Action for Improving School Earthquake Safety. It was proposed that the said Plan of Action be considered by the second workshop to be held in Pakistan.

Drug Control Matters

With the aim to improve coordination of drug control activities within the ECO region, a Project titled “Assistance in Establishing Drug Control Coordination Unit (DCCU)” was signed between ECO and UNDCP in March 1998. Finally, DCCU became operational on July 25, 1999, for the first phase of the Project.

After successful completion of the first and second phase of the project, the 15th COM formally approved the budget for DCCU as part of the ECO Secretariat and instructed the Secretariat and CPR to continue efforts for finding donor(s) for funding the DCCU. Budget of DCCU has already been included as a part of ECO Secretariat Budget for 2006.

Since then, the following activities were carried out with regards to and by DCCU:

1. The second phase of the DCCU project was completed on 31 December 2004. As stipulated in the project document the DCCU was physically absorbed in the mainstream of ECO Secretariat.

2. The draft country profiles on the drug situation in 2003 for each member state were prepared based on the information received from the National Focal Points and circulated to the member states.

3. In coordination with UNODC, Tehran a Project Idea Document for a period of three years (2005-2007) titled "Empowerment of drug and crime control measures and promotion of regional and international cooperation in the ECO framework 2005" was prepared. After approval from the ECO Secretariat and UNODC Office, Tehran, it has been sent to UNODC Office in Vienna for approval and seeking international financial assistance.

4. The 2nd Training Workshop on Drug Demand Reduction (DDR) was jointly organized with TADOC (Turkish International Academy against Drugs and Organized Crime) in Ankara, Turkey on 20-23 September 2005. The DDR experts, National Focal Points and Liaison Officers of DCCU from the member states participated in the training workshop along with officials of TADOC. The participants informed about the current situation of DDR activities, as well as highlighted the goals and strategies of Drug Demand Reduction Policy in their countries.

5. The First Senior Official Meeting (SOM) on Drug Control Matter was held on 20-22 December 2005 in Ankara, Turkey. The meeting deliberated on the status of the implementation of ECO Action plan on Drug Control and while emphasizing the validity of the Action plan in principle recommended its revision in order to make it more compatible with the emerging trends and challenges related to the drug control in the region. The meeting agreed on recommendations for revising the Action Plan including the need to deal with the new illicit drugs and chemical precursors; to enhance the capacity of DCCU, with the possibility of its transformation into a Regional Centre for Drug Control and Organized Crime (RCDCOC), to enable it to perform the duties and responsibilities arising from this Action Plan; to study the legal structures of the member states on drug control and allied crimes with a view to explore the possibility of establishing a suitable regional legal framework on the subject area; to expand cooperation and sharing of information on border control measures among member states; to establish an implementation and monitoring mechanism to ensure effectiveness and efficiency of the plan; to define a multi-dimension source of financial resources to achieve the over arching policy goal; the plan should be in line with the provisions of drug control and related matters section in the ECO Vision 2015.

The SOM agreed to establish a Working Group comprising senior officials/experts both at policy and operational level of the member states to revise the Action Plan based on the recommendations of SOM and present a draft revised Plan of Action through the CPR to the 16th COM Meeting for approval.

Reconstruction of Afghanistan

The ECO Member States have been key supporters of Afghanistan's rehabilitation, providing substantial political, humanitarian and reconstruction aid. Nevertheless, Afghanistan's reconstruction process remains a learning process for international community as well as for ECO and the Afghans themselves, but since all the neighbours of Afghanistan are members of ECO, the broad based cooperation at the regional level has to become a highly trustful collaboration.

The ECO member states are well aware of the fact that regional integration for Afghanistan will be vital to the success of the process. Geographically, Afghanistan as a landlocked country offers important transit routes for some of ECO member states. A peaceful and prosperous Afghanistan would be a driving force behind beneficial regional cooperation. In this respect, the ECO member states during the 7th Summit held in October 2002 in Istanbul, Turkey declared their support for Afghanistan's efforts for reconstruction.

Pursuant to the decision of the Summit, a Plan of Action (2003-2007) has been devised for rationalizing the ECO's efforts towards reconstruction of Afghanistan. During the 9th ECO Summit and 16th COM meetings (Baku, May 4-5, 2006), the member states welcomed the implementation of the Action Plan and reiterated their support to Afghanistan in its reconstruction and capacity building process. The said Plan will be completed in December 2007. However, within its capacity ECO would devise a new Plan of Action in accordance with the priorities determined in the Afghanistan Compact and in implementing its National Development Strategy which were adopted during the London Conference, particularly with regard to reconstruction projects and regional cooperation.

In the entire gamut of implementation of current ECO Plan of Action for reconstruction of Afghanistan with the assistance of the member states either at bilateral level or through ECO framework following remarkable achievements may be noted:

(i) ECO Special Fund for reconstruction of Afghanistan was established and its modalities were approved by the 14th meeting of the ECO Council of Ministers held in September 2004 in Dushanbe, Tajikistan in order to finance small/medium size projects in Afghanistan. An account was opened with the Habib Allied International Bank in London for depositing the contributions of member states to this Fund. Total pledges to this Fund are about US$ 10.4 million. However, to date around US$ 1.8 million are available in this Fund, with contributions made by Iran, Pakistan and Turkey.

(ii) The 105th meeting of CPR held on October 19, 2005 approved the project "Construction of Deh Mazang Public Park and maintenance of Kabul Zoo", the first project to be financed from the Fund, which would symbolize unity and cooperation amongst the ECO Member States towards Reconstruction of Afghanistan. In line with modality of the Fund, a tender was floated in coordination with Afghan authorities for award of a contract for this project. The respective companies of the ECO member states were invited to submit their bids. The Municipality of Kabul was the main coordinator of this tender and representatives of ECO Secretariat undertook a mission to Kabul in June 2006 in order to assist Afghan authorities and oversee the process of selection panel of the said tender.

(iii) The 116th CPR meeting held in August 2006, having considered the three short-listed companies by the Afghan authorities, approved the Afghan Construction Company (state company) as the implementing agency against this tender. The CPR authorized the ECO Secretary General to sign the contract with the budget of US$ 1.3 million between the Secretariat, the Afghan government and the implementing agency. The contract was signed during the visit of the Secretary General to Kabul in March 2007.

(iv) A Seminar on ECO's participation in the reconstruction of Afghanistan was held in Kabul on 9-10 November 2005. The Seminar, inter alia, made some recommendations and future plans to make the ECO efforts aimed at the reconstruction of Afghanistan more useful. The ECO member states decided to consider constructing pavilions in the Deh Mazang Public Park, which may depict their social and cultural heritage. So far, the Islamic Republic of Pakistan has expressed its interest in this regard. Other member states were invited to do so. The relevant Afghan authorities would accommodate such interests of the member states in the construction of the said Park and reserve appropriate space to this end.

(v) In consent with the decision of CPR, the Secretariat allocated funds from the ECO Feasibility Fund for the feasibility studies of the priority projects of Afghanistan on case-by-case basis. To this end, in June 2004 a grant for an amount of US$ 11,200 was awarded for a contract on a Feasibility Study for Rehabilitation of Nawar Bridge of Hesarak Nangahar Province, Afghanistan, to ECO Consultancy and Engineering Company (ECO-CEC) through the said Fund. The ECO-CEC has prepared the feasibility study on the above-mentioned subject and it was handed over to the Islamic Republic of Afghanistan in October 2005. The Government of Afghanistan has to find funding for its rehabilitation or reconstruction.

(vi) The ECO Secretariat in coordination with the member states continues to provide training courses for Afghan officials in the priority sectors. The member states have been requested to consider further helping Afghanistan in capacity and institution building process and that training facilities may be offered to the Afghan experts and officials particularly in areas such as trade and economy. In this regard, the Central Insurance of Iran (Bimeh Markazi Iran) will train 20 personnel from the Afghan Insurance Company. The total cost including accommodation, local transport, instructors/trainers, and air tickets of the participants will be financed on equal basis (50%+50%) by the Insurance Company of Iran and the ECO Fund for Reconstruction of Afghanistan.

ECO Subsidiary Institutions:

ECO Cultural Institute:

ECO Cultural Institute (ECI) is a specialized agency of Economic Cooperation Organization and is fully operational. The Institute organizes various cultural activities in the ECO region such as research on the cultural heritage of the member states, publication of journals and periodicals covering the work of eminent contemporary writers, photographers, painters, etc. It coordinates cultural exchange programmes like visit of academicians, scholars, poets, artists and students. The headquarters of the Institute is in Tehran. Its website address is www.ecieco.org.

The 17th meeting of the Regional Planning Council appreciated that the cultural activities of the Institute are growing in scale and capacity to carry out programmes and plans as mandated under ECI 3-year Plan of Action approved by the 94th Session of CPR. The 2nd ECI High Level Expert Group meeting followed by the 3rd Board of Trustees (BOT) meeting was held on 21-22 May, 2007 in Islamabad. Delegations from the Islamic Republic of Afghanistan, the Islamic Republic of Iran, the Islamic Republic of Pakistan and the Republic of Turkey with delegations from ECI and the ECO Secretariat participated in the meeting.

The BOT reviewed the overall progress of the Institute since its last meeting, stressed upon the need to more activate the Institute in its areas of interests and mandated fields.

Acknowledging the importance of the financial contribution of the member states for smooth and effective functioning of the Institute, the BOT supported the idea for establishment of an ECO Cultural Trust Fund and appreciated the gracious contribution of 2 Million Dollars by Islamic Republic of Iran and requested the other member states to contribute.

ECO College of Insurance:

The ECO College of Insurance was founded as an under-graduate institute by the ECO Council of Ministers and the Ministry of Scientific Research and Technology of the Islamic Republic of Iran. The College is offering Bachelor degrees in Insurance Management and Master's degrees in Actuarial Science and Area Studies of ECO region. More than 95% students enrolled in the College are from Iran with a few students from other Member States.

The 15th RPC meeting held in Tehran on 14-17 February 2005 welcomed the recommendations of the Eminent Persons Group for the establishment of a Working Group to facilitate the transition of ECO College of Insurance into ECO College of Insurance and Management Sciences. The Statute of ECO College of Insurance and Management Sciences was jointly prepared by the ECO College of Insurance and ECO Secretariat. The Statute has been deliberated in a series of working group meetings held at the ECO Secretariat. The 17th RPC meeting appreciated the performance of the Working Group and requested the CPR to finalize the Statute of the ECO College of Insurance and Management Sciences for submission to the Council of Ministers for approval.

The ECO Ambassadors' Working Group meeting has been proposed by the 121st CPR to finalize the Statute of the College. The date of this meeting will be announced by the ECO College of Insurance and Management Sciences in consultation with the Government of Iran.

ECO Science Foundation:

The Charter of ECO Science Foundation was signed during the 3rd ECO Summit held in Islamabad on March 15, 1995. All the ten member states have signed the Charter. However, only Azerbaijan, Iran, Pakistan, Tajikistan and Turkey have ratified it. The 15th and 16th RPC meetings held in February 2005 and February 2006, respectively recommended that Pakistan should convene the meting of the Board of Trustees to resolve Charter-related issues. Pakistan informed the Secretariat that prior to convening the meeting of the BOT of ECO Science Foundation, Science and Technology Fund should be created for the establishment of ECO Science Foundation.

Considering the long delay that the matter has already suffered, the Secretariat proposed that the meeting of the Experts/authorized representatives of the Member States be convened at an early date to finalize issues belonging to both the Charter and the Science and Technology Fund and day of convening the BOT meeting. It was also proposed that meeting may be hosted by Pakistan as the Science Foundation is proposed to be established in that country.

Pakistan announced US dollar one million for Science and Technology Fund for the establishment of ECO Science Foundation and conveyed its willingness to host the Experts Group meeting. The Government of Pakistan also requested ECO Secretariat to have the commitment of Member States for reasonable mandatory contribution in ratio to their respective GDPs. The 17th meeting of the Regional Planning Council held at the ECO Secretariat on February 19-22, 2007 appreciated the announcement by the Islamic Republic of Pakistan to contribute up to US dollar one million for the establishment of ECO Science and Technology Fund and invited other Member States to consider favourably making contributions to the Fund. The Ministry of Science & Technology of Pakistan has offered to host the Experts Group Meeting.

The First Experts Group Meeting was convened in Islamabad, on 3-4 September 2007 to deliberate on the Future of the ECO Science Foundation. The Meeting was successful in giving this much delayed project a jump start and made some recommendations for approval by COM. The EGM was also successful in drafting an Additional Protocol to be annexed to the Charter of the Science Foundation and will be placed before the COM for approval. Once the Draft Protocol is approved by COM the Second Expert Group Meeting will be convened to finalize the other basic documents and pending issues such as rules of procedure, financial regulations, staff regulations, formulae for mandatory contributions and dates for convening the Board of Trustees meeting.

The EGM also decided that there would two primary sources of funding for the Foundation. Mandatory Contribution by member states for meeting running costs of the Foundation and funding its projects. The second source would be Voluntary contributions which would comprise of international funds, endowments and voluntary contribution from Member states as well international donor agencies and organizations. These funds would be used exclusively for funding projects of the Science Foundation. In this regard Iran announced an initial contribution of US $ 100,000/- which was welcomed by all the delegates. Pakistan has already announced a contribution of up to US $ 1 Million.

ECO Educational Institute

In order to broaden and enlarge the cooperation among ECO countries in the field of education and training along with the principles, aims and spirit of the Treaty of Izmir, the Committee for Educational, Scientific and Cultural Cooperation recommended to the Regional Planning Council to consider establishment of an ECO Educational Institute. The 7th Regional Planning Council agreed to the establishment of ECO Educational Institute with its headquarters in Turkey. The first expert group meeting to prepare and finalize the Charter of the Institute was held in Ankara on 15 April 1997.

The 8th Council of Ministers held in Almaty, Kazakhstan approved the Basic Document and Charter of ECO Educational Institute. The Islamic Republic of Iran, Kazakhstan, Kyrgyz Republic and Tajikistan have ratified its Charter. The 17th RPC reiterated its earlier call for expeditious ratification of the Charter by six member states and invited the non-signatory member states to accede to the Charter. The Council also requested Turkey to announce the date of holding the first meeting of its Board of Trustees (BOT). The representative of the Republic of Turkey informed the 17th Council that the ratification of ECO Educational Institute by the Republic of Turkey is under process and soon after its ratification, the date of holding BOT meeting will be announced.

ECO Consultancy and Engineering Company (ECO-CEC)

ECO-CEC is a specialized agency of the ECO Secretariat which is a joint venture between an Iranian company PIDEC and TURKPAK which itself is a joint enterprise between two Turkish companies TUMAS, TUSTAS and one Pakistani company NESPAK. The

Iranian company holds one third equity shares of ECO-CEC while the rest lies with TURKPAK. The equity holding of TURKPAK is divided equally between Turkey and Pakistan. Since its inception, ECO-CEC has tried to participate in the development projects to be sponsored by the Member States, the ECO Secretariat and ECO Trade and Development Bank and got a foothold in the ECO related development activities.

Upon recommendations of previous two conferences organized by the ECO-CEC, the Secretariat is in contact with ECO-CEC to organize short term training courses with local hospitality to the relevant experts from Afghanistan, Azerbaijan and Central Asian member countries in the fields of highways, transportation, dams, power generation and transmission engineering. Following projects have been undertaken by the ECO-CEC:-

i) Feasibility Study for Rehabilitation of Nawar Bridge of Hesarpak Nangarhar Province, Afghanistan.
ii) Feasibility Study on Interconnection of ECO Countries Power Systems.

ECO Trade and Development Bank (ECOTDB)

The mission of the ECO Trade & Development Bank is to initiate, to promote and to provide financial facilities to expand intra-regional trade and to promote the economic development of ECO member countries. Thus, establishment and operationalization of ECO Trade and Development Bank is one of the most important steps towards accelerating the region's development. The first and inaugural meeting of the Board of Governors was held on July 6, 2006 in Ankara, Turkey. The meeting decided to elect Republic of Turkey as the next Chairman of the Board of Governors for one year and fixed a deadline for the payment of initial subscription, 20 million ECO Unit/SDR by the three member states. It also fixed a timetable for nomination/appointment of suitable persons to the top positions of the Bank.

The 2nd Meeting of the Board of Governors was held on October 6th, 2006, in which the President of the Bank was appointed for a term of five years and each founding member paid its initial subscribed capital of 20 million SDR. It was also decided that the remaining total amount of subscribed capital, 240 million SDR (80 million SDR for each member) shall be paid in five equal consecutive instalments in July of each year.

The Bank is expected to be fully operational by December 2007. So far, the following steps have been taken towards commencement of its operations:

- Two Vice Presidents appointed in the 1st meeting of the Board of Directors.
- Headquarters premises leased.
- Key staff recruited.
- Budget for 2007 prepared.
- Bank's logo, emblem and website established.
- Business Plan for the first five years awarded to an internationally reputed company through competitive selection process. Expect completion before commencement operations.

ECO Reinsurance Company

The establishment of ECO Reinsurance Company as per the MoU signed in March 1995 will supplement the existing reinsurance services in the region and will promote growth of the national underwriting and retention capacities. It is expected to minimize the outflow of foreign exchange from the region and support the economic activities in the region as well.

The Trilateral Committee formed to pave the way for its establishment, held its last meeting, as High Level Experts Group/Trilateral Interim Committee, in Islamabad on May 14-15, 2007 and finalized the Draft Articles of Agreement which was initialled by the representatives of three Member States. It was agreed that the Articles of Agreement will be signed in the next Trilateral Interim Committee Meeting at the level of authorized officials of the three Member States prior to the 17th Meeting of the Council of Ministers to be held in October 2007.

ECO Chamber of Commerce and Industry (ECO-CCI)

As per its statute, aims and objectives of ECO-CCI are to facilitate trade and economic cooperation and promote closer commercial relations among the business communities of the member states. It was also entrusted the responsibility of organizing joint trade fairs, exhibitions, meetings, conferences, seminars and other trade promotional activities with a view to further strengthening trade relations among the Member States.

Since April 2004, ECO-CCI Chairmanship is with the Afghan Chamber of Commerce and Industry (ACCI). The aim is to make ECO-CCI an effective body of ECO through reactivating ACCI with the technical support of Member States. The 10th Executive Committee Meeting of ECO-CCI and ECO-CCI Trade Fair were held simultaneously in Kabul, Afghanistan on 9-10 November 2005. The Iranian Chamber of Commerce prepared the Action Plan and supplementary time framework for the next ten years activities of the ECO-CCI which will be considered by the 8th ECO-CCI General Assembly. The 8th General Assembly meeting of ECO-CCI scheduled to be held on October 18, 2007 in Istanbul, Turkey is expected to finalize the statute, implementation of Action Plan of the ECO-CCI and decide about the location of its permanent secretariat.

The ECO Secretariat drafted a Memorandum of Understanding (MOU) for cooperation with the ECO-CCI and the Islamic Chamber of Commerce & Industry (ICCI). It was decided that in the light of the inputs of the National Chambers of the Member States, the signing of the MOU could be realized. The MOU has been revised in line with inputs of the National Chambers of Iran, Pakistan, Turkey, Kyrgyz Republic and Islamic Chambers of Commerce & Industry and has been submitted to the Member States.

II. Major Developments in the Economies of ECO Countries.

Islamic Republic of Afghanistan

Reconstruction in war torn Afghanistan is a major priority. The international community pledged a financial assistance package worth US$ 4.5 billion undertaken at Tokyo Conference (December 2001) and US$ 8.2 billion at Berlin Conference (January 2003) for Afghanistan. However, only 22% of that aid has been actually provided. Nonetheless Afghanistan has maintained reasonable growth in recent years. Some of the major development works done are as follows:

(1) Afghanistan is pressing ahead in diverse fields in the face of challenges posed by its geography and physical location as well as the ravages of three decades of war. It registered at economic growth rate of 29% in 2003, 18% in 2004 and 13% in 2005. Since 2003, out of a network of 4057 km of constructed highway, 1743 km have been asphalted. These include Herat-Dogarron, Kabul-Kandahar, Kabul-Salong, Pulkhmary-Balkh and Balkh-Khovi roads.

(2) Electricity networks of the border cities have been linked to neighbouring countries. Growth and development of rural areas envisaged in the national solidarity plan, which is one of the priorities of the government, has covered 1300 villages. The national solidarity plan has provided job opportunities to many villagers.

(3) Control of public wealth, centralization of the country's income and establishment of a new currency system are commendable achievements as indeed is the maintenance of US$ 1.5 billion currency's reserve.

(4) In the telecommunications sector, the wireless system and the landline communication network of Afghanistan have been connected to the outside world and measures taken to introduce modern systems/technologies in the field of internet and IT development.

The private sector which plays an important role in development and progress towards free market has been encouraged. During the past three years more than 3000 projects have been registered with the Afghanistan Investment Support Agency.

In the Agriculture and Irrigation sectors which involve over 70% of the population, the government is pursuing construction of small dams and water canals and development of agricultural farms. The GDP, per-capita income and employment rate have steadily increased. The standard of living (compared with past) has risen rapidly.

(5) As regards political development, a new constitution has been adopted and for the first time in the country's history a President elected by direct vote of people. In addition, Members of Parliament members and members of provincial councils have been elected. The freedom of press as evident from hundreds of newspapers and private publications is a most notable achievement on the political plane.

(6) Education is of high priority in Afghanistan. During the past 3 to 4 years, as many as 1768 schools including 1134 at the primary level, 326 at the secondary and 308 others have been constructed. Also, during the said period, 275 primary schools, 331

secondary and 416 others, totalling 1022, have been reconstructed, enrolling 6.5 million students. In addition, there are 19 higher education institutes, with 38419 students pursuing studies in various fields.

The Afghan Government is providing equal opportunities to male and female students. Out of the 6.5 millions students enrolled at present, 35% are girls. Attention is also given to the need for qualified teaching staff. Out of 2000 professors who teach in 19 universities and higher education institutes, 60% hold Bachelors degree, 34% Masters degree and 6% Ph. D. degrees.

According to the higher education development plan, educational and administrative reforms will be completed within the next 10 years. These will be based on the international standards and will cover all aspects of education including registration of scientific documents and diploma, and forging educational linkage with 14 foreign universities. The number of university professors would be raised to 4000, out of which 20% would hold Ph. D, 50% Masters and 30% Bachelors degree. The number of students is expected to increase from 40,000 to 100,000.

(7) The Government has taken wide-ranging initiatives for the welfare of Afghan immigrants. These are aimed at providing health and education facilities to 4.5 million immigrants and distributing land to 25000 immigrant families in 28 provinces. Insurance cover will be extended to 77% people. In addition, as many as 4325 health care units, 661 basic health centres, 413 comprehensive health centres, 99 provincial hospitals and 13 central hospitals are being built as part of the development programme.

Power generation, mineral exploitation and establishment of industrial centres are high on the government's agenda for development. In order to implement projects in these fields, Afghanistan needs the support of donor countries and international agencies. The Chapter 1.2 of the Report also covers various aspects of ECO countries cooperation related to the reconstruction of Afghanistan.

Republic of Azerbaijan

Real Economy

Azerbaijan's GDP rose by 26.4 % in 2005, amounting to US$ 12.6 billion. GDP per capita reached US$ 1517.6 marking an increase of 25.1 % over the previous year. About 66.7 % of the GDP came from industry, agriculture and construction and 25.6 % from the services sector. Some 71.1 % of value added goods were produced in industry, contributing 47.5 % to the GDP. Agriculture contributed 9.2 % to the GDP, construction 10.0 %, transport 5.8 %, communications 2.3 %, social and other services 10.6 % and the share of taxes on production and imports amounted to 7.7 %. Compared to the previous year, in 2005, the share of value-added goods in industrial sector rose by 56.8 %, in transport by 11.5 %, in agriculture by 7.5 %, construction by 2.0 %, trade and services by 14.2 %, and post and communication by 36.0 %.

Industrial output increased by 33.5 % over the previous year. The volume of production in fuel industry rose by 39.1 % including oil production by 42,9 %, oil processing by 14.2 %, in power industry by 5.3 %, in metallurgy by 52.6 %, in light industry by 61.0 %, in food stuff production by 4.2 %, in construction material by 18.8 %. The private sector produced 69.2 %

of industrial products showing 51.5 % increase compared to 2004. The state sector registered an increase of 5.4 %.

In 2005, output in agriculture increased by 7.5 %. This included increase in plant production of 10.5 % and animal production of 3.6 %. The non-state sector accounted for 99.7 % of agricultural sector output. Grain production amounted to 2126.7 thousand tons, potatoes to 1083 thousand tons, vegetables to 1127.3 thousand tons, fruits and berries to 625.7 thousand tons, market garden crops to 363.8 thousand tons and cotton to 196.4 thousand tons. In addition, 7134 tons of tobacco, 737 tons of green tea leaves, 262.8 thousand tons of meat, 1251.9 tons of milk, 874.6 million units of eggs, 13.1 thousand tons of wool and 78.0 tons of cocoons were produced.

During the year, 128 million tons of cargo and 1 billion passengers were transported. In comparison with 2004, cargo transportation rose by 9.2 % and passenger transportation by 4.8 %. Transportation of freight by railway increased for 26.8 %, by road for 6.6 %, by sea 3.6 %. Passenger transportation by road increased by 4.5 %, by railway 5.1 %, by air 11.5 %, and underground by 7.3 %. In addition, transportation of oil products and gas by pipelines was increased by 2.1 %. The non-state actors accounted for transportation of 57.1 % of freights and 84.5 % of passengers.

Communication enterprises provided services to common people, government departments and private organizations worth Manat 437.2 million[3]. The volume of communication services rendered rose by 36.0 % over 2004. The non-state sector accounted for 75.8 %. Communication services worth Manat 304.2 million or 69.6 % were provided by mobile communications. The number of telephone subscriber reached 2.2 million. Its expansion during the year cost Manat 786.0 thousand.

In 2005, 3.906 million people or 70.8 % of the population, aged 15 and over were economically active. The share of the employed among the economically active population was 98.6 % or 3,850,200 persons. 1.4% of the economically active population or 56,300 persons remained unemployed. The economically active population including employed persons, rose by 1.1 % in 2005 as compared to 2004. The number of the unemployed persons in 2005 remained unchanged. In 2005, sector-wise employment was as follows: agriculture, 1,513,800 persons or 39.3 % of the employed work force; industry, 270.600 persons or 7.0 %; construction, 194,400 persons or 5.1 %, and services 1,871,400 persons or 48.6 %. The non-state sector employed 68 % and the the state sector employed the remaining 32 %.

In 2005, consumer prices and service tariffs compared to the previous year rose by 9.6 %. Prices of foodstuffs increased by 10.9 %, non-food products by 5.4 % and service tariffs increased by 9.7 %. Nearly 36.5 % of the changes in consumer prices were caused by monetary forces and 63.5 % by non-monetary forces.

External Balance

In 2005, trade balance was positive and, compared to the previous year, increased by 36.6 % amounting to 1.1 % of the GDP. The country’s imports compared to the previous year rose by 20.0 %, amounting to US$ 4211.2 million or 33.5 % of GDP. Exports amounted to US$ 4347.2 million or 36.6 % of the GDP. During the year, due to increase in demand for

[3] 1 US $ = 0.946 Manat

non-oil products the share of this sector in total exports increased from 18.1 % in 2004 to 23.9 % in 2005. Azerbaijan's trade with ECO countries amounted to US$ 1660.5 million or 19.4 % of its total trade. This comprised exports worth US$ 829.2 (19.1 % of total exports) and imports worth US$ 831.3 million (19.7 % of total imports).

Among the ECO countries, Azerbaijan's economic relations focused mainly on Turkey, Iran, Turkmenistan and Kazakhstan. Trade turnover with these countries amounts to more than 85 % of its trade. Exports to these countries are rapidly increasing. The increase in exports reached 1.5 times when compared to 2004, and 5.5 times in comparison with 2000. Export items included oil and oil products, aluminium oxide, ethylene polymers, cotton fibre, ferrous metal products and aluminium. Imports from ECO countries rose by 18.1 % in 2005 and some 3.2 times in comparison with 2000. Azerbaijan's imports from ECO countries included foodstuff, construction materials, natural gas, electric power, machineries and electro-technical equipments.

International Reserves. The volume of currency reserves in 2005 was US$ 961.7 million which was higher by 9.7 % compared to previous year (US$ 876.9 million). During the year US$ 50.54 million were spent on repayment of main debts and arrears of interest on IMF credits. The National Bank influenced Manat exchange rate by regulating supply and demand in currency market.

Direct investment. In 2005, foreign and domestic investment amounted to US$ 6669.6 million, and increased by 12.6 % in comparison with the previous year. Of these, 66.6 % investment came from foreign sources. US$ 4161.5 million or 93.6 % of foreign investment came in the form of direct investment and US$ 281.8 million in financial credits. In comparison with previous year, direct investment decreased by 0.7 %, and the volume of foreign credit increased 3.8 times. In 2005, joint enterprises with foreign investment reached US$ 87.1 million in non-oil sector. Of this 67.5 % went to industry, 11.1 % to construction, 3.7 % to transport and 14.6 % to trade and services.

Exchange rate. In 2005, the rise in oil price, increase in foreign investment and wide use of oil profits, strengthened official exchange rate of Manat to US$ by 6.3 %. The nominal effective rate of Manat relative to the currencies of the main trading partners rose by 14.5 % in total trade, comprising 11.9 % in import and 16.7 % in export. The real effective currency of Manat by total trade turnover rose by 15.3 % with 11.4 % by import and 18.6 % by export. In non-oil sector, the real effective currency by total trade turnover increased by 12.2 % with 13.7 % in import, and 5.9 % in export.

Fiscal Policy

Public Sector Revenues. In 2005, state revenues compared to the previous year, increased by 38.8 % or US$ 665.3 million reaching US$ 2.2 billion. During the same period US$ 2.3 billion were spent from the state budget which is 42.6 % more than in 2004. The deficit of US$ 90.4 million in the budget amounted to 0.7 % of the GDP. Value added tax brought US$ 634.2 million (29.2 %), to state revenues, income tax US$ 375.7 million (17.3 %), income tax from population US$ 335.6 million (15.4 %), excise tax US$ 149.1 million (6.9 %) and taxes connected with foreign economic activity US$ 216.9 million US$ (10.0 %).

Public Sector Expenditures. US$ 322.4 million (14.2 %) of budget expenditures were spent on social security, US$ 393.8 million (17.4 %) on education and US$ 470.0 million (20.8 %) on economic investment.

Financial Policy

Money Supply. With accelerated economic growth in 2005, money supply increased according to money demand. This happened mostly as a result of strengthening of money multiplication process rather than due to intervention by National Bank. Money base of Manat increased by 7.5 %, amounting to Manat 3439 billion. Money supply M2 increased by 15.8 % and reached Manat 3959 billion. The rapid development of banking infrastructure especially application of progressive payment systems, creation of interbank electronic accountings, widening of plastic cards turnover gave extra stimulus for the money formation ability of the banking system.

Public and Private Credit Claims. In 2005, credit contributions increased by 45.6 % to 7205 billion Manat. The volume of new credits rose by 33.4 % and reached 11352 billion Manat. Credit contributions to industry increased by 26.8 %, construction and property by 77.3 %, agriculture by 73.2 % and individuals by 44.2 %. Short-term credit contributions rose by 30.3 % and long-term credit contributions by 82.8 %. The share of long-term credits in credit contributions rose from 29.2 % in 2004 to 36.6 % in 2005. The share of private banks in credits given by banks was up to 50 %. Credits given to the state sector increased by 42.3 % compared to corresponding period in the previous year. Credits given to private sector rose by 46.5 % and the share of private sector rose to 80.1 %. Increase in the strength of Manat compared to freely convertible currencies also impacted on the currency structure of credit contributions. Credit contributions by Manat increased by 51.9 % and credit contributions from foreign currency by 42.1 %.

Stock Market. Since the second quarter of 2005, operations in the market of State Short-term Loans (SSL) have been restored. In 2005, the Ministry of Finance held 21 auctions to sell SSL. Total volume of auctions made was 485 billion Manat, the volume of the SSL sold was 265.5 billion Manat. The average estimated yield for the first auction, 10.53 % was raised to 12.76 % during first auction. In 2005, the National Bank used short-term notes for neutralization of surplus liquidity. By the end of the year, the volume of notes in turnover amounted to 165.5 billion Manat. During the year, the volume of notes increased by 58.1 %. The average estimated yield from notes increased from 4.36 % in January to 11.7 % in December of the same year.

Economic Projections for 2006-2007

Azerbaijan's economic policy in 2006-2007 will remain focused on maintaining macroeconomic stability, economic growth and poverty reduction. As a result, high economic growth rate observed in recent years will be kept up in 2006-2007. The GDP is expected to grow for 30.5 % in 2006 and amount to 14.4 billion Manat. In 2007, it will increase by 27.3 % and reach 18.2 billion Manat. The non-state sector will contribute 79.5 % to the GDP in 2006, and 83 % in 2007.

Implementation of oil contracts will generate high growth rate in industry. It is expected to grow by 46.7 % in 2006, creating value added to the tune of 7.1 billion Manat. For 2007, the growth rate in industry is expected to be 49.7 % with a value added of 9.8 billion Manat.

In 2006, 28550 thousand ton of oil and in 2007, 42150 thousand tons will be produced. In addition, diversification of the economy will be pursued with development of non-oil sector, promotion of employment opportunities and high increase in agriculture productivity. Real growth rate in agriculture in 2006 is expected to reach 11.9 %, crediting value added of 1.3 billion Manat.

The Baku-Tbilisi-Ceyhan (BTC) oil pipeline, development of transport corridors and further improvement of infrastructure will have a positive impact on transport sector activity. Cargo transportation is expected to increase by 18.2 % to 144.9 million tons in 2006 and by a further 18.2% to 171.3 million tons in 2007. In the field of communication, the main activity in 2006 investment is expected to reach 0.3 billion Manat, an increase of 24.9 % and rise further to 0.4 billion Manat in 2007. During 2006, direct investment in industry worth 2.2 billion Manat is expected, and 2.6 billion Manat in 2007. In addition, foreign investment worth 3.6 billion Manat is expected in 2006 and 2.8 billion Manat in 2007. In 2006, the average monthly wage of employees is expected to increase by 32.3 % and reach 156 Manat and in 2007, increase by a further 25 % and reach 195 Manat.

Integration of Azerbaijan economy to the world economy will be further strengthened in 2006-2007. The volume of foreign trade in 2006 would reach US$ 11811.6 million and 14686 million in 2007. Thus the Republic is well on its way to further strengthen its macroeconomic and public-political stability and press ahead with comprehensive reforms to raise the living standard of the people.

Implementation of various prospects, projected increase in GDP and realization of other macro-economic indictors will give a strong push forward to the socio-economic development of Azerbaijan in 2006-2007.

The Islamic Republic of Iran

The economy of the I.R.Iran successfully accomplished the Third Development Plan (2000-2004). The country’s economic situation stabilized and benefited from sustainable growth. The most significant achievements of the plan included the foreign exchange rate unification, stabilization of exchange market compatible with the financial market and enforcement of restrictions on the informal market. In addition, foreign trade related procedures, were reduced and exchange reserve account, established.

Real Economy

The Iranian economy kept its growth trend with a mild increase in pace in the last year of the 3rd Plan. Increase in oil prices along with policies adopted by the government helped the economy maintain its growth trend. The relative stability in the financial market and external sector resulting from world oil market developments contributed to attaining economic growth. The estimates of GDP growth in 2004/05 reached 4.8 % at constant 1997/98 prices.

The industries and mining sector maintained its momentum and remained the fastest growing sector, with an 8.1 % growth in 2004/05 (compared to 7.4 % in the previous year). High growth of this sector in comparison to the growth of oil sector and that of the whole economy is indicative of positive developments in this sector. Production of petrochemical items grew by 7.9 % and reached 15.1 million tons. Three petrochemical complexes, at Arak, Isfahan and Khark, with 2.5 million tons production capacity, constituting 13.4 % of total production capacity, were privatized during the year under review.

The growth rate of the agriculture sector at constant 1997/98 prices remained at 2.2 %, below its performance over the last two years. Lower rainfall and unfavourable climate conditions were the main factors. According to the preliminary data, production of total farming and horticultural items amounted to 78.1 million tons in the 2004/05 farming year, registering a 2.2 percentage increase, as compared to the previous year.

According to the preliminary data, the value-added of construction sector, at constant 1997/98 prices, declined by 5.9 % as compared to the previous year.

Table 5 Growth rates (percent) at 1997-98 prices

	2000	2001	2002	2003	2004
GDP	5	3.3	7.5	4.8	5.5
Non-oil GDP	4.5	5.5	8	5.9	5.1

Source: Central Bank of Iran

Table 6 Share of economic sectors in GDP

Sector	2003	2004
Agriculture	11.6	11
Oil	23	25.3
Industries and Mines	18.2	17.6
Services	49	48.9

Source: Central Bank of Iran

Table 7 Growth rate of sectors (at constant price)

Sector	2003	2004
Agriculture	7.1	2.2
Oil	12.9	2.6
Industries and Mines	7.4	8.1
Services	5.1	4.8

Source: Central Bank of Iran

The population grew by a 1.5 percentage rate and reached 67.7 million, experiencing a 0.1 percentage fall as compared with the growth of 2003/04. Of the total population, 66.4 % dwelt in urban and 33.6 % in rural areas.

The rural-urban immigration is considered to be the main cause of higher urban population growth. The labour market faced a growth of 2.6 % on the supply side, reaching 21.6 million. This was the result of baby boom in the 1980s. Of this number, 14 million dwelt in urban and 7.6 million in rural areas.

External Balance

The world oil market developments, new foreign trade regulations, and increases in imports affected the balance of payments. The foreign exchange revenues from oil exports rose by a 34.6 percentage growth rate, reaching US$ 36,827 million. Deregulation of foreign trade, eliminating surrender requirements, giving exporters more free hand in managing their resources, reducing LC prepayments, providing financial facilities for foreign trade sector, extending export rewards and creating stability in foreign exchange market eased foreign trade. The value of non-oil exports grew by 14.2 % and reached US$ 7.5 billion. As a result, the trade balance, including oil exports, enjoyed US$ 7.76 billion surplus.

Net capital account enjoyed a surplus of US$ 5.58 billion, of which US$ 4.4 billion was related to short-term accounts. In 2004/5, a total of US$ 500 million foreign investment was absorbed. The foreign assets of the Central Bank of Iran (CBI) and the reserves in Exchange Reserves Account totally rose by US$ 8,282 million.

Fiscal Policy

The Budget Law for 2004/05, as the last year of the 3rd Plan, was designed in a way to improve socioeconomic and cultural environment and foster private sector contribution in development process. Downsizing the government, raising investment through absorbing domestic and foreign resources, focusing on income distribution and social welfare, establishing balance between fiscal and monetary policies, implementing job creation policies, and enhancing budget transparency were among policies pursued in the Budget Law.

The Government budget sourcing was approved at Rial 364,591.5 billion[4] including Rial 118,665.8 billion revenues, Rls. 150,833.7 billion disposal of non-financial assets, and Rial 95,092 billion disposal of financial assets. Budget resources including expenses (Rial 222,339.8 billion), acquisition of non-financial assets (Rial 99,089.8 billion) and acquisition of financial assets (Rial 43,161.9 billion) were also approved. The Government's general revenues with 31.4 % growth amounted to Rial 103,587 billion, showing 13 % under-realization as compared to the approved figure. Composition of the government revenues was not in favour of tax revenues, so that the share of tax revenues in the total revenues declined from 82.6 % to 81.5 %. The Government's other revenues rose by 39.5 %, showing only 64.6 % implementation rate. Under-realization of other revenues by Rial 10,500 billion was the main reason behind under realization of government general revenues.

The Government's expenses in 2004/05 increased by 30.1 % to reach Rial 31,923.1 billion, showing 4.3 % excess realization compared to the approved figure. In the review year, the amount of subsidy paid on essential goods, chemical fertilizers and pesticides, medicine and powdered milk reached Rial 26,914.8 billion, up by 43 % as compared with the pervious year. Moreover, Rial 13,429.9 billion was also paid as exchange rate differential of subsidized goods. The subsidy paid was equal to 17.4 % of total expenses, showing a rise of 25.3 % compared with the previous year.

Monetary Policy

In 2004/05, attempts were made to implement monetary policy aimed at controlling monetary aggregates. This was basically in line with the policies set in the 3rd development plan for providing liquidity required by productive sectors in order to encourage investment, observing certain obligations such as prevention of monetary expansion incompatible with inflation and liquidity targets.

Factors affecting liquidity growth and its constituents indicate that claims on non-public sector have had a marked effect of 28.1 percentage points on liquidity growth. Net foreign

[4] 1 US$ = Rial 9,150

assets with a share of 27.4 percentage points ranked second. Increase in the share of net foreign assets is mainly owing to the increase in foreign assets of banks and credit institutions, which is in turn due to revision made in their foreign exchange portfolio classification. Among the constituents of net domestic assets, net claims on government, due to increase in government deposits with the banking system had a decreasing effect of 1.2 percentage points in liquidity growth.

In 2004/05, money multiplier grew by 10.9 % to reach 4.53. This was largely due to reduction in the excess reserve ratio. It should be mentioned that reserve requirement ratio of all kinds of deposits with banks and credit institutions (except for specialized banks) unified at 17 %, as compared to the previous rates ranging from 10 to 25 %. On this basis, the average reserve requirement ratio declined by 0.9 percentage point, reaching 14.8 % at the end of 2004/05.

Review of the constituents of monetary base shows that the main reason for rise in monetary base in 2004/05 was increase in the net foreign assets of CBI and the government's withdrawal from the Exchange Reserve Account and converting it to Rial. On the other hand, Central Bank of Iran's (CBI) net claims on the public sector (as a result of increases in public sectors deposits with the CBI), CBI's claims on banks, and other items (net) had an overall decreasing effect of 18.8 percentage points in the growth of monetary base. All these factors raised monetary base by 17.5 %.

Financial Markets

The Tehran Stock Exchange (TSE) indices had an increasing trend as a result of positive developments of the previous year. However, in the last months of the review year TSE indices slackened considerably due to existence of bubbles in the market, and adoption of policies such as subscription of a large number of investment companies, accumulation of public corporations share offerings in the last months of the year and adverse effects of continued international political pressures. In the year under review, 11 provincial stock exchanges were inaugurated, bringing the number to 14 at the end of the year. Moreover, agricultural commodity exchange was also inaugurated in the year under review. TSE share trading in fiscal year 2004/05 grew by 81.1 and 55.8 % in terms of number and value of trading, respectively. TSE price index (TSPIX) at the end of the review year with 6.4 % growth, reached 12,113 units. Financial and industrial indices grew by 47.4 % and declined by 8.4 %, respectively. The growing trend of financial index was mainly due to increase in the share price of private banks and large investment companies.

Reduction in industrial index was the result of delay in the price liberalization of cement, import of automobiles and effects of changes in their value on the index. In 2004/05, a total of Rial 16.7 trillion participation papers for implementation of development projects of the Ministries of Energy and Road and Transportation and others were issued. Of these, Rls.15.6 trillion were sold. According to 2004/05 Budget Law, a total of Rial 3.5 trillion was authorized to be financed through sale of participation papers to accelerate implementation and completion of certain projects.

In the capital market, however, agricultural products stock and regional and provincial stock centre expanded. Most important measures adopted in the last year of the Third Development Plan were included reducing again the interest rates of banking facilities, increasing financing capacities of banks to grant more loan facilities and publishing new bonds.

Table 8 Interest rates of government banking system in different sectors of the economy

Sector	2003	2004
Agriculture	13.5	13.5
Industry and Mine	16	15
Housing	18	18
Commerce and Construction	21	21
Export	15	14

Source: Central Bank of Iran

Republic of Kazakhstan

A steady trend of economic growth is in evidence in Kazakhstan. In 2005, the growth rates of GDP (real volume) equalled 109.5% in comparison with the same period of 2004. The industrial output was 5124.1 billion Tenge[5]. It increased by 4.6% as compared to 2004. The output of agriculture was 763.2 billion Tenge, and was 7.3% more than in 2004. Capital assets investments worth 2206.5 billion Tenge were utilized in 2005. That was 22.2% more than in 2004. In 2005, the average inflation rate was 7.6%. The level of unemployment in 2005 was 8.1%, which was 0.3% less than in 2004.

Real economy

In 2005, gross domestic product of Kazakhstan amounted to 7457.1 billion Tenge. The real GDP growth rate was 9.5% while agriculture production increased by 7.2 %, industry by 4.6%, construction by 37.8%. Positive growth rate was registered in such sectors as transport (107%), communication (127.2%) and trade (109.3%). The deflator in economics in 2005 constituted 116% in comparison with the last year, including goods production – 120.2%, services – 112.3%. The share of goods production in GDP in 2005 equalled 44.1 %, services - 52.2 %. In GDP structure the main part belongs to industry – 30.2 %, agriculture – 6.5 %, building – 7.4 %, transport and communications – 11.4 %.

In 2005, about 73 % of total labour force was engaged in different spheres of economics. The number of total employed increased by 1.1% with 79200 people placed in jobs. Of the total Labour force engaged more than half comprised of men (3.8 million) and 48 % of women (3.5 million).

The number of hired workers, receiving reward, was 4.6 million in 2005 (i.e. 64 % of the total employed). In comparison with 2004, the increase equals 170,00 people (3.8 %). In 2005 the number of independently engaged people, whose reward rate depended on the received income, was 2.6 million (36 % from the total amount). In comparison with 2004, their number decreased 91,500 (i.e. 3.4 %).

With average annual growth rate around 9%, in the last 4-5 years, total unemployment in Kazakhstan is decreasing. In 2005, it decreased by 18,100 (2.7 %) in comparison with the

[5] 1 US$ = Tenge 132

previous year and equalled 640,700. The number of unemployed women was 370,100 people (the unemployment rate was 9.6 %), the number of unemployed men equalled 270,600 people (the unemployment rate was 6.7 %). The youth unemployment level is 13.4 %. Unemployment rate in general lowered by 0.3% in 2005 coming to 8.1%.

Level of inflation in Kazakhstan in 2005 was 7.5 % (the ratio of December 2005 in comparison with December 2004), the highest rate for the last three years. Among the reasons for higher inflation in 2005, were the growth of price for foodstuffs by 8.1% (7.4% in 2004) and services by 8% (in 2004 – 5.9%)

External balance

The favourable situation on world hydrocarbon markets, as well as implementation of balanced macroeconomic and monetary policy provided positive results in the Republic's external sector.

According to the National Bank of the Republic of Kazakhstan data, in 2005 the foreign trade balance including informal trade amounted to US$ 56 billion (in 2004 – US$ 41.4 billion). The export of goods was US$ 28.2 billion, import – US$ 17.9 billion. The positive trade balance increased to US$10.3 billion (in 2004 – US$ 8.3 billion).

Gross international reserves as of 1st of January 2006 amounted to US$ 7.069 billion.

The gross inflow of the foreign direct investment was US$ 6.4 billion in comparison with US$ 8.3 billion of 2004. Net inflow of the foreign direct investment in 2005 was US$ 1.7 billion. It increased 2.4 times in comparison with 2004.

Capital operations account in 2005 was positive in the sum of US$ 13.9 million (in 2004 the deficiency equalled US$ 27.8 million), including migrants transfers – US$ 9.43 million (the deficiency in 2004 was US$ 24.8 million).

According to the National Bank of the Republic of Kazakhstan data, the Kazakhstan's Tenge official exchange rate of 1 US dollar (the average rate) in December 2004 equalled Tenge 133,88, in 2005 – Tenge 132.88.

Fiscal Policy

Kazakhstan's state budget revenue amount as of 1st January 2006 was Tenge 2098.5 billion (1.01.2005 – Tenge 132.88 billion), expenses – Tenge 1946.1 billion (1.01.2005 – Tenge 1323.8 billion), operative balance equalled Tenge 152.4 billion. The net budget credit was Tenge 7.2 billion, financial assets operations balance is Tenge 98.5 billion. The budget surplus reached Tenge 46.7 billion. In comparison with 2005, the revenues amount increased by 60.8 %, the expenses increased by 47 %.

The revenues against the specified budget for the current year increased by 8.2 % and state expenses were realized to upto 99 % of the budgeted amount.

The main part of tax revenue was generated from corporate income tax (41.8 % or US$ 834.3 billion) and value added tax (17.2 % or US$ 343.9 billion). The said taxes recorded the largest receipts growth with increase of 2.2 times and 41.6 % respectively.

Social services share of expenses amounted to 43.4 %, total expenditure on services and defence constitutes 17.2 % of the total budget expenses. The total budget deficit financing as of 1st of January 2006 was Tenge 46.7 billion, the internal receipt amounted to Tenge 122.8 billion. Tenge 2.3 billion of financial assets were used for budget financing.

The governmental debt was US$ 4.0034 billion including the internal debt – 2.2268, external – US$ 1.7766 billion and state guaranteed external debt –US$ 592.5 million.

Financial policy

According to National Bank of the Republic of Kazakhstan data, the deposits of deposit organizations on the 1st of January, 2006 amounted to Tenge 1653.5 billion. The population deposits in the total deposit volume amounted to Tenge 587.3 billion or 35.5 %. The largest part in total population deposits volume was in national currency (Tenge 312.7 billion or 53.2%).

Money supply volume as of 1st of January 2006 amounted to Tenge 2065.3 billion (1st January 2005 - Tenge 1650 billion) including cash – Tenge 411.8 billon (1st January 2005 – Tenge 379.3 billion). M3 indicator in comparison with 2004 increased by 25.2%.

The second-tier banks investments in crediting as of 1st of January 2006 were US$ 2592.1 billion, 51.6 % of that amount was in national currency (Tenge 1336.3 billion). The credits in comparison with 2005 increased by 74.7 %. The long-term loans in the total amount of credits amounted to Tenge 1722.9 billion (66.5 %) and in comparison with 2005 increased by 76.6%. The largest credit amounts are concentrated in trade – 24.6%, industry – 16.9%, building – 12.1% and agriculture – 6.3%. The credits to the small business as of 1st January 2006 amounted Tenge 470.2 billion or 18.1% of the total amount of credits. The main part of them (51.8% or US$ 247.3 billion), is concentrated in Almaty city, of which long-term credits amounted to Tenge 163.8 billion.

In order to ensure successful equity market functioning, necessary regulatory framework including programme of securities market development for 2005-2007, is being created in Kazakhstan. The main goal of this programme is to provide for an effective market operation, enlarge securities’ capabilities, protect investors’ rights and form a level-playing field. The institutional infrastructure, corresponding to the modern equity market demands, was developed in the country. As of 1st of January 2006, the total amount of all state securities in circulation amounted to Tenge 516.5 billion.

A total of 34 commercial banks, including “Kazakhstan Development Bank” are functioning in the country. Central offices of most of the banks are situated in Almaty (28 banks), with bank services all over the country provided by the wide branch network. The total amount of branches is 418. The population is served by 1312 cash-settlement centres, 206 of them were opened in 2005. Since July 11, 2005, the official refinancing rate of the National Bank increased by 0.5 % and reached the indicator of 8 % annually.

Economic Projections for 2006-2007

The economy continued to expand at a high and steady rate in 2006. The main drivers of 10.6% GDP growth were soaring minerals' prices (i.e., oil, gas, and mining), as well as robust private and public consumption and investment.

Wage increases and substantial expansion of bank credit fuelled private consumption spending. Investment in the resources sector recovered from a recent slowdown and fixed capital investment rose by 18.0% in 2006. Most of this investment consisted of foreign direct investment in minerals, especially in the Kashagan oil and gas field. Fiscal expenditures were augmented to fund increases in minimum wages, pensions, and allowances as well as infrastructure development and social programs. High commodity prices for oil, gas, and metals have significantly raised the value of exports and contributed to raising aggregate demand.

On the supply side, industrial value added rose by 7.0% in 2006, mainly because of mining, industrial processing, and production and distribution of electricity, gas, and water. Construction expanded by 38%, largely in the residential sector. In manufacturing, real appreciation of the domestic currency, the Tenge, affected some industries, and capacity constraints in others.

Services rose by 10.7%, underpinned by a surge in finance (35%), telecommunications (26%), and transport (6.7%). Agricultural production was also buoyant at 8.0%. The sector seems to have benefited from higher productivity arising from investments made in earlier years. Grain and animal husbandry were the two largest contributors to agricultural production growth, picking up by 9.4% and 4.3%, respectively.

Expansionary fiscal policy was another contributor to the surge in demand last year. The budget deficit was Tenge 126.2 billion, or 1.3% of GDP. Rising commodity prices boosted tax revenues from the resources sector. Fiscal revenues amounted to Tenge 1.53 billion in 2006, or 16.1% of GDP, while public expenditures came in at Tenge 1.66 billion, or 17.4% of GDP. The major expenditure items were public sector wages and pensions, and public investment programs. High oil prices also helped increase the assets of the National Fund of the Republic of Kazakhstan (NFRK), which rose by $6 billion over the year to $14.7 billion.

Inflation intensified in 2006, and the consumer price index was up by 8.6% for the year. Several major sources stoked inflationary pressure: a substantial influx of oil revenues; greater public spending on wages and pensions and social programs; and excessive domestic demand largely due to a hefty expansion of credits from commercial banks (up 82%). Structural rigidities that limit competition in certain segments of the market for goods and services as well as capacity limits also contributed to rising inflation.

In its quest to control inflationary pressures, the National Bank of Kazakhstan (NBK) took steps to reduce excess liquidity: it raised the refinancing rate in 2 steps from 8% to 9%; strengthened the minimum bank reserve requirements; issued short-term notes to partly sterilize petrodollar inflows; and allowed nominal appreciation of the Tenge. These measures have not been effective as reserve money increased by 131% and broad money surged by 80%

in 2006. Increasing the refinancing rate may have limited impact because most domestic banks borrow from abroad.

Soaring world commodity prices helped ramp up the value of exports by 35.2% to $38.3 billion in 2006. Crude oil and oil-related products made up just over two thirds of total exports, and metals and metal related products about one sixth. Imports leaped by 31.7%, largely driven by purchases of machinery and equipment, nonprecious metals, and petrochemical products. The trade surplus increased by just over 40%. But the deficit on the services, income, and transfers account widened sharply. The current account surplus in 2006 was about $400 million.

The official reserves at NBK more than doubled to total $19.1 billion at end-2006 (equivalent to 5.4 months of imports of goods and services) while foreign assets of NFRK were $14.1 billion. The stock of foreign debt stood at $59.6 billion in September 2006. Private sector external debt (excluding oil and gas intracompany debt) increased sharply by $11.1 billion to $35.5 billion. The upsurge in private debt in recent years—mainly local bank borrowing for on lending—has largely been in response to the differential between available foreign borrowing rates and domestic lending rates.

The Tenge continued to strengthen against the US dollar in 2006, reflecting high export earnings, augmented foreign direct investment, and a surge in private external borrowing. It appreciated by 5.5% over the year, breaking the psychological threshold of Tenge 120/US$1 in June 2006. It remained below this level in July before NBK intervened and induced a depreciation to around Tenge 125–130/US$1.

Increased credit risk has accompanied the rapid credit growth. Based on data from the Agency on Regulation and Supervision of Financial Market and Financial Organizations (AFN), the proportion of bank loans of second-tier banks classified as doubtful loans and bad debts remained extremely high in 2006 at 46%, only down slightly from 48% in 2005. Recognizing the potential problem in the banking sector, NBK and AFN implemented several measures to reduce excessive liquidity and to mitigate risks associated with the deteriorating quality of banks' loan portfolios. The banks' liquidity ratio was increased and asset classification requirement was tightened.

The speed of progress in structural reforms has varied. Robust economic growth seems to have induced some complacency, but new efforts to put Kazakhstan on a more competitive footing and create a favourable environment for business were launched in 2006, including the Kazyna Fund for sustainable development, and Samruk, a new holding company to oversee effective management of state assets. Other measures to improve the business environment included revisions to the law on monopolies and greater powers for the agency regulating them. Substantial progress was made toward joining the World Trade Organization.

GDP is expected to grow at 8.6% in 2007. The major contributors to growth will remain unchanged. The non-oil economy is expected to expand at an average of around 10% a year, driven mainly by key sectors such as construction and services. The Government will continue to run an expansionary fiscal policy In view of large oil-related cash inflows in the coming years, risks are associated mainly with an overheating economy. The focus of monetary policy should be to minimize inflationary pressures. Effective monetary and fiscal policy coordination is also needed to damp excess demand. While the rapid expansion of domestic credit demonstrates confidence in the domestic financial system, it also creates a potential risk. The Government recognizes this risk, though, and is developing appropriate measures.

Kyrgyz Republic

The country's economic performance in 2005 was affected by the political upheaval and output growth fell short of expectations, several key macroeconomic variables deteriorated from their recent trends. This was mainly due to disruption in economic activity and political uncertainty, and a fall in gold production. The new Government did, though, manage to maintain macroeconomic stability, and declared its commitment to addressing the three main challenges of low living standards, unemployment, and widespread corruption. Although a transitory drop in gold output had been anticipated before new mines come on stream, delays in planting cash crops and bad weather led to a shortfall in agricultural output. Moreover, manufacturing was depressed by the uncertain business climate. As a consequence, real GDP contracted slightly, instead of growing by 3 % as programmed.

Real Economy

The unrest and subsequent disruption to economic activity, together with a 24% decline in gold production, caused GDP to fall by 0.2%, well below recent trends. The economy continued to depend on the fortunes of the Kumtor gold mine, the mine's production accounted for about 6.2% of GDP and 38.5% of industrial output in 2005. Agriculture, accounting for about half of the country's GDP, contracted by 4.2%. The decline in industry and the poor performance of agriculture were partly offset by the activities of small-scale enterprises and services. Textile and clothing production continued to grow, stimulated by earlier measures to legalize small-scale enterprise activities, including the introduction of a compound tax (called the "patent system") on small businesses, and by efforts to bring services out of the shadow economy. Growth in construction increased to 17.6% from 5.4% in 2004. Although the yearly data on the demand-side contributors to GDP are preliminary estimates, it appears that private consumption constituted the main source of demand in 2005. As a result of a continued tight monetary policy, the annual average inflation rate as measured by the consumer price index during the year was 4.4%, slightly below recent trends.

In 2005, employment decreased by 2.3 % in the agricultural sector, but it increased by 4.3 % in the industrial sector and 7.8 % in the services sector. The driving force behind the rise in employment in services sector was increased creation of new jobs by small and medium businesses including construction sector. As a result, total employment in 2005 increased by 1.2 % compared to 2004.

Labour force participation rate was 48.3 % in 2005. Corresponding rates for male and female labour force were 72.2 % and 24.8 %, respectively. Employment rate was 43.4 % in 2005. Unemployment rate decreased compared to the previous year by 1.4 % and realized as 9.1 % in 2005. Non-agricultural unemployment rate in 2005 was 13.6 % decreasing by 1.1 percentage point from 2004 rate. One of the reasons of declining unemployment was growth of migration. Estimates of the number of people working abroad vary widely, in the ranges of 0.5 million – 1 million.

The inflation in 2005 remained low, due to implemented tight fiscal and monetary policies. The average consumer prices index was realized at 4.3 %, which was the inflation target of 2005. Inflationary pressures stemmed from supply disruptions in the aftermath of the political upheavals, an increase in domestic oil prices, and a delayed harvest.

External Balance

In 2005, exports volume decreased by 6.5 % and amounted to US$ 672.0 million. Export prices increased by 5.7 %; hence there was 9.9 % increase in exports in real terms. Considerable increases in exports of motor vehicles and their parts and accessories; refined petroleum products and food industries were recorded in this period.

2005 saw imports of as US$ 1.1 billion marking a 17 % annual increase. There was a 7.1% increase in the price of imports, and 11.6 % increase in real terms. While imports of investment goods rose by 16.9 %, imports of consumption goods increased by 15.4 %. On the other hand, imports of intermediate goods and raw materials, which account for 70.1 % of total imports increased by 20.9 % and this was mainly due to increasing oil prices. Due to increasing energy prices, energy imports increased by 47.4 % and amounted to US$ 21.2 billion, which was 18.2 % of total imports.

As a result of these developments trade deficit reached US$ 45 million which accounted for 11.9 % of GDP (11.4 % in 2004).

The foreign trade turnover of Kyrgyzstan with ECO Member States in 2005 was US$ 487.2 million, that constituted 27.5% from total trade turnover and was higher than that of the previous year by 6.6 %, due to increase of trade turnover with Afghanistan by 51.9%, Azerbaijan by 2 times, Turkmenistan by 3 times, and Pakistan by 3.4 times. In 2005, the turnover has decreased only with Iran by 9.4%. Trade balance of Kyrgyzstan with ECO Member States was negative, mostly because of a negative trade balance with Kazakhstan and Uzbekistan, with export to import ratio 66.6% and 28.4% respectively.

In total trade turnover with ECO Member States, 84.6 % was with CIS countries (Azerbaijan, Kazakhstan, Uzbekistan, Tajikistan and Turkmenistan), and 15.4 % with Iran, Turkey, Afghanistan and Pakistan. Export to CIS countries amounted 82.3 % of total export volume to ECO Member States, and import from CIS countries was 86.1 % of total ECO countries' import.

In 2005, export to the ECO Member States increased by 23.8 %. Nowadays Kyrgyzstan's main exports to ECO Member States are electric power, consumer goods, equipment and mechanisms, filament lamps, ferrous and non-ferrous metals. Import from ECO Member States decreased by 2.4%. Energy carriers, coal, grain, consumer goods are the main imports from these countries.

In 2005, foreign direct investment (FDI) amounted US$ 210.3 million, in comparison with 2004 it increased by 19.8 (13.6) %.

The FDI inflow from non-CIS countries increased by 9.8% to US$ 160.9 million. The largest investment came from Germany –US$ 36.5 million or 17.3 % of total amount of the foreign direct investment, Great Britain – US$ 28.5 million or 14%, Canada – US$ 26.1 million or 12.4%, and USA –US$ 11.7 million or 5.6%.

The direct investment from the CIS states increased by 70.1% to US$ 43.4 million. During the period under review, the largest investment from these countries came from Kazakhstan – US$ 40.3 million (19.2% from total amount), and Russian Federation – US$ 8.1 million (3.9%).

Most of foreign investment was made in manufacturing industry (45.1% of total amount), financial sector (19.5%), trade (10.4%), and mining sector (11.6%).

Sound monetary policy ensured that the Som remained relatively stable with the nominal exchange rate appreciating slightly in 2005.The exchange rate of US dollar at the beginning of 2005 was 40.81 Som per one dollar and at the end of the year it rose up to 41.30 Som. Annual average rate of dollar in 2005 was 41.01 Som and in comparison with 2004 it decreased by 3.9%.

Fiscal policy

In 2005, the Government of Kyrgyzstan continued implementation of the programme aimed at reforms in financial sector agreed with the International Monetary Fund (IMF) and other international donors.

The fiscal situation remained healthy, and the Government met all the agreed IMF benchmarks, even with increased government expenditure on wages, which grew by about 12% in nominal terms during the year. The authorities clearly attach great importance to maintaining IMF targets. IMF favourably reviewed the progress being made under the second phase of the programme, signed in February 2005.

Better tax administration and measures taken to widen the tax base resulted in strengthened revenue growth. The fiscal deficit of 4.2% of GDP, was slightly above the 4.0% budget target, and is still financed exclusively by external assistance. The authorities face the challenge of maintaining a balance between meeting the IMF fiscal targets and providing a minimum level of services, such as public health care, education, transport and utilities.

The external debt burden is large but receding. Total external debt at end of 2005 was slightly less than $2 billion, or 81% of GDP, representing a substantial fall from recent levels. The bulk of external debt (about 94%) is public, and hence the debt situation is an important determinant of fiscal sustainability. A Paris Club agreement in March 2005 improved the prospects for achieving external debt sustainability over the medium term.

The current account posted a deficit of US$ 197 million, equivalent to about 8.1% of GDP. The trade gap widened to US$ 435 million during the year, reflecting a significant (40%) decline in gold exports and increase in imports largely due to high oil prices. The continuing growth of remittances was partly offsetting. Estimates of annual remittances of migrants working abroad vary widely, in the ranges of US$ 200 million – US$ 600 million. Gross international reserves remained at a comfortable level of about 4 months of imports.

The new Government, despite having assumed power only in the third quarter of 2005, continued some reforms, most notably in the area of public expenditure management. These included efforts directed at fiscal decentralization, tax administration, enforcement of the customs code, and preparation of a new tax code that aims to broaden the tax base and lower various taxes to promote entrepreneurship. The authorities are also working on improvement of the budget formulation process to fulfil its role as a tool for effective public service delivery and for efficient resource allocation.

Financial policy

With growth of deposit base of commercial banks in 2005, an increase in obligatory bank reserves was also observed. At the end of the year, their volume was Som 869.2 million, exceeding the level at the beginning of the same year by 30%. Thus, the excess reserves of commercial banks increased by 75.2 % in comparison to the previous year and reached Som 504.1 million.

Applying norms of obligatory reservation, the National Bank attempted to reduce multiplication effect of the extension of the deposits with the purpose of maintaining the money supply at an indispensable level. In its turn, controlling a money supply and administering it, the National Bank influenced a level of economic activity in the country and limit at the rate of inflation. Having changed a money supply by applying obligatory norms, the National Bank also influences the cost of borrowing,.

The money base as of January 1, 2006 was Som[6] 15.4656 billion, and the money base increase was mostly because of growth of net foreign assets of the National Bank by 5.1 %. The contribution of net internal assets to change of money base in 2005 was positive (growth by 32.3 %). The share of money in circulation in money base volume at the beginning of 2006 was 86.7 %, i.e. 5.6 points below than that of 2004, and was induced by increase of commercial banks reserves.

With the slowing down of rates of increase of money in circulation (from 19.4 % in 2004 to 14.5 % in 2005), the money supply M2 as of January 1, 2006 reflected the increase of the deposits in national currency.

As of 1 January 2006, there were 19 commercial banks in Kyrgyzstan. The assets of commercial banks increased by 24.4 % and amounted to Som 22.02 billion. The cumulative capital of commercial banks increased by 30.5 % and was estimated as Som 3.51 billion. The authorized capital increased by 14.7 % and reached Som 2.7 billion. More than half of the country’s banking assets are now owned by foreign banks including a number of Kazakhstan banks Khalyk Bank», Temir Bank, Kazcommercebank, Almaty Merchant Bank as well as Demyr Bank and National Bank of Pakistan.

The increase of deposit base of commercial banks has continued. Total amount of deposits of the enterprises and population grew by 51.6 % and amounted to Som 12.09 billion, in 2005.

The credit stock increased in comparison with 2004 by 32.6% and reached Som 7.69 billion. In 2005, the volume of the credits given was Som 10603.3 million, including medium and long-term credit (more than 1-year term) amounting Som 2791.1 million or 26.3 % of total amount.

[6] 1 US$ = 42 Som

Economic Projections for 2006-2007

In 2006-2007, the government's policy will be aimed at strengthened macroeconomic stability and maintenance of stable economic growth. This will include the following measures:

- To contain inflation at the rate not higher than 4 %;
- To ensure annual growth of real GDP at the level of 5-6 %;
- To secure stability of the national currency's exchange rate;
- Promoting substantial growth in industry and agriculture at the level of 4-5 %;
- Creation of a favourable investment/business climate;
- Legalization of informal economy.

In foreign trade, in 2006-2007, the expansion of export operations is expected, based on robust economic growth in Russia and Kazakhstan, generating strong demand on Kyrgyzstan's export items (agricultural goods, agri-processing production, construction materials, services). In 2006, favourable price on gold is expected, which will allow Kyrgyzstan to hold export of gold approximately at the same level as in 2005, despite expected recession of its production. In these circumstances, a 5-6 % increase is projected in total amount of exports in 2006-2007. On the other hand, the increase in import of goods to meet growing internal demand is also expected and combined with high energy prices would provide for total increase in imports by 6.1 % in the period under review.

The exchange rate of dollar is expected to remain around at the level of 42 Soms for the period of 2006-2007. The exchange rate policy remains based on a managed floating rate of Kyrgyz Som. During 2006-2008, the external borrowing is expected to be utilized only on favourable terms.

In a context of budget policy the debt stability represents volume of the accrued external debt of country and sizes of regular costs of its service, the payments on which one will be made without damage to other articles of a public finance.

In 2006-2007, as a result of recovery of economy the resource part of the budget will reach 19.4 % of GDP, the public revenues in real terms will increase by 8 %. The realization of expected outcomes in tax receipts will depend largely on improved tax administration and on, whether the new edition of the Kyrgyzstan Tax Code will be introduced, which envisages easing the burden on labour and capital and would help modernize tax administration and encourage compliance.

The positive results of economic growth will be utilized to increase allowances for low-income strata of the population by 39 % and social allowances by 25 %. In addition, the rise of the wages of state sector employees and pensions is expected at a level higher than the forecasted inflation. Public expenditures for 2006 are envisaged at the level of 23.1 % of GDP, including public investment of Som 3.345 billion.

In 2006-2007, growth of banking capitalization and extension of financial intermediation is expected. As a whole, the growth of money base is expected at the level of 10-12%. The growth of the gross national savings, together with confidence-building measures, will promote growth of deposit base, which will be accompanied by the considerable extension of crediting of economy. The increase of money supply in national currency (M2) in comparison to 2005 would be at 14-16 %. The share of cash in M2 will be reduced, with moderate growth of cash (about 7-8 %), while the deposits volume would increase by more than 1.4 times.

Islamic Republic of Pakistan

Real Economy

The growth rate of real GDP for the fiscal year 2005-06 has been estimated at 6.6 %, which is slightly lower than the target of 7.0 %. The main contribution towards this have been growth rates of 2.5 % in agriculture sector, 9.0 % in large scale manufacturing sector and 8.8 % in services sector. Total investment and national savings are estimated at [7]Rs.1,544 billion (20.0 % of GDP) and Rs 1223.1 billion (15.9 % of GDP) respectively. The saving-investment gap to the extent of Rs 320.9 billion (around 4.2 % of GDP) is likely to be financed from external resources.

The agriculture sector as a whole could not perform well during the year mainly due to setback to major crops. The major crops have registered a decline of 3.6 % against the target of 6.6 %. High base growth, unfavourable weather conditions and lesser availability of water explain the relatively lower growth in agriculture of 2.5 %. The industrial sector, as a whole registered a growth rate of 5.9 % as against the target of 9.5 % during 2005-06. The main factor behind the shortfall is lower production in large-scale manufacturing (9.0%) against the target (13.0%). The manufacturing sector as a whole increased by (8.6 %) against the target of (11.0 %). Mining and quarrying and construction witnessed increase of 3.8 % and 9.2 % respectively, while electricity, gas and water supply declined by 8.4 %. The services sector is estimated to grow by 8.8 %. Within this sector, high growth rates registered in finance and insurance (23%), whole sale and retail trade (9.9%) and transport, storage and communications (7.2%). Share of services sector in GDP has increased to 52.3 %.

In 2005-06, according to provisional estimates, total investment is expected to rise by 29.5 %, fixed investment by 30.7 %. In terms of ratio to GDP, fixed investment stood at 20.0%, about 2.0 percentage point higher than the ratio for 2004-05. The private sector investment is estimated to increase by 31.6 % and this increase is mainly contributed by an increase of 14.4 % in manufacturing sector, (10.0% in large-scale manufacturing and 30.9% in small-scale manufacturing), construction (9.5%), wholesale and retail trade (32.2 %), electricity and gas (185.5%), transport and communication (75.0%) ownership of houses (16.9%) and services sector (28.2%). In the private investment, transport and communications has a major share of 25.6 % followed by Large Scale Manufacturing (LSM) 20.3 %, ownership of house 14.4 %, and social, community and personal services 11.4 %.

External Sector

During 2005-06, deterioration in the trade balance was witnessed due to substantial increase in imports as compared to exports. Exports grew by 14.4 % and imports by 38.8 %. The trade deficit widened by 95.1 % to US$ 12.112 billion compared to US$ 6207 million in previous year.

During the fiscal year 2005-06, exports stood at US$ 16.468 billion as compared to US$ 14.3911 billion, an increase of 14.4 % over the last year. The improvement is due to

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[7] Pak Rs.60 = US$1

substantial increase in export receipts of rice (19.3 %), cotton yarn (34.8 %), cotton cloth (14.8 %), bed-wear (38.3 %), petroleum products (66.8 %), and engineering goods (14.6 %). Total imports for the year 2005-06, stood at US$ 28581.3 million compared to US$ 20598.1 million during last year. The food group imports increased by 37.1 %, the machinery group import has shown an increase of 34.3 %, the import of petroleum product has shown an increase of 55.0 %, the petroleum crude increased by 76.6 %, the Metal group has shown an increase of 47.8 %

During the fiscal year 2005-06, Pakistan received remittances to US$ 4600.1 million. This showed an increase of 10.4 % compared to US$ 4168.8 million received previous year. The reforms in various sectors of the economy and macro economic stability encouraged overseas Pakistanis to remit money through official channels. As a result, Pakistan benefited from significant increase in home remittances through official banking channel.

With this trade deficit of US$ 8234 million during 2005-06 and a surplus of US$ 2598 million on invisibles account, the current account deficit increased to US$ 5636 million from previous year's deficit level of US$ 1753 million. The deterioration in the current account balance is mainly attributed to a significant increase in the trade deficit on account of higher imports bill of capital goods, raw material and petroleum products.

The foreign exchange reserves reached at US$ 13.1 billion by the end June 2006 against US$ 12.6 billion on 30th June 2005. These reserves are sufficient to hedge against external shocks and provide stability to the exchange rate alongwith restoring investors' confidence, improving country's credit rating and attracting foreign investment in the country.

The FDI during fiscal year 2005-06 amounted to US$ 3521.0 million compared to US$ 1524.0 million during corresponding period last year. The FDI thus increased by 131.0 %. More than one half of the investment (54 %) has been observed in the telecommunication sector, followed by financial business (9.3 %), power (9.1 %) and oil and gas (8.9 %).

It is worth noting that the government is taking numerous measures to enhance both indigenous and foreign investor's confidence. These measures include rationalization of tariffs with a view to improving the competitiveness of Pakistan's industry, constant review of tax laws and tax machinery for building confidence of the business community, improvement in the process of refunds and removal of procedural bottlenecks for complying with tax laws, a reformed banking sector catering to the needs of private sector and removal of all irritants that have the potential to impose undue cost of business. The government is providing incentives to the private sector for investment in SMEs, housing and agriculture sectors, all of which have great potential to create new job opportunities for semi-skilled and un-skilled labour.

Fiscal Policy

A sound fiscal policy is essential for preventing macro economic imbalances and realizing the full growth potential. Keeping in view the serious imbalances observed in the past, the budget for 2005-06 aimed at enhancing government revenues showing an increase of 21.7 %. Total government expenditure was targeted at Rs 1422.9 billion in 2005-06, which was 27.4 % higher than 2004-05 and included an additional expenditure of Rs 65.8 billion on earthquake related activities. Out of total this expenditure, current expenditure was Rs 1097.9 billion or 77.2 % of total expenditure compared to the actual of Rs 943.1 billion or 84.4 % of total expenditure in 2004-05. Development expenditure target increased to Rs 326.7 billion or 23.8 % of total expenditure in 2005-06, compared to the actual of Rs 227.7 billion or 22.6 % of total expenditure in 2004-05.

Against the target of Rs 1422.9 billion for the year 2005-06, the actual expenditure turned out to be Rs 1401.8 billion, lower by 1.5 % than the target, though showing an increase of 25.5% over last the year. It is encouraging that the jump in 2005-06 expenditure is mainly due to development expenditure that rose from 3.5 % of GDP in the year 2004-05 to 4.7 % in the year 2005-06. Overall fiscal deficit rose to 4.2 % of GDP against the target of 3.8 % in the year 2005-06 as compared to 3.3 % of GDP in the preceding year. This rise is due to unanticipated expenditure incurred on account of relief and rehabilitation expenditure related to the October 2005 earthquake. This overall fiscal deficit was financed to the extent of 1.9 % through external resources and 2.3 % through internal resources.

Tax collection was at Rs 712.6 billion, Rs 22.6 billion more than the target and growth of 20.7 % compared to the previous year. The observed improvement has been the result of tariff rationalization undertaken earlier by the Government. Despite significantly reduced custom duty, higher collection is attributed to recovery in economic activity and extraordinary growth of imports which enabled the government to follow an expansionary fiscal policy. The share of direct taxes to total taxes has increased from 18 % to over 31 % in 2005-06 implying that the tax structure was moving in the right direction and now was more progressive.

The country’s debt burden defined as a ratio of external debt and liabilities to GDP, declined from 53.4 % at end June 1999 to 27.7 % by end June, 2006. The ratio of external debt to foreign exchange reserves also witnessed improvement by declining from 14.7 % in end June 1999 to 2.7 % in end June, 2006.

Strong demand, catalyzed by increased investment and consumption expenditure, as well as the rise in workers’ remittances, has outstripped supply and helped stoke inflationary pressures. Inflation, after peaking at 9.3% in fiscal year 2004-2005, remained high at 7.9% in 2005-2006. The food inflation turned out to be 6.9 %.

Financial Policy

The easy and accommodative monetary policy stance that had been pursued during the last few years by the State Bank of Pakistan (SBP) underwent considerable changes during the end of fiscal year 2004-05, switching from a broadly accommodative to aggressive tightening. In order to arrest the rising trend in inflation, the SBP changed its monetary policy stance to aggressive tightening in April 2005 by raising the discount rate from 7.5 % to 9.0 %. The same tight monetary policy stance continued during the year 2005-06.

During 2005-06, the monetary expansion amounted to Rs 450.1 billion (15.18 %) as against the full year target of 12.8 % and an expansion of 19.3 % during the corresponding period last year. The net bank credit to the government, used for financing budgetary expenditure and commodity operations, amounted to Rs 90.7 billion during the year 2005-06 against the annual target of Rs 120 billion. Although the fiscal gap has worsened during 2005-06, the government borrowing for budgetary support from the banking system increased by only Rs 70.9 billion; slightly lower than Rs 71.8 billion in 2004-05. Private sector credit registered a sharp slow down during 2005-06 compared with 2004-05 suggesting a fall in aggregate demand due to tightening of monetary policy. The utilization of bank credit by various segments of the private sector during the year 2005-06 remained broad-based. The manufacturing sector was the largest recipient of the private sector credit during this period which consumed Rs 162.5 billion followed by the consumer financing which consumed Rs 84.7 billion. The stock of reserve money also expanded moderately by 10.2 % (Rs 1001.3 billion) in 2005-06 as compared with an expansion of 17.6 % (Rs 909 billion) of the last year.

State Bank of Pakistan continued to exercise tight monetary policy and frequently intervened in the inter-bank market to achieve the desired results by Open Market Operations. Cut-off yields on 6 month and 12 month treasury bills since July 2005 to June 06 rose from 7.97 % to 8.45 % and 8.69 % to 8.79 %, respectively. There were rising interest rates in the secondary market also, particularly the short term interest rates of 6 months and 12 months Karachi inter-bank offered rate since July 05 to June 06 rose from 8.9 % to 9.7 % and 9.4 % to 10.1 %, respectively. Tight monetary conditions also led the banking industry to raise the average deposit rate from 2.06 % in July 05 to 2.89 % in June 06. However, this rise was not enough as the banking spread (average lending rate minus average deposit rate) still remained 7.22 % during 2005-06.

Economic Projections for 2006-2007

The Medium Term Development Framework (MTDF) has projected GDP growth rates of 7.0 % and 7.3 % for 2005-06 and 2006-07 respectively. During 2005-06, the economy of Pakistan registered a growth rate of 6.6 % slightly below the target, due to shortfall, experienced mainly in the production of major crops and large scale manufacturing. Since there is no significant deviation from the target in the first year of the MTDF, the 2nd year projections remain valid. Thus, the next year GDP growth can safely be assumed at 7.0 %. This is going to be contributed by sectoral growth rates of 4.5 % in agriculture and 13 % large scale manufacturing.

The growth in agriculture sector is based on the growth of 4.3 % in major crops, 2.3 % in minor crops, 5.2 % in livestock, 4.0 % in fishery and 3.5 % in forestry. Keeping in view the share of livestock about 49.6 % in agriculture and its strong linkages with poverty reduction and employment generation in rural areas, an increased emphasis would be placed on its growth. Measures for the promotion of the sector would be taken in collaboration with the provinces. This sector has great potential to grow at a much faster rate and can significantly contribute in GDP growth as well as in export earnings.

The industrial sector as a whole is expected to grow by 9.1 %, which is higher than the estimated growth of 5.9 % during 2005-06. This growth in industrial sector is based on growth of 3.8 % in mining and quarrying, 11.0 % in manufacturing, 7.0 % in construction and 3.5 % in electricity, gas and water supply. The manufacturing sector is likely to grow by 11.0 % during 2006-07, a growth rate based on the expectations of new plants coming into production and improved productivity. The targeted growth rate of the manufacturing sector is premised on the growth of large-scale manufacturing (13.0 %), small and household manufacturing (7.4%) and slaughtering (2.5%). In order to achieve the higher growth target, policy measures will be designed for ensuring availability of adequate credit to the private sector, export orientation with competitive edge in the world market and establishing new industrial zones and exploring new markets in the world.

The services sector is likely to continue the momentum shown in 2005-06 and will grow by around 7.1 %. The main contributors of value added in this sector will be transport and communication, wholesale and retail trade, finance and insurance and social, community & personal services, which are targeted to grow by 6.0 %, 8.8 %, 12.0 % and 5.6 % respectively.

To attain this GDP growth, total investment of Rs 1895.4 billion has been envisaged, of this one quarter will be from the public investment and the remaining three fourth from the private investment.

The envisaged economic scenario for 2006-07 would imply per capita GNP of Rs 56595 (US$ 935) in current prices, higher by 11.8 % from the previous year level.

During 2006-07, exports are projected to grow by 18.0 % to US$ 19.797 billion against US$ 16.777 billion estimated for 2005-06. Projections of exports are based on assumptions such as (i) increase in agricultural production and manufacturing output, (ii) greater market access through bilateral arrangements, preferential and free trade agreements with regional and other countries and (iii) an improvement in the overall competitiveness of the external sector through reduction in the cost of key manufacturing inputs including electricity.

Imports are anticipated to increase by 16.0 % mainly due to payments on account of petroleum products, capital goods, edible oils and fertilizers. As a result, the trade account is projected to be in deficit by US$ 7,613 million in 2006-07 against a deficit of US$ 6,852 million estimated for 2005-06.

Prospects for the invisible balance will continue to be governed mainly by the behaviour of the workers' remittances. For 2006-07, remittances have been projected at US$ 4,500 million against US$ 4,300 million estimated for 2005-06. Allowing for other invisible receipts and payments, the surplus on invisibles account is anticipated to decline to US$ 1,325 million from US$ 1,498 million estimated for 2005-06.

With a deficit of US$ 7,613 million on the trade account and a surplus of US$ 1,325 million on the invisibles account, the current account deficit is estimated to increase to US$ 6,288 million in 2006-07 (4.32 % of GDP) against US$ 5,354 million in 2005-06.

Gross aid disbursements are expected to decline to US$ 2,737 million in 2006-07, lower by US$ 168 million from US$ 2,905 million 2005-06. After allowing for other capital movements, surplus of US$ 1,887 million is likely to occur in the overall balance. However, taking into consideration transactions of the banking system, there will be a build up of US$ 1,571 million in foreign exchange reserves which will help in build up of the total gross reserves of US$ 13,977 million by the end of 2006-07.

The overall fiscal deficit has been targeted at 4.2 % of GDP for the year 2006-07, with revenue projected at 13.2 % and expenditure at 17.4 %. The target for Central Board of Revenues (CBR) collection has been fixed at Rs 835 billion up by 17.1 % over the collection of Rs 712.6 billion in 2005-06.

The rate of inflation for 2006-07 was targeted at 6.5 %. Based on the first six months data the annual inflation has turned out to be at 8.39 %. It is expected that the rate of inflation for the year 2006-07 will be around 8 %.

The credit plan for the fiscal year 2006-07 envisaged growth in money supply (M2) at 13.5 % (Rs 459.9 billion). This projection was made in accordance with the real GDP growth target of 7 % and CPI inflation target of 6.5 % for the year 2005-06. The credit to government sector for budgetary support has been fixed at Rs 120 billion and credit to private sector at Rs 390 billion.

During the fiscal year 2006-07, the SBP took several additional policy measures in different phases as part of its monetary policy tightening. In the first phase, SBP raised the Statuary Liquidity Ratio (SLR) from 15 % to 18 % and Cash Reserve Ratio (CRR) for commercial banks from 5 to 7 %. On July 29, 2006 SBP issued its monetary policy statement valid for the period of July-December 2006 period wherein it has further tightened the monetary policy by increasing the discount rate (policy rate) from 9.0 % to 9.5 %. These measures will keep the monetary expansion within the target.

Republic of Tajikistan

Real Economy

A period of strong recovery and economic expansion has followed the agreement in 1999 that ended the civil war. Growth of GDP averaged nearly 10% in the 4 years through 2004. GDP growth then slowed to about 6.7%, reflecting weak performance in agriculture, slower growth in industrial output, and less favourable terms of trade caused both by higher import prices for oil products and natural gas and by a softening of cotton export prices. Cotton and aluminium are the traditional pillars of the economy and, even with some diversification in activity, they continue to drive outcomes in agriculture and industry and account for more than 75% of exports.

Cotton production appears to have declined in 2005 by about 20% from its 2004 level, mainly because of a reduction in the area planted (and because of poor weather). However, the cotton sector suffers from a slew of structural problems, including heavy debt ($280 million) resulting from unfavourable credit terms and slow implementation of land and marketing reforms. The weaker growth in industry stemmed from a slowdown in the growth of aluminium production where growth in output, estimated at 6%, was about one half of that seen in 2004.

On the expenditure side, domestic demand was driven essentially by higher private consumption spending, in turn financed mainly by strong growth in workers’ remittances and, to a lesser degree, by public sector wage rises. Remittances are estimated in the 2005 balance of payments to have increased to about US$600 million, including small-scale export receipts, which are usually 30% of transfers. This amount is likely double that, if unofficial inflows are counted. These funds, largely from workers in the Russian Federation, have buoyed growth in services activities, such as retail trade and light manufacturing. They have also financed some investments in small enterprises.

Diversification of the economy continued (though slowly), bringing the share of the services sector to nearly 50%, with trade, construction, communications, and financial activities the fastest growing. The share of agriculture has declined steadily from 36% in 1991 to 22% in 2005. The protracted approach to land reform and resolution of cotton farmers’ debt remain major issues that have accelerated the decline of agriculture. The Government’s Farm Debt Reduction Strategy advocates land reforms and liberalization of cotton production, which together hold the key to agricultural growth, but little headway was made on either in 2005.

External Balance

A deterioration in Tajikistan’s terms of trade reflecting higher import prices for oil and gas and weaker export cotton prices, coupled with a rapid growth in consumer imports and a lower volume of cotton exports, led to an increase in the trade deficit (from 7 % in 2004 to about 12 % of GDP in 2005).

The current account deficit, which had been narrowing consistently since 2000, widened to 3.9% of GDP in 2004 and then contracted in 2005 to 3.4%, as higher remittances more than offset the deteriorating terms of trade. Continued flows of development assistance financed most of the current account deficit. Gross official reserves increased by US$35 million to US$ 224 million (providing only about 2 months of import cover). Total external public and private debt amounted to US$ 894.9 million, or about 39% of GDP, at end-2005.

The Government has secured a substantial reduction in its external debt, which as a share of GDP fell by more than half (113% to 38%) between end-1999 and end-2005. It held direct negotiations with bilateral creditors for debt rescheduling, write-offs, and asset swaps (most of the creditors were outside the Paris Club), enabling it to use its historical ties. The main breakthrough was the restructuring of the heavy debt owed to the Russian Federation, through a debt-asset swap in October 2004. This involved exchanging US$ 242.4 million of debt against Russian state ownership of the Nurek space tracking station, in the process lowering Tajikistan’s external debt by more than 20%. IMF’s decision to write off this year, under the Multilateral Debt Relief Initiative, 100% of the approximately US$ 100 million that Tajikistan owes it, is another major boost to the debt consolidation effort.

Fiscal Policy

Reflecting a cautious fiscal policy, and excluding the foreign-financed public investment program, a budget deficit of 0.3% of GDP was achieved in 2005. Having remained stagnant at about 15% of GDP since 2000, tax revenue exceeded budget expectations and rose sharply to 16.6% in 2005, chiefly because of larger collection of income taxes and value-added tax. Ongoing reforms in tax administration, including a new tax code that came into effect in January 2005, helped boost revenues. The Government for the most part exercised restraint in spending, and the outcome was as budgeted. In an attempt to improve the quality of services, though, it raised wages, as it had done a year earlier—especially in health care and education—to help bring up the prevailing extremely low levels. There has been a substantial reduction in the level of external debt, which reduced the strain on the general government budget.

Financial Policy

Monetary policy, directed at fighting inflation, remained cautious in 2005. In this regard, IMF has indicated that all monetary program targets were met by the end of the year. The previous relative stability of the national currency, the Somoni, against the dollar was lessened as the authorities focused on stabilizing reserve money growth. Over all of 2005, the Somoni depreciated modestly in nominal and real terms, reflecting worsening terms of trade and a weakening against main trading partner currencies in the second half of the year.

International Monetary Fund (IMF) stabilization programs are delivering results. For example, average annual inflation was brought down from 38.6% in 2001 to 7.1% in 2004, even as the economy expanded rapidly. In 2005, inflation was at 7.1%, but stayed within the central bank’s 7.5% target limit. It reflected unusually high food prices in the summer, rises in electricity and petroleum fuel prices, temporary disruptions to border trade with Uzbekistan and exchange rate depreciation.

Economic Projections for 2006-2007

In 2006, the economy expanded at a robust rate despite considerable disruptions to energy supply late in the year, real GDP growth in 2006 is estimated at 7 %, fuelled by a surge in construction activity and continuing strong remittance-financed demand for retail services. However, CPI-inflation reached 12.7 %, its highest level since 2003, mostly as a result of failed harvests and higher gas prices, but also reflecting a relatively passive monetary policy stance and remittance-related demand pressures.

Aluminium and remittances, the mainstays of the economy, continued to drive growth in another strong year. Buoyed by spending of soaring workers’ remittances, the sub sectors of retail trade, transportation, and finance boosted services, though these inflows were strong disincentives for their recipients to continue working in their traditional occupation, agriculture. The protracted land-reform process and the long-standing issue of reforming cotton farmers’ debts compounded the problem. The result is that the share of agriculture in 2006 is estimated at only 22% of GDP, down from 36% in 1991, while services and industry accounted for 50% and 28% of GDP, respectively.

A pickup in foreign direct investment financing for infrastructure projects and other construction investments, including a boom in private housing, lifted domestic demand, while a surge in aluminium exports (the main export commodity) underpinned strong export growth. More important, aggregate demand was driven by higher private consumption expenditure that, in turn, drew strength from the higher workers’ remittances as well as a hike in domestic wages. The number of people finding better work opportunities outside the country and migrating, mainly to the Russian Federation, is on the rise, and the poor especially have benefited from remittances in terms of being able to afford a better standard of living. However, increasing dependence of family members on remittances, alongside sluggish private sector reforms, especially in agriculture, is hampering productivity improvements and risking failure to realize the country’s economic potential.

Inflation accelerated in 2006 into double digits after 18 months below that threshold. The preliminary estimate is a high 11.9%, from 7.1% in 2005. Supply shocks emanating from higher fuel prices and regional food prices, higher private spending, and increases in utility and transport tariffs, all played a part. Higher incomes and greater demand for staple foods and lower grain production contributed to a surge in food prices.

National Bank of Tajikistan (NBT) signalled its concern about growing inflationary pressures by raising its refinancing rate in steps from 8.5% in August to 12% in December. Prior to this, it had lowered banks’ reserve-requirement ratio from 15% to 12% in April in an attempt to reduce the cost of attracting deposits by commercial banks, increasing banks’ liquidity. Reserve money grew by about 17%, adding even further to banks’ ability to expand credit, helping to push up the money supply by 60%.

Weak institutional capacity and the underdeveloped nature of the financial sector severely hinder the conduct of monetary policy. NBT started to give more attention to managing growth of reserve money by holding frequent and regular meetings at the operational and policy levels.

The fiscal situation was healthy in 2006, despite elections, as robust economic growth and better tax administration helped revenues exceed their targets and showed a 0.4% of GDP surplus (excluding the foreign financed public investment program). Measures for enhancing tax collection introduced in 2006 included replacement of the sales tax on aluminium exports with a tax on aluminium processing, a higher value added tax (VAT) threshold, and elimination of tax exemptions. But fiscal space is still tight. Expenditures on the social sector are rising, albeit from a very low base (8% of GDP in 2006 as against 5.5% in 2002).

IMF projected the deficit on the trade account for 2006 to be unchanged from the previous year, at US$ 0.5 billion. A higher import bill offset the export gain, reflecting higher oil and gas prices and imports for building the Sangtuda 1 hydropower plant. Exports strengthened mainly because of large price and volume increases for aluminium, even though Tajikistan did not benefit fully from international price rises due to production cost-sharing arrangements. In 2006, remittances leaped to an estimated US$ 1.2 billion from US$ 0.6 billion in 2005. IMF estimated the current account deficit at 4.2% of GDP.

The Government has a wide-ranging reform agenda. It is about to finalize a 10-year national development strategy, and, pursuing that strategy's vision, is drafting a poverty reduction strategy for 2007–2009. The latter strategy identifies as priorities promoting private sector development, strengthening public sector management, and improving health and education services.

The authorities recognize that they have to undertake sweeping reforms to achieve the high-growth scenario. For example, the investment climate must dramatically improve, since it is crucial for diversifying the sources of growth. Public-private partnership models must be tested and adopted for realizing planned investments in generating and exporting hydropower. The public administration reform strategy that is currently being finalized must be speedily implemented. And the long-awaited reforms in agriculture and energy need to be implemented, in accordance with the Government's own commitments.

Republic of Turkey

In 2005, GDP grew by 7.4 % and the highest contributions to GDP growth came from the services sector including 4.8 percentage points on the supply side and 5.6 percentage points on the demand side from private consumption. Unemployment rate did not change compared to the previous year and realized as 10.3 %. The Consumer Price Index (CPI) increased by 7.7 % as of December 2005, it was under the end-year inflation rate target. Exports and Imports amounting to US$ 73.4 billion and US$ 116.5 billion respectively, increased by 16.2 % and 19.5 % annually. Gross public debt to GDP ratio decreased from 84 % in 2004 to 76 % in 2005 thanks to the implementation of a tight fiscal policy. Because of improvements in the public finance borrowing requirements, banks were able to concentrate on their main intermediary functions and credit stock of the banking sector increased substantially.

Real Economy

In 2005, GDP and GNP growth rates were 7.4 % and 7.6 %, respectively. On the supply side; sectoral growth rates were 5.6 %, 6.5 % and 8.2 % for the agriculture, industry and services, respectively. As % of GDP, the share of agriculture was 11.6 % and shares of industry and services were 29.4 % and 59 %, respectively. The highest contribution to GDP growth came from services by 4.8 percentage points; and the contributions of industry and agriculture to GDP growth were 1.9 percentage points and 0.7 percentage points, respectively.

On the demand side; private consumption and private fixed capital investments were the main driving forces of GDP growth. In 2005, private consumption and private fixed capital investment growth rates were 8.8 % and 23.6 %, respectively. Contributions of private consumption and private fixed capital investment to GDP growth were 5.6 percentage point and 4.6 percentage points respectively, in 2005. Public consumption and public fixed capital investment growth rates were 2.4 % and 25.9 %, respectively. Contributions of public consumption and public fixed capital investment to GDP growth, were 0.2 and 1.2 percentage points, respectively. In 2005, exports of goods and services increased by 8.5 %, while imports of goods and services increased by 11.5 %. Contribution of net exports of goods and services to GDP growth was minus 1.7 percentage point. Similarly, contribution of stock building to GDP growth was minus 2.5 percentage point.

Both in 2006 and 2007, it is expected that GDP growth rate will be around 5 %. It is projected that agricultural value addition will increase by 1.5 %, and 2.2 %, and industrial value addition will increase by 5.1 % and 5.3 %, respectively in 2006 and 2007. It is estimated that value addition of services will increase by 5.7 % and 5.3 %, respectively, in 2006 and 2007.

In 2005, employment decreased by 12.3 % in the agricultural sector, but increased by 7.3 % in the industrial sector and 7.8 % in the services sector. The driving force behind the rise in employment in services sector was 13.8 % increase in the construction sector employment. As a result, total employment in 2005 increased by 1.2 %.

Labour force participation rate was at 48.3 % in 2005. Corresponding rates for male and female labour force were 72.2 % and 24.8 %, respectively. Employment rate was 43.4 % in 2005. Unemployment rate did not change compared to the previous year and realized as 10.3 % in 2005. Non-agricultural unemployment rate in 2005 was 13.6 % decreasing by 1.1 percentage point from 2004 rate.

Despite the increase achieved in total employment in 2005, a 1.8 % increase in working age population prevented unemployment rate from declining further through increasing civilian labour force.

The downward trend of inflation, which was achieved due to implemented tight fiscal and monetary policies continued in 2005. The annual increase rate in consumer prices declined to 7.7 % as of December 2005. Annual increase in Producer Price Index (PPI) softened to 2.7 % during the same period. The realized rate of inflation in 2005 indicates that CPI inflation remained below 8 %, which is the end-year inflation target of 2005.

The full-fledged inflation regime was introduced at the beginning of 2006 and the target is to reduce the annual level of inflation to 5 % in 2006 and to keep it at around 4 % in 2007 and 2008. Fulfilment of some prerequisites will be of critical importance in order to continue the disinflation process in the forthcoming periods. In this context, strengthening the efficiency of the tax system, implementation of incomes policy consistent with the main programme, compliance to the primary surplus target of the public sector and thus maintaining sustainable debt levels are of prime importance. In addition, commitment to structural reform process will improve competitiveness of the economy through enhancing the functioning of the market mechanism.

External Balance

In 2005, exports were at US$ 73.4 billion with a 16.2 % annual increase. Export prices increased by 5.7 %; hence there was 9.9 % increase in exports in real terms. Considerable increases in exports of motor vehicles and their parts and accessories; refined petroleum products and foods were recorded in this period.

In 2005, imports realized as US$ 116.5 billion with a 19.5 % annual increase. There was 7.1 % increase in imports prices in total, and 11.6 % increase in real terms. While imports of investment goods rose by 16.9 %, imports of consumption goods increased by 15.4 %. On the other hand, imports of intermediate goods and raw materials, which account for 70.1 % of total imports increased by 20.9 % and this was mainly due to increasing oil prices. Due to soaring energy prices, energy imports increased by 47.4 % and totalled US$ 21.2 billion, which is 18.2 % of total imports.

As a result of these developments, trade deficit increased to US$ 45 billion which accounts for 11.9 % of GDP (11.4 % in 2004).

It is projected that exports and imports will realize as US$ 79 and US$ 124.4 billion in 2006 and US$ 87.1 billion and US$ 135.3 billion in 2007, respectively.

In the observed year, the increase in reserve assets was US$ 17.8 billion. Total net international reserves reached US$ 68.8 billion, which accounts for 18.9 % of GDP.

The increase in short-term borrowing of banks was US$ 2.7 billion, of other sectors US$ 364 million and short-term deposits of non-residents increased by US$ 1.3 billion.

On the other hand, there was a net US$ 1.3 billion increase in long-term borrowing by the government, which includes payments to IMF. The net increase in long- term borrowing of other sectors was US$ 9.9 billion.

As a result of these developments, at the end of 2005, total external debt reached to US$ 170.1 billion, of which US$ 38.2 billion was short-term and US$ 131.9 billion was medium-long-term. In 2005, the breakdown of the total external debt was as follows: US$ 67.7 billion for the public sector, US$ 15.4 billion for the Central Bank and US$ 87 billion for the private sector.

In 2005, net foreign direct investments more than tripled compared to the previous year and realized as US$ 8.6 billion. In this year direct investment in Turkey was realized as US$ 9.7 billion, around 20 % of this amount stemmed from privatization income. There was a substantial increase in foreign direct investment originating from near and middle-eastern countries.

In 2005, capital transfers totalled US$ 1.5 billion, of which US$ 851 million was workers remittances and rest US$ 617 million were official transfers.

At the beginning of 2005; the New Turkish Lira (TRY) was introduced as 1 TRY= 1,000,000 TL. With improving expectations about Turkish economy and increasing capital inflows New Turkish Lira appreciated against the US dollar by 5.7 % in 2005. The annual average USD-TRY exchange rate had been realized as 1.3408 TRY/S, (1.4223 in 2004). Similarly, TRY also appreciated against the Euro by 5.6 % with average annual exchange rate at 1.6695 (1.7677 in 2004).

Fiscal Policy

The basic objectives of the fiscal policy were to make substantial contribution in achieving a sustainable growth environment by adhering to fiscal discipline in harmony with the monetary policy, to support anti-inflationary policies, and to generate non-interest surplus at significant rates with the aim of reducing the ratio of public debt stock to national income.

The following objectives have been pursued in implementing the public revenues policy: Carrying out revenue policies in accordance with the targeted non-interest surplus (primary surplus) and take necessary measures on the matter; taking informal economy under control by strengthening the implementation, monitoring and supervision functions of the Revenue Administration and rationalizing the tax system; implementing tax policies effectively to encourage investment and employment, re-evaluating the provisions of exception, exemption, tax discount and similar provisions in the tax laws consistent with economic and social policies and simplifying tax legislation; increasing self-revenues of local governments.

Some legal arrangements were made to achieve these objectives in 2005: The Law on Organization and Duties of Revenue Administration was put into effect, which envisaged restructuring of the Revenue Administration. The implementation of e-declaration started. A separate unit was established within the Ministry of Finance to determine and to implement revenue policies. The taxing system for securities was rearranged. Moreover, the process of redrafting the Corporate Tax Law and rearranging its system has continued. As a result of measures taken, public sector revenues increased by 24.8 % in 2005 in the US dollars terms.

The basic objective of the public expenditures policy in 2005 was to enhance efficiency in public expenditures, ensure fiscal discipline and minimize the impact of expenditures on the borrowing requirement. Furthermore, to contain public expenditures, new civil servant recruitment was limited to 48 thousand under the Budget Law for 2005, public wages and salaries were raised in line with inflation target. Hence, in 2005, public expenditures in dollar terms increased by 10.6 %.

In addition to revenue-increasing and expenditure-containing measures, some legal arrangements were made with the aim of increasing employment and reducing regional development disparities.

The following policies will be implemented in the medium term for the public expenditures: It is envisioned that a comprehensive reform of personnel regime will be made; in order to reduce excessive employment in the public sector, the limitation on recruitment of new personnel will continue; wages and salaries in the public sector shall be determined in line with inflation; measures on disciplining of the health expenditures of social security organizations will continue; legal arrangements process, which will re-define the division of duties and power between the central government and local administrations, will continue; budgeting on the basis of strategic planning and performance will continue; the share of social expenditures in the total public expenditures will be increased; rationalizing the public investments will continue and real increase will be achieved in the public investments.

In public debt management; a borrowing policy has been followed that was consistent with monetary and fiscal po1icies by considering macroeconomic balances, sustainability, transparency and accountability and financing requirements have been met at the lowest possible cost in the medium to long term within the framework of risk level identified by considering domestic and international market conditions and cost items. Thanks to these successfully implemented policies, interest payments as % of total public expenditures decreased from 44.8 % in 2002 to 30.3 % in 2005. Similarly, average interest rates on internal borrowing decreased from 62.7 % in 2002 to 16.9 % in 2005, and average maturity increased from 6.7 months to 13.3 months in the same year.

As main components of debt management strategy; total borrowing would be made mostly in TRY, domestic cash borrowing would be made mostly with fixed interest TRY instruments, the average maturity of cash domestic borrowing including foreign exchange denominated and indexed instruments in line with the market conditions will be lengthened, adequate level of reserves would be maintained throughout the year to minimize the liquidity risk that might occur in cash and debt management.

In 2005, total domestic public debt stock to GDP ratio was 52.6 %, and public external debt stock (excluding the Central Bank) to GDP ratio was 23.4 %, of which 4.5 % from the CBRT and total gross public debt stock to GDP ratio was 76 %.

Financial Policy

While analyzing developments concerning currency issued, in 2005 volume of currency issued increased by 45.6 % compared to the previous year. One of the reasons of this increase was higher cash demand of individuals that was led by the ongoing dynamism in real economic activities in 2005. In addition, this higher-rate increase in the volume of currency issued can be assessed as the natural result of the structural change in cash demand, which stems from deepening of financial intermediation, decreasing inflation and increased confidence in the financial markets.

Bank deposits with the Central Bank of Republic of Turkey, the other major component of the money base, also increased similar to the currency issued as a result of preferences of individuals to the deposits and other saving instruments in domestic currency (TRY) because of increased confidence and deepening of financial intermediation. Moreover, the arrangement enabling the banks to maintain the total amount of the TRY as required reserves on an average basis led to an increase in required reserves compared to the previous year. On the last day of the year, to fulfil the required reserve ratio obligation, banks increased their deposits with the Central Bank. Because of these developments, in 2005, reserve money increased by 60.8 % and reached to US$ 24.4 billion and Ml money supply increased by 41.7 % to US$ 31.1 billion.

With the increase in currency in circulation and TRY deposits in the banks, M2 money supply increased by 40.1 % in 2005 to US$ 114.1 billion. In the same period, M2Y money supply increased by 23.8 % to US$ 171.1 billion.

Because of decreasing interest rates and improvements in the public finance borrowing requirements, banks concentrated more on their main duty of intermediation. As a result, credit stock of banking sector, which was US$ 74 billion in 2004 increased to US$ 100.6 billion in the third quarter of 2005. Similarly, the share of credit stock in the total assets of the Turkish banking sector increased from 32.4 % in 2004 to 37.5 % in the third quarter of 2005. With the decrease in the public borrowing requirements, the share of government securities portfolio of the banking system in total assets decreased to 39 % in the third quarter of 2005 from 40.4 % in 2004.

Istanbul Stock Exchange (ISE) performed very well during 2004-2005 period. ISE-100 Index more than doubled as of December 2005 in comparison to December 2003. The ratio of foreign ownership of stocks to total stocks increased from 54.9 % in December 2004 to 66.3 % in December 2005. Number of companies traded in ISE also increased from 297 to 304 in the same period. As a result of these developments, total market capitalization of the companies traded in ISE increased to TRY 218 billion (US$ 163 billion) from TRY 133 billion (US$ 98 billion) between December 2004 and December 2005.

In 2005, political determination for the sustaining of fiscal discipline and structural reforms, favourable developments in the relationships with the EU and the IMF and the downward trend of inflation were dominant factors in the CBRT interest rate decisions. In this framework, the CBRT reduced eight times, short-term interest rates, ranging between 0.25 and 1- percentage points during 2005. Thus, overnight borrowing and overnight lending interest rates were lowered from 18 % in 2004 to 13.5 % in 2005, and from 22 % in 2004 to 17.5 % in 2005, respectively.

Weighted averages of maximum 3 months deposit interest rates as reported by banks to be effective during the month decreased to 20.4 % in December 2005 from 22.8 % in December 2004.

Economic Projections for 2006-2007

Growth in Turkey declined from 7.4 to 6.0 % between 2005 and 2006, as private investment and consumption growth slowed markedly in response to the tightening of monetary policy in the wake of the May 2006 currency crisis, which led to sharp asset price declines. This reflected heightened global risk aversion, as well as domestic factors (widening current account deficit, increasing inflation, and political tensions). Buoyed by a strong central bank response and improved global market sentiment, portfolio inflows have since resumed, and lira, bond and equity prices have partially recovered. Domestic interest rates, however, have remained elevated, reflecting tighter monetary conditions and an increased risk premium.

Strong capital inflows, including significant levels of FDI, coupled with extremely rapid domestic credit expansion are at the root of excess demand in Turkey. The full-fledged inflation regime was introduced at the beginning of 2006 and the target was to reduce the annual level of inflation to 5 % in 2006 and to keep it at around 4 % in 2007 and 2008. However, inflation has remained well above target at 9.6 %, largely reflecting the likely temporary impact of supply shocks and lira depreciation. Hence, based on prudent monetary policy stance, the disinflation process is expected to restart soon and inflation to converge towards the 4 % mark set for 2007.

On the external side, the current account deficit reached almost 8 % of GNP last year—higher than in 2005 but somewhat below the targeted level. The deficit is expected to fall to 7.2 % of GNP in 2007, as the recent trend of slowing imports and strong exports is supported by robust growth in Turkey's trading partners, slowing domestic demand, and more stable oil prices. The outlook for external financing remains favourable and the continued high foreign direct investment, driven by strong private sector merger and acquisition activity, is expected to cover half of the current account gap.

In 2006, a primary government surplus was at 7.0 % of GDP, however, primary spending was higher than programmed (around 0.3 % of GNP at end-December 2006) owing to a combination of factors, including higher-than-planned capital spending and faster-than-expected growth in health expenditures. To partly compensate for the spending overruns for the year, the Government implemented some 0.2 % of GNP in cuts by blocking appropriations on current spending.

Tax policy was increasingly being carried out by the new Tax Policy Unit. The functional restructuring of the Revenue Administration had been completed and good progress was being made towards starting operations of the Large Taxpayers' Unit. The authorities are also working to introduce a new system for paying salaries through bank accounts and to take other steps in line with recommendations of IMF.

In the financial sector, close supervisory oversight and further building of cushions in balance sheets will help safeguard against risks inherent in rapid credit growth. Advancing privatization, especially in the banking and energy sectors, will further improve the investment climate. The authorities have revised their strategy for the privatization of Halkbank, which now envisages, as a first step, an IPO for at least 20 % of its shares. Completion of the IPO is expected by mid-2007. A strategy for privatization of Ziraat Bank will be prepared drawing on the experience of Halkbank.

The authorities remain committed to maintaining an adequate regulatory and supervisory framework for the banking system. Drawing upon the findings of the recent Financial Sector Assessment Program, the insurance law is expected to be adopted by mid-2007. The committee looking into the merits of a further consolidation of supervisory functions presented its report in December 2006 and the government is reviewing its findings.

Ongoing efforts to improve investment climate were rewarded with a record level of FDI in 2006, which at US$20 billion exceeded the cumulative total of the previous five years. FDI was driven by ongoing merger and acquisition activity in the banking and other sectors and by investment across several sectors including communications, energy, manufacturing, and real estate. Although the sale of electricity distribution and generation companies, Tekel tobacco, and state shares in several other companies was delayed, the Government remained committed to the full privatization of these and other entities in the 2007 and following years, is continuing to lay the necessary groundwork.

The authorities are actively implementing measures to further deregulation, reduction of administrative barriers, increase efficiency of the judicial process, and enhance corporate governance— which are needed to raise investment and put Turkey on a higher long-term growth path. A new agency to foster investments, the Turkish Investment and Support Promotion Agency was established which will become fully operational in 2007.

In 2007, growth is expected to decelerate further to 4.5 % due to sustained higher interest rates, which have already led to a dampening of growth. Inflation, estimated at 8 %, remains well above the central bank's target and therefore policy is expected to remain tight in an effort to break inflationary expectations. These efforts and sustained fiscal restraint are expected to help gradually restore internal and external balance, allowing policy to relax somewhat toward the end of 2007.

Turkmenistan

Real Economy

According to official data, the economy grew strongly in recent years, by 17.2 % in 2004 and 20.7 % in 2005. This is in line with high growth rates over the past five years. However, it is generally accepted that the official figures are significantly overstated. The IMF made a more realistic estimate for the 2005 GDP growth rate at 9.6 %. The main drivers of growth have been construction (supported by public investment programmes) and trade and services as well as non-oil and gas industry and non-cotton agriculture. The country also benefited from higher hydrocarbon export prices. Nevertheless, the growth in the key sectors (i.e. oil, gas, electricity and cotton) decelerated significantly. For example, the production volumes in the hydrocarbon and electricity sectors grew only marginally (oil output slightly fell).

In the last several years, Turkmenistan has made very limited progress in liberalization and structural and institutional reforms, but registered some improvements in the tax system and agricultural land reform. State policies remain guided by central plans and state control over investment, production, distribution and key prices. Enterprise privatization has been slow, particularly for large-scale enterprises, while the vital energy sector is formally excluded from privatization. Private sector development is still at an initial stage. The financial sector continues to allocate funds in support of state-directed investment programmes. A central element of the social protection system remains the provision to the entire population of basic consumer goods and utilities free of charge or at subsidized rates.

External Balance

The external performance over the past two years, especially in terms of export growth, has been favorable. The trade account benefited from higher oil and gas prices while imports grew only moderately. Total exports in 2005 rose by 28 % while imports increased by 16 %. The merchandise trade surplus widened to US$ 1.3 billion in 2005 (15.6 % of GDP), the highest since independence. Accordingly the current account surplus increased from 1.2 % in 2004 to 8.2 % of GDP in 2005. The gross international reserve, including the Foreign Exchange Reserve Fund (FERF), is estimated to have reached the equivalent of 8.6 months of imports of goods and services at the end of 2005. The authorities made early repayments from excess cash-flow from the FERF, and accordingly the external debt-to-GDP ratio dropped from 18 % in 2004 to an estimated 12 % of GDP in 2005.

The trade and foreign exchange systems remain restrictive. Approval from the State Commodity Exchange is required for all trade transactions, and access to foreign exchange auctions is restricted to those who are in line with the authorities' objectives. The authorities, for example, may not authorize transactions if the terms of contract are not sufficiently favourable to Turkmenistan.

Fiscal Policy

Fiscal policy remained tight during 2004-2005. However, the government continues to conduct fiscal operations in a non-transparent manner and with large off-balance sheet activities. Therefore, overall fiscal position of the Government is difficult to assess because a considerable part of state revenue and expenditure is channelled through extra budgetary funds and off-budget accounts of budgetary organizations, for which few data are available. Extra-budgetary expenditure carried out through state funds and self-financing ministries is 3.5 times bigger than the expenditure of the state budget and equivalent to 68 % of GDP in 2004. Export earnings, supported by oil and gas revenues, mainly accumulate in extra-budgetary state funds, especially in the Foreign Exchange Reserve Fund (FERF).

The official budgets have been balanced both in 2004 and 2005, and the approved state budget for 2006 envisages no deficit. On the revenue side, a new tax code was adopted in October 2004 in order to simplify the tax system, encourage private sector development, and improve tax compliance. Moreover, in October 2005, the authorities unified five taxes, including an 8 % profit tax and 15 % VAT for private businesses, into a single turnover tax of 2 %.

On the expenditure side, overall expenditures remain tight. The authorities increased public sector wages by 50 % in 2005. The supply of electricity, water and salt continues to be free of charge. However, resource allocations to the education and health sectors continue to fall.

Financial Policy

The monetary policy remained relatively tight, with the main objective to keep inflation at a low level. The rate of money supply growth slowed down in 2004-05 after a large expansion in 2003. However, extensive subsidies and price controls over key products and utilities prices help to contain inflation. In 2004-05, as a result of the lagged effects of the fiscal and monetary expansion in 2003 and higher foodstuff prices, inflation has risen. The year-end inflation rate increased from 3 % in 2003 to 9 % in 2004, and to 10.7 % in 2005. The authorities have kept the official exchange rate fixed at 5,200 Manat per US Dollar. The parallel market has been relatively stable during 2005, and continues to be nearly 5 times the official rate.

The financial sector remains underdeveloped. There are currently 11 banks, of which six are majority state-owned banks, two are private banks and three are foreign banks. State-owned banks account for more than 90 % of total assets. The ratio of domestic credits to the private sector is limited to 1.4 % of GDP and the majority of deposits are from state owned enterprises. In some areas (e.g., agriculture), the Central Bank provides directed credits to state-owned banks at low interest rates to provide concessional finance to selected industries. Commercial banks, except for the Bank for Foreign Economic Affairs of Turkmenistan, are not allowed to conduct foreign exchange transactions. Private banks play limited roles while they appear to be significantly influenced by the authorities. There is a deposit insurance scheme operational since 2002, which guarantees deposits of the population.

Economic Projections for 2006-2007

The economic situation stayed very healthy in 2006, with GDP growth estimated at over 20% (based on official data). However, official statistics tend to overestimate growth, and actual rate is expected to be around 9%, according to ADB estimates. Either way, growth was sustained by increased gas prices (renegotiated with the Russian Federation) and exports. While the gas and oil industry grew rapidly in 2006, the cotton crop experienced shortfalls for the sixth consecutive year.

According to estimates from the International Monetary Fund, inflation moderated somewhat from 10.7% in 2005 to 9.0% in 2006. This was achieved through wage freezes, cuts in pension payments, price controls, and restrictions on cash withdrawals from banks, resulting in a situation of repressed inflation. A dual exchange rate regime exists: one dollar buys Manat 5,200 at the official rate, but 24,000 on the black market.

The fiscal surplus edged up from 0.9% of GDP in 2005 to estimated 1.1% in 2006, reportedly due to improved revenue collections, but the non-oil fiscal deficit as a share of non-oil GDP was estimated at 9.5% (2005). There are unofficial reports of a budget contraction, causing the accumulation of public sector wage arrears and education spending cuts. Public sector revenues are largely from oil and gas incomes that are off-budget, and these were managed with other funds directly by the president of the country. These off-budget funds go unreported in the official statistics.

Another large surplus (US$ 1.5 billion) on the trade balance account was estimated due to booming oil and gas export revenues. Although both exports and imports grew in 2006, exports grew much faster, propelled by surges in both volumes and prices of natural gas. The current account surplus was estimated to have grown to 5.7% of GDP, while gross official international reserves were estimated at $6 billion, equivalent to some 15 months of merchandise imports.

The economic outlook remains highly dependent on the hydrocarbon sector. The long-term gas supply agreement with Russia and high hydrocarbon prices may underpin annual real GDP growth of 5-7 % in the medium term. However, the dependence on the hydrocarbon sector, combined with the lack of market-oriented reforms, leaves the economy vulnerable to external shocks as well as gas production and pipeline constraints. The increasing competition for the pipeline and export markets with Uzbekistan and Kazakhstan would be another risk. Generally the sustainability of economic growth is questioned since extensive public investments have been made in non-productive sectors, such as prestige constructions.

Republic of Uzbekistan

Real Economy

Economy of Uzbekistan experienced significant growth over 2004–2005. GDP grew by 7.7% and 7.0% according to official estimates, as against an average of 4.2% in 1999–2003. Agriculture sector contribution was helped by a record cotton crop. Industrial performance improved over the past 2 years, with significant contributions from machinery, chemicals, and metals based on larger export sales. On the demand side, net export growth in 2005 remained resilient.

Since independence, the Uzbek authorities have opted for a gradual approach to reforming their economy. Their strategy aimed at building a socially oriented market economy, and developing industrial and manufacturing capacity in a predominantly agricultural economy using substantial and direct central guidance. To that end, the government has adopted an import substitution strategy that has relied heavily on administrative intervention and a restrictive foreign exchange and trade regime.

Since then, the government has successively reduced exchange market distortions and introduced currency convertibility, tightened fiscal and monetary policies, initiated the restructuring of farms into leaseholds and followed a more conservative borrowing path. It has also taken steps to improve the business environment, including the introduction of a unified tax, streamlined registration and inspection procedures, and relaxed foreign exchange surrender requirements for exports. However, barriers for doing business remained sizable and much work is to be done in improving investment climate.

On the financial sector side, in 2004 and 2005, the government implemented new measures and introduced legislation aimed at liberalizing and further reforming the sector. Most notably, these measures included the relaxation and complete removal of cash constraints and the clearance of all wage and pension arrears. If implemented credibly and permanently, and in combination with macroeconomic stability, these structural measures could help Uzbekistan achieve sustained higher growth in the years ahead.

Incentives in agriculture are improving. In 2005, there were upward adjustments in the state procurement prices for cotton and wheat and accelerated restructuring of *shirkats* (agricultural cooperatives) to private leaseholds. While these changes have helped refocus the incentives for higher agricultural productivity—as reflected in higher agricultural output—headway in reducing state procurement quotas has been modest, and are explained by the Government’s concerns about the adverse fiscal implications.

The divergence between official and alternative estimates of consumer price inflation has widened. According to the former, inflation picked up to 7.8% in 2005; however, estimates by e.g., the International Monetary Fund (IMF) indicate that the actual rate was higher (around 20%). IMF states that its estimates are consistent with other available information, including producer prices, GDP deflators, wage increases, growth in monetary aggregates and utility price increases.

External Balance

Exports in 2005 increased by 11.6% as world price trends for cotton and gold – country’s two main export products – remained positive. While imports increased by 8.1%, trade surplus surged by 20%.

The large surplus on the current account in 2004 was augmented in 2005, as exports remained resilient, the trade surplus rose and private transfers surged. Increases in international gold prices, combined with volume increases in non-traditional exports, helped boost export earnings substantially. Import growth was also significant and would have been larger but remained low for apparent problems in accessing foreign exchange.

Vigorous export performance coupled with surging remittances has led to a large current account surplus of 14.3% of GDP. The large surpluses from 2003 have contributed to an accelerating accumulation of foreign exchange reserves, which are now estimated at 8.5 months of import cover. External debt declined further to 31 %.

Net FDI amounted to US$ 88 million, with FDI increasingly coming from Russia, Turkey, and China, and being linked to large-scale industrial projects in the hydrocarbon, telecoms and uranium mining sectors.

The trade regime remains restrictive, ostensibly to protect domestic industries. Relatively high effective rates of protection for consumer goods, including discriminatory excise taxes and administrative restrictions on imports, have suppressed imports and encouraged informal trade—partly explaining the large current account surplus.

Fiscal Policy

Fiscal policy remained tight, with a better than budgeted outcome, and the external borrowing policy stayed prudent, but some estimates show that actual inflation was significantly higher than indicated by the official estimates. While the authorities were relatively successful in undertaking fiscal adjustment to address one source of inflationary pressure, they were less successful in bringing under control growth in monetary aggregates, which was the main source of this pressure in 2004–2005. Problems in implementing convertibility on the current account reappeared last year.

Fiscal consolidation reflected lower than budgeted expenditure. The 2005 budget had targeted a loosening of fiscal policy, with a deficit of 3.3% of GDP. In the event, a small surplus (0.1% of GDP) was posted owing to lower spending. The Government cut spending to make up for shortfalls in external financing and privatization receipts. The burden of cuts, as in the past, fell on centralized investment.

The Government has mapped out a comprehensive public finance reform program and is now putting it into effect. On the revenue side, steps initiated include a simplified tax structure (revision and consolidation of the tax code with reduction in discretionary rates and exemptions) and administration. On the expenditure side, early moves have been made to set up a single treasury system and to address the problem of budget “fragmentation.” All of these measures will help improve fiscal transparency and lay the ground for a credible medium term budget framework, currently in a rudimentary state.

Financial Policy

Monetary conditions remained loose. Aggregates expanded faster than in 2004, with broad money growing by 56%. This reflected the expansion of net foreign assets in a banking system in which the central bank has few options for sterilization. Net domestic assets also grew, reflecting primarily, credit to the nongovernment sector such as loans to farmers, which were previously made outside the banking system, were now coursed through it. The Government attempted some liquidity-absorbing measures, including the introduction of reserve requirements on dollar deposits, but with little apparent effect.

Cash shortages were a problem in the first half of 2005, especially for the private sector, with restrictions on cash in circulation imposed by regulations intended to contain inflation and curb the activities of the shadow economy. The restrictions limit commercial banks' access to their correspondent accounts at the Central Bank of Uzbekistan, which in turn means that they are unable to meet fully their customers' needs for cash withdrawals. On 5 August 2005, a presidential decree was issued allowing commercial banks full access to their correspondent accounts and providing for the imposition of penalties on commercial banks that failed to meet customers' requests for cash. The Government has indicated that it is committed to containing inflation through control of monetary aggregates.

The Government of Uzbekistan decided to achieve full current account convertibility and accept the terms of Article VIII of the IMF charter without an IMF-funded program and did so by mid-October 2003. Since then, there have been few reported problems either for Uzbek citizens or foreigners to purchase dollars or Euros in exchange for national currency (Sum) at exchange booths located at banks and hotels throughout the country. However, delays for consumer goods conversion have been steadily growing since April 2004.

Unofficial and official duties on a wide variety of imported consumer products, including cars, televisions, meat, and toiletries (from 70% up to 150%) make imports of these products prohibitively expensive. The Government of Uzbekistan claims that the new duties are a temporary measure to prevent a huge surge in imports as the government eliminated other barriers to trade, such as a quota system for hard currency and an import registration system as part of Uzbekistan's economic reform process.

Economic Projections for 2006-2007

The economy has shown robust performance over the past 3 years, and continued to do so in 2006, turning in GDP growth of estimated 7.3%. Exports, too, showed real vibrancy, fuelled by favourable price movements in international commodity markets, and to a degree, heady growth of noncommodity exports.

Productivity gains in the agriculture sector also contributed. The transformation of large, agricultural cooperatives, *shirkats*, into private farms nearly finished, with 666 of them becoming 74,000 small private farms during the year. This change has improved the incentive structure for production—and so productivity—especially in fruits and vegetables.

Vigorous export performance coupled with surging remittances has led to a huge current account surplus of estimated 19.5% of GDP. Gross official reserves are reported to be equivalent to 12 month of imports.

The authorities have maintained a conservative fiscal stance over the past few years. In 2006, the consolidated state budget posted a small surplus of GDP compared to the planned deficit of 3% GDP. Continuation of the conservative external borrowing policy has helped improve debt indicators.

Despite their cautious fiscal stance, the authorities have to tackle the risk of higher inflation due to the mounting foreign exchange inflows and rapid reserves accumulation. In 2006, in order to tighten monetary policy, the central bank conducted sterilization operations using its own paper and treasury bonds. This brought money supply growth down to projected

35%. Nevertheless, controlling money aggregates and associated inflationary pressures remain substantial challenges.

The Government established the Uzbekistan Reconstruction and Development Fund (URDF) in 2006 to absorb the excess liquidity. The total authorized capital for URDF is US$ 1 billion, with US$ 500 million already in place. The establishment of URDF is intended to help buffer the economy from price shocks stemming from volatile foreign exchange inflows. The remaining challenge now is how to channel the fund toward productive investments.

Official data indicate that consumer price inflation has declined since 2004, with the official inflation rate estimated to be at around 7% in 2006.

The Government continued fiscal reforms in 2006 in the development of a treasury system. Steps were made to establish a consolidated Treasury Single Account for improvements in budget execution efficiency. The Treasury Law took effect in January 2006. A pilot treasury program introduced in 2005 in two regions was extended to cover a total of six regions (*oblasts*). Many banking accounts in the commercial banks held by executing budgetary organizations were closed. As a result, this has eliminated the function of these commercial banks in budgetary execution.

Tax reform continued, to ease the burden on enterprises, broaden the base, and strengthen administration. Tax rates for personal income, corporate profits, dividends, and small and medium enterprises were further reduced, yet despite this, total tax receipts rose.

Announced banking sector reform was expected to be faster, especially in privatizing large stated-owned banks. Total banking deposits were very low, reflecting the population’s low confidence in the system. Banking regulations need to be further simplified and clarified to allow banks to operate commercially.

Despite official commitment to currency convertibility, it was reported that enterprises still faced difficulty in converting local currency into foreign exchanges for trade. The authorities, however, argued that the introduction and implementation of the recently approved antimoney laundering policy imposed additional reporting requirements, and these may on occasion have delayed the process of meeting requests for foreign exchange.

The Government was developing a comprehensive financial sector reform program. One component was to eliminate the distinction between cash and noncash payments. Currently, the civil code requires all transactions between enterprises to be settled in noncash form (bank transfers). Intended to combat the shadow economy, money laundering, and tax evasion, this requirement may have hit normal business activities as well.

The trade regime remained restrictive, ostensibly to protect domestic industries. Relatively high effective rates of protection for consumer goods, including discriminatory excise taxes and administrative restrictions on imports, have suppressed imports and encouraged informal trade—partly explaining the large current account surplus.

SUMMARY TABLES

Economic and Social Indicators
(2000 – 2005)

Table-1 Average Annual Population (thousands)

Country	2000	2001	2002	2003	2004	2005
Afghanistan	NA	21411	21798	22191	23178	23592
Azerbaijan	8049	8111	8172	8234	8307	8392
Iran	63663	65264	65540	66480	67477	68467
Kazakhstan	14884	14858	14859	14909	15013	15147
Kyrgyzstan	4915	4955	4993	5039	5093	5144
Pakistan	137500	140500	146000	146800	149700	152500
Tajikistan	6188	6313	6441	6573	6710	6850
Turkey	67420	68365	69302	70231	71152	72065
Turkmenistan	5285	5505	5788	6120	6250	6544
Uzbekistan	24650	24964	25272	25568	25864	26167
ECO Region	353965	360247	368165	372145	378744	384868
World Total	6070581	6134790	6210505	6286477	6361888	6437682
ECO Share in World Total (%)	5.83	5.87	5.92	5.91	5.95	5.97

Table 2 Population Growth Rate (%)

Country	2000	2001	2002	2003	2004	2005
Afghanistan	NA	1.92	1.92	1.92	2.03	2.03
Azerbaijan	0.80	0.70	0.80	0.80	1.00	1.10
Iran	1.46	1.35	1.56	1.43	1.49	1.46
Kazakhstan	-0.20	-0.10	0.10	0.60	0.80	1.00
Kyrgyzstan	0.80	0.80	0.80	1.10	1.10	0.90
Pakistan	2.15	2.07	2.02	1.96	1.91	1.86
Tajikistan	2.10	2.10	2.10	2.10	2.10	2.10
Turkey	1.41	1.40	1.37	1.34	1.31	1.28
Turkmenistan	3.70	4.16	5.14	5.73	2.12	4.70
Uzbekistan	1.40	1.30	1.20	1.20	1.20	1.20
ECO Region	1.9	1.55	2.28	0.96	1.50	1.53
World	1.3	1.05	1.23	1.22	1.19	1.19

Table 3 Expectation of life at birth by sex (years)

Country	2000	2001	2002	2003	2004	2005
	Male/ Female	Male/ Female	Male/ Female	Male/ Female	Male/ Female	Male/ Female
Afghanistan	40	40	42	43	43	43
	40	40	42	43	43	43
Azerbaijan	68.6	68.6	69.4	69.5	69.6	69.6
	75.1	75.2	75.0	75.1	75.2	75.1
Iran	67.1	67.6	68.1	68.50	68.9	69.4
	71.7	72.2	72.7	73.2	73.6	74.1
Kazakhstan	60.2	60.5	60.7	60.5	60.6	60.3
	71.1	71.3	71.5	71.5	72.0	71.8
Kyrgyzstan	64.9	65.0	64.4	64.5	64.3	64.2
	72.4	72.6	72.1	72.2	72.2	71.9
Pakistan	64.3	66.0	66.0	66.0	66.0	66.0
	62.8	64.7	64.7	64.7	64.7	64.7
Tajikistan	65.0		65.0	66.0	61.2	61.4
	71.0	NA	71.0	72.0	66.4	66.7
Turkey	68.1	68.2	68.4	68.6	68.8	68.9
	72.8	73.0	73.2	73.4	73.6	73.8
Turkmenistan	61.9		64.0	64.0	58.4	
	68.8	NA	70.0	71.0	66.9	NA
Uzbekistan	68.4	68.9	68.9	69.4	70.3	
	73.2	73.6	73.5	73.8	74.7	NA

Table 4 Total Labour Force (thousands)

Country	2000	2001	2002	2003	2004	2005
Afghanistan	7417	7560	7707	7857	8231	NA
Azerbaijan	3748	3763	3778	3801	3865	3907
Iran	37190	37190	37200	38100	38600	40830
Kazakhstan	7107	7479	7400	7657	7841	7902
Kyrgyzstan	1913	1939	1977	2017	2066	2117
Pakistan	40385	41236	43012	43879	45946	46819
Tajikistan	1794	1872	1904	1932	2130	NA
Turkey	23078	23491	23818	23640	24289	24565
Turkmenistan	2120	2179	2244	2320	NA	NA
Uzbekistan	9018	9174	9368	9621	9946	10224
ECO Region	133770	135883	138407	140825	142913	136363

Table 5 Employment by Sectors (%)

Country	Sectors	2000	2001	2002	2003	2004	2005
Afghanistan	Agriculture	NA	NA	NA	NA	70	NA
	Industry	NA	NA	NA	NA	5	NA
	Service	NA	NA	NA	NA	26	NA
Azerbaijan	Agriculture	41	40	40.2	40	39.5	39.3
	Industry	10.9	10.8	11.5	11.5	11.9	12.1
	Service	48.1	49.2	48.3	48.5	48.6	48.6
Iran	Agriculture	26.0	26.07	24.8	21.9	22.90	23.5
	Industry	31.5	30.64	29.6	30.7	30.1	31.20
	Service	42.5	43.29	45.6	47.4	47	45.30
Kazakhstan	Agriculture	31.4	35.5	35.5	35.2	33.5	32.4
	Industry	17.4	16.3	16.3	17.0	17.4	18.0
	Service	51.2	48.2	48.2	47.8	49.1	49.6
Kyrgyzstan	Agriculture	53.1	52.9	52.7	51.9	49.9	48.0
	Industry	10.5	10.4	10.3	10.7	11.5	12.5
	Service	36.4	36.7	37.0	37.5	38.6	39.5
Pakistan	Agriculture	48.2	48.42	42.09	42.09	43.05	43.05
	Industry	18.03	18.03	20.77	20.77	20.30	20.30
	Service	33.55	33.55	37.14	37.14	36.65	36.65
Tajikistan	Agriculture	65.0	66.6	67.6	67.6	66.6	70
	Industry	6.9	6.7	6.6	6.1	5.7	9
	Service	1.5	1.6	1.7	1.7	1.3	21
Turkey	Agriculture	36	34	34.9	34	34	29.5
	Industry	24	23.6	23	23	23	24
	Service	40	42.3	42.1	43	43	46
Turkmenistan	Agriculture	NA	NA	NA	48	NA	NA
	Industry	NA	NA	NA	14	NA	NA
	Service	NA	NA	NA	38	NA	NA
Uzbekistan	Agriculture	34.4	33.5	32.6	31.9	30.7	29.1
	Industry	12.7	12.7	12.7	12.8	13.0	13.2
	Service	45.4	46.1	46.9	47.3	48.1	49.4

Table 6 Unemployment Rate (%)

Country	2000	2001	2002	2003	2004	2005
Afghanistan	NA	3.9	3.9	3.8	3.6	NA
Azerbaijan	1.2	1.3	1.3	1.4	1.4	1.4
Iran	14.3	14.2	12.8	11.8	10.3	11.5
Kazakhstan	12.8	10.4	9.3	8.8	8.4	8.1
Kyrgyzstan	3.0	3.1	3.1	2.8	2.8	3.3
Pakistan	7.8	7.8	8.3	8.3	7.7	7.7
Tajikistan	2.7	2.3	2.5	2.4	2.0	2.1
Turkey	6.5	8.4	10.3	10.5	10.3	10.3
Turkmenistan	2.4	2.6	2.5	2.5	NA	NA
Uzbekistan	0.4	0.4	0.4	0.3	0.4	0.3

Table 7 GDP at Constant Prices (US$ Million)

Country	2000	2001	2002	2003	2004	2005
Afghanistan	NA	2530	4388	4586	5167	5701
Azerbaijan	4947	5259	5736	6717	8054	11590
Iran[8]	350910	369799	398743	430775	458795	NA
Kazakhstan	18525	20762	24323	26928	33793	47206
Kyrgyzstan	NA	NA	NA	NA	NA	NA
Pakistan	73906	66769	65567	72188	78758	81995
Tajikistan	796	826	1028	1224	1768	2110
Turkey[9]	118789113	109885336	118612222	125485113	136692580	146780723
Turkmenistan	NA	NA	NA	NA	NA	NA
Uzbekistan	NA	NA	NA	NA	NA	NA

[8] The figures for Iran are in billion rials
[9] The figures for Turkey are in million Turkish Liras

Table 8 GDP at Current Prices (US$ Million)

Country	2000	2001	2002	2003	2004	2005
Afghanistan	2713	2620	4388	4763	5729	6853
Azerbaijan	5273	5708	6236	7276	8680	12554
Iran	78878	91997	117787	143508	172408	231242
Kazakhstan	18292	22152	24637	30833	43150	56088
Kyrgyzstan	1367	1530	1615	1933	2219	2461
Pakistan	73906	72038	72483	83344	97978	110924
Tajikistan	976	1081	1221	1557	2076	2310
Turkey	198389	147285	182564	241302	300578	361470
Turkmenistan	5022	6933	8700	11424	14196	17174
Uzbekistan	13717	11632	9657	10129	12001	13670
ECO Region	398533	362976	429287	536068	659015	814746

Table 9 GDP Per Capita (Current Prices) **($US)**

Country	2000	2001	2002	2003	2004	2005
Afghanistan	-	90	201	215	247	290
Azerbaijan	665	714	775	897	1060	1518
Iran	1238	1409	1776	2130	2520	3330
Kazakhstan	1229	1491	1658	2068	2874	3703
Kyrgyzstan	278	309	323	384	436	478
Pakistan	537	513	506	568	655	727
Tajikistan	158	171	190	237	310	337
Turkey	2941	2146	2622	3412	4187	5016
Turkmenistan	950	1259	1503	1867	2271	2624
Uzbekistan	556	466	382	396	464	579
ECO Region	1126	1008	1166	1440	1740	2117

Table 10 GDP Growth Rate (%)

Country	2000	2001	2002	2003	2004	2005
Afghanistan	NA	-20.0	28.6	14.3	9.4	14.5
Azerbaijan	11.1	9.9	10.6	11.2	10.2	26.4
Iran	5.9	5.4	7.8	8.0	6.5	5.4
Kazakhstan	9.8	13.5	9.8	9.3	9.6	9.4
Kyrgyzstan	5.4	5.3	0.0	7.0	7.0	-0.2
Pakistan	3.91	2.0	3.10	4.7	7.5	8.6
Tajikistan	8.3	9.6	10.8	11.0	10.3	6.7
Turkey	7.4	-7.5	7.9	5.8	8.9	7.4
Turkmenistan	18.6	20.4	15.8	17.1	14.7	9.6
Uzbekistan	3.8	4.2	4.0	4.2	7.7	7.0
ECO Region	6.2	1.1	7.3	6.9	8.0	7.6

Table 11 Composition of GDP by Sectors (%)

Country	Sectors	2000	2001	2002	2003	2004	2005
Afghanistan	Agriculture	57.0	53.3	44.5	45.1	40.7	38.9
	Industry	23.2	24.7	19.5	18.3	22.8	24.4
	Service	19.8	22	36	36.6	36.5	37.4
Azerbaijan	Agriculture	15.9	14.8	14.0	12.4	11.0	9.2
	Industry	36.0	37.6	37.4	37.3	38.3	47.5
	Service	48.1	47.6	48.6	50.3	50.7	43.3
Iran	Agriculture	11.7	11.2	11.3	10.8	9.8	8.1
	Industry	39.8	36.8	39.2	38.5	40.1	48.1
	Service	48.4	52.0	49.5	50.7	50.1	43.8
Kazakhstan	Agriculture	8.2	8.8	8.0	7.9	7.1	6.4
	Industry	32.6	30.7	29.5	29.1	29.3	29.7
	Service	53.5	54.7	56.9	57.7	59.5	60.1
Kyrgyzstan	Agriculture	34.2	34.5	34.4	33.6	29.9	28.5
	Industry	25.0	23.1	17.9	17.3	19.2	17.3
	Service	29.6	31.4	35.6	36.8	38.3	40.7
Pakistan	Agriculture	25.9	24.9	24.1	24.0	22.9	22.0
	Industry	23.3	23.8	23.7	23.6	25.5	26.0
	Service	50.7	51.3	52.1	52.4	51.6	51.0
Tajikistan	Agriculture	25.1	23.8	22.2	24.2	19.2	21.4
	Industry	23.3	23.8	23.7	23.6	25.5	26.0
	Service	50.7	51.3	52.1	52.4	51.6	51.0
Turkey	Agriculture	13.6	11.4	11.4	11.6	11.1	10.1
	Industry	22.5	24.2	24.2	23.8	23.8	24.4
	Service	63.8	64.4	64.4	64.6	65.1	65.6
Turkmenistan	Agriculture	23.0	23.8	20.8	25.0	28.5	NA
	Industry	35.0	37.0	36.0	44.0	42.7	NA
	Service	42.0	39.2	43.2	31.0	28.8	NA
Uzbekistan	Agriculture	30.1	30.0	30.1	28.6	26.4	25.0
	Industry	14.2	14.1	14.5	15.8	17.5	20.7
	Service	55.7	55.9	55.4	55.6	56.1	54.3

Table 12 Public Sector Revenue (US$ Million)

Country	2000	2001	2002	2003	2004	2005
Afghanistan	NA	576.4	1521.5	1650.5	1964.9	NA
Azerbaijan	798.6	842.7	936.3	1243.1	1536.0	2172.6
Iran[10]	NA	152441.0	218216.0	371829.0	432590.0	456237.0
Kazakhstan	4143.6	4970.8	5277.4	7088.2	10039.4	15662.9
Kyrgyzstan	210.2	258.9	307.0	370.8	429.7	496.6
Pakistan	9899.0	9463.0	10160.0	12321.0	13996.0	15162.0
Tajikistan	137.5	161.1	205.1	269.3	371.7	416.9
Turkey	61312.0	48000.0	57276.0	72642.0	92812.0	115851.0
Turkmenistan	NA	NA	NA	NA	NA	NA
Uzbekistan	NA	NA	NA	NA	NA	NA

Table 13 Share of Taxes in Public Sector Revenue (%)

Country	2000	2001	2002	2003	2004	2005
Afghanistan	NA	NA	28.8	49.0	71	90.3
Azerbaijan	80.4	91.0	91.8	82.4	81.6	85.4
Iran	39.4	36.2	30.9	22.5	25.7	36.3
Kazakhstan	89.3	86.7	93.2	94.3	92.2	95.2
Kyrgyzstan	76.5	73.3	72.7	73.5	76.2	80.3
Pakistan	79.1	79.9	76.8	77.1	76.9	73.3
Tajikistan	92.8	91.9	87.6	96.4	94.5	92.0
Turkey	82.5	81.6	76.6	84.1	83.2	84.7
Turkmenistan	NA	NA	NA	NA	NA	NA
Uzbekistan	NA	NA	NA	NA	NA	NA

[10] The figures for Iran are in billion rials

Table 14 Public Sector Expenditure (US$ Million)

Country	2000	2001	2002	2003	2004	2005
Afghanistan	NA	NA	346.3	448.4	560.9	665.6
Azerbaijan	853.7	867.1	958.4	1257.0	1528.6	2262.9
Iran[11]	120945.0	148173.0	243611.0	400469.0	474642.0	527787.0
Kazakhstan	4166.3	5057.3	5361.0	7408.4	10183.2	14525.5
Kyrgyzstan	237.0	253.0	323.6	386.4	441.6	491.1
Pakistan	13696.0	12284.0	13451.0	15353.0	16332.0	18818.0
Tajikistan	143.0	160.1	196.4	252.3	367.1	452.8
Turkey	85117.0	71738.0	80544.0	94949.0	106944.0	118306.0
Turkmenistan	NA	NA	NA	NA	NA	NA
Uzbekistan	NA	NA	NA	NA	NA	NA

Table 15 Total Foreign Direct Investment (US$ Million)

Country	2000	2001	2002	2003	2004	2005
Afghanistan	NA	NA	NA	136.5	235.4	173.7
Azerbaijan	664.0	899.8	2011.9	3017.8	4192.0	4161.5
Iran	39.0	61.0	548.0	482.0	99.6	30.0
Kazakhstan	1278.1	2860.6	2163.8	2213.3	5391.5	1721.1
Kyrgyzstan	89.6	90.1	115.7	147.0	175.6	210.3
Pakistan	469.9	322.5	484.7	798.0	949.0	1524.0
Tajikistan	23.2	8.1	36.1	31.6	22.4	54.5
Turkey	112.0	2855.0	962.0	1253.0	1978.0	8638.0
Turkmenistan	126.0	170.0	100.0	100.0	-15.3	61.5
Uzbekistan	75.0	83.0	65.0	70.0	1.2	45.4
ECO Region[12]	2877.0	7350.0	4677.0	8249.0	13030.0	16620.0

[11] The figures for Iran are in billion rials
[12] ECO Region total is calculated without Afghanistan for 2000/2002.

Table 16 Total Domestic Investment/GDP (%)

Country	2000	2001	2002	2003	2004	2005
Afghanistan	NA	NA	11.6	13.1	17.5	21.3
Azerbaijan	9.8	8.0	9.0	13.0	15.5	17.7
Iran	24.0	25.0	23.4	22.3	21.3	NA
Kazakhstan	18.1	26.9	27.3	25.7	26.3	27.5
Kyrgyzstan	6.3	7.7	8.4	7.0	7.2	8.2
Pakistan	17.2	17.0	16.6	16.8	16.6	18.1
Tajikistan	11.3	5.7	1.6	6.2	7.5	NA
Turkey	21.8	17.2	16.5	15.5	18.0	19.8
Turkmenistan	NA	NA	NA	NA	NA	NA
Uzbekistan	17.6	19.3	16.4	15.2	16.1	16.0

Table 17 Gross Domestic Saving/GDP (%)

Country	2000	2001	2002	2003	2004	2005
Afghanistan	NA	NA	-19.4	-35.8	-31.8	-24.8
Azerbaijan	20.7	20.7	34.7	53.0	58.0	45.7
Iran	NA	NA	NA	NA	NA	NA
Kazakhstan	26.0	28.7	33.8	34.3	34.9	36.2
Kyrgyzstan	14.4	16.8	17.4	7.6	10.4	8.2
Pakistan	17.1	17.8	18.1	17.6	15.0	14.5
Tajikistan	9.4	9.7	9.4	10.0	18.4	NA
Turkey	18.4	17.3	19.1	19.1	20.2	20.3
Turkmenistan	NA	NA	NA	NA	NA	NA
Uzbekistan	NA	NA	NA	NA	NA	NA

Table 18 Money Supply (M2) Growth (%)

Country	2000	2001	2002	2003	2004	2005
Afghanistan	NA	NA	NA	29.3	37.4	19.2
Azerbaijan	16.0	07.8	15.0	28.0	31.9	15.8
Iran	29.3	28.8	30.1	26.1	30.2	34.3
Kazakhstan	NA	NA	NA	NA	NA	NA
Kyrgyzstan	12.1	11.3	34.0	33.5	32.0	9.9
Pakistan	9.4	9.0	15.4	18.0	19.6	19.3
Tajikistan	57.2	68.0	11.7	50.4	5.8	19.5
Turkey	14.5	-30.9	15.3	56.5	36.4	34.9
Turkmenistan	83.3	23.8	1.5	40.9	13.4	NA
Uzbekistan	37.1	54.3	29.7	27.1	47.8	56.1

Table 19 Exchange Rate: Annual Average (nat.cu/US$)

Country	2000	2001	2002	2003	2004	2005
Afghanistan	NA	55.73	44.8	48.95	47.57	49.40
Azerbaijan	0.89	0.93	0.97	0.98	0.98	0.95
Iran	8188.00	8008.00	8019.00	8323.00	8747.00	9013.00
Kazakhstan	142.13	146.74	153.28	149.58	136.04	132.88
Kyrgyzstan	47.72	48.44	46.94	43.72	42.67	41.01
Pakistan	51.77	58.44	61.43	58.50	57.57	59.36
Tajikistan	1.83	2.37	2.76	3.06	2.97	3.12
Turkey	0.62	1.23	1.51	1.49	1.42	1.34
Turkmenistan	5200.00	5200.00	5200.00	5200.00	5200.00	5200.00
Uzbekistan	236.61	423.31	769.50	971.30	1020.00	1180.00

Table 20 Annual Average Inflation Rate (% Annual Change in CPI)

Country	2000	2001	2002	2003	2004	2005
Afghanistan	NA	10.0	9.8	11.7	11.0	11.4
Azerbaijan	1.8	1.5	2.8	2.2	6.7	9.6
Iran	12.6	11.4	15.8	15.6	15.2	12.1
Kazakhstan	13.2	8.4	5.9	6.4	6.9	7.6
Kyrgyzstan	18.7	6.9	2.0	3.1	4.1	4.3
Pakistan	3.6	4.4	3.5	3.1	4.6	9.3
Tajikistan	60.6	12.5	14.5	13.7	5.7	7.1
Turkey	39.0	68.5	29.7	18.4	9.3	7.7
Turkmenistan	7.2	11.6	8.7	6.5	10.0	10.5
Uzbekistan	28.2	26.6	21.6	3.8	3.7	7.8
ECO Region	23.9	31.2	18.9	13.5	9.5	9.1

Table 21 Total Production of Energy (th.t.o.e)

Country	**2000**	**2001**	**2002**	**2003**	**2004**	**2005**
Afghanistan	NA	NA	NA	NA	NA	NA
Azerbaijan	1608	1631	1608	1831	1870	1947
Iran	NA	240619	237981	272990	292073	317335
Kazakhstan	117298	118280	132303	148187	157302	NA
Kyrgyzstan[13]	14931	13667	11922	14021	15141	14891
Pakistan	26497	27344	29075	31142	36782	40226
Tajikistan	14247	14382	15302	16509	16491	17087
Turkey	26047	24576	24259	23783	24332	26898
Turkmenistan	45968	50443	53645	58551	NA	NA
Uzbekistan	4031	4125	4249	4193	4275	NA

Table 22 Total Consumption of Energy (th.t.o.e)

Country	**2000**	**2001**	**2002**	**2003**	**2004**	**2005**
Afghanistan	NA	598	592	741	623	691
Azerbaijan	1412	1469	1403	1583	1630	1677
Iran	NA	95266	102170	107556	117439	128894
Kazakhstan	66890	67789	81292	85669	88572	NA
Kyrgyzstan[14]	11918	11543	10044	11748	11865	12230
Pakistan	25280	25251	25599	26308	28979	32104
Tajikistan	15580	15731	16087	16518	16835	NA
Turkey	80500	75402	78331	83826	87818	91286
Turkmenistan	13885	15309	16606	17203	NA	NA
Uzbekistan	4141	4168	4242	4192	4253	NA

Table 23 Total Arable Land (th. hectares)

Country	**2000**	**2001**	**2002**	**2003**	**2004**	**2005**
Afghanistan	7910	7910	7910	7910	7910	7910
Azerbaijan	1042	1162	1223	1220	1294	1328
Iran	15020	15861	16029	16197	16365	16533
Kazakhstan	21399	22270	22800	22657	23230	23398
Kyrgyzstan	1367	1344	1345	1344	1334	1284
Pakistan	31050	31300	31220	31160	31220	31150
Tajikistan	864	850	823	887	906	901
Turkey	25987	25744	25938	25316	25812	NA
Turkmenistan	1850	1850	1850	2200	2200	2200
Uzbekistan	4054	4052	4031	4021	4026	4057

[13] in mln. kw./h.
[14] in mln. kw./h.

Table 24 Total Length of Railways (th. km)

Country	2000	2001	2002	2003	2004	2005
Afghanistan	NA	0	0	0	0	0
Azerbaijan	2.1	2.1	2.1	2.1	2.1	2.1
Iran	6.7	7.2	7.3	7.3	7.6	8.3
Kazakhstan	14.5	14.6	14.6	14.6	15.1	NA
Kyrgyzstan	0.4	0.4	0.4	0.4	0.4	0.4
Pakistan	7.8	7.8	7.8	7.8	7.8	7.8
Tajikistan	0.9	0.9	0.9	1.0	1.0	NA
Turkey	8.7	8.7	8.7	8.7	8.7	8.7
Turkmenistan	2.5	2.5	2.5	2.5	2.5	NA
Uzbekistan	3.5	3.9	4.0	4.0	4.0	4.0

Table 25 Net Ton-Kilometres Carried by Railways (th.ton-km)

Country	2000	2001	2002	2003	2004	2005
Afghanistan	NA	0	0	0	0	0
Azerbaijan	5770000	6141000	6980000	7719000	7536000	9524000
Iran	14179000	14613000	15842000	18048000	18182.000	19127000
Kazakhstan	124983000	135653000	133088000	147672000	163454700	173814700
Kyrgyzstan	337900	331600	394600	561700	71400	661800
Pakistan	4370925	4519528	4572734	4819756	5336000	5532000
Tajikistan	1326200	1250000	1086200	1085500	1117500	1062600
Turkey	9895346	7561601	7224000	8669000	9417000	9152000
Turkmenistan	6303000	6437000	7476000	NA	NA	NA
Uzbekistan	15020500	15731900	18427900	18886600	18006900	18090000

Table 26 Total Length of Asphalted Roads (th.km)

Country	2000	2001	2002	2003	2004	2005
Afghanistan	NA	0.4	0.4	0.6	1.0	2.0
Azerbaijan	7.0	7.0	7.0	7.0	7.0	6.6
Iran	101.0	113.1	118.2	121.0	NA	124.6
Kazakhstan	11.9	12.1	12.3	13.4	14.5	NA
Kyrgyzstan	17.2	17.2	17.2	17.2	17.2	NA
Pakistan	138.2	144.6	148.8	153.2	158.5	162.8
Tajikistan	12.6	13.0	12.2	12.0	11.9	NA
Turkey	138.6	145.6	150.9	153.6	152.3	154.4
Turkmenistan	12.2	12.2	12.2	NA	NA	NA
Uzbekistan	42.1	42.2	42.3	42.3	42.1	41.6

Table 27 Number of Registered Motor Vehicles (th.)

Country	2000	2001	2002	2003	2004	2005
Afghanistan	NA	84.1	175.4	339.6	402.4	486.1
Azerbaijan	450.8	462.0	466.8	522.0	563.7	620.0
Iran	342.0	452.0	748.0	1926.0	2374.0	2054.0
Kazakhstan	1279.0	1349.5	1365.1	1471.5	1532.3	NA
Kyrgyzstan	NA	NA	NA	NA	NA	NA
Pakistan	4701.0	4843.0	5049.0	5132.0	5396.0	5479.0
Tajikistan	NA	NA	NA	NA	NA	NA
Turkey	7161.0	7343.0	7476.0	7720.0	10236.0	11146.0
Turkmenistan	NA	NA	NA	NA	NA	NA
Uzbekistan	NA	NA	NA	NA	NA	NA

Table 28 Number of Civil Aircrafts

Country	2000	2001	2002	2003	2004	2005
Afghanistan	NA	7	7	7	7	7
Azerbaijan	140	139	131	134	131	130
Iran	93	97	102	85	106	120
Kazakhstan	NA	NA	NA	NA	NA	NA
Kyrgyzstan	60	111	113	116	89	87
Pakistan	156	159	178	180	155	157
Tajikistan	NA	NA	NA	NA	NA	NA
Turkey	126	145	138	138	142	NA
Turkmenistan	NA	NA	NA	NA	NA	NA
Uzbekistan	NA	NA	NA	NA	NA	NA

Table 29 Number of Merchant Ships (Thousand gross registered tons)

Country	2000	2001	2002	2003	2004	2005
Afghanistan	NA	NA	NA	NA	NA	NA
Azerbaijan	80	93	98	110	117	128
Iran	NA	99	96	94	99	103
Kazakhstan	11	13	12	15	26	43
Kyrgyzstan	35	36	39	39	34	26
Pakistan	261	248	265	322	301	398
Tajikistan	NA	NA	NA	NA	NA	NA
Turkey	5836	5890	5659	4951	4679	5020
Turkmenistan	43	47	46	47	43	48
Uzbekistan	NA	NA	NA	NA	NA	NA

Table 30 Number of Hospital Beds per 10.000 Populations

Country	2000	2001	2002	2003	2004	2005
Afghanistan	2.8	2.8	1.6	5.7	4.7	4.7
Azerbaijan	87.8	86.0	85.0	83.6	83.0	82.7
Iran	16.6	16.9	16.9	16.7	16.7	16.5
Kazakhstan	72.1	74.4	75.3	76.8	77.4	77.3
Kyrgyzstan	74.5	65.6	58.1	55.9	54.4	54.0
Pakistan	6.7	6.9	6.7	6.6	6.6	6.6
Tajikistan	65.8	63.4	62.1	60.6	59.8	58.6
Turkey	23.2	23.3	23.4	23.5	24.2	24.5
Turkmenistan	50.4	50.7	50.2	NA	NA	NA
Uzbekistan	55.9	55.8	57.8	57.4	54.9	54.1

Table 31 Number of Physicians per 10.000 Populations

Country	2000	2001	2002	2003	2004	2005
Afghanistan	0.6	1.4	1.6	2.0	1.8	1.8
Azerbaijan	36.5	36.0	36.5	36.0	36.6	36.0
Iran	3.3	3.1	3.1	3.1	3.2	3.2
Kazakhstan	33.0	34.6	36.1	36.5	36.3	36.5
Kyrgyzstan	29.1	28.2	27.3	27.0	26.7	26.0
Pakistan	7.0	6.8	7.0	7.2	7.4	7.7
Tajikistan	21.6	21.0	20.1	19.1	19.2	19.2
Turkey	12.6	13.3	13.7	13.9	14.6	NA
Turkmenistan	29.3	28.8	28.6	NA	NA	NA
Uzbekistan	32.8	32.4	31.9	31.4	29.9	29.1

Table 32 Annual Public Health Expenditures per Person (US $)

Country	2000	2001	2002	2003	2004	2005
Afghanistan	NA	0.9	0.9	1.2	1.1	NA
Azerbaijan	5.8	5.6	5.7	6.9	9.0	14.6
Iran	NA	NA	NA	NA	NA	NA
Kazakhstan	25.7	28.5	31.1	40.3	64.3	92.4
Kyrgyzstan	5.6	5.8	6.6	7.4	8.9	10.9
Pakistan	3.4	3.0	3.2	3.8	4.3	4.3
Tajikistan	1.5	1.6	1.7	2.2	2.9	3.8
Turkey	122.0	85.6	113.2	119.7	165.6	NA
Turkmenistan	NA	NA	NA	NA	NA	NA
Uzbekistan	NA	NA	NA	NA	NA	NA

Table 33 Adult Literacy Rate (%)

Country	2000	2001	2002	2003	2004	2005
Afghanistan	36.9	NA	NA	NA	28.1	29.0
Azerbaijan	98.8	98.8	98.8	98.8	98.8	98.8
Iran	76.3	77.5	78.8	80.9	81.7	82.3
Kazakhstan	99.5	99.5	99.5	99.5	99.5	99.5
Kyrgyzstan	98.7	98.7	98.7	98.7	98.7	98.7
Pakistan	47.1	49.0	50.5	51.6	53.0	53.0
Tajikistan	99.5	99.8	99.8	99.8	99.8	99.0
Turkey	86.5	86.3	87.5	88.3	87.4	88.1
Turkmenistan	98.0	98.0	98.0	98.0	98.0	99.0
Uzbekistan	99.2	99.2	99.2	99.2	99.2	NA

Table 34 Annual Public Primary Education Expenditure per Person (US$)

Country	2000	2001	2002	2003	2004	2005
Afghanistan	NA	NA	26.2	55.2	48.5	23.8
Azerbaijan	18.0	17.6	17.0	20.7	25.5	31.0
Iran	NA	NA	NA	NA	NA	NA
Kazakhstan	40.0	48.7	53.0	66.8	93.5	128.1
Kyrgyzstan	25.8	31.3	35.3	42.4	50.3	60.5
Pakistan	NA	NA	NA	NA	NA	NA
Tajikistan	3.7	4.1	4.9	5.6	8.2	11.7
Turkey	208.0	309.0	444.0	651.0	NA	NA
Turkmenistan	NA	NA	NA	NA	NA	NA
Uzbekistan	NA	NA	NA	NA	NA	NA

Table 35 Population Below National Income Poverty Line (th.)

Country		2000	2001	2002	2003	2004	2005
Afghanistan		NA	NA	NA	NA	NA	NA
Azerbaijan		NA	50	NA	NA	NA	NA
Iran	Male		11%	11%	12%		
(%)	Female	NA	11.5%	10%	10%	NA	NA
Kazakhstan (%)		31.8	28.4	24.2	19.8	16.1	9.8
Kyrgyzstan		62.0	56.2	54.7	49.8	45.9	43.8
Pakistan (%)		NA	35.0	NA	NA	NA	23.9
Tajikistan		NA	NA	NA	56.6	NA	NA
Turkey		NA	NA	27.0	28.1	25.6	20.5
Turkmenistan		NA	NA	NA	NA	NA	NA
Uzbekistan		27.5	NA	NA	26.2	NA	NA

Table 36 Main Telephone Lines per 1.000 Populations

Country	2000	2001	2002	2003	2004	2005
Afghanistan	4	8	8	8	8	9
Azerbaijan	100	107	114	115	122	129
Iran	149	169	197	231	264	297
Kazakhstan	138	145	151	169	170	176
Kyrgyzstan	79	85	95	107	134	191
Pakistan	23	24	25	34	30	34
Tajikistan	28	28	29	30	31	33
Turkey	282	276	271	268	266	NA
Turkmenistan	NA	NA	NA	NA	NA	NA
Uzbekistan	7	7	7	7	7	7

Table 37 Number of PCs per 1.000 Populations

Country	2000	2001	2002	2003	2004	2005
Afghanistan	NA	NA	NA	NA	NA	NA
Azerbaijan	NA	NA	NA	NA	NA	23.0
Iran	63.0	69.7	74.8	87.2	103.7	NA
Kazakhstan	4.0	6.0	9.0	14.0	20.0	20.0
Kyrgyzstan	NA	79.0	97.0	106.0	122.0	NA
Pakistan	NA	NA	NA	NA	NA	NA
Tajikistan	NA	NA	NA	NA	NA	NA
Turkey	NA	NA	NA	NA	NA	NA
Turkmenistan	NA	NA	NA	NA	NA	NA
Uzbekistan	NA	NA	4.9	6.2	6.2	7.2

Table 38 Internet Subscribers per 1.000 Populations

Country	2000	2001	2002	2003	2004	2005
Afghanistan	NA	NA	NA	1.0	1.0	1.0
Azerbaijan	NA	3.0	37.0	43.0	49.0	80.0
Iran	3.0	26.3	48.8	82.7	103.7	103.0
Kazakhstan	2.0	6.2	9.0	12.4	13.5	18.8
Kyrgyzstan	NA	30.0	30.0	40.0	52.0	54.0
Pakistan	4.0	6.0	7.0	11.0	13.0	14.0
Tajikistan	0.0	0.0	0.1	0.1	0.4	2.8
Turkey	24.9	23.6	18.8	12.8	20.5	31.2
Turkmenistan	NA	2.0	NA	4.0	8.0	NA
Uzbekistan	NA	NA	NA	1.2	3.6	NA

Table 39 Number of Incoming Tourists (th.)

Country	2000	2001	2002	2003	2004	2005
Afghanistan	40.0	NA	NA	NA	NA	NA
Azerbaijan	681.0	767.0	793.0	1066.0	1197.0	1261.7
Iran	1342.0	1402.0	1585.0	1830.0	1659.0	NA
Kazakhstan	1683.0	2693.0	3678.0	3237.0	4291.0	4365.0
Kyrgyzstan[15]	58.8	98.6	245.8	342.0	1041.3	809.6
Pakistan	556.8	499.7	498.1	500.9	648.0	798.3
Tajikistan	0.0	0.3	0.6	0.9	0.4	0.3
Turkey	10428.0	11619.0	13248.0	13956.0	17546.0	21125.0
Turkmenistan	330.0	520.0	1080.0	NA	NA	NA
Uzbekistan	552.8	530.0	439.0	471.4	517.5	474.5
ECO Region	15672.4	18129.6	21567.5	21404.9	26900.2	28834.4

[15] According to figures of the Boundary crevice of the Kyrgyz Republic for 2004 and 2005.

Table 40 Total External Trade (US$ Million)

Country		2000	2001	2002	2003	2004	2005
Afghanistan	Import	1176.0	1696.0	2452.0	2101.0	2177.0	2471.0
	Export	137.0	68.0	100.0	144.0	305.0	384.0
	Balance	-1039.0	-1628.0	-2352.0	-1957.0	-1872.0	-2087.0
Azerbaijan	Import	2917.3	3745.0	3832.9	5216.6	7131.0	8558.0
	Export	2610.5	3487.9	3726.0	5123.5	7008.0	8096.0
	Balance	-306.8	-257.1	-106.9	-93.1	-123.0	-462.0
Iran	Import	15086.0	18129.0	22036.0	29561.0	38199.0	40969.0
	Export	28461.0	23904.0	28237.0	33991.0	43852.0	60012.0
	Balance	13375.0	5775.0	6201.0	4430.0	5653.0	19043.0
Kazakhstan	Import	5040.0	6446.0	6584.0	8408.7	12781.2	17352.5
	Export	8812.2	8639.1	9670.3	12926.7	20096.2	27849.0
	Balance	3772.2	2193.1	3086.3	4518.0	7315.0	10496.5
Kyrgyzstan	Import	554.1	467.2	586.8	717.0	941.0	1101.3
	Export	504.5	476.2	485.5	581.7	718.8	672.0
	Balance	-49.6	9.0	-101.3	-135.3	-222.2	-429.3
Pakistan	Import	10810.0	10209.0	11252.0	13037.0	17905.0	25331.0
	Export	8913.0	9186.0	9874.0	11844.0	12954.0	15917.0
	Balance	-1897.0	-1023.0	-1378.0	-1193.0	-4951.0	-9414.0
Tajikistan	Import	675.0	687.5	720.5	880.8	1191.0	1330.0
	Export	784.3	651.5	736.9	797.2	915.0	909.0
	Balance	109.3	-36.0	16.4	-83.6	-276.0	-421.0
Turkey	Import	54502.8	41399.1	51553.8	69339.7	97539.8	116774.0
	Export	27774.9	31334.2	36059.1	47252.8	63167.2	73476.0
	Balance	-26727.9	-10064.9	-15494.7	-22086.9	-34372.6	-43298.0
Turkmenistan	Import	1785.0	2349.0	2119.4	2512.0	2850.0	4364.0
	Export	2505.5	2620.2	2855.6	3632.0	4000.0	6174.0
	Balance	720.5	271.2	736.2	1120.0	1150.0	1810.0
Uzbekistan	Import	2947.4	3136.9	2712.0	2964.2	3816.0	4091.3
	Export	3264.7	3170.4	2988.4	3725.0	4853.0	5408.8
	Balance	317.3	33.5	277.4	760.8	1037.0	1317.5
ECO Region	Import	95493.6	88264.7	103849.4	134738.0	184531.0	222342.1
	Export	83767.6	83537.5	94732.8	120017.9	157869.2	198897.8
	Balance	-11726.0	-4727.2	-9116.6	-14720.1	-26661.8	-23444.3
ECO Total Trade Volume		179261.2	171802.2	198582.2	254755.9	342400.2	421239.9
ECO Export/Import (%)		87.72	94.64	91.2	89.07	85.5	89.45
World Total	Import	**6724000.0**	**6481100.0**	**6739800.0**	**7856600.0**	**9555600.0**	**10783400.0**
	Export	**6345000.0**	**6070000.0**	**6349000.0**	**7418000.0**	**9017000.0**	**10275000.0**
ECO Share in World Total (%)	Import	1.42	1.36	1.54	1.71	1.93	2.06
	Export	1.32	1.37	1.49	1.61	1.75	1.93

TABLE- 41 ECO INTRA-REGIONAL TRADE (US$ Million)

Member States	Year	Afghanistan		Azerbaijan		Iran		Kazakhstan		Kyrgyzstan		Pakistan		Tajikistan		Turkey		Turkmenistan		Uzbekistan		Total ECO		% of Total Trade	
		IMP	EXP	IMP	EXP	IMP	EXP	IMP	EXP	IMP	EXP	IMP	EXP	IMP	EXP	IMP	EXP	IMP	EXP	IMP	EXP	IMP	EXP	IMP	EXP
Afghanistan	2001	...	...	...	...	37.0		0.2	...	...	...	157.0	26.0	...	...	8.0	1.0	46.0	...	18.0	...	266	27	15.7	39.7
	2002	...	...	...	...	116.0	1.0	14.0	...	...	...	207.0	26.0	5.0	...	92.0	4.0	50.0	...	88.0	...	572	31	23.33	31
	2003	...	...	...	...	105.0	2.0	7.0	...	...	...	181.0	99.0	1.0	...	8.0	5.0	14.0	...	25.0	1.0	341	107	16.23	74.3
	2004	...	...	...	...	183.0	4.0	13.0	...	...	...	326.0	258.0	2.0	0.2	11.0	5.0	28.0	...	95.0	1.0	658	268.2	30.22	87.9
	2005	...	...	34.0	...	183.0	4.0	13.0	...	...	...	326.0	258.0	2.0	0.2	11.0	5.0	26.0	...	95.0	1.0	690	268.2	27.92	69.84
Azerbaijan	2001	0.0	0.8	...	...	55.4	9.1	99.5	6.6	1.4	0.3	0.8	3.6	0.9	12.1	148.2	67.4	135.2	12.0	135.2	12.0	576.6	123.9	15.4	3.6
	2002	0.0	0.7	...	...	57.9	29.9	149.8	11.6	0.7	1.1	1.1	2.5	0.4	28.0	156.2	83.4	119.8	8.6	119.8	8.6	605.7	174.4	15.8	4.7
	2003	0.0	0.6	...	...	50.6	49.1	138.7	10.1	0.8	0.2	1.1	0.0	1.0	34.4	195.3	107.0	188.4	5.8	188.4	5.8	764.3	213.0	14.7	4.2
	2004	0.0	2.2	...	...	45.3	153.5	236.7	9.4	1.4	0.3	1.6	0.0	0.0	46.5	225.0	182.6	114.4	143.4	114.4	143.4	738.8	681.3	10.4	9.7
	2005	0.0	11.7	...	...	76.3	166.5	95.3	17.2	1.5	1.8	2.3	0.7	0.1	78.9	313.0	276.0	243.0	273.6	243.0	273.6	974.5	1100.0	11.4	13.6
Iran	2001	0.7	51.9	20.9	313.6	...	...	270.1	33.9	11.6	16.8	61.1	87.0	1.0	39.1	290.7	58.2	15.9	75.5	44.1	82.5	716.0	758.5	3.9	3.2
	2002	0.5	150.1	25.3	250.1	...	...	262.1	50.8	8.7	22.6	88.0	141.9	8.2	61.0	368.8	102.7	19.1	88.4	57.2	69.6	837.9	937.2	3.8	3.3
	2003	1.8	259.9	96.5	307.4	...	...	284.6	47.7	7.6	30.1	88.5	138.0	13.7	77.5	51.8	110.6	52.7	135.6	96.0	76.3	693.1	1183.1	2.3	28.7
	2004	4.0	183.0	153.5	45.3	...	...	712.0	13.0	3.5	7.0	102.2	271.7	29.6	26.3	813.0	1962.1	52.7	135.6	336.4	35.5	2206.9	2679.5	6.0	6.0
	2005	...	...	166.5	76.3	...	...	886.1	14.8	3.9	5.6	177.9	362.7	36.7	30.9	899.5	3468.6	52.7	135.6	431.7	30.5	2655.0	4,125.0	6.5	6.9
Kazakhstan	2001	0.0	18.2	10.7	69.3	11.0	208.9	...	...	33.5	87.0	0.5	0.5	2.3	61.2	136.9	74.2	75.5	14.2	81.1	150.2	318.0	596.7	4.9	6.9
	2002	0.0	31.1	15.5	112.7	12.4	309.9	...	...	31.8	108.6	0.4	0.4	3.0	45.7	173.7	97.4	74.6	15.3	86.5	101.0	397.9	822.1	6.0	8.5
	2003	0.0	49.4	13.7	113.5	12.8	411.1	...	...	54.8	156.4	0.7	0.7	7.3	75.7	209.0	99.2	49.1	37.2	89.7	137.9	437.1	1081.1	5.2	8.4
	2004	0.3	86.4	16.1	287.1	13.0	712.0	...	...	91.2	222.0	0.7	0.7	3.5	136.1	342.4	147.1	75.6	26.1	227.6	201.7	770.1	1819.2	6.0	9.1
	2005	0.2	163.9	21.3	129.1	14.8	886.1	...	...	118.6	225.5	2.1	2.1	17.0	150.6	399.9	157.0	50.7	17.3	254.5	242.6	878.9	1974.2	5.1	7.1
Kyrgyzstan	2001	...	1.6	0.4	2.1	6.6	8.2	81.8	39.0	...	...	0.2	0.1	1.5	6.7	15.8	13.8	9.0	1.5	66.7	48.0	182.0	121.0	39.0	25.4
	2002	...	4.4	2.4	5.6	4.3	4.7	123.9	36.8	...	...	0.3	...	3.5	10.2	17.0	16.4	1.7	2.4	60.1	27.8	213.2	108.3	36.3	22.3
	2003	0.1	6.1	0.3	2.0	6.0	2.1	171.0	57.1	...	...	0.1	0.1	3.1	18.9	26.0	11.0	0.1	2.3	39.2	16.3	245.8	115.9	34.3	19.9
	2004	0.2	8.0	0.3	1.2	7.0	3.5	203.0	87.3	...	...	0.1	...	2.2	22.1	33.2	17.0	1.2	4.0	51.9	14.7	299.1	157.8	31.8	22.0
	2005	0.2	12.4	1.8	2.0	5.6	3.9	174.4	116.1	...	...	1.3	0.1	2.0	23.0	33.4	18.1	13.0	2.8	60.1	17.0	291.8	195.4	26.5	29.1
Pakistan	2001	26.1	143.0	0.8	0.9	218.4	28.9	0.3	7.1	0.0	1.3			0.6	2.0	38.0	87.2	1.3	2.9	5.5	5.7	291.0	279.0	2.9	3.3
	2002	30.6	223.4	0.0	1.8	204.7	41.9	0.1	11.1	0.0	1.1			0.1	0.6	106.8	109.8	0.9	2.1	4.2	7.6	347.4	399.4	3.3	4.0
	2003	31.2	408.5	0.0	1.1	301.4	82.0	0.1	10.0	0.0	2.8			0.1	0.2	66.4	199.0	0.1	1.6	1.3	3.3	400.6	708.5	3.1	6.0
	2004	48.9	465.3	0.4	2.0	271.7	102.2	0.8	8.7	0.0	5.4			7.5	0.3	89.2	217.4	9.3	0.9	6.3	3.1	434.1	805.3	2.4	6.2
	2005	53.1	1036.5	1.0	2.3	362.7	177.9	0.7	9.9	0.0	2.0			7.4	1.4	186.0	299.0	11.5	1.0	11.6	2.3	634.0	1532.8	2.5	9.6
Tajikistan	2001	0.1	3.1	33.5	0.5	10.0	29.9	89.1	3.1	5.7	2.0	0.1	0.2	...	...	9.3	75.1	62.3	9.7	150.7	87.2	360.7	210.8	52.5	32.4
	2002	0.3	6.3	41.1	0.5	15.6	28.4	72.2	3.5	5.2	3.7	0.1	0.0	...	...	10.5	118.5	47.1	10.0	132.4	72.9	324.2	243.8	45.0	33.1
	2003	1.6	5.8	62.3	0.7	23.7	51.4	95.8	4.6	27.5	3.7	0.0	0.1	...	...	29.5	193.2	31.6	2.2	132.7	67.1	403.1	328.8	45.8	41.2
	2004	4.0	7.7	86.0	15.4	26.3	29.6	152.6	3.5	17.6	4.4	0.3	0.2	...	...	37.9	139.7	33.7	7.6	168.8	65.9	523.2	274.0	43.9	29.9
	2005	3.4	12.1	114.9	0.6	30.9	36.7	168.3	19.7	20.6	3.2	1.7	0.3	...	...	21.9	143.4	53.8	0.0	152.8	66.5	564.9	282.5	42.5	31.1
Turkey	2001	0.4	7.0	78.1	225.2	839.8	360.5	90.3	119.8	6.3	17.4	101.3	31.2	13.7	15.6	...	...	71.7	105.3	36.0	89.7	1,237.2	971.7	3.0	3.1
	2002	1.1	20.2	64.6	231.4	921.0	334.0	203.9	160.2	17.6	24.0	117.7	57.5	40.7	10.9	...	...	106.3	110.0	75.3	93.7	1,547.1	1,041.9	3.0	2.9
	2003	2.7	36.5	122.6	315.5	1860.7	533.8	266.6	234.0	10.9	40.9	192.0	70.4	57.0	29.5	...	...	123.7	170.3	99.5	138.4	2,733.0	1,569.3	3.9	3.3
	2004	6.8	70.9	135.5	403.9	1962.1	813.0	442.2	355.6	13.4	74.7	240.7	86.4	62.8	41.6	...	...	175.8	214.8	178.7	145.2	3,218.0	2,206.1	3.3	3.5
	2005	8.3	113.2	270.6	524.1	3468.6	899.5	557.0	459.2	13.6	88.9	314.5	187.5	47.3	46.6	...	...	159.9	180.4	257.5	151.0	5,097.3	2,650.4	4.4	3.6
Turkmenistan	2001	...	46.0	12.0	135.2	75.5	15.9	14.2	75.5	1.5	9.0	2.9	1.3	9.7	62.3	105.3	71.7	...	...	138.0	26.5	359.1	443.4	15.3	16.9
	2002	...	50.0	8.6	119.8	88.4	19.1	15.3	74.6	2.4	1.7	2.1	0.9	10.0	47.1	110.0	106.3	...	...	64.5	11.8	301.3	431.3	14.2	15.1
	2003	...	14.0	5.8	188.4	135.6	52.7	37.2	49.1	2.3	0.1	1.6	0.1	2.2	31.6	170.3	123.7	...	...	75.5	13.9	430.5	473.6	17.1	13.0
	2004	...	28.0	143.4	114.4	...	...	26.1	75.6	4.0	1.2	0.9	9.3	7.6	33.7	214.8	175.8	...	...	143.7	15.5	540.5	453.5	19.0	11.3
	2005	...	...	273.6	243.0	...	...	17.3	50.7	2.8	13.0	1.0	11.5	0.0	53.8	180.4	159.9	...	...	38.0	13.7	513.1	545.6	11.8	8.8
Uzbekistan	2001	0.3	11.1	8.5	3.8	47.5	82.4	195.0	118.0	49.4	76.4	2.6	2.3	20.5	85.7	106.0	81.4	26.5	138.0	...	...	456.3	599.1	14.5	18.3
	2002	0.2	61.5	5.5	5.2	31.9	174.1	182.0	81.8	35.0	76.6	3.9	2.1	15.8	101.1	87.7	103.0	11.8	64.5	...	...	373.8	669.9	13.8	22.4
	2003	0.6	89.3	3.8	5.6	28.3	274.2	196.1	99.1	26.3	50.1	3.6	5.6	24.3	121.5	141.8	129.0	13.9	75.5	...	...	438.7	849.9	14.8	22.8
	2004	2.7	127.6	6.0	147.0	35.5	336.4	241.1	184.7	24.4	43.6	6.1	2.3	37.6	147.1	172.5	215.9	15.5	143.7	...	...	541.4	1348.3	14.2	27.8
	2005	1.1	170.4	6.7	129.0	30.5	431.7	270.0	246.9	26.3	45.6	8.2	1.1	18.4	136.7	177.8	346.3	13.7	38.0	...	...	552.7	1545.7	13.5	28.6

Table 42 Total External Debt (US$ Million)

Country	2000	2001	2002	2003	2004	2005
Afghanistan	NA	NA	NA	269.67	472.99	558.6
Azerbaijan	1092	1366	1340	1575	1588	1650
Iran	7953	9012	12530	17024	23074	24491
Kazakhstan	3285	3262	2944	3073	2733	1777
Kyrgyzstan	1386	1423	1517	1754	1950	1882
Pakistan	32254	32144	33400	33352	33307	34037
Tajikistan	1226	1022	1010	1031	822	872
Turkey	118080	113190	130060	145220	162400	168080
Turkmenistan	NA	NA	NA	NA	NA	1007
Uzbekistan	4418	4279	4260	4249	4322	4133

Table 43 External Debt/GDP (ratio)

Country	2000	2001	2002	2003	2004	2005
Afghanistan	NA	NA	NA	17.7	12.1	12.3
Azerbaijan	20.7	23.9	22.0	22.0	18.6	12.7
Iran	10.1	9.8	10.6	11.9	13.4	10.6
Kazakhstan	18.0	14.7	12.0	10.0	6.3	3.2
Kyrgyzstan	101.2	93.3	96.7	92.4	86.0	77.0
Pakistan	53.0	49.5	46.1	40.0	34.0	30.7
Tajikistan	125.6	94.6	82.7	66.2	39.6	37.7
Turkey	59.7	77.1	71.3	60.1	54.0	47.0
Turkmenistan	NA	NA	NA	NA	NA	5.86
Uzbekistan	32.2	36.8	44.1	41.9	36.0	30.2

References

Data and information utilized in the Report were obtained from the following sources:

1. ECO Secretariat database
2. National Organizations
3. Regional and International Organizations

Data and information were obtained from the following national organizations:

Azerbaijan – National Bank of Azerbaijan
State Statistical Committee of Azerbaijan Republic
Iran- Statistical Centre of Iran
Central Bank of Iran
National Bank of Iran
Customs Administrations of Iran
Kazakhstan – Agency on Statistics of the Republic of Kazakhstan
National Bank of Kazakhstan
Kyrgyz Republic – National Bank of Kyrgyz Republic
National Statistical Committee of Kyrgyz Republic
Pakistan – Federal Bureau of Statistics
Statistics Division, Ministry of Finance
State Bank of Pakistan
Tajikistan – National Bank of Tajikistan
State Committee on Statistics
Ministry of Economy and Trade of Tajikistan
Turkey-State Institute of Statistics
State Planning Organization of Turkey
Undersecretariat of Treasury of Turkey
Undersecretariat for Foreign Trade of Turkey
Uzbekistan –State Committee on Statistics of the Republic of Uzbekistan

Data and information were also obtained from the following regional and international organizations:

Economic and Social Commission for Asia and the Pacific (ESCAP)
Food and Agriculture Organization (FAO)
International Labour Organization (ILO)
International Monetary Fund (IMF)
International Telecommunication Union (ITU)
World Trade Organization (WTO)
International Trade Centre (ITC)
United Nations Conference on Trade and Development (UNCTAD)
United Nations Population Division
United Nations Population Fund (UNFPA)
United Nations Statistics Division (UNSD)
World Bank (WB)
World Health Organization (WHO)
Asian Development Bank (ADB)
Islamic Development Bank (IDB)

CIS Interstate Statistical Committee
United Nations Economic Commission for Europe (UNECE)
Statistical, Economic and Social Research and Training Centre for Islamic Countries (SESRTCIC)

Three ECO countries have varying fiscal years not corresponding to the calendar year. Whenever the statistical series, e.g. national accounts or government finance, are compiled by fiscal year, these are presented under single year captions corresponding to the period in which most of the fiscal year falls, as follows:

Member Country	**Fiscal Year**	**Year Caption**
Afghanistan	21 March 2005 to 20 March 2006	2005
Iran	21 March 2005 to 20 March 2006	2005
Pakistan	1 July 2004 to 30 June 2005	2005