



ICEG EUROPEAN CENTER



Caucasian & Central Asian Economic Report



2007

Caucasian and Central Asian Economic Report (CCAER)

The Caucasian and Central Asian Economic Report (CCAER) is an online publication in English language. It deals with macroeconomic developments of three Caucasian (Armenia, Azerbaijan, Georgia) and four Central Asian (Kazakhstan, Kyrgyzstan, Tajikistan, Uzbekistan) economies in individual country chapters that have unified structure. This publication forms part of capacity building projects within EPIN (Economic Policy Institutes' Network). Work is coordinated by ICEG European Center, financial backing is provided by UNDP (United Nations Development Programme). CCAER is intended to be a major source of information for both economic analysts and business representatives, since it provides forecasts for a broader set of macroeconomic variables than do other freely available publications on the region.

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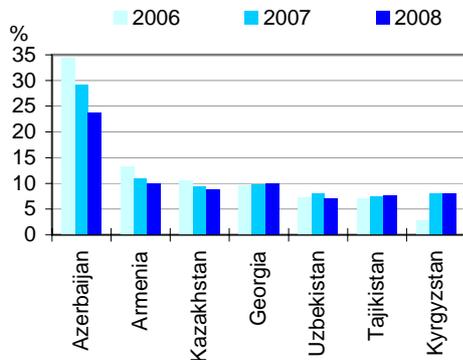
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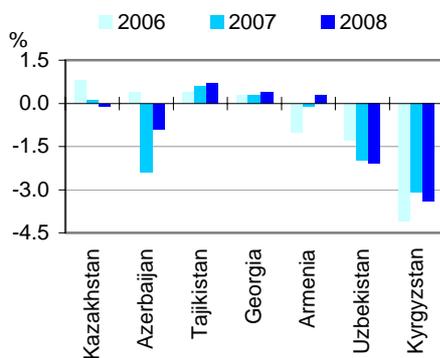
Overview

GDP-growth (annual average)



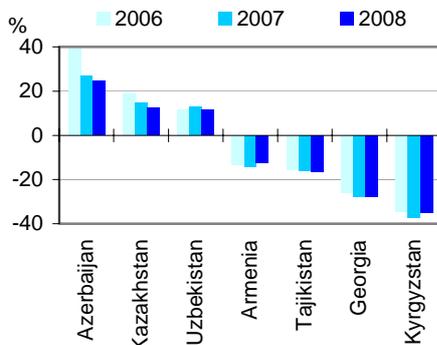
* 2007 and 2008: own forecasts

Overall fiscal balance (% of GDP)



* 2007 and 2008: own forecasts

Goods balance (% of GDP)



* 2007 and 2008: own forecasts

Growth

Economic growth is generally strong among Caucasian and Central Asian (CCA) countries. Azerbaijan, based on recent developments in its oil sector is now the world's fastest growing economy. The three Caucasian economies perform somewhat better than the Central Asian ones, but of the latter, the "resource rich" Kazakhstan also exhibited double-digit growth rate in 2006. Growth is predominantly based on foreign trade gains in those countries that are abundant in oil and other commodities (Azerbaijan, Kazakhstan and Uzbekistan), while in the remaining four countries the main driving force of growth is domestic demand and the trade balance is usually deeply in negative territory.

Growth outlook is generally positive, with most countries able to sustain their 2006 growth rate in both this and next year. Some deceleration is inevitable in the case of Azerbaijan, but Kyrgyzstan for example will enjoy much faster economic growth in the forecast period than it did so far.

Budget balance

Fiscal policies are mostly sound which resulted in close to balanced budgets in most economies last year. In the near future, however, either because of pursuing their millennium development goals or because of trying to create a more competitive business environment, fiscal policies will become expansionary in some economies. This is most evident for Kazakhstan and Azerbaijan, where some deterioration in the budget will already materialize in 2007. Nevertheless, this will not create serious problems, since these belong to the fastest growing economies.

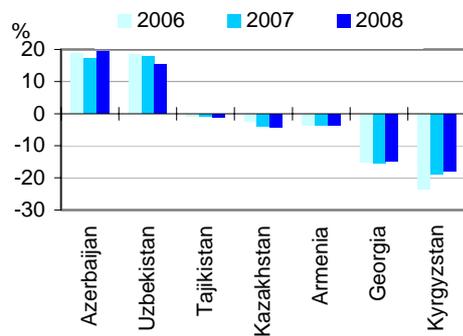
Budget deficits are not a concern even for Kyrgyzstan and Uzbekistan, the two economies, where it is highest and have an increasing tendency. Budget expenditures in these countries are growing because of investments into infrastructure and education, which should bear its fruits at a later stage.

Trade balance

As the world economy was enjoying a boom in recent years, demand for oil and other commodities was persistently strong, pushing prices upwards. It is thus no wonder, that Azerbaijan, Kazakhstan and Uzbekistan, the three most "resource rich" economies of the CCA country group could run outstandingly high trade surpluses. On the other hand, in countries, where growth was primarily based on domestic demand, imports were well in excess of exports. While in most net importer countries at least it is very high investment-growth that explains huge trade deficits, high private consumption growth can be a concern for Kyrgyzstan and Tajikistan.

The most influential economic developments remain roughly unchanged in both 2007 and 2008, thus the sharp difference between the two set of countries (oil and commodity exporters and the others) will certainly prevail on the forecast horizon.

Current account balance (% of GDP)



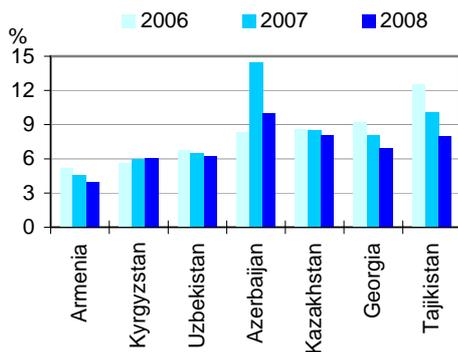
* 2007 and 2008: own forecasts

Current account balance

Since relatively extreme trade balances characterize the economies of the CCA country group, the traces of this are also observed in current account balances. There are some notable exceptions, though. Uzbekistan, that has quite a low level of foreign debt, and many of its citizens are working abroad remitting their earnings can enjoy higher current account than trade surpluses because of positive transfer balances. Similarly, workers remittances virtually offset the trade deficit of Tajikistan, thus this republic – despite a heavy trade deficit – runs a balanced current account.

Kazakhstan, on the other hand, has a huge and increasing amount of foreign debt that pushes its income balance well into negative territory and this is coupled by huge profits of foreign direct investors that are only partly reinvested. Current transfers are also negative, since there is an increasing net outflow in the workers remittances item, as there are many foreign workers especially in the oil related industries in Kazakhstan whose earnings are transferred to their home countries.

CPI-inflation (average annual)



* 2007 and 2008: own forecasts

Inflation

Fast consumer price rises are a concern for almost all economies of the CCA country group. It is only Armenia, where inflation is below 5% per annum, in the rest of these economies consumer prices typically grow at around 6-8% annually, but in 2007 even double-digit figures are very realistic in the case of Azerbaijan and Tajikistan.

In most economies the main cause of increasing inflationary pressures are massive capital inflows with only partial sterilization (like in Uzbekistan, Azerbaijan and Kazakhstan). Expansionary fiscal policies (increased public spending on wages, pensions and welfare programs) are another source of price rises. Higher energy prices also had their effects on inflation, but many economies still have very favorable agreements with the major oil and gas exporter countries, which eventually had a dampening effect.

Armenia

Currency: Dram (AMD); 1 USD = 416.0 AMD (2006 average), 1 USD = 363.5 AMD (2006 end-year)

GDP per capita (2006): AMD 827,383 (USD 1,989)

GDP per capita in PPP terms (estimation for 2006): AMD 1,997,000 (USD 4,800)

Population (2006): 3.2 million

Sovereign credit rating (long-term foreign currency): Fitch BB-; Moody's Ba2; S&P -

The rate of economic growth has been double-digit since 2001 and this is likely to continue in 2007. However, there are concerns over growth sustainability for the short to medium term, as growth was largely driven by massive external capital inflows, mainly remittances from migrants and Diaspora Armenians. Relatively low inflation was maintained at the price of rapid appreciation of the national currency putting huge pressure on tradable sectors. Although the growth of export is weak and import is surging, the current account is stable due to the large remittance flows. The outlook on foreign debt is stable and improving that reflects cautious debt policy on part of the authorities.

Political and social developments

Parliamentary elections in May 2007 gave a very solid mandate to the ruling Republican Party, which won around 60 seats in the Parliament out of a total 131. The party entered into a new coalition with two junior partners, and party leader, Serge Sarkissian, who served as defense minister in the outgoing government was appointed prime minister. A few ministerial positions were reshuffled but it is unlikely that there will be major changes in the policies. The opposition (mainly center-left) parties that were represented in the previous Parliament failed to break the 5 percent threshold and were effectively erased from the political scene. The opposition in the new Parliament is represented by two pro-Western parties, one headed by US-born former minister of foreign affairs Raffi Hovhannisyan and the other headed by ex-spokesman of Parliament Arthur Baghdasaryan. Both opposition leaders have presidential ambitions and the main question is whether any of the opposition leaders, individually or united, can challenge Republican leader Serge Sarkissian in the 2008 Presidential elections.

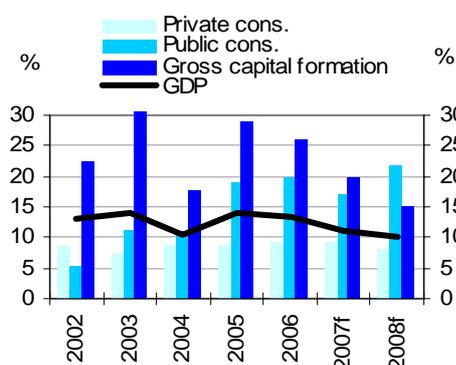
Real economy performance

Economic growth in the first half of 2007 was double digit at 11.2%, which is close to the average annual economic trend growth of the 2002-2006 period. The growth path is still characterized by large external inflows in a form of remittances and investments of migrants and Diaspora Armenians in real estates. FDI, donor financing from international financial institutions, aid from the USA and cheap gas supply from Russia also have their significance. Similarly to previous years, the strong appreciation of the Dram in the first half of 2007 was fueling resource reallocation from the tradable to the non-tradable sector. Non-tradable (especially services) sectors remain the main contributors to growth.

Growth was also high in the construction sector in the first half of 2007, although its dynamics somewhat declined following 2005-2006 when growth averaged 40% annually. In 2006 the construction sector generated almost half of economic growth and this year its contribution to the projected 11% GDP-growth will be around 4%.

The bulk of construction activities are concentrated in residential

Chart 1. Growth of GDP and some expenditure components



construction mainly in the capital area. Real estate and other construction growth has certain balance of payments implications as up to 40% of total remittances flowing into Armenia are believed to be real estates purchases by the Armenian Diaspora and other migrants. The share of construction in GDP was around 27% in 2007, an internationally outstanding ratio, which suggests that the sector will be subject to major adjustments in the short to medium term. The overall impact of this on economic growth will depend on the level of absorption of these resources by other, mainly tradable sectors.

Growth in other sectors remained relatively weak. Industrial value added increased at just 2.3%, while agriculture declined by 1.8%. This might partly be a reflection of the rapid appreciation of the national currency and deteriorating competitiveness of the tradable sector due to higher domestic wages and cheap imports.

Private consumption remained strong, growing 12% in the first quarter of 2007. Public consumption increased by 19% in the same period, while capital formation by 34% due to both high growth of fixed investments and inventories. Net trade was deeper in negative territory reflecting strong import growth.

Monetary and fiscal developments

Beginning from 2006 the Central Bank is in the process of switching to full-fledged inflation targeting. The target for 2007 is set at $4 \pm 1.5\%$, slightly higher than the long-term target of 3% announced previously. This transitory departure from the long-term target is due to strong appreciation pressures that have already led to more than 40% nominal appreciation of the Dram against the US dollar since early 2004. Real appreciation was also dramatic: estimates vary from 20 to 30% (cumulative for the period of 2004-2007) depending on the coverage of partner countries.

Money supply remained strong, reflecting a partial accommodation of external flows on part of the Central Bank and strong reserves build-up. In June 2007 12-month broad money growth was at around 40%. The "Dram component" (liabilities of the banking system denominated in domestic currency) of the M2 monetary aggregate increased by 68%, that also reflects strong de-dollarization. This already started back in 2004 as a response to the rapid appreciation of the national currency and expectations of further appreciation. Dram denominated deposits increased by around 50% between June 2006 and July 2007, while foreign currency denominated deposits decreased by around 3%.

Although the Central Bank made only limited efforts in sterilizing the excess liquidity, financial markets still saw significant increases in short-term interest rates. Average deposit rates increased by 2 percentage points against 2006 reaching 7.7%, and the average rate for bank loans increased from 15.6 to 17.7%. The Central Bank revised its refinancing rate from 4 to 4.75%.

Expansion in bank credits reflects the boom in the banking sector that was previously very undersized and passive. Consumption and mortgage loans are surging, reflecting positive expectations on part of households and continuing strong economic growth. The stock of mortgage loans almost doubled, which brought the share of mortgages in the total portfolio of bank credits to 10%. Consumer credits, however, still have the biggest share in the credit portfolio of banks, which reflects high reliance of banks on consumption and

Chart 2. Interest and exchange rate

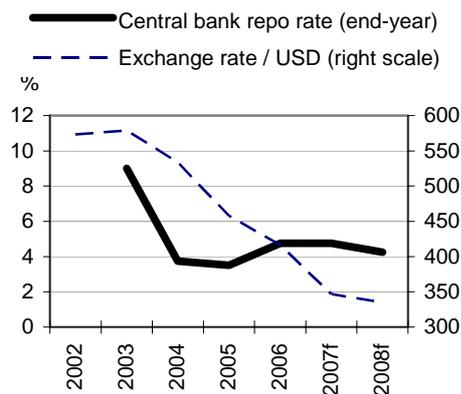
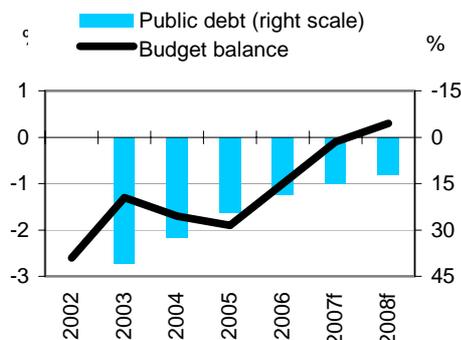


Chart 3. Fiscal indicators

(in per cent of GDP)



mortgage on the one hand, and limited financial intermediation for businesses on the other hand.

State budget expenditures increased by 17.5% in the first half of 2007, while growth in revenues was 26.7%. Taxes constitute 82% of budget revenues, of which 57% are indirect taxes. The biggest increase was observed in capital revenues, which is mainly related to the sale of state owned land predominantly in the capital area for urban development.

Defense and education remain the two largest items in budget expenditures. Each allocated had a share of 17% in the first half of 2007. As revenues growth exceeds that of expenditures, the state budget will be in balance in 2007 and even in a small surplus in 2008.

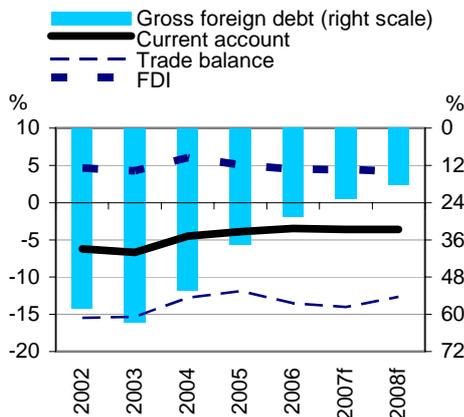
International economic transactions

In the first half of 2007 the volume of foreign trade amounted to USD 1.9 billion, of which around USD 0.5 billion was export (fob), and USD1.4 billion was import (cif). Main trading partners were Russia (with a 15% share), Germany (9%), Kazakhstan and Ukraine (7% each), Belgium and the UAE (5.5% each).

Non-precious metals, mainly copper and molybdenum remain the main export item (34% of total goods export), followed by precious stones, metals and jewellery (20%), food and mining products (13% each). Armenia's terms of trade has recently improved significantly because of strong commodity prices, especially for copper and molybdenum. The high ratio of less energy intensive industries in the Armenian economy and the preferential price of natural gas supplied by Russia resulted in Armenia being only marginally affected by the recent surge in international energy prices.

Trade deficit has nevertheless widened, while the current account deficit is stable and even improving due to large remittance flows. Armenia no longer relies on concessional loans from international financial institutions and the ratio of these loans has significantly declined within the total debt portfolio. FDI is relatively stable at around 5% of GDP.

Chart 4. Indicators of external equilibrium
(in per cent of GDP)

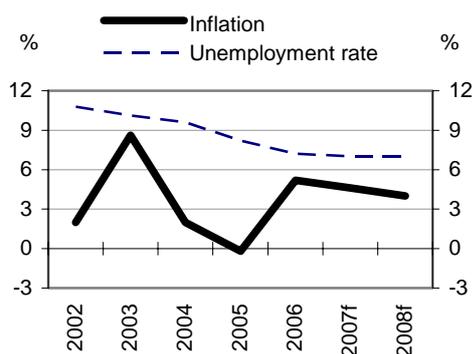


Prices and employment

12-month CPI inflation stood at 4.8% as of June 2007. This is above the Central Bank's midpoint target of 4%. It was initially planned that the Central Bank will depart from the long-term 3% target only for one year - 2007. But now it is expected that the 2008 target will also be at least 4%, which reflects expectations about supply-side driven price rises, in particular changes in the price of Russian natural gas supplied to Armenia, which is now heavily subsidized. Frequent changes in inflation targets, however, might affect the credibility of inflation targeting in Armenia.

Although according to the state registry the unemployment rate was 7.2%, it is estimated that the actual rate varies between 20 to 30% (based on household and labor force surveys). In either case, data show that unemployment has been reduced since the early 2000s. Although there is no major labor market distortion attributed to regulations, the participation rate in Armenia is lower than in Europe which is partly explained by large inflows of worker's remittances (it is estimated that at least 20% of Armenian households receive

Chart 5. Inflation and unemployment remittances from abroad).



Recent economic growth – accompanied by the appreciation of the national currency – has resulted in a surge of wages expressed in US dollars. The increase is 4-fold in 5 years (the current USD 200 in mid-2007 versus USD 50 in 2002). Growth in real wages has also been remarkable: real wages doubled since 2002. This, however, might be somewhat overestimated as it partly reflects an improvement in wage reporting through the introduction of higher minimum wages rather than actual wage increases.

Wage discrepancy across sectors is high. According to May 2007 data, the average wage in the financial services sector was around USD 600, in mining USD 400, while in agriculture and the public sector the average wage varied from USD 100 to 200.

Key macroeconomic indicators, 2005-2008

	2005	2006	2007f	2008f
Nominal GDP (USD mn)	4,900	6,400	7,900	9,500
Real GDP growth (%)	13.9	13.3	11.0	10.0
- Private consumption (%)	8.8	9.2	9.0	8.0
- Public consumption (%)	19.0	19.8	17.0	22.0
- Investments (GFCF, %)	29.1	26.0	20.0	15.0
Central bank rate (%)	3.50	4.75	4.75	4.25
Exchange rate / USD (annual average)	457.7	416.0	347.0	335.0
Budget balance / GDP (%)	-1.9	-1.0	-0.1	0.3
Public debt / GDP (%)	24.4	18.7	15.0	12.0
Export growth (%)	19.9	3.3	18.0	20.0
Import growth (%)	36.8	34.4	40.0	25.0
Current account balance / GDP (%)	-3.9	-3.5	-3.6	-3.6
Gross foreign debt / GDP (%)	37.5	28.6	22.9	18.4
International reserves (USD mn)	670	1,072	1,300	1,400
CPI inflation (%), annual average)	-0.2	5.2	4.6	4.0
Unemployment rate (%)	8.2	7.2	7.0	7.0
Real wage growth (%)	20.0	16.0	14.0	12.0

Note: f = forecast.

Azerbaijan

Currency: Manat (AZN); 1 USD = 0.89 AZN (2006 average), 1 USD = 0.87 AZN (2006 end-year)

GDP per capita (2006): AZN 2,086 (USD 2,336)

GDP per capita in PPP terms (estimation for 2006): AZN 6,100 (USD 6,800)

Population (2006): 8.5 million

Sovereign credit rating (long-term foreign currency): Fitch BB+; Moody's Ba1; S&P -

Starting from the mid-1990s more sustainable economic policies and reforms resulted in some qualitative changes in Azerbaijan. GDP-growth averaged 10% during 1998-2004. The Azeri economy increased by an astonishing 41.7% in the first quarter of 2007, the highest of any nation worldwide. Although production from the Caspian oil and gas fields declined earlier, it has been recovering lately. This is the consequence of negotiations on some major agreements with several foreign companies from 15 countries.

Political and social developments

As the government conducts a very successful foreign policy, Azerbaijan has raised its importance and integration in the global community. Today, the Azeri economy has trade cooperation with 139 countries. Starting from year 2006 Azerbaijan has joined seventeen conventions and signed 64 international agreements. Conventions such as "Protection of the environment of the Caspian Sea", "Enlightening International Seafaring", "Creating an Organization for Quarantine and Protection of Plants for Europe and the Mediterranean Sea", are of particular importance for the country. Among international agreements the "Social Protection between Azerbaijan and Turkey" and the "Baku-Tbilisi-Kars new sea line" must be specially emphasized.

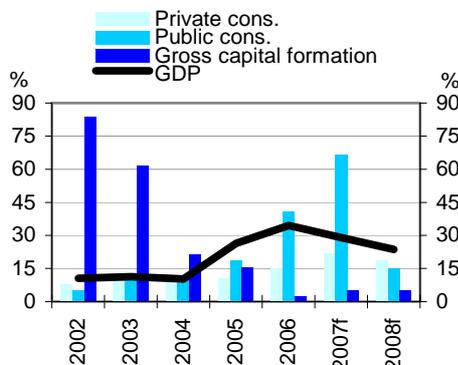
The government has also taken important measures in the social sphere recently. These measures include the improvement of the pension system, social assistance and mortgages. A new pension mechanism was introduced which enables individual treatment for pensioners and reforms the retirement policy. Starting from June 2006, a social assistance mechanism was launched, the main objective of which is to provide social benefits for the poorest population segments from the state budget. Moreover, the government initiated the formation of a mortgage system in order to give access to mortgage loans also for the less well-off citizens.

Real economy performance

The three independent economies of the South Caucasus rank among the top ten countries in the world in terms of economic growth, with Azerbaijan leading world growth figures. While continuous real GDP growth started in 1996, even in 2004, the volume of the real GDP produced in Azerbaijan did not reach that of 1990. The breakthrough finally took place in 2005 and the volume of real GDP in 2005 and 2006 exceeded the volume of the GDP produced in 1990 by 18.2% and 59.3% respectively.

The major reason behind the extreme growth rate of real GDP in 2005 and 2006, is related to large-scale oil export to world markets via the Baku-Tbilisi-Ceyhan oil pipeline. This pipeline was

Chart 1. Growth of GDP and some expenditure components



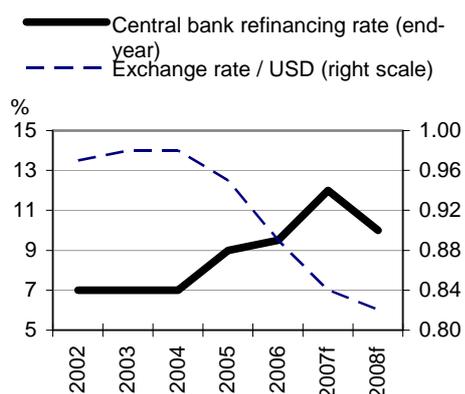
introduced in July, 2005 and is able to transport up to 1 million barrel of crude oil a day. Oil production thus got a strong push, and the Azerbaijan International Operating Company (AIOC) that runs the Azeri-Chirag-Guneshi (ACG) oil field, could increase its production by 88% in 2006. This was indeed the highest contribution to the spectacular GDP-figures.

The role of huge oil incomes was crucial in achieving the above mentioned rate of economic growth in Azerbaijan during 2005 and 2006. The oil sector started to experience strong development from 2005 on, as a sub-sector of the industry. Consequently, the share of industry within the production of GDP was rising fast and reached 47.5% and 58.3% respectively. Nevertheless, services also expanded at a solid rate of 12-13% in 2006, with communication and transport services being the main contributors.

On the expenditure side private but especially public consumption exhibited rapid increases (this latter captures the investment of the state owned enterprises). Due to the high volume of oil and gas exports the balance of net trade became very favorable. In 2007 and 2008, the rate of GDP-growth will be more modest. With the completion of infrastructural developments in oil fields as well as in construction of pipelines, foreign investments are expected to decline. Though, the government plans to spend part of the oil revenues on domestic investments, this will not be enough to totally offset lower FDI. To encourage domestic private investment, significant reforms would be needed to improve the business environment, and this does not come immediately. It is thus expected, that real GDP-growth will fall below 30% in 2007 and will be around 20% in 2008.

Monetary and fiscal developments

Chart 2. Interest and exchange rate



To achieve one-digit inflation, the National Bank of Azerbaijan controls money supply by using open market transactions, loan auctions, interest rates as well as reserve requirements. In 2005, it heavily relied upon using open market transactions for sterilization. The National Bank used its short-term notes to neutralize the excess liquidity that emerged in the banking system.

Before 2005 the discount rate was changed three times (from 7% to 7.5%, then to 8%, later to 9%). As inflation – together with expectations – began to rise in 2005, the National Bank further increased the discount rate in three steps (starting at the beginning of 2006), and it finally reached 13%.

Moreover, in early 2006, the National Bank shifted from a fixed exchange rate to a de facto crawling peg vis-à-vis the US dollar. With limited instrument independence, it undertook large unsterilized purchases of foreign exchange, in order to limit the annual exchange rate appreciation against the dollar. These policies led to a 133% increase in Manat base money in 2006. Broad money increased by 86% and domestic credit by 64% in 2006

In 2006, both the revenues and the expenditures of the state budget increased significantly (the former by 88%, while the latter by 77% compared to their level in 2005). This resulted in a budget surplus of 0.4% of GDP.

The share of the oil sector payments transferred to the state budget in 2006 increased 3.5 times compared to the previous year, forming more than 60% of all state revenues. The dependence of the state's

main financial fund on the oil sector thus increased.

Enhanced public investment in 2007 and 2008 (partly as an effort to offset an expected fall in foreign direct investment) will push the fiscal balance back in deficit again. The budget deficit in 2007 could even reach 2.5% of GDP, while it will possibly remain below 1% next year.

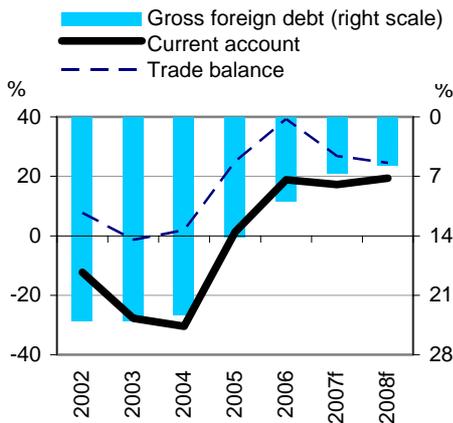
International economic transactions

Azerbaijan used to enjoy high trade surpluses at the beginning of the decade, but exceptionally high import growth after 2002 eliminated the surpluses as exports stagnated or expanded very slowly between 2001 and 2003. More recently the high growth rate of goods export has begun to exceed that of imports again, thereby pushing the trade balance into positive territory. In 2006 the trade balance hit a surplus of USD 1107 million. The share of CIS economies was just about 15% in Azerbaijan's export in 2006, but it was close to 40% in the case of imports.

According to official statistics, the fuel-energy sector indeed dominates the product structure of exports with a share of more than 85% in 2006. Despite their declining shares, however, some other sectors could also increase their exports in volume.

Whereas positive trade balances will prevail in 2007 and 2008, some deterioration in the income balance is expected, as foreign investors will mostly repatriate their earnings. Nevertheless, the current account, which exhibited deficits prior to 2004 but had a spectacular upward jump last year, will remain strongly in positive territory, amounting to close to 20% of GDP. This will enable Azerbaijan to reduce its foreign debt and build a substantial stock of international reserves.

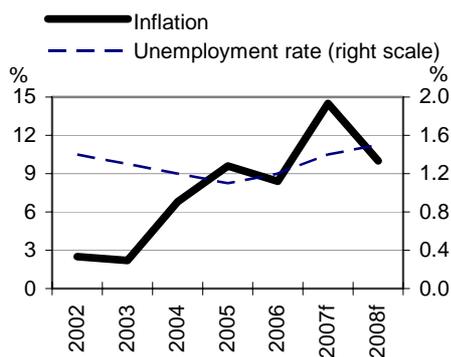
Chart 3. Indicators of external equilibrium
(in per cent of GDP)



Prices and employment

Inflation was less of a challenge for the Azeri economy in some of the previous years. Starting from 2005, however, fighting inflation became one of the most critical challenges of the country. The government issued a presidential decree "On strengthening the anti-inflationary actions in the Republic of Azerbaijan" in May, 2005. The main reason for this was to keep inflation rate at a one-digit figure. According to official data, this objective was narrowly achieved in the past two years. That is, average official consumer price inflation in 2005 and 2006 was 9.6 and 8.4% respectively. However, starting from 2007 consumer price inflation above 10% was recorded. Several factors pushed prices up, including the surge of petrodollars, the rise of public utility tariffs to consumers and the limited ability of the National Bank of Azerbaijan to sterilize much of the foreign capital inflow, leading to excess supply of Manat in the economy. M2 jumped by 87%; reserve money by about 130%; and M1 (mostly currency in circulation) by 145% so far this year.

Chart 4. Inflation and unemployment



Recognizing the threat of accelerating inflation and aiming to have at most one-digit inflation, the Government – in addition to measures taken by the National Bank – introduced various anti-inflationary measures, including agricultural product fairs and price controls on certain agricultural products.

Unemployment, at least according to official data, is not a serious problem in the economy. The State Statistical Committee registered an unemployment rate of around 1% in the period 2000-2006.

However, official unemployment figures fail to capture the real situation. The International Labour Organization in close collaboration with the State Statistical Committee conducted Labour Force Surveys in 2003 and found that the rate of unemployment in the country is actually more than 10%. This fact can be justified by some expert views as well. Such large differences between official statistics and expert estimates are due to hidden unemployment and unregistered unemployment. Hidden unemployment manifests itself in two forms. Some enterprises give unpaid leave to employees, while others use the practice of a partial working day. The problem of unemployment is particularly serious among youth and women.

Taking into account these facts, the government of Azerbaijan announced a state programme for 2004-2008 on "Social and economic development of the regions". One of the main objectives of this programme is to generate about 600 000 new jobs during its implementation period.

Key macroeconomic indicators, 2005-2008

	2005	2006	2007f	2008f
Nominal GDP (USD mn)	13,237	19,706	29,900	38,700
Real GDP growth (%)	26.4	34.5	29.1	23.7
- Private consumption (%)	10.7	15.2	21.8	18.6
- Public consumption (%)	18,6	40,9	66,8	15.1
- Investments (GFCF, %)	15.7	2.6	5.1	5.0
Central bank refinancing rate (%)	9.0	9.5	12.0	10.0
Exchange rate / USD (annual average)	0.95	0.89	0.84	0.82
Budget balance / GDP (%)	-0.7	0.4	-2.4	-0.9
Public debt / GDP (%)	14.1	10.8	9.5	8.0
Export growth (%)	99.8	66.3	18.4	36.4
Import growth (%)	19.8	25.5	14.6	17.8
Current account balance / GDP (%)	1.3	18.8	17.2	19.4
Gross foreign debt / GDP (%)	14.2	9.9	6.7	5.7
International reserves (USD mn)	1178	2500	4100	4900
CPI inflation (% , annual average)	9.6	8.4	14.5	10.0
Unemployment (%)	1.1	1.2	1.4	1.5
Real wage growth (%)	12.3	6.7	17.0	15.0

Note: f = forecast.

Georgia

Currency: Lari (GEL); 1 USD = 1.78 GEL (2006 average), 1 USD = 1.71 GEL (2006 end-year)

GDP per capita (2006): GEL 3,153 (USD 1,775)

GDP per capita in PPP terms (estimation for 2006): GEL 7,100 (USD 4,000)

Population (2006): 4.4 million

Sovereign credit rating (long-term foreign currency): Fitch BB-; Moody's -; S&P B+

High GDP-growth is mainly supported by strong domestic demand, especially gross fixed capital formation. At the same time export growth is weak. Coupled by very dynamic import growth this results in the worsening of the trade as well as the current account balance. After three years of accelerating consumer price rises, disinflation slowly unfolds in 2007 and 2008.

Political and social developments

Four years after the Rose Revolution (2003), Georgian authorities are working successfully to achieve effective political pluralism and enhanced market orientation of the economy. The post-revolutionary government declared a wide-ranging reform program aimed at reviving the national economy, improving the living standards of the Georgian population and reducing poverty. Georgian authorities continue to adhere to their ambitious goals of combating corruption, improving governance, alleviating widespread poverty and resolving acute territorial conflicts.

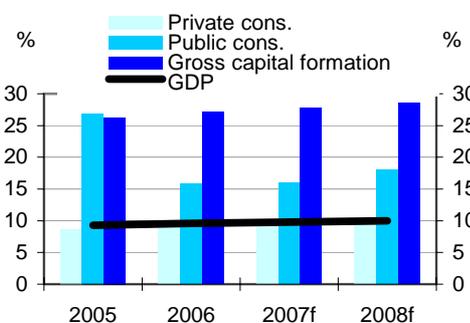
An agreement for the withdrawal of Russian military units and suspending Russian military bases by 2008 has recently been reached, and the Georgian army has visibly gained in stature since receiving training from foreign instructors. A strong anti-corruption campaign led to the ejection of corrupt officials from the government and state offices while the number and composition of civil servants has been streamlined.

Real economy performance

Consistent and sustainable macroeconomic policy pursued by the Georgian government produced positive results as evidenced by high economic trend growth. The growth rate of real GDP amounted to 9.3% in 2005, exhibiting rapid acceleration compared to 2004. This strong growth momentum continued in 2006 as well, resulting in a 9.6% GDP-growth, making Georgia one of the fastest growing among emerging economies. The World Bank's *Doing Business in 2007* report dubbed Georgia "the number one economic reformer in the world" because in a single year it improved from rank 112 to 37 in terms of *ease of doing business* (out of 175 countries surveyed.)

The structure of production gradually changed in favor of market services (now representing more than 50% of gross value added). At the same time the weight of agricultural value added decreased to 11.3% within total GDP. Industry possessed a share of 13.6% (within it manufacturing has an 8.6% share), while value added in construction amounted to 6.8% of GDP in 2006. The highest annual growth rates were registered in financial services (40.4%), manufacturing (22.4%), trade (19.7%), mining (18.9%) and transport

Chart 1. Growth of GDP and some expenditure components



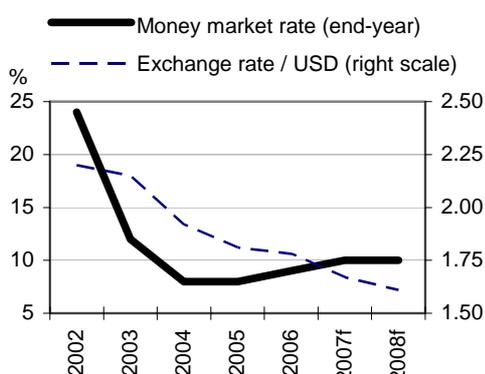
(15.1%).

Examining by expenditures, economic growth continued to be driven by domestic demand in 2006. Private consumption increased by 9.2%, public consumption by 15.8% while gross fixed capital formation by 27.1%. This latter rate is explained by large volume projects financed partly by foreign direct investment and partly by domestic sources. The most important investments took place in construction of energy carrier networks and other facilities as well as in rehabilitation of roads. It should also be taken into account that investments in agriculture and industry developed slowly, mostly by gradually putting unused capacities into operation. This is explained by less attractive business environment for investment in these sectors coupled by high risk. Due to the strong growth of domestic demand the economy became increasingly dependent on imports. This resulted in a severe deterioration of net trade.

With domestic demand remaining strong, GDP-growth could be well around 10% both in 2007 and 2008 despite negative contributions from net trade. Investment growth will be particularly high, but private consumption will also expand at close to double-digit rates. The main driving force of growth on the production side remains market services but the contribution of manufacturing and agriculture will also be significant.

Monetary and fiscal developments

Chart 2. Interest and exchange rate

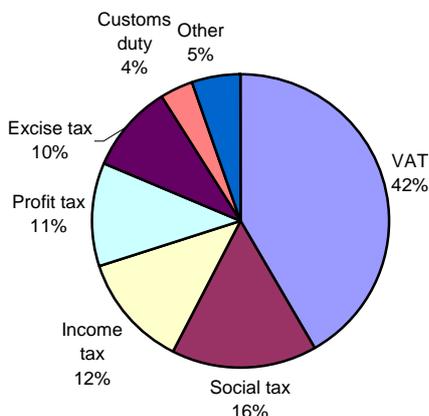


Money supply increased sharply in the past two years due to strong capital inflows and increased fiscal spending. Containing inflation is a major challenge for Georgia and improving public expenditure management even further will be a key to easing inflationary pressures. The large-scale privatization program launched in September 2004 has progressed well. Reform measures under implementation by the government are aimed at gradual improvement of the investment climate over the medium term. This includes creating a "level playing field" and a legal framework conducive to the development of private enterprises.

An upward tendency of collecting consolidated budget revenues mainly through own sources and the growth of total revenues relative to GDP continued in the past two years, translating into further increase of the fiscal efficiency indicator.

Chart 3. Composition of tax revenues

(2006)



The annual development of consolidated budget revenues was largely conditioned by a sharp increase in tax revenues which was primarily the result of high growth rates of the VAT and the so-called social tax as well as taxes on profit and income. The annual increase in tax revenues, therefore, amounted to 55.5%.

By the end of 2006 state debt amounted to GEL 3,855 million (USD 2,175 million). Domestic debt made up 39% of the stock while the remainder was accounted for by foreign debt. This latter decreased by GEL 196 million (USD 110 million) last year. Consequently, the foreign debt burden was somewhat less severe compared to 2005. For the first time ever, the National Bank of Georgia's foreign exchange reserves exceeded USD 1 billion in the first quarter of 2007. The increase was close to 115% compared to the same period last year.

Credits by commercial banks to the economy increased by almost 55% in 2006 and reached a level of GEL 2,681 million (USD 1,512 million). Domestic interest rates exhibited a smaller increase in the

past two years, and will possibly further increase to 10% this year. This level should also prevail in 2008.

International economic transactions

The period under review did not result in significant export market diversification nor did it bring the normalization of relations with Russia in exports. According to trade data the annual growth rate of Georgian exports slowed down to a mere 2 percent. Thus trade deficit sharply increased and reached USD 820 million in 2006. As wine and mineral water export to Russia virtually disappeared, the top seven export commodities became: copper ore and concentrates with a share of 8% of total exports in 2006, black metal scrap (7.3%), ironmongery (9%), fertilizers (4.1%), motorcars (5.1%), alcoholic beverages (3.0%), fresh and dried walnuts (5.7%).

At the end of 2006 Georgia's trade relations with the EU showed positive dynamics and the share of EU in total Georgian exports increased by 7 percentage points compared to 2005 when no trade restrictions had been imposed by Russia. At the same time, the share of EU within total Georgian imports remained the same as in 2005.

The 35 percent increase in exports to the EU is mainly attributed to trade in copper, fertilizers, mineral water and ferrous scrap. At the same time Georgia no longer exported crude oil products and flying apparatus to Europe and the export of walnuts, spare parts of construction machinery and unprocessed gold was also reduced. By geographic composition exports increased to Spain, Germany, France, Greece, Belgium and the Baltic states but decreased to Bulgaria, Great Britain and Austria.

In the first quarter of 2007 Georgia's foreign liabilities to bilateral and multilateral creditors increased by USD 101 million including the debt vis-a-vis the World Bank and the International Monetary Fund. The most important part of this amount (comprising USD 19 million) is a growth in debt vis-a-vis EBRD. At the end of March 2007, Georgia's state foreign debt amounted to 21.4% of the GDP.

Investments from Europe increased sharply in the first quarter of 2007. Nominal growth reached 95%; that is, it almost doubled compared to the same period last year. The increase in investments from Denmark was more than tenfold which gave this country the status of Georgia's largest investor. This is mainly related to the privatization transaction of the Batumi seaport by Danish company, Nielsen. The Netherlands was the second largest EU investor in Georgia (third among all countries) by exhibiting a 20-fold increase, mainly as a result of the investment made by Wissol. Investments from Great Britain tripled although the volume was well below those of Denmark and the Netherlands.

Foreign direct investments increased in the past two years mainly related to the construction of the oil and gas pipelines. In the next two years important sectors for investment will probably be hotels and restaurants, distribution companies, construction, and mining.

Prices and employment

Consumer prices – with short interruptions – were on the rise since 2004. They increased by 8.2% in 2005 and accelerated further to 9.2% in 2006. Some deceleration has taken place recently, and in August 2007 the rate of inflation was 7.7% compared to the same

Chart 4. Indicators of external equilibrium
(in per cent of GDP)

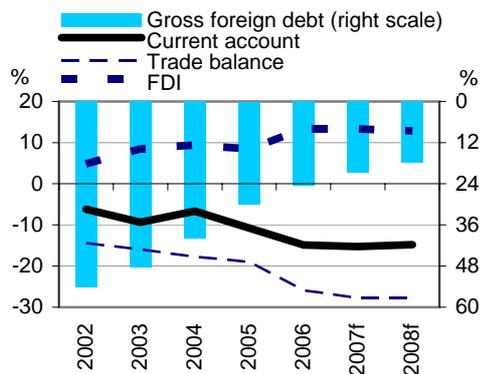
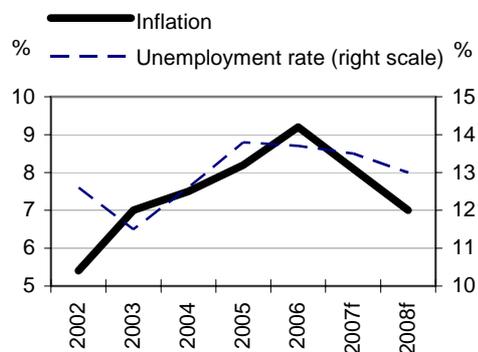


Chart 5. Inflation and unemployment



month in 2006. While food and non-alcoholic beverages as well as energy and other costs of housing were the most important sources of inflation in 2005 and 2006, healthcare related prices also had their effects this year. In the first eight months of the year food prices increased by 11.7%, energy and housing prices by 27% while healthcare related prices by 15.7% compared to the same period of last year. High energy prices will also dominate in the rest of 2007 and in 2008, but the other components of inflation will exhibit further deceleration. This could bring down annual average CPI-inflation to around 8% this year and to 7% in 2008.

In the first quarter of 2007 the national unemployment rate – calculated by the ILO “strict” methodology – increased by 0.7 percentage point in annual terms. As historic time series show the first quarter of any year is usually characterized by a higher unemployment rate due to strong seasonal fall in employment. This time, however, the seasonal drop in employment appeared to be particularly high resulting in a record annual growth of the unemployment rate in the last years.

Average monthly nominal salary of employees increased by 30.4% in the economy compared to the same quarter one year ago, and by 7.7% compared to the fourth quarter of 2006. The minimum subsistence level also expanded and required a larger share of the average monthly salary. The minimum subsistence level for a working age male at the end of March 2007 grew by 2.9% since December 2006 and by almost 30% compared to March, 2006. The minimum subsistence level shares in the average monthly salary are especially interesting as the latter represents the major source of income for Georgian households. The recent minimum subsistence level for a working age male accounted for 47.5% of the average monthly salary in the case of private sector employees and 59% in the case of public sector employees including budgetary organizations employees. That is, public salaries still fall far behind those in the private sector.

Key macroeconomic indicators, 2005-2008

	2005	2006	2007f	2008f
Nominal GDP (USD mn)	6,416	7,744	9,000	10,100
Real GDP growth (%)	9.3	9.6	9.8	10.0
- Private consumption (%)	8.7	9.2	9.6	9.9
- Public consumption (%)	26.8	15.8	16.0	18.0
- Investments (GFCF, %)	26.3	27.1	27.8	28.6
Domestic interest rate (%)	8.00	9.00	10.00	10.00
Exchange rate / USD (annual average)	1.81	1.78	1.67	1.61
Budget balance / GDP (%)	0.2	0.3	0.3	0.4
Public debt / GDP (%)	35.7	28.8	23.6	19.3
Export growth (%)	33.8	14.6	25.0	30.0
Import growth (%)	34.7	47.6	54.3	55.0
Current account balance / GDP (%)	-10.8	-14.9	-15.3	-14.8
Gross foreign debt / GDP (%)	29.9	24.6	20.7	17.7
International reserves (USD mn)	479	931	1221	1500
CPI-inflation (% , annual average)	8.2	9.2	8.1	7.0
Unemployment (%)	13.8	13.7	13.5	13.0
Real wage growth (%)	28.3	27.4	15.8	18.1

Note: f = forecast.

Kazakhstan

Currency: Tenge (KZT); 1 USD = 126.1 KZT (2006 average), 1 USD = 127.0 KZT (2006 end-year)

GDP per capita (2006): KZT 662,362 (USD 5,253)

GDP per capita in PPP terms (estimation for 2006): KZT 1,172,700 (USD 9,300)

Population (2006): 15.2 million

Sovereign credit rating (long-term foreign currency): Fitch BBB; Moody's -; S&P BBB

Following the years of rapidly widening trade surpluses, some deceleration are foreseen for the Kazakh economy in 2007 and 2008. While domestic demand continues to increase dynamically, the contribution from net exports will be sharply reduced. This will also lead to deterioration in the current account deficit and foreign debt indicators. While monetary policy remains cautious, fiscal policy will be expansionary, though it will not run severe deficits. Controlling inflation will still be the first problem for economic policy to tackle.

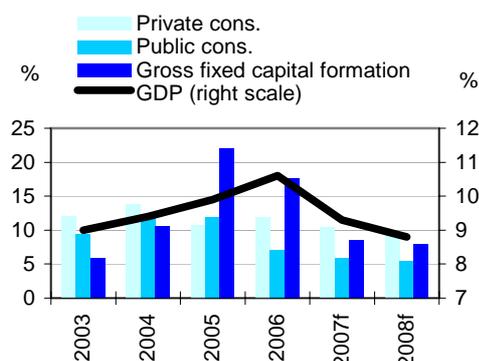
Political and social developments

Conflicts between foreign investors in the oil sector and the government have come to the surface recently. The government-owned KMG seems very determined to increase its influence to the detriment of foreign investors (Chinese, French and Italian petroleum corporations) in the development and extraction of such oil fields as e.g. Kashagan. The Kazakh government accuses foreign investors with being slow in the development of oil fields and with trying to justify unrealistically high costs for development works. It is also expected, that the lower house of the parliament (the Majilis) will introduce a new law which enables the government to unilaterally revise the contracts made with foreign investors in the oil sector.

The introduction of such a new law is possible without any dispute, since in the August elections all the seats in the Majilis were won by the ruling Nur-Otan Party. While the international community admitted, that there were certain improvements in the administration of the elections, it generally still didn't meet all basic standards. Opposition parties did mention serious irregularities in connection with the election.

Real economy performance

Chart 1. Growth of GDP and some expenditure components



The rate of economic growth hit a double-digit figure (10.6%) in 2006. Though, the surplus on net trade remained huge, the main driver of growth was domestic demand: private consumption and gross fixed capital formation. While private consumption was boosted by wage increases and rapidly increasing consumer credits, GFCF-growth was determined by large investments in the resources sector (especially oil and gas fields). From the production side services had the highest contribution to growth (reflecting the consumption boom), but industrial value added-growth also accelerated compared to 2005. Investment into residential dwellings led to an exceptionally high growth rate (38%) in construction.

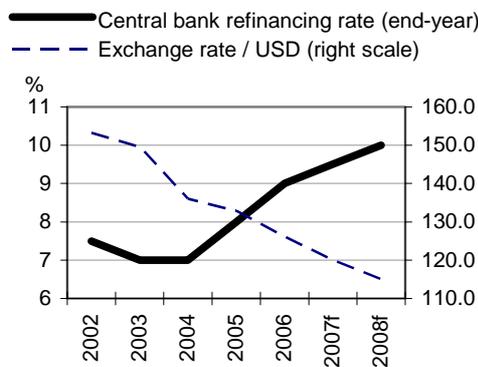
The first half of 2007 saw a very modest deceleration: GDP expanded by 10.2% compared to the first half of the last year. This is mostly explained by somewhat lower investment growth (11.2%),

which might reflect recent conflicts between foreign direct investors and the government. The dynamics of private consumption also decelerated to a certain extent, nevertheless it remained high, fuelled by a close to 30% nominal wage growth during the first six months of the year. No further improvement, however, has taken place in the case of net trade, as in the January-July period imports expanded at a much higher rate (48.6%) than did exports (23.6%).

Despite this slight deceleration, the sustained increase in oil and gas production and exports will keep GDP-growth high. A further support to growth comes from expansionary fiscal policy, since the expenditure side of the 2007 budget is considerably higher than it was for 2006. Even assuming a tiny deterioration in net trade this will be enough to keep economic growth above 9% this year. Deceleration in the case of domestic demand components can prevail in 2008, resulting in a growth rate of below 9% next year.

Monetary and fiscal developments

Chart 2. Interest and exchange rate

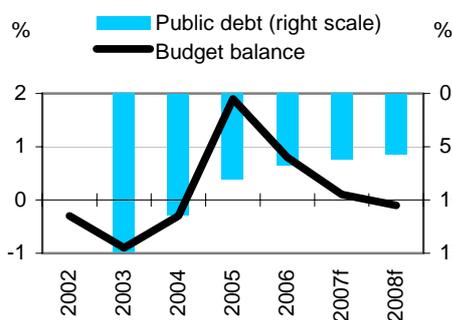


In response to accelerating inflation the National Bank of Kazakhstan raised its refinancing rate two times in 2006 (from 8 to 9%). Besides it also strengthened minimum reserve requirements for commercial banks and even tolerated the nominal appreciation of the Tenge against the US dollar. These actions, however, could not prevent the M3 money supply from increasing by almost 80% last year.

It is at least doubtful, whether the refinancing rate is an effective tool, since commercial banks borrow extensively abroad. Thus the 2006 interest rate rises could not really reduce money supply growth this year, which amounted to 64% by August. Nevertheless, a further increase of the refinancing rate with 50 basis points is a real possibility towards the end of this year, and another upward step of similar magnitude is expected for 2008.

Despite substantially higher spending on public sector wages the overall budget exhibited surpluses in 2005 and 2006 as tax receipts increased by an even larger amount. The main sources of this increase were corporate taxes, but VAT receipts also increased markedly. This year the rate of VAT was reduced and a further reduction is possible over the following two years.

Chart 3. Fiscal indicators
(in per cent of GDP)



While the growing economy strengthens fiscal revenues, expenditures are also on the rise. This is also made possible by the low level of public debt (a mere 6.8% of GDP at the end of 2006). To increase international competitiveness (especially in the non-oil sectors of the economy) tax incentives will be broadened, while direct incentives will be used to motivate investments that result in the creation of high value-added industrial capacities.

As expenditure growth will likely outpace revenues growth in the forecast period, the overall budget will be roughly in balance both in 2007 and 2008. Public debt will be further reduced to around 5% of GDP by 2008, as the assets of the oil fund (NFRK), that is fully integrated into the budget will continue growing dynamically.

International economic transactions

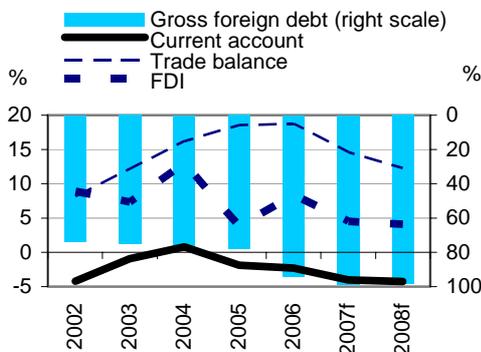
Both export and import growth was very spectacular in recent years. The former increased from USD 9.7 billion in 2002 to USD 38.3 billion in 2006 (an almost four-fold increase), the latter increased

from USD 6.6 billion to USD 23.7 billion in the same period. Consequently, huge trade surpluses were generated, reaching 19% of GDP by 2006.

More than half of the goods export in 2006 was accounted for by Germany, Russia, China, Italy and France. Two-thirds of total exports were made up by oil and oil-related products, while metal products had a further one-sixth share. It is thus quite understandable, that rising world market prices for oil and other commodities created a very favorable environment for the Kazakh export boom. On the other hand almost 60% of all imports in 2006 came from just three countries: Russia (35.7%), China (19.9%) and Germany (7.6%). Imports are predominantly concentrated in machinery, electronic and transportation equipments.

While world market prices of the most important Kazakh export commodities remained high, there was a sharp deceleration in the volume of exports in the first half of 2007, and a still decent export growth of 23.6% fell short of an import growth of 48.6%. Strong domestic demand pushed up imports in a much faster pace than did external demand in the case of exports. That will lead to a roughly unchanged trade balance expressed in dollars in 2007 compared to the last year.

Chart 4. Indicators of external equilibrium
(in per cent of GDP)



There was an even more dramatic change in the case of income and current transfers in the first half of this year. Net income payments to abroad amounted to USD 5.3 billion in the first two quarters, a more than 30% rise compared to the same period in 2006, largely reflecting increasing profits on foreign direct investments. But interest payments on the heavily accumulating foreign debt also had a role. Current transfers also exhibit a much higher deficit (USD 922 million versus USD 359 million), because of immigrants' remittances.

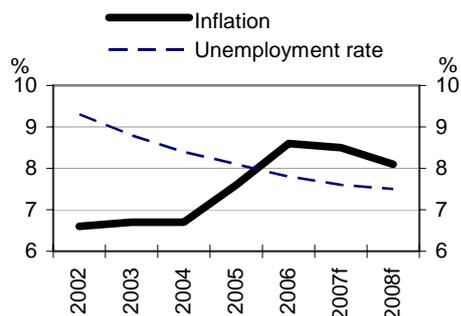
Should these tendencies prevail, the trade surplus will decrease to 14.6% of GDP in 2007 from its 18.7% value a year before, while the current account deficit will widen from 2.3 to 4% of GDP. In 2008 there will also be a considerable increase in incomes that Kazakh companies generate abroad, but the current account deficit will further deteriorate to 4.3% of GDP.

Gross foreign debt, reflecting mainly foreign borrowing of Kazakh commercial banks (that they extend towards Kazakh consumers and enterprises as loans) increased very rapidly. Another factor was, perhaps, the capital account liberalization that came into effect in January, making the Tenge practically fully convertible. From USD 43.4 billion at the end of 2005 the stock of gross foreign debt shot up to USD 73.5 billion (94.2% of GDP) by the end of 2006, and it further increased to USD 92.1 billion by June this year. It will approximate 100% of GDP by the end of 2007. While this figure – in itself – might be worrying at first sight, the recent level of the current account deficit seems to be tractable, there is thus no need to fear from an unfavorable change in investor sentiment.

Prices and employment

Supply and demand factors both fuelled consumer price rises in the past two years, and thus CPI-inflation reached 8.6% on average in 2006. Among supply factors massive foreign capital inflows (part of which is the result of increased oil revenues) and rapidly growing bank credits need to be mentioned, but demand conditions also pushed prices upwards. At the end of August this year consumer

Chart 5. Inflation and unemployment



prices were already 9.4% higher than twelve months before. Greater public spending (wages, pensions and welfare programs) will keep inflationary pressures high, and an average annual inflation of 8.5% is expected for 2007. Slow deceleration will only take place in the middle of 2008, possibly bringing down CPI-inflation to 8.1% next year.

Participation rate was stable at 70% in recent years leading to slow, but steady labor force growth. The number of employed persons increased by close to 150 thousand (2%) in 2006. Consequently, the unemployment rate decreased gradually, from more than 9% in 2002 to below 8% in 2006. In 2007 and 2008 new jobs will mostly be created in oil-related industries as well as in the construction and services sectors.

Wages continued to increase at a rapid pace in 2007 and were almost 30% higher in nominal terms in the January-August period, than in the same time interval a year before (this equals an approximately 20% rise in real wages). While some deceleration is expected in the remaining period of this year and also in 2008, wage increases will continue to be a source of inflationary pressures in the near future.

Key macroeconomic indicators, 2005-2008

	2005	2006	2007f	2008f
Nominal GDP (USD mn)	57,124	80,415	99,200	122,100
Real GDP growth (%)	9.9	10.6	9.3	8.8
- Private consumption (%)	10.8	11.9	10.4	9.7
- Public consumption (%)	11.9	7.0	5.8	5.5
- Investments (GFCF, %)	22.1	17.7	8.6	8.0
Refinancing rate (%)	8.00	9.00	9.50	10.00
Exchange rate / USD (annual average)	132.9	126.1	120.0	115.0
Budget balance / GDP (%)	1.9	0.8	0.1	-0.1
Public debt / GDP (%)	8.1	6.8	5.8	5.2
Export growth (%)	37.4	37.0	24.5	18.5
Import growth (%)	30.1	34.2	40.1	25.4
Current account balance / GDP (%)	-1.9	-2.3	-4.0	-4.3
Gross foreign debt / GDP (%)	78.0	94.2	98.8	98.3
International reserves (USD mn)	7,070	21,855	22,500	24,000
CPI-inflation (%), annual average)	7.6	8.6	8.5	8.1
Unemployment (%)	8.1	7.8	7.6	7.5

Note: f = forecast.

Kyrgyzstan

Currency: Som (KGS); 1 USD = 40.2 KGS (2006 average), 1 USD = 38.1 KGS (2006 end-year)

GDP per capita (2006): KGS 21,891 (USD 545)

GDP per capita in PPP terms (estimation for 2006): KGS 86,400 (USD 2,150)

Population (2006): 5.2 million

Sovereign credit rating (long-term foreign currency): Fitch -; Moody's -; S&P -

Despite the political turbulence Kyrgyzstan recorded a record growth rate in the first half of 2007, driven mainly by the expansion of domestic demand with its consequent, negative effect on the trade balance. However, economic performance is still weak and exposed to external shocks – above all growing world prices for fuel and food.

Political and social developments

The first half of 2007 was full of thorough changes in both the political landscape and the economic policy in Kyrgyzstan. In spite of this, stabilization might have finally begun in the country, as amidst political contradictions, President Kurmanbek Bakiev managed to win a break from the opposition to consolidate his power.

After the adoption of the new Constitution in January, former PM Felix Kulov was rejected by the parliament and dismissed. The new government – formed by the President's allies under PM Azim Isabekov – reigned for only a few months. Mr Isabekov's cabinet is still remembered because of their refusal to participate in the Heavily Indebted Poor Countries Initiative (HIPC) and MDRI debt relief. This decision, in fact, was largely political.

Mr Kulov, leader of opposition, and some MPs of the opposition tried to radicalize political disputes by demonstrations and rallies in April but these were terminated by the police in 3 weeks. Political battles also moved into parliament. At the end of April industrialist (and opposition member) Almazbek Atambaev became the new Prime Minister as a result of agreements between the President and the moderate opposition about continuation of constitutional reform and change of government. The new balanced draft of the Constitution prepared under Mr Atambaev was submitted to the Constitutional Court for evaluation. The deadline for consideration of this draft in the Court is the beginning of September 2007.

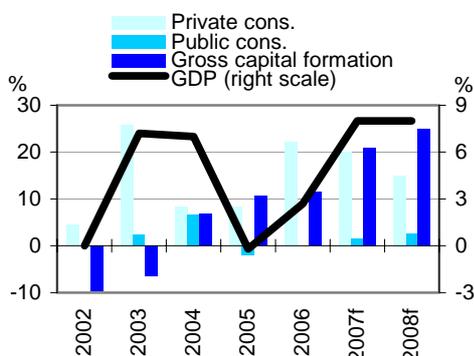
Administrative and territorial reform and a transformation of the two-level budget system were continued. The President published a Decree on Administrative Reform providing for a 3-stage reform process.

In May, Kyrgyzstan adopted the Country Development Strategy for 2007-2010. Another important event was the approval of further privatization of the energy sector (a power plant in Bishkek and the Kambarata-1 and 2 hydroelectric stations for private investors).

Real economy performance

In the first half of 2007 economic developments were encouraging. According to the National Statistics Committee of Kyrgyzstan, GDP grew by 9.2% in real terms (matching the average growth rate in the

Chart 1. Growth of GDP and some expenditure components



CIS, which was 9%) while year-on-year inflation was just 4.6%. Economic growth was driven principally by an expansion in the energy sector, construction and increased activity in trade and communication related services. Per capita GDP increased by 8.4% in the first half of the current year.

The structure of production during the last six months changed slightly – retail trade had a share of 21.2%, followed by industry (17.5%) and agriculture (17.3%). Compared to the same period of last year the volume of retail trade increased by 15%, while that of industrial production by only 3.1%. Manufacturing output increased by a mere 0.9% with some sub-sectors even exhibiting declines, but the production of foodstuff (including beverages and tobacco) were up by 19.2% and finished metal goods by 41.45%.

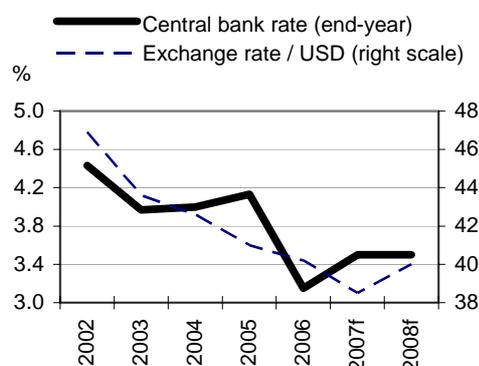
Construction activity is still booming in Kyrgyzstan, exhibiting an increase of 37.1% compared to the first half of 2006. Behind this figure there is also a surge in residential investments. Fixed investments in January-June were more than 40% higher than in the first half of 2006, with 77.6% of them are undertaken by the private sector. Foreign direct investments also increased at a fast pace, clearly pointing to an improvement in the attractiveness of Kyrgyzstan.

An increase in real incomes and loosening liquidity constraints due to rapid rise in bank lending to the households resulted in a sizeable increase in private consumption. This also contributed to the deterioration in the trade balance. The deficit almost doubled relative to the same period of last year, mainly due to a dramatic import growth of close to 60%. The import bill was aggravated by rising oil prices. Exports increased by 34.6%. The gap between import and export growth was partly covered by growing remittances from abroad.

Real income will continue to grow both this and the following year, and the same applies to investments. Even with negative contribution from net trade this should allow for an economic growth 8% in 2007. Import growth will slow down considerably in 2008, but domestic demand will also moderate, therefore a GDP growth of 8% is expected for 2008 as well.

Monetary and fiscal developments

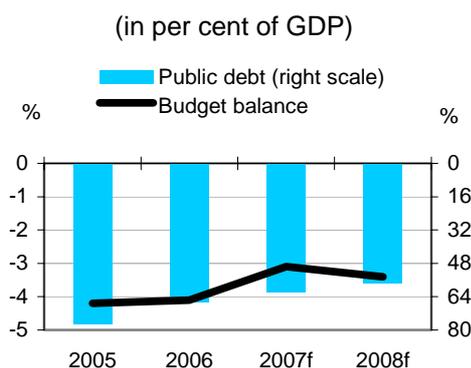
Chart 2. Interest and exchange rate



Strong GDP growth resulted in higher than originally assumed demand for money in the economy in the first half of 2007. The monetary base increased by 11.8% during the first six months of the year and amounted to KGS 25,495 mn (USD 671 million) at the end of June. A high volume of private unrequited transfers from abroad (remittances of Kyrgyz migrants) to the domestic foreign exchange market and an increase of export revenues are the main factors of the strong money supply growth in the economy. It is expected that money demand will remain high until the end of 2007.

In general, the situation of Kyrgyz financial markets was quite stable in the first half of 2007. The stock of credit by commercial banks increased by 62.5% in the first half of 2007. Orderly loan repayment remained at a high level. The stock of deposits held at commercial banks also continued to grow. In the first half of 2007 this increase amounted to 20.1 percent, and the stock of deposits totaled KGS 20,178 million (USD 531 million). In the first half of 2007 the Som

Chart 3. Fiscal indicators



appreciated by 2.65 percent against the US dollar, and is recently traded at a rate of 40 per one dollar.

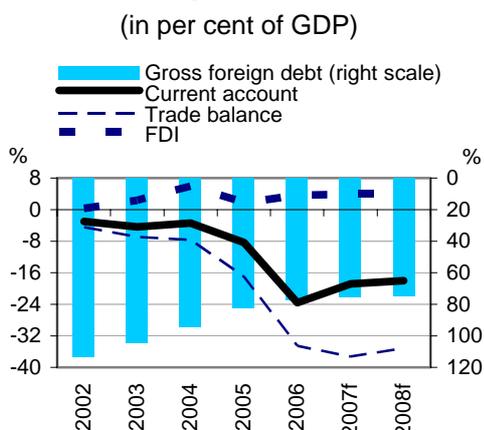
The budget balance of the Kyrgyz Republic exhibited a surplus in the first half of 2007, amounting to 2.2% of GDP. Fiscal revenues increased because of faster than expected growth of foreign trade, and better collection of VAT and profits tax. Fiscal revenues thus reached 29.5% to GDP (tax revenues amount to 79.2% of all revenues) while expenditures reached 27.3% of GDP. In the coming period additional expenditure will be allocated to financing construction and other development projects in education and the health system. More funds will be provided for road rehabilitation as well.

Despite increased spending, it is unlikely that the Kyrgyz Republic would be unable to reach the target deficit of 3.1% in 2007, and there could be a similar deficit in 2008. This entails a slight decrease of public debt in both this and next year.

International economic transactions

The first half of 2007 saw a widening of the current account deficit compared to the previous year, due mainly to the high growth rate of imports. At the same time, however, the income balance – though still remaining in negative territory – improved together with current transfers. These could, however, only partly offset the deterioration of the goods and services balance.

Chart 4. Indicators of external equilibrium



According to the National Statistic Committee the exports of goods amounted to USD 507 million, an increase of 34.6% compared to the same period of 2006. Goods export to CIS countries increased by USD 61 million, while to non-CIS countries by USD 69 million. The product structure of exports exhibited an above average growth in the case of vegetables, mineral products and base metals. The import of goods in the same period amounted to USD 1182 million, which was 58.2% higher than a year before. Rapid growth was observed in the import of mineral oil, investment products, vehicles (especially trucks), chemical products, base metals, transport facilities.

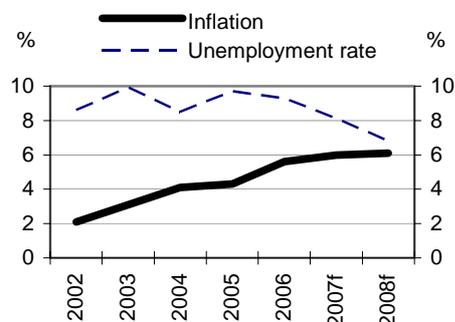
This year both the current account and the trade balance are expected to remain in high deficit because of the projected fast rise in import demand. Imports will rise very fast, driven by a further expansion of domestic demand, as both consumption and private sector's gross capital formation are likely to grow. This increase in the trade deficit will only be partly compensated for by a rise in tourism revenues and worker's remittances. Thus the current account deficit will be only narrowly below 20% of GDP in both 2007 and 2008.

While the stock of gross foreign debt decreased in 2006 mostly due to valuation changes, high current account deficits will stabilize its ratio to GDP in the next two years. The international reserves of the National Bank amounted to USD 939 million at the end of June covering 5 months of goods import. It could rise to USD 1.1 billion by the end of 2008.

Prices and employment

Consumer price rises were moderate in the first half of 2007. At the

Chart 5. Inflation and unemployment



end of June they were 4.6% higher than in December. That figure was somewhat under the National Bank's target range of 5-6%. It is mostly increasing oil prices that pushed consumer prices upwards. On the other hand, the appreciation of the Som had an opposite impact on CPI during 2007. The domestic currency appreciated against the US dollar due to the significant inflow of foreign currency (from tourism and workers' remittances living and working abroad). Another important factor fuelling inflation has been the fast rise of food prices (bread, meat, fruits and vegetables), construction materials and telecommunication services.

Strict control over administered prices is necessary to keep inflation low. The greatest risk concerning future inflation developments is the potential persistence of high fuel and food prices. In 2007 consumer price increases are expected to accelerate somewhat, bringing annual average CPI growth to 6%.

The labor market situation is influenced by two parallel but diverging developments. On the one hand fast GDP growth has resulted in a slight increase in labor demand, which led to a rise in employment, also fuelling wage increases. On the other hand unemployment has remained considerably high, reflecting structural problems and labor market rigidities. According to data of the State Committee on Migration and Employment of the Kyrgyz Republic, the number of unemployed registered as job seekers reached 105 thousand by July 1. Of these persons 72,400 (3.3% of the economically active population) were receiving unemployment allowances. Average monthly real wages increased by 26% in the first half of 2007, and monthly nominal wages reached USD 97.

Some decline in unemployment is likely in the rest of 2007 as the gradually expanding economy creates more jobs. This is especially expected in manufacturing, construction activities and tourism services.

Key macroeconomic indicators, 2005-2008

	2005	2006	2007f	2008f
Nominal GDP (in USD)	2,461	2,835	3,300	3,700
Real GDP growth (%)	-0.2	2.7	8.0	8.0
- Private consumption (%)	8.3	22.1	20.0	15.0
- Public consumption (%)	-2.1	0.0	1.5	2.5
- Investments (GFCF, %)	10.6	11.5	21.0	25.0
Central bank rate (%)	4.1	3.2	3.5	3.5
Exchange rate / USD (annual average)	41.0	40.2	38.5	40.0
Budget balance / GDP (%)	-4.2	-4.1	-3.1	-3.4
Public debt / GDP (%)	77.1	66.7	62.1	57.8
Export growth (%)	-11.3	8.3	29.6	15.3
Import growth (%)	6.4	42.7	50.8	11.8
Current account balance / GDP (%)	-8.3	-23.6	-18.8	-18.0
Gross foreign debt / GDP (%)	82.0	77.1	75.8	75.1
International reserves (USD mn)	612	817	940	1100
CPI inflation (% , annual average)	4.3	5.6	6.0	6.1
Unemployment (%)	9.7	9.3	8.1	6.8
Real wage growth (%)	14.5	14.4	19.7	14.7

Note: f = forecast.

Tajikistan

Currency: Somoni (TJS); 1 USD = 3.30 TJS (2006 average), 1 USD = 3.43 TJS (2006 end-year)

GDP per capita (2006): TJS 1,333 (USD 404)

GDP per capita in PPP terms (estimation for 2006): TJS 4,300 (USD 1,300)

Population (2006): 6.9 million

Sovereign credit rating (long-term foreign currency): Fitch -; Moody's -; S&P -

In the last three years a perceptible drop in the rate of economic growth may be observed in Tajikistan. The average annual growth rate in the period of 2002-2004 decreased from 10.8% to 6.8% in 2005-2006. This slowdown was mainly the result of the depletion of resources, and weak investment activity. In the following two years this lower rate of economic growth is likely to prevail.

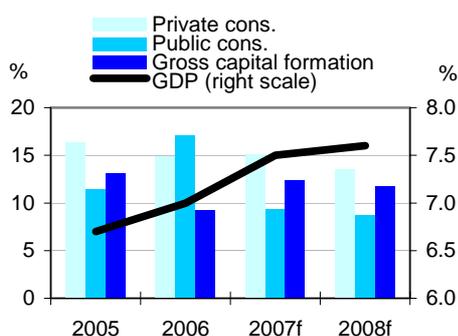
Political and social developments

The last eight months saw substantial changes in the political and social life of Tajikistan. At the beginning of the year the structure of government was modified. Some ministries were abolished (ministries of energy, environmental protection, religious affairs office), others were merged. In a number of ministries some officials have been removed from their posts. It concerned mainly the representatives of the former opposition, who – according to the Peace Agreement – received 30% of the posts in the government. These shifts were perceived ambiguously in the Tajik society. Opposition forces consider governmental changes as an attempt to strengthen the tendency of the political system slipping towards totalitarianism.

In 2007 the president paid a number of official visits to Arab countries (both to oil-producing and non-producing), as well to Iran. During his visits he spoke about the unity and solidarity of the Islam world. In Iran he has clearly spoken in support of the host country. However, the main motive of the given visits was attracting investors to Tajikistan, since the inflow of foreign investments in the country remained low. The most important among all those visits is the president's visit to Azerbaijan. During his visit several treaties on strengthening political and economic relations between Azerbaijan and Tajikistan have been signed.

Real economy performance

Chart 1. Growth of GDP and some expenditure components



Over the period 2000-2006 the rate of economic growth underwent considerable fluctuations. Between 2000 and 2004 growth figures ranged from 8.3 to 11.0%, but in 2005 the rate of growth was only 6.7%, which increased slightly to 7% in 2006. This fell short of the government's expectations.

An abrupt drop of growth was observed in the key sectors: industry and agriculture. While back in 2004 gross industrial output increased by 15.1%, growth decelerated to 10.4% in 2005 and further to 4.9% in 2006. At the same time the growth of agricultural output decreased from 11% to close to 5%. In spite of the deceleration of industrial output, the most rapid growth rates are observed in the production of aluminum. In 2006 aluminum production increased from 363 to 418 thousand tons, i.e. 15.2%. In the coming two years it is expected that aluminum production can jump to 475 thousand tons per annum. This is also important for

strengthening the country's export potential, since the share of primary aluminum in the product structure of export makes up 62-65%.

The production structure nevertheless exhibits a steady decline of industry, which had a 33.2% share of total production in 2000, while in 2005 the same figure was 22.8%. At the same time the share of services increased from 31.2% to 40.3%. The weight of agriculture remained broadly unchanged.

There were also changes in the structure of expenditures. Government investments led to increased public spending, thereby crowding out private investments and also decreasing the weight of private consumption. At present the most important large-scale investment projects involve the construction of Sangtuda Hydro Electric Stations (I and II), construction of two traffic tunnels that will connect the southern and northern parts of the country, the modernization of motor roads Dushanbe–Istaravshan–Khujand–Chanak and Dushanbe–Jirgatal–Saritash, and the construction of a transmission line for transferring electricity from the south to the northern regions of the country.

In 2005 and 2006 the trade balance was negative. This is going to be a lasting tendency, as the negative gap between the growth of exports and imports will still exist in the coming two years.

With only the aluminum industry and some service sectors improving strongly, and also due to the lower level of private investment, the rate of GDP-growth will remain in the region of 7-8% in both 2007 and 2008.

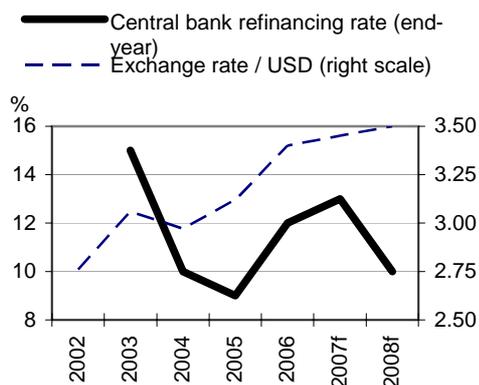
Monetary and fiscal developments

The opinion of many experts is that monetary policy in Tajikistan is inefficient. This view has arisen because of the following reasons: (i) inflation is on the rise (from 7% in 2005 to 12.5% in 2006), while the Tajik Somoni significantly depreciated vis-à-vis the US dollar. It is important to note, that in the majority of EURAZES member countries the reverse situation took place. (ii) Among the post Soviet economies Tajikistan holds the last place by its level of real monetization. The very low level of money supply in the economy enhances the effect of the recent payment crisis as well. (iii) The level of currency substitution (dollarization) in the economy increases. According to available data, the volume of dollar deposits among natural and legal persons exceeded the volume of Somoni-denominated deposits by more than three times. This is because many segments of the home market actually function only on the basis of foreign currency. This is especially true for land, car, housing markets, recreation (tourism and catering) activities, as well as for wholesale trade. And these are exactly those segments that form the core of the shadow economy.

A considerable defect of the monetary policy is the implementation of the “dear money” concept. Interest rates in Tajikistan during the last three years increased from 24% to 36%. These are the highest rates among post Soviet states. Moreover, in the last years refinancing rates were also growing.

Fiscal policy was able to keep a balance between receipts and expenditures over the last years, and in 2006 the budget of Tajikistan was actually in surplus. Expenditures increased by 15.4% in 2006 and reached 17.5% of GDP. At the same time revenues

Chart 2. Interest and exchange rate



jumped by 29% and now make up 17.9% of GDP.

International economic transactions

Over the period 2005-2006 Tajikistan's goods exports increased rapidly, outpacing the growth rate of goods import by nearly two times. However, even such high rates of export growth turned out to be insufficient of overcoming the trade deficit. Moreover, 'real' import volumes presumably exceeded the data from official statistics.

Raw materials dominate the export structure. As it was already stated above, aluminum is the major export product of Tajikistan, and together with cotton they make up 78.9% of total goods export. Owing mainly to continued increase of aluminum export, as well as products of vegetative origin (fresh, dried and canned vegetables and fruits), export growth will still be high in 2007 and 2008. Nevertheless, growth dynamics will decelerate.

Imports are actually higher than captured by official data due to the amount of smuggled goods and the underreporting of imports in order to avoid customs expenses. But even based on official statistics, the growth rate of import will be uninterrupted in both this and the next year, thus the improvement of the trade balance that was seen last year will come to a halt.

Current transfers in the balance of payments also seem to be incorrect. While money transfers from labor migrants through the banking system in 2006 made up USD 920 million, according to expert judgments the actual amount could be at around USD 1.5 billion. While using official data the current account is in a small deficit in 2006, if these expert judgments are true, the current account would actually be in quite a sizeable surplus.

During the last years foreign direct investment heavily fluctuated from USD 32 million to USD 272 million. A similar situation is also characteristic to portfolio investments. The main obstacles in the way of steady inflow of foreign investments are: the geographical location of the country (landlocked, far from sea ports), unfavorable investment climate, and uncertain legal environment coupled by widespread corruption. Due to these obstacles it is rather unlikely, that the inflow of foreign investments will catch up in 2007 and 2008.

Gross foreign debt, which at the end of 2000 was above 100% of GDP was reduced to 38.9% of GDP by the end of 2005. In 2006, however, sovereign borrowing from China lifted the level of external debt over USD 1 billion again (to approximately 42% of GDP). It will probably increase slightly further, but will remain below 45% of GDP in the forecast period.

Prices and employment

Consumer price rises were quite moderate after 2004, falling back to 7% by 2005, but began to increase in 2006 and reached 12.5%. In the first half of 2007 consumer prices increased by 7.2% mainly reflecting higher food prices. The most important determinants of the acceleration last year (agricultural and regulated price rises) are still at play as well. This will result in a double-digit rate of inflation for this year as well, but a slight deceleration might take place in 2008.

The unemployment rate according to official data was around 2.5%, but this is admittedly a severe understatement. In separate editions of the same official sources it is estimated that the rate of actual unemployment in Tajikistan is close to 30%. This figure (that

Chart 3. Indicators of external equilibrium

(in per cent of GDP)

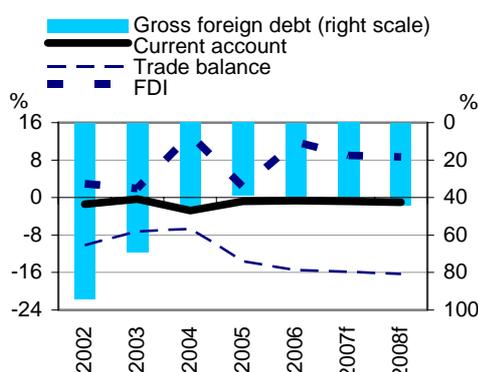
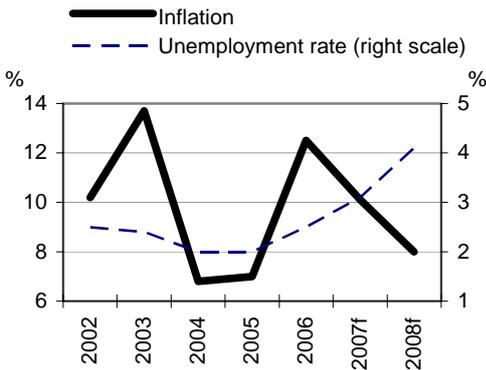


Chart 4. Inflation and unemployment



according to independent researchers can be even higher) may well be an answer to the question about the real cause of a large-scale labor migration to abroad. This – according to a rough estimate in the middle of 2006 – concerns more than 1.5 million Tajik citizens.

Programs aimed at increasing the level of employment are not really successful though: in 2005 the number of employed persons increased by 1%, and in 2006 by 0.5% only. Even this may only reflect changes in the official statistics, since these “new” jobs were all created in agriculture, where they have probably already existed unofficially before. While from the beginning of the decade the level of employment remained unchanged in industry, it increased by more than 3 per cent in agriculture. Such a shift is in clear contradiction with worldwide tendencies.

In 2007 and 2008 the employment level in Tajikistan will increase only slightly again, due to the absence of factors favoring rapid creation of new jobs, and because of lack of private investments both in the last five years and in a short-term outlook.

Key macroeconomic indicators, 2005-2008

	2005	2006	2007f	2008f
Nominal GDP (USD mn)	2,310	2,810	3,340	3,800
Real GDP growth (%)	6.7	7.0	7.5	7.6
- Private consumption (%)	16.4	14.9	15.1	13.6
- Public consumption (%)	11.5	17.1	9.4	8.7
- Investments (GFCF, %)	13.1	9.2	12.4	11.8
Domestic interest rate (%)	9.00	13.20	13.00	10.00
Exchange rate / USD (annual average)	3.12	3.34	3.45	3.50
Budget balance / GDP (%)	0.1	0.4	0.6	0.7
Public debt / GDP (%)	4.1	4.0	12.0	10.0
Current account balance / GDP (%)	-0.8	-0.7	-0.8	-1.0
Gross foreign debt / GDP (%)	38.9	42.0	43.4	44.1
International reserves (USD mn)	189	204	240	280
CPI-inflation (% , annual average)	7.0	12.5	10.1	8.0
Unemployment* (%)	2.0	2.5	3.1	4.1
Real wage growth (%)	11.3	12.5	10.4	9.8

Note: f = forecast.

*: official figure.

Uzbekistan

Currency: Sum (UZS); 1 USD = 1220 UZS (2006 average), 1 USD = 1240 UZS (2006 end-year)

GDP per capita (2006): UZS 777,502 (USD 637)

GDP per capita in PPP terms (estimation for 2006): UZS 2,387,000 (USD 2,300)

Population (2006): 26.7 million

Sovereign credit rating (long-term foreign currency): Fitch -; Moody's -; S&P -

Strong external demand and favorable terms-of-trade developments helped Uzbekistan to maintain high rate of economic growth and a spectacular current account surplus. Massive capital inflows, partial sterilization of excess liquidity and the relatively undervalued domestic currency, however, creates an inflationary pressure that – despite sound fiscal policy – seems to be the biggest problem for economic policy in the near future.

Political and social developments

Uzbekistan celebrated the 16th anniversary of its independence at the end of August. Connected to the commemorations many large-scale investment projects were finalized. Of these one of the most important was the construction of a 223-km-long Tashguzar-Kumkurgan railway line, but there were also significant infrastructural developments in the Tashkent area.

The next presidential elections will take place in December. The current president, Mr Islam Karimov already served two terms (in fact his second term already expired in January, but a legal ambiguity allowed him to stay in power for practically one more year) and in principle (laid down in the Constitution) he would not be able to run again for presidency. Yet, it seems rather certain, that the ruling Liberal Democratic Party will nominate him again.

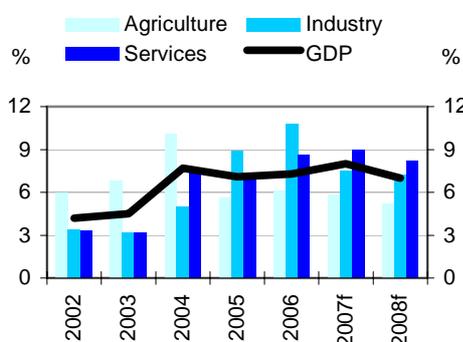
Real economy performance

Following a more modest growth path at the beginning of the recent decade Uzbekistan embarked upon a steady growth performance from 2004. It was especially an acceleration of industrial production and services output that contributed to faster growth since 2004. On the demand side it was mostly exports that exhibited vigorous growth, especially cotton export (Uzbekistan is the world's fifth largest cotton producer). These processes led to a rate of economic growth in excess of 7% per annum.

In the first half of 2007 economic growth strengthened even further and hit 9.7% compared to the first half of 2006. The main contributors to this very impressive growth rate were services and construction. Of the former, trade and trade-related services expanded at a rate of above 18%, while transport and telecommunications services at a rate of 15%. Construction activity was 20.5% higher in this period than a year earlier, also reflecting an investment boom in housing and – to a lesser extent – infrastructure. Industrial production also increased at a double-digit rate (11.6%), while agricultural output exhibited slower growth (5.5%).

Foreign demand (especially from other CIS economies) for Uzbekistan's export products also remained strong in the first half of 2007, thus exports increased by almost 40% compared to the same

Chart 1. Growth of GDP and some production components



period of last year. Since import growth remained moderate at around 10%, the surplus of the trade balance widened further.

Based on the very favorable external environment, there is further room for exports to grow, and domestic demand will also gain momentum. Households' cash income in the first half of the year increased by more than 28% boosting private consumption. Investments will also remain high due to real estate and some infrastructural developments. This will result in a growth rate of 8% this year, while – following some deceleration in industrial output and export growth – in 2008 GDP will expand at around 7%.

Monetary and fiscal developments

Chart 2. Exchange rate and money supply growth (M2)

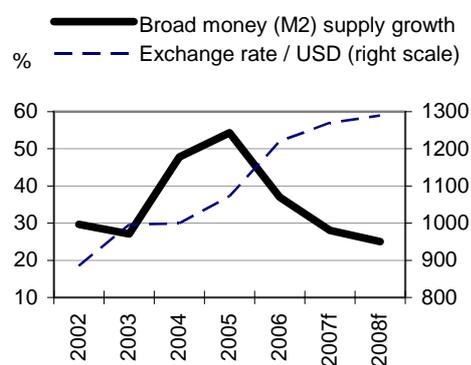
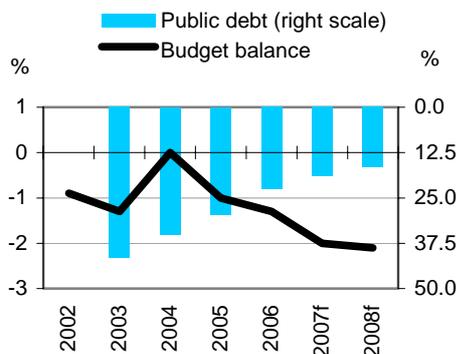


Chart 3. Fiscal indicators
(in per cent of GDP)



The Central Bank of Uzbekistan operates a de facto peg vis-à-vis the US dollar, since the exchange rate of the Sum remained within a two percent band from the middle of 2006. As – due to strong external demand for Uzbekistan's export products and increasing remittances – there is massive foreign exchange inflow into the economy, the central bank heavily intervenes in the foreign exchange market to avoid the Sum's appreciation. In doing so, it accumulates foreign currency reserves, but also has to sterilize the excess liquidity in the financial system. Sterilization, however, was only partial in the past years leading to rapid growth in the monetary aggregates and also to the creation of inflationary pressures.

In 2006 with the establishment of the Uzbekistan Reconstruction and Development Fund a new means of absorbing excess liquidity was created (besides the traditional central bank and treasury papers), and money supply growth decelerated since then. It remains, however, to be seen, whether amounts from this fund can indeed be channeled toward investment projects.

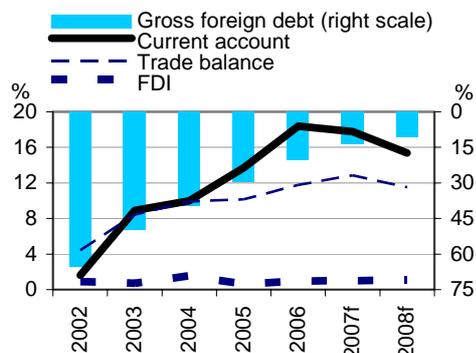
Fiscal policy was sound throughout the 2002-2006 period. With the Treasury Law coming into effect at the beginning of 2006 many fiscal reforms (tax reform, the broadening of tax base, improving administrative procedures) got on their way. The deficit of the overall budget was 1.3% of GDP in 2006, far less than the originally planned 3%. While public sector wages and pensions were increased considerably, this was offset by lower capital expenditures. Tax revenues were better than expected even despite reducing some tax rates.

In 2007 and 2008 the government aims to strengthen its welfare programs directed towards the poorest inhabitants. This could result in a slight widening of the budget deficit, but it will still remain well below 3% of GDP. To promote private sector activity, further tax reductions are also expected. Taken together, the overall budget deficit could reach 2% of GDP both this and the next year. Public debt, which was already quite low at 22.5% of GDP at the end of 2006, will further contract to below 20% of GDP in the coming two years.

International economic transactions

Favourable terms-of-trade developments coupled with strong external demand helped Uzbekistan to reach a trade surplus of close to USD 2 billion in 2006. Cotton and other commodities (especially metals) made up some 40% of Uzbekistan's total exports, but the share of other products (chemical and energy

Chart 4. Indicators of external equilibrium
(in per cent of GDP)



related) was on the rise. The main export partners in 2006 were Russia, China, Poland, Turkey and Kazakhstan.

Imports are mostly manufacturing products: machines and equipment. Together with chemical products they constitute almost two-thirds of Uzbekistan's import. Russia, Korea, China and Germany are the most significant import partners.

The world market prices for commodities increased further in the first half of 2007 resulting in a continued terms-of-trade improvement for Uzbekistan. During this period exports increased by close to 40%, while imports by only 10%, thus the trade balance exhibited a USD 1.7 billion surplus in the first six months of this year. As external demand also remains high in 2008, foreign trade will be the most important contributor to economic growth from the demand side.

Workers remittances from abroad were also growing at a rapid pace, and together with trade surpluses they resulted in a current account surplus of 18.4% of GDP in 2006. This figure, however, might overstate actual developments, because there is also a rise in the net errors and omissions item, reflecting an increasing amount of non-specified capital outflows. This notwithstanding, the tendency for high current account surpluses remains in place for 2007 and 2008 as well, and official figures could be well above the 15% of GDP.

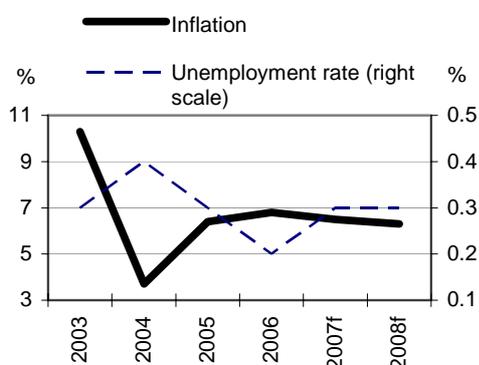
Due to the sizable current account surpluses the stock of foreign debt was markedly reduced. From more than 65% of GDP at the end of 2002 it decreased to close to 20% of GDP in four years time. The very conservative external borrowing policy coupled with continued current account surpluses will further reduce the stock of gross foreign debt to around just 10% of GDP by the end of 2008. International reserves reached USD 4.6 billion at the end of 2006 which covered slightly more than 12 months of import.

Prices and employment

In the wake of massive capital inflows and only partial sterilization of the excess liquidity thereby generated, inflation became and remains the biggest problem for economic policy. Official figures indicate that the rise of consumer prices decelerated somewhat from last year. Average annual inflation was 6.8% in 2006, while in June this year consumer prices were only 2.7% higher than in December. In fact, however, there are many reasons to believe, that official data underestimate the dynamics of consumer price rises.

The government's target for this year's inflation was between 5 and 7% and it seems that despite some deceleration in the first half of 2007, the final outcome will be closer to the higher figure. This is not just because a further rise in administered prices but also because of the exchange rate regime. Monetary authorities do not allow the appreciation of the Sum, thus the import component of consumer prices create an upward pressure on inflation. We thus expect a very slight moderation in CPI-inflation both for 2007 (to 6.5%) and for 2008 (to 6.3%).

Chart 5. Inflation and unemployment



Employment increased by 2.8% in the first half of 2007 mostly due to new jobs in the private sector. In the middle of 2007 the private sector employed 77.7% of all workers, while the remaining 22.3% were employed in the public sector. Most new jobs were created in remote, rural areas. Based on official data unemployment is very

low in Uzbekistan (around 0.3%), but there are other (non-official) estimates that are significantly higher. This is mostly due to the inadequate reporting system, but well-known problems with “hidden” unemployment must also be taken into account.

Public sector wages were increased by more than 30% in 2005 and 2006 and a further 20% increase is expected in 2007. There are no reliable data on wage developments in the private sector, but the nominal wage growth is considerably less than in the public sector. With inflation remaining at around 6-7% both this and the next year, the economy-wide real wage growth should be in the region of 8-10%.

Key macroeconomic indicators, 2005-2008

	2005	2006	2007f	2008f
Nominal GDP (USD mn)	14,220	17,040	20,200	23,400
Real GDP growth (%)	7.1	7.3	8.0	7.0
Exchange rate / USD (annual average)	1,072	1,220	1,270	1,290
Budget balance / GDP (%)	-1.0	-1.3	-2.0	-2.1
Public debt / GDP (%)	29.5	22.6	19.0	16.5
Export growth (%)	11.5	18.1	18.0	11.5
Import growth (%)	7.2	7.5	12.4	13.0
Current account balance / GDP (%)	13.7	18.4	17.8	15.4
Gross foreign debt / GDP (%)	29.7	20.2	13.8	10.7
International reserves (USD mn)	2,895	4,604	5,800	7,000
CPI inflation (% , annual average)	6.4	6.8	6.5	6.3
Unemployment (%)	0.3	0.3	0.3	0.3

Note: f = forecast.