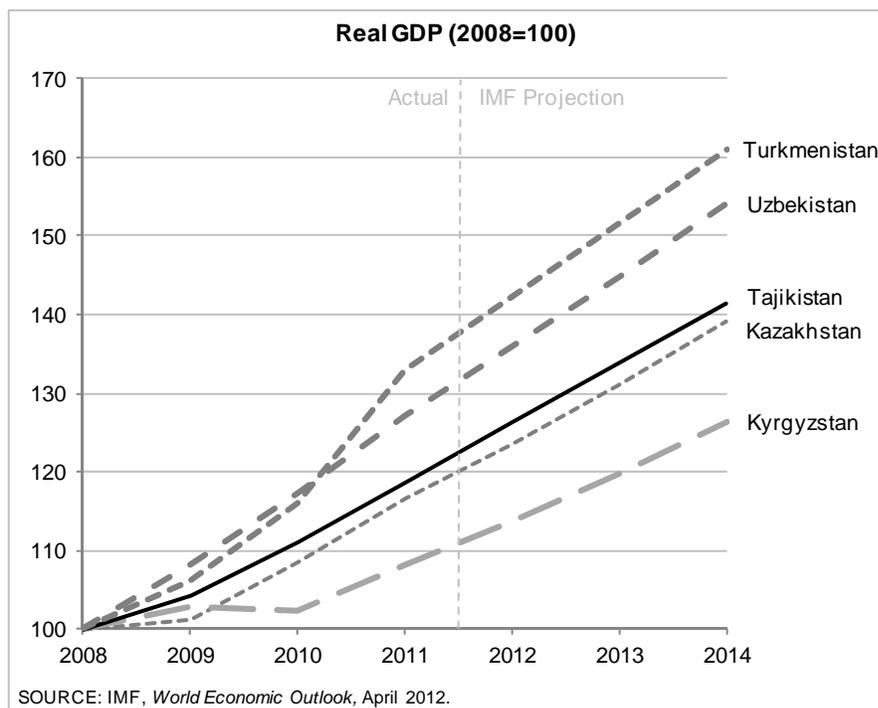




Economic Overview

Economic growth projections for Central Asia remain strong but have moderated since the September 2011 WEO projections as a result of the negative spillover effects from the Euro Area sovereign debt crisis. The average annual change in GDP for the region is expected to fall from 8.7 percent in 2011 to 6.2 percent in 2012. Weaker export demand from Europe is hurting several Central Asian countries; however, high oil and commodity prices as well as strong domestic demand continue to support growth, particularly among net energy exporting countries (Turkmenistan, Uzbekistan, and Kazakhstan).



Turkmenistan is expected to have the strongest growth in the region thanks to expanding oil and gas exports. Potential risks to the Turkmenistan economy include flaring tensions between the West and Iran that could interrupt trade routes, a slowdown in growth in China, and a deeper Euro-zone recession. Kazakhstan is investing heavily in oil, mining, and infrastructure. Industrial output, particularly in manufacturing, expanded rapidly in 2011 due to growth in chemicals, metallurgy, and machinery production. Services output also expanded; however, real estate activity slowed despite government support for residential construction. Uzbekistan is also making significant investments to improve its infrastructure. The Uzbekistan economy is expected to remain resilient despite potential declines in commodity prices as a result of the government's expansionary fiscal policy and increased cooperation with the U.S. On the other hand, Uzbekistan's continued non-compliance with international human rights standards could lead to further international isolation with negative consequences for its economy.

Kyrgyzstan is expected to continue to lag behind other economies in the region as a result of declining commodity exports and potential instability related to the political crisis of April 2010 and continuing ethnic tensions. Recently elected President Almazbek Atambayev ran on a pro-Russian platform and has declared that he will not renew the U.S. contract on the Manas

World Bank Income Groups

Out of the five Central Asian countries, only one is classified as upper-middle income (Kazakhstan), two are lower-middle income (Turkmenistan and Uzbekistan), and two are low income countries (Tajikistan and Kyrgyzstan).

Air Base when the contract runs out in 2014. Instability also threatens growth in Tajikistan which shares a porous border with Afghanistan. In addition, Tajikistan is expected to be negatively impacted by declining remittances from Europe and Russia and lower commodity prices for key exports of aluminum and cotton.

Fiscal and Monetary Policy

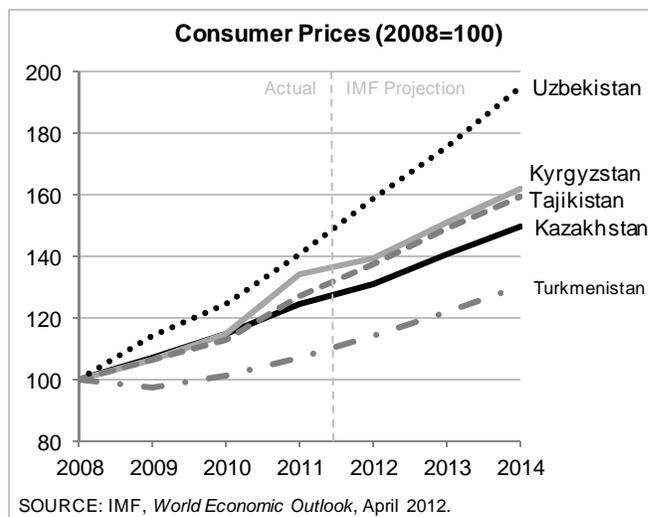
Turkmenistan, Kazakhstan, and Uzbekistan achieved current account surpluses in 2011 that are expected to continue into 2012, creating space for these governments to pursue expansionary fiscal and monetary policies. The government of Turkmenistan is providing fiscal stimulus through investments in industrial and social infrastructure. According to the Business Monitor International (BMI) February 2012 Business Forecast Report on Kazakhstan and Central Asia, the National Bank of Kazakhstan has cut its policy rate from 7.5 percent to 7.0 percent and is expected to further decrease the rate to 6.5 percent later in 2012 in an effort to support growth and the banking system. Uzbekistan has pursued a prudent fiscal policy including decreases in corporate and income taxes offset by spending cuts. However, the IMF suggests that the government of Uzbekistan apply measures to broaden the tax base to prevent further declines in revenues and increase provision of social programs targeted at low-income populations.

Although Kyrgyzstan's government is continuing to expand total expenditures to stimulate the economy, the government is weighed down by large debts, with the gross government debt totaling over 50 percent of GDP in 2011 and expected to remain over 50 percent through 2014 according to BMI projections. Kyrgyzstan experienced a current account deficit of 6 percent of GDP in 2011 according to the Asian Development Bank (ADB) Outlook 2012. In response, the government is planning on reforming the tax administration to increase government revenue and plans to reduce the civil service by 20 percent in 2012. According to the Asian Development Bank, Tajikistan is also in a tight position, with a gross government debt over 35 percent of GDP and a current account deficit of 2 percent of GDP in 2011. The IMF recommends that Tajikistan pursue fiscal consolidation to ensure fiscal and debt sustainability as well as make structural reforms including increasing oversight and supervision of the banking system and an end to direct lending.

Real GDP Growth, 2012 (IMF Projections)	East Asia 7.9%	Central Asia 6.2%	South Asia 5.8%
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Inflation

Rising global food and energy prices have renewed concerns about inflation in Central Asian countries, especially in Uzbekistan, Kyrgyzstan, and Tajikistan. Rising global food prices have been the main driver pushing up inflation across Central Asia. Rising food and fuel prices pose challenges for governments which are continuing to pursue expansionary policies to support economic recovery and growth. Central Asian governments have generally relied on administrative measures to counter inflation, including food and commodity export controls, price controls, and deploying grain reserves. Kyrgyzstan has successfully moderated inflation which spiked in 2011; however,



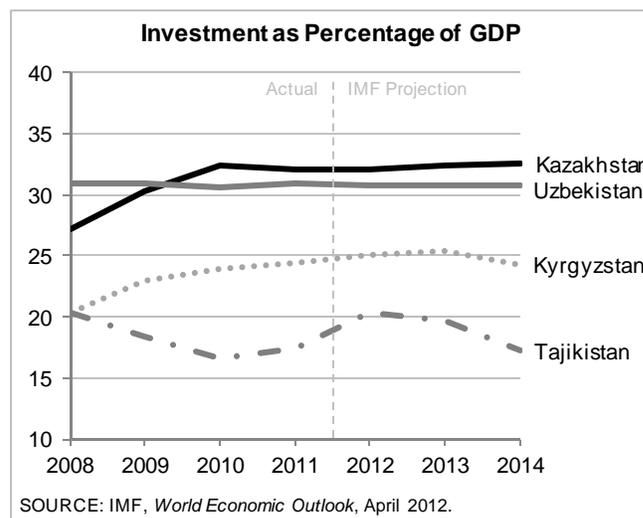
inflationary pressure remains a concern. The government of Kazakhstan has also made efforts to control inflation through price regulation and efforts to control fuel prices by selling imported fuel at a loss. As a result of these efforts inflation in Kazakhstan has been more moderate than other countries in the region but remained slightly above the National Bank of Kazakhstan's target of 6–8 percent for 2011. Turkmenistan has also successfully kept inflationary pressures under control despite strong economic growth and expansionary fiscal policies as a result of using a mix of price controls, subsidies, and maintaining a stable exchange rate.

The IMF suggests a greater role for monetary policy in combating inflation which would require strengthening the independence and transparency of central banks with price stability clearly defined as a priority. The IMF also suggests that countries develop targeted, cost-effective safety nets for the poor who are most impacted by rising food prices. In the case of Uzbekistan, which is facing the highest rates of inflation in the region, the IMF argues that foreign exchange policy should be loosened in order to slow the depreciation of the currency. In Tajikistan dollarization and underdeveloped financial markets are undermining attempts by the National Bank of Tajikistan has made efforts to counter inflation using contractionary monetary policy.

CPI Inflation, 2012 (IMF Projections)	South Asia 8.8%	East Asia 7.7%	Central Asia 7.3%
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Investment

Private capital inflows to most Central Asian countries have stalled in 2011 and are not expected to increase substantially over the next few years. Since 2009 Kazakhstan has made reforms to improve regulatory efficiency and attract foreign investment; however, legal frameworks remain inefficient and susceptible to political interference. According to BMI reports, net foreign direct investment (FDI) in Kazakhstan doubled to about \$8.8 billion in 2011. Gross official reserves of the National Bank of Kazakhstan increased by \$1.05 billion in 2011. In Uzbekistan, growth in investment is undermined by a burdensome regulatory environment, a judicial system that lacks independence, and pervasive corruption in some areas. Kyrgyzstan has been making slow progress toward a more market-driven economy through reforms to adopt a flat tax rate and simplify business start-up procedures. However, insecure property rights, political volatility, and corruption remain severe problems contributing to a decline in FDI in 2011. The government is considering providing new tax incentives to attract investors.



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Tajikistan faces many challenges to increasing investment. Under Tajik law all land belongs to the state and individuals or companies can only be granted second-tier land use rights. Regional Islamist radical groups contribute to general insecurity. Additionally, government interference severely undermines entrepreneurial activity. As a result private investment remains low and domestic investment is dominated by state-owned enterprises.

Total Investment, 2012 (as a % of GDP) (IMF Projections)	East Asia 34.6%	South Asia 28.0%	Central Asia 27.1%
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Trade

The rising world price for oil has strengthened the terms of trade for Central Asian net energy exporters. However, widening trade surpluses in 2011 are expected to moderate in 2012 as a result of economic weakness depressing demand in Europe and Russia. Turkmenistan's outstanding economic growth has been driven mainly by increased hydrocarbon exports which have helped finance ambitious public investments. A new pipeline from Turkmenistan to the Caspian Sea that has been under construction since 2010 is expected to help boost exports to Europe in the future. In addition, a North-South railway line expected to be completed by 2014 will help increase trade between Turkmenistan, Kazakhstan, the Gulf, Russia, and South Asia.

Kazakhstan's trade surplus surged by 62 percent from 2010 to 2011. Kazakhstan is planning on integrating into the Common Economic Space (CES) with Belarus and Russia in order to continue to expand trade opportunities (see box). Kyrgyzstan has experienced a strong rebound in exports related to the recent reopening of its borders with Kazakhstan and Uzbekistan, which had closed as a result of political upheaval in Kyrgyzstan in 2010. Kyrgyzstan's largest export item is gold.

Export growth in Tajikistan is lagging behind other Central Asian countries dragged down by a limited production base, noncompetitive products, and few export commodities (mainly aluminum and cotton). On the bright side, the construction of an international power line and a new export agreement should boost exports of electricity to Afghanistan in 2012 and 2013.

Export growth in Uzbekistan has been negative since 2009 and is expected to remain negative in 2012. In December 2011 the European Parliament rejected a trade deal with Uzbekistan on account of the country's refusal to allow the International Labor Organization to inspect allegations of forced child labor in the country's cotton fields.



CES Integration

The Common Economic Space (CES) was launched by Russia, Belarus, and Kazakhstan in January 2012. The CES created a supranational commission on trade and tariffs called the Eurasian Economic Commission. Kyrgyzstan and Tajikistan may be the next to join the CES. The ultimate goal is a Eurasian regional organization.

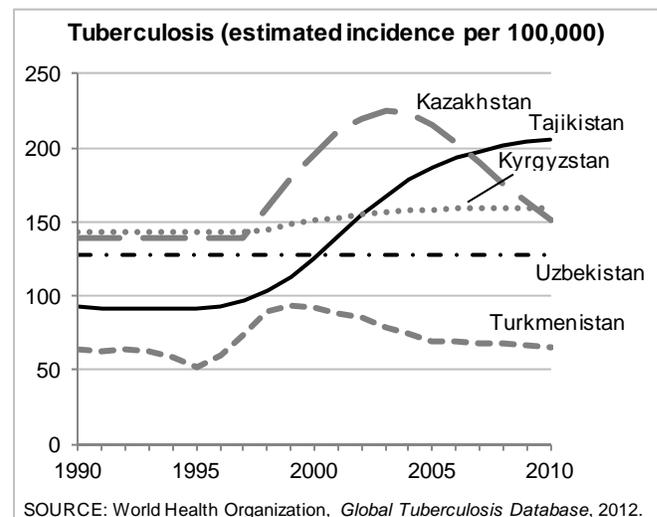
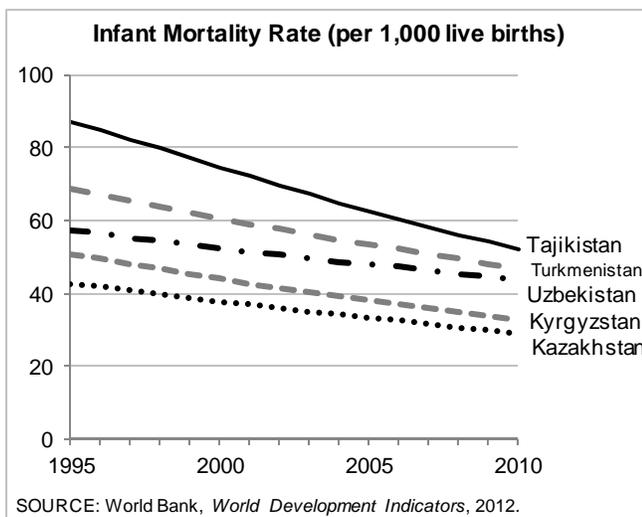
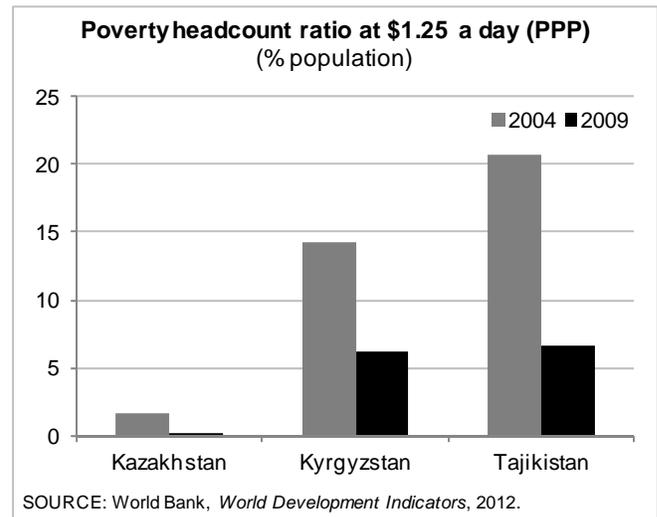
Poverty Reduction and Millennium Development Goals

Most Central Asian countries are making steady progress towards the Millennium Development Goal of halving poverty rates by 2015. As the chart shows, poverty, measured by the \$1.25 a day poverty line, has been nearly eliminated in Kazakhstan and has been reduced by over 50 percent in Kyrgyzstan and Tajikistan from 2004 to 2009 according to the most recently available figures. Unfortunately no data from the World Bank is available on poverty headcounts in Uzbekistan and Turkmenistan. The recent rises in food prices have had a negative impact on the living conditions of the poorest populations across Central Asia.

Remittance flows play a critical role in impacting poverty reduction. According to the *World Bank Migration and Remittances Factbook 2011*, Tajikistan has the highest percentage of remittances as a share of GDP of all reporting countries in the world. The main sources of remittances to Tajikistan include Europe, Russia, and Kazakhstan. Kazakhstan is the destination country for many of the region's migrant workers. There were over 3 million migrants living in Kazakhstan in 2010; however, many people from Kazakhstan also emigrate to find work abroad, making the country both a major source and recipient of remittances flows.

World Bank data on infant mortality rates show a positive downward trend among all Central Asian countries. From 1995 to 2010 the infant mortality rate per 1,000 live births declined by over 30 percent in all Central Asian countries except for Uzbekistan where the rate only declined by 24 percent over the same time period.

Despite improvements in health care systems and services, several Central Asian countries are still struggling to reduce infectious diseases such as Tuberculosis. Tajikistan has the highest rate of incidence of tuberculosis in the region partly due to extreme poverty, migration and weak institutions. Kyrgyzstan has also seen an increase in tuberculosis incidence. Unfortunately Tajikistan and Kyrgyzstan have little fiscal space to devote more resources to improving health care systems; however, the increase in multi-drug resistant strains of tuberculosis in these countries and other Central Asian countries provides extra motivation to stop the spread of the disease.



Additional Information

For questions or more information, please contact statsunit@devtechsys.com.

For country-specific data and additional information about the countries covered in this report, please visit the EADS Country Portal at http://esdb.eads.usaidallnet.gov/query/do?_program=/eads/esdb/countryPortal.

Sources used in compiling this report include the semi-annual *World Economic Outlook* from the International Monetary Fund (<http://www.imf.org/>), the *Global Economic Prospects* from the World Bank (<http://www.worldbank.org/>), the annual *Asian Development Outlook* from the Asian Development Bank (<http://www.adb.org/>), and Business Monitor International Business Forecast Reports (<http://www.businessmonitor.com/>).