COUNTRY REPORT

Kyrgyz Republic
Tajikistan
Turkmenistan
Uzbekistan

2nd quarter 1996

The Economist Intelligence Unit
15 Regent Street, London SW1Y 4LR
United Kingdom

The Economist Intelligence Unit

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EIU Electronic Publishing
New York: Lou Celi or Lisa Hennessey Tel: (1.212) 554 0600 Fax: (1.212) 586 0248
London: Moya Veitch Tel: (44.171) 830 1007 Fax: (44.171) 830 1023

This publication is available on the following electronic and other media:

Online databases	**CD-ROM**	**Microfilm**
FT Profile (UK) Tel: (44.171) 825 8000	Knight-Ridder Information Inc (USA)	World Microfilms Publications (UK) Tel: (44.171) 266 2202
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M.A.I.D/Profound (UK) Tel: (44.171) 930 6900		

ISSN 1361-1488

Symbols for tables
"n/a" means not available; "–" means not applicable

Printed and distributed by Redhouse Press Ltd, Unit 151, Dartford Trade Park, Dartford, Kent DA1 1QB, UK

Summary

Kyrgyz Republic, Tajikistan, Turkmenistan, Uzbekistan 2nd quarter 1996

May 30, 1996

Kyrgyz Republic

Political and economic structures **Pages 3-4**

Outlook: Askar Akayev will act further to curb political opposition, although repression will be less harsh than in neighbouring republics. Despite this, his position is relatively secure. The greatest threats come from mounting social unrest and inter-ethnic conflict between the country's ethnic-Kyrgyz and ethnic-Uzbek populations. The economy will emerge only slowly from recession, while balance-of-payments and banking crises could put pressure on the exchange rate. **Pages 5-6**

Review: The structure of government has been revamped, with the Presidential Administration's role expanded at the expense of that of the cabinet of ministers. Support has been given to attempts to improve integration within the CIS, which is seen as a form of security against Uzbek regional ambitions. The administration has been seeking to improve relations with China. Confusion has surrounded the 1996 budget. The president has identified new economic policy priorities for 1996, which include more foreign investment. The country's largest bank has collapsed. The economy has begun to pull out of recession but inflation has picked up. The trade deficit and foreign debt have both grown, while Russia has proposed a debt-for-equity deal. **Pages 6-16**

Tajikistan

Political and economic structures **Pages 17-18**

Outlook: The civil war looks set to continue and the government will continue to be rocked by infighting. This problem will be made worse by food shortages and social unrest. The IMF stand-by agreement is likely to be derailed by political instability. Privatisation plans are unlikely to be put into effect, and political instability will stall foreign investment. **Pages 19-21**

Review: Intensified fighting between government and opposition forces has scuppered peace talks. Divisions within the government have continued to undermine the administration. A stand-by loan has been agreed with the IMF. The economy has remained in recession, while aid agencies are preparing to deal with food shortages. **Pages 21-26**

Turkmenistan

Political and economic structures **Pages 27-28**

Outlook: While the position of the president appears secure for the moment, he could be challenged by disgruntled former colleagues. Tensions with Uzbekistan could rise. Prospects of a deal on the Caspian sea have improved, although Turkmenistan may be thwarted in its plans to develop a gas export pipeline. The economy looks set to pull out of recession, thanks to rising energy production and an improving balance-of- payments position. Problems in the agricultural sector will persist. **Pages 24-31**

Review: Mr Niyazov has removed a potential rival from office and has continued to apportion blame for the disastrous harvest. The administration has reacted angrily to plans for a deepening in the level of integration between CIS states. Relations with both Azerbaijan and Uzbekistan have caused concern, while improved ties have been built with Iran. The US State Department has criticised Turkmenistan's record on human rights. The government has adopted a stabilisation programme and has moved to abolish the multiple exchange rate system. Self-sufficiency in grain has remained a policy priority; this has hit cotton production. The economy has recovered, largely due to an upturn in energy production. Pipeline deals have been stalled. ***Pages 31-42***

Uzbekistan

Political and economic structures ***Pages 43-44***

Outlook: The president looks secure, although social unrest could be sparked by the difficult economic conditions. Relations with the West will continue to improve as Uzbekistan is seen as a bulwark against regional instability. The country's poor human rights record could stall the ratification of a Partnership and Cooperation Agreement with the EU. Slow progress in abolishing the dual exchange rate system could cause a rift with the IMF. ***Pages 45-47***

Review: Mr Karimov has continued to reshuffle his government following the poor harvest. Relations with the West have improved, but a US State Department report has cast doubt on Uzbekistan's human rights record. Tashkent has opposed plans to deepen integration within the CIS but Mr Karimov has reluctantly backed Mr Yeltsin in the Russian presidential election. The budget has moved into surplus and a Treasury-bill programme has been launched. The IMF has criticised the dual exchange rate system. An ambitious privatisation programme has been unveiled. The economy has begun to emerge from recession despite continued difficulties in the agricultural sector. Oil production and exports have risen, but non-payment is still a problem. Steps have been taken to simplify foreign trade. ***Pages 47-58***

Statistical appendices

Important
The following tables, located in the Statistical appendices, are included in this Country Report.

A: A watchlist giving the status of the new currencies in the former Soviet republics.

B: A list tracking the quarter-by-quarter exchange rates for the currencies of the former Soviet republics.

C: Tables showing GDP and GDP per head at purchasing power parity for all former Soviet republics. These tables give an indication of living standards and domestic purchasing power, free from the distortions caused by exchange rates. ***Pages 59-65***

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Political structure: Kyrgyz Republic

Official name: Kyrgyz Republic

Legal system: the Kirgiz Soviet Socialist Republic declared its independence in August 1991. At the same time the state's name was changed to the Kyrgyz Republic; its constitution was approved on May 5, 1993. The president's powers were enhanced through a referendum held on February 10, 1996

National legislature: the 313-member Jogorku Kenesh of the Soviet era has been replaced by a 105-member bicameral parliament, elected for a four-year term

Last elections: February 5, 1995 (legislative); December 24, 1995 (presidential)

Next elections due: February 1999 (legislative); December 2000 (presidential)

Head of state: the president, Askar Akayev, elected unopposed on October 13, 1991; he was re-elected on December 24, 1995, with 71.6% of the vote

National government: the president appoints a prime minister who forms a government. The current cabinet was formed in April 1995

Main political parties: Communist Party of Kyrgyzstan; Ata-Meken and Erkin Kyrgyzstan (small Kyrgyz nationalist parties); Civic Movement of Kyrgyzstan

Prime minister	Apas Dzhumagulov
Head of the Presidential Administration	Kubanychbek Zhumaliyev
Head of the National Security Council	Beksultan Ishimov
First deputy prime minister	Abdyzhapar Tagayev
Deputy prime ministers	
for agriculture	Bekbolat Talgarbekov
for industry	Amangeldy Muraliyev
for social affairs	Mira Dzhangaracheva
Key ministers	
agriculture	Karimsher Abdumomunov
defence	Mirzakhan Subanov
economy	Taalaybek Koichumanov
education	Askar Kakeyev
finance	Kemelbek Nanayev
foreign	Roza Otunbayeva
health	Naken Kasiyev
industry & trade	Andrei Iordan
interior	Omurbek Kutuyev
justice	Larisa Gutnichenko
labour & social security	Zafar Hakimov
transport	Toktorbek Azhikeyev

Economic structure: Kyrgyz Republic

Latest available figures

Economic indicators	1991	1992	1993	1994	1995
GDP at current prices Rb bn	86.0	525.0	5.7[a]	10.0[a]	15.6[a]
GDP at exchange rate $ bn	50.6	2.4	0.7	0.9	1.4
GDP at purchasing power parity[b] $ bn	15.5	11.9	10.2	7.8	7.5
Real GDP growth %	–3.6	–19.1	–16.4	–26.2	–6.7
Consumer price inflation, %	85.0	855.0	1,209.0	278	42.6
Population m (mid-year)	4.45	4.49	4.53	4.60	4.65
Exports[c] $ m	6,547.0[d]	76.5	112.1	117.1	166.2
Imports[c] $ m	6,783.0[d]	70.5	112.0	107.5	166.7
Exchange rate Rb:$ (av)	1.7	222.0	8.0[e]	10.6[e]	10.7[e]

May 17, 1996 Som12.01:$1

Origins of gross domestic product 1994[f]	% of total
Agriculture & forestry	34.7
Industry	23.8
Construction	4.2
Other	30.9
Total	100.0

Components of gross domestic product 1993[f]	% of total
Private consumption	66.8
Public consumption	11.3
Gross fixed investment	12.7
Change in stocks	17.3
Net exports	–7.2
GDP incl others	100.0

Composition of exports 1993[c]	% of total
Fuel, minerals & metals	59.0
Other primary commodities	3.0
Machinery & transport equipment	1.0
Other manufactures	37.0

Composition of imports 1993[c]	% of total
Food	38.0
Other primary commodities	15.0
Manufactures	47.0

Main destinations of exports 1994[cf]	% of total
China	48.1
UK	25.3
Germany	5.7
France	1.9
Afghanistan	1.7
Italy	1.5

Main origins of imports 1994[cf]	% of total
USA	33.0
China	10.4
Germany	6.4
South Korea	3.8
Japan	2.5
Sweden	2.5

[a] Som bn. [b] EIU estimates. [c] Trade outside the former Soviet Union. Trade with former Soviet republics accounted for 87.8% of the Kyrgyz Republic's exports and 95.5% of its imports in 1992. [d] Rb m; valued at domestic prices which represent internal prices originally set under the centrally planned economic system, and thus differ substantially from world market prices. [e] Som:$. [f] World Bank estimates.

Kyrgyz Republic

Outlook

The Kyrgyz Republic will maintain a facade of democracy—

Recent changes mean that the Kyrgyz Republic has been transformed into a facade democracy. Elections are held, but extensive voting irregularities mean that the results are largely meaningless. Askar Akayev's victory in the presidential election in December 1995 has ensured his stay in office until 2000. Decisions will be made by an inner sanctum composed of the Presidential Administration and the Security Council. Although Mr Akayev's position has been strengthened, there are problems ahead, in particular the threats of social and ethnic unrest (within the Uzbek minority in Osh) and regional tensions between the north and south Kyrgyz peoples. As the government has no resources with which to address the economic aspects of these tensions, and as it seems unwilling to engage in any free-ranging debate, more heavy handed tactics will be needed to prevent tensions spilling out into the open.

—but dissent will be curbed

The banning of the minority Uighur society, Ittipak (Unity), was a sop to China and an indication of future government policy (see The political scene). The government will curb the activity of dissenters from minority groups, but there will be no imprisonment or use of violence as there has been in Turkmenistan and Uzbekistan. Mainstream opposition groups will be harassed but not closed down; the president will use the full force of the law to keep his critics fully occupied.

The economic recovery is vulnerable—

A key factor undermining political stability will be the weakness of the economic recovery: real GDP growth is expected to reach 2% in 1996 and 3% in 1997, but from a low base this is disappointing. Now that growth has finally returned the population will expect an end to the hardships of the past five years. However, the recovery is weak and is vulnerable to external shocks such as disruptions in energy deliveries from Uzbekistan. The administration will also encounter financial problems, following the recent collapse of Kyryzelbank, the state-owned savings bank, which was also the country's largest bank. Social unrest in the form of strikes and protests over unpaid wages are likely.

—due to growing current-account and trade deficits

The current-account position remains precarious. Even if the government is able to keep the IMF's structural adjustment programme (SAP) on target, the current-account deficit is still expected to reach at least 11.4% of GDP in 1997 (excluding grants). In part this is the natural result of a growing economy importing increased amounts of capital goods. However, it also reflects a lack of competitiveness on the part of the industrial sector.

The banking crisis could put pressure on the som—

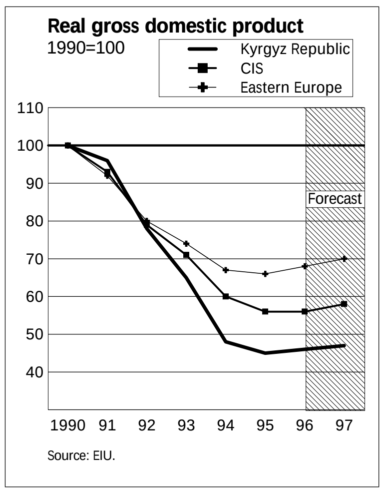
Thus far, the currency, the som, has established itself as the most stable of all the Central Asian currencies. The som has traded close to Som11:$1 since June 1994 which, allowing for inflation, implies a real appreciation of 55%. However, a rising current-account deficit is likely to weaken the exchange rate. This will come at an inopportune time for the National Bank of the Kyrgyz Republic (NBK, the central bank), which is likely to see its foreign currency reserves fall in the aftermath of the collapse of Kyrgyzelbank. A run on the banking system is possible, which will put further pressure on the central bank's meagre resources. Downward pressure on the som will also be boosted by the expected failure of the administration to adhere to IMF demands for fiscal restraint.

—forcing a rethink of trade policy—

The Kyrgyz Republic's attempt to resurrect trade with former Soviet republics, through a range of concessionary and barter trade deals, has led to few benefits. A current-account and currency crisis will probably tempt the government into putting trade on to a genuine market footing, with transactions conducted at world market prices.

—while inflation picks up

The recent upward movement in prices means that the Kyrgyz Republic is now unlikely to meet its Enhanced Structural Adjustment Facility (ESAF) target of 15.1% year-end inflation in 1996 (1st quarter 1996, page 10), the first time that this target has been missed. For the target to be met the rate from April to December would have to average 0.3% per month, which is unlikely. It is more likely that inflation will be slowed to its original monthly target of 1.18%, which would lead to year-end inflation of 24.3% and an annual average rate of 30%. The EIU forecasts that this will moderate to an annual average of 20% in 1997.



Forecast summary

(% change unless otherwise indicated)

	1994[a]	1995[a]	1996[b]	1997[b]
Real GDP	–26.2	–6.7	2.0	3.0
Industrial production	–28.0	–12.5	1.5	2.0
Consumer prices	278.0	42.6	30.0	20.0
Trade balance[c] ($ m)	9.6	–0.5	–10.0	–50.0
Average exchange rate (Som:$)	10.6	10.7	13.0	15.0

[a] Actual. [b] EIU forecasts. [c] Non-CIS trade only.

Review

The political scene

The structure of government is reshaped—

After his predictable victory in the February 10 referendum (1st quarter 1996, page 7), the president, Askar Akayev, has reshaped the structure of government. The president now wields most executive power. Major domestic policy decisions will be made by the Security Council, set up on April 8, 1996, to replace the National Security Council created on February 11, 1994 (2nd quarter 1994, page 49). The former body, which is composed of the most important members of the government, does not have to report to parliament. As a result, the president and his most trusted ministers can now take decisions without having them examined by either parliament or the full cabinet. Executive decisions will be implemented by the Presidential Administration, which has effectively taken over many of the powers of the government. Mr Akayev has also announced that the Presidential Administration will monitor the performance of the national government, local government, the civil service and the judiciary. Ostensibly the Presidential Administration's role will be supervisory but, in practice, it will act as an executive check on the activities of subordinate parts of the government. The Presidential Administration is solely responsible to the president, which will strengthen Mr Akayev's grip on power.

National Security Council
(formed Feb 11, 1994)

President	Askar Akayev
Prime minister	Apas Dzhumagulov
State secretary	Janysh Rustembekov
Deputy prime minister	Jan Fisher
Interior minister	Abdybek Sutalinov
Defence minister	Mirzakhan Subanov
Chairman, GKNB[a]	Anarbek Bakayev
Commander of the National Guard	Abdygul Chotbayev

[a] State Committee on National Security, the successor to the KGB.

Source: BBC, *Summary of World Broadcasts.*

Security Council
(formed Apr 8, 1996)

President	Askar Akayev
Prime minister	Apas Dzhumagulov
State secretary	Ishenbay Abdurazakov
Head of the Presidential Administration	Kanybek Imanaliyev
Secretary of the Security Council & defence minister	Mirzakhan Subanov
Foreign minister	Roza Otunbayeva
Interior minister	Omurbek Kutuyev
National security minister	Anarbek Bakayev
Emergencies & civil defence minister	Mambetzhunus Abylov
Finance minister	Kemelbek Nanayev
Economics minister	Taalaybek Koichumanov
Procurator-general	Asenbek Sharshenaliyev
Commander of the National Guard	Abdygul Chotbayev

Source: BBC, *Summary of World Broadcasts.*

—while the cabinet has been reshuffled—

The government resigned on February 26 following the adoption in a referendum held on February 10 of a new constitution. The resignation seemed designed to give the impression that a major shake-up of government would result. A supposedly new government was appointed on March 4, but Apas Dzhumagulov remained as prime minister and there was only a minor reshuffle of ministers. The new cabinet includes three new deputy prime ministers (Bekbolot Talgarbekov, formerly at the agriculture ministry; Amangeldy Muraliyev, formerly head of the state property committee (GKI); and Mira Dzhangaracheva, a parliamentary deputy) and a new agriculture minister, Karimsher Abdymomunov. Mambetzhunus Abylov, head of the Central Electoral Commission, was rewarded with the new portfolio of minister for emergencies. Mr Abylov has ensured Mr Akayev's electoral successes on a number of occasions. In the constitutional referendum held on February 10 he engineered a 96.62% turnout with a 94.31% yes vote, with just 1.38% voting no. On March 3 Kuvachbek Dzhumaliyev was made head of the Presidential Administration; he previously held the post of first deputy minister for education and was head of the state committee for science and technology. Mr Akayev has also reconstituted the state committees as ministries and agencies in their own right and has created a number of entirely new ministries.

—with more substantial changes likely outside Bishkek—

The most far-reaching effects of recent changes will be felt in the provinces. The Presidential Administration has announced its intention to launch an anti-corruption and anti-nepotism drive in the bureaucracy, the judiciary and local government. The anti-corruption drive will, in practice, be a political purge, with provincial governors being removed in some cases. To tighten his grip on the provinces, Mr Akayev has increased both the powers and the responsibilities of the governors of the country's seven provinces. Governors do have considerable power. They can cancel any decision made by locally elected bodies if they run counter to decisions made in Bishkek. Governors are also personally responsible for local budget performance, tax collection, the payment of benefits and state capital investment. In order to ensure that the new powers given to governors do not serve as a threat in the future, on March 26 the president announced that the provincial governors would be rotated. The move appears designed to prevent individual governors from establishing regional power bases from which to challenge the president.

—although scandal remains close to home

Mr Akayev's anti-corruption campaign has revealed wrong-doing at the heart of government. On March 29 the capital's evening newspaper, *Vecherniy Bishkek*, published the transcript of a telephone conversation between the then interior minister, Madalbek Moldashev, and two of his former employees, to whom Mr Moldashev was quoted as offering new jobs even though they had previously been sacked by Mr Akayev for unspecified impropriety. Mr Moldashev resigned on April 2. The new interior minister is a police colonel, Omurbek Alymbekovich Kutuyev.

Mr Akayev will have been grateful to have rid himself of Mr Moldashev but is keen to avoid further embarrassing press revelations: he issued a decree, six days after the fall of the interior minister, making it more difficult for journalists to gain accreditation. Foreign journalists now have to pay a $100 fee and, along with local journalists, have to apply to the government-controlled Kyrgyz National Telecommunications company and the official Kabar news agency for press identification. To keep the press in line, Mr Akayev twice filed criminal libel suits against the newspaper, *Res Publika*, in 1995 (3rd quarter 1995, pages 26-27).

Mr Akayev trims his sails to the Russian wind—

Wary of the unstable outlook for Russian policy and nervous about Uzbekistan's regional ambitions, Mr Akayev has moved to reassure the local Russian minority and to win favour with policy-makers in Moscow. He has offered his backing to the re-election campaign of the Russian president, Boris Yeltsin. Mr Akayev endorsed Mr Yeltsin with the comment that "every leader makes mistakes and

Mr Yeltsin has also made them". Mr Akayev has also supported Russian plans to reinvigorate the Commonwealth of Independent States (CIS) organisation. In particular, on March 29 the Kyrgyz Republic joined the currently scarcely functioning customs union between Belarus, Russia and Kazakstan, which was originally created in January 1995. Mr Akayev also agreed with the leaders of the other three states that integration between the four countries should be taken a stage further. In their March 29 treaty, Belarus, Russia, Kazakstan and the Kyrgyz Republic committed themselves to a five-year timetable to create a community of integrated states. The integration accord foresees the creation between the four states of inter-parliamentary and inter-governmental bodies. Finally, Russian became an official language of the Kyrgyz Republic as of March 11 and, subject to a favourable ruling on the issue by the Supreme Court, has been placed on an equal footing with Kyrgyz. Russian had been the official language in the Soviet era but was steadily displaced by Kyrgyz, which became the official language in 1990. A new constitution introduced in 1993 gave Russian a special status as the language of "inter-ethnic communication" because it is the most widely spoken language in the country. In practice, however, Russian was never truly replaced by Kyrgyz, but Mr Akayev has long argued that such a symbolic measure is needed to discourage Russian emigration. Russians made up 21.5% of the population in 1989 (the last Soviet census) but now account for an estimated 17% of the population. Russians tend to dominate in managerial and skilled labour positions and hence the government is keen to avoid a skills drain back to Russia.

—in a political manoeuvre—

The March 29 accord has much to do with Mr Yeltsin's re-election campaign and very little to do with the desire to accelerate integration between former Soviet republics. Mr Yeltsin is trailing in the opinion polls and is flirting with nostalgia for the former Soviet Union while at the same time refusing to whitewash the past. Indeed, the Kyrgyz Republic has acknowledged the short-term political nature of the integration accords. A Kyrgyz presidential spokesman in Bishkek quoted by Interfax on March 25 said that: "Many initiatives proposed in Belarus and Russia are connected with the upcoming elections in Russa."

—with little practical effect—

Integration accords between former Soviet republics are generally regarded with scepticism. The CIS has, for example, signed over 100 documents seeking to re-establish ties between former Soviet republics, but few have been implemented. Economic problems are a key impediment to integration. In particular, while Russia is keen to see the re-establishment of trading relations within the CIS, it fears that this could stimulate a return to the Soviet practice whereby Russia was forced to provide large budgetary transfers to keep other Soviet republics afloat.

—but to provide some protection against Uzbekistan

The March 29 integration accord is also a means of keeping Russia interested in the Kyrgyz Republic's future. Following the collapse of the former Soviet Union, Moscow gradually pared down its interest in Central Asia, which Russian policymakers have long viewed as a drain on Russia's resources. The strategy now is to regard the Central Asian republics' external frontiers as Russia's forward defence line, but not to become involved in local political or economic problems. However, the Kyrgyz Republic has two major external security concerns for which it needs long-term Russian help: the possible spread of violence from Tajikistan and the regional ambitions of Uzbekistan. Indications of the extent of concern over the latter were given in a report published in a Russian newspaper, *Nezavisimaya Gazeta*, on February 21. This reported that the Kyrgyz Republic's army, interior ministry (MVD), and GKNB (State Committee for National Security) were holding exercises to simulate a Tajik opposition attack. However, the location of the manoeuvres, in Osh province, was close to the border with Uzbekistan, which was a clear indication of Kyrgyz concerns. The province has a large ethnic-Uzbek majority population and was the scene of violent clashes between ethnic-Kyrgyz and ethnic-Uzbeks in the summer of 1990, which led to the province being placed under a form of emergency rule for almost five years.

China is kept sweet—

The longrunning troop reduction talks between China and its former Soviet neighbours ended in success on April 26, when a confidence-building treaty was signed in Shanghai. There will now be notification zones of 100 km on each side of China's border with the former Soviet republics of Russia, Kazakstan, the Kyrgyz Republic and Tajikistan. The border states must keep each other informed of military deployments and activities. Every year the five states will exchange military information on their activities in the notification zones. The demarcation of the border between China and the former Soviet Union (with the exception of Kazakstan) remains in dispute.

—which the Uighur minority had already noticed

The military confidence-building accord was backed by increased political agreement. The Chinese foreign minister, Qian Qichen, said on April 29 that China, Kazakstan, the Kyrgyz Republic and Tajikistan had reached an understanding that they would work jointly against separatism and Islamic fundamentalism. Bishkek had already acted by imposing a three-month ban on Ittipak (Unity), a Kyrgyz Republic-based ethnic-Uighur society. From April 4 to July 4 Ittipak is forbidden from organising any public activities. The Uighurs are similar to the Kyrgyz, an originally nomadic Turkic-speaking Muslim group. They number only 40,000 in the Kyrgyz Republic (0.9% of the population), but are the largest minority in the neighbouring Chinese province of Xinjiang. Bishkek has prevented Ittipak and other Uighur organisations from registering as legal associations (1st quarter 1995, page 21; 3rd quarter 1995, page 26).

Economic policy

The deficit will again overshoot the target—

The budget deficit in 1996 will again exceed the target set by the IMF. After much delay, the final budget was approved by parliament on April 3 and foresees a Som1.1bn ($97m) deficit which, according to government forecasts, would represent 19.2% of GDP. No more details of the budget are available, but the deficit target is presumably exclusive of foreign grants and loans. An earlier draft foresaw a fiscal deficit of 8.9% of GDP (1st quarter 1996, page 10). In December the IMF called for the deficit to be limited to just 5.5% of GDP (1st quarter 1996, page 9). The president, Askar Akayev, has said that he would like the deficit to stay at around 6% of GDP in 1996. According to a Reuters report, the budget passed on April 3 is to be covered by local financing of Som655.7m, with foreign loans and grants covering a further Som887.3m. Confusingly, this totals Som1.54bn, which is more than 40% above the deficit approved on April 3.

Consolidated fiscal balance

(% of GDP)

1991	1992	1993	1994[a]	1995
4.6	–17.4	–13.5	–7.0	–15.6

[a] The government now puts the 1994 deficit at 6.7% of GDP. The IMF target was 4.2% of GDP.

Source: IMF.

Budget revenue and expenditure

(Som m unless otherwise indicated)

	1991	1992	1993	1994	1995	1996
Revenue	27.2	127.6	1,330.1	2,606.7	3,430.0	2,600.0
of which:						
union grants (net)	9.7	0.0	461.5[a]	302.6[a]	n/a	n/a
Expenditure	23.6	262.0	2,103.3	3,514.1	5,510.0	3,700.0
of which:						
transfers	10.0	52.5	592.0	744.1	n/a	n/a
Balance	3.5	–134.5	–773.3	–907.3	–2,080.0	–1,100.0
% of GDP	4.6	–17.4	–13.5	–8.4[b]	–12.5	–19.2

[a] International aid, mainly from USA. [b] Sources disagree on the 1994 deficit.

Sources: World Bank; IMF.

—as Mr Akayev sets priorities—

Mr Akayev has set his economic policy priorities for 1996. First, he wants to encourage more foreign direct investment, particularly into the country's troubled financial sector. There is also an increased desire to entice foreign firms into the defence sector and into agriculture. The president also wants to follow the example of Kazakstan and establish management contracts with foreign companies to run large state-owned firms. Mr Akayev's priorities are likely to remain a wish-list. The economy is small and there are too few foreign firms to justify any major foreign banking presence. Second, the amount of capital required to turn the defence industries around is so large that foreign investors will probably prefer to invest in greenfield sites. Third, management contracts may well bring in some foreign firms, but they have yet to prove effective in Kazakstan and foreign firms will most likely steer clear of such contracts.

—and the country's largest bank collapses—

The weak supervision of the banking system (see Country Profile, 1995/96) was amply demonstrated on February 19 when Kyrgyzelbank, the state-owned savings bank and the country's largest bank, collapsed. Subsequently, the National Bank of the Kyrgyz Republic (NBK, the central bank) revealed that up to 90% of the loans outstanding in Kyrgyzelbank's portfolio were non-performing. Banking collapses are now common in the former Soviet republics and are mainly a result of poor supervision, weak credit risk evaluation techniques and the generally depressed state of the economies of the region. As usual, the warning signs were there—Kyrgyzelbank, for example, offered suspiciously high interest rates—but were ignored.

The final cost of the collapse is still unknown. The NBK claims that it is able to recover loans to other banks, but is having difficulty with the rest of the loan portfolio. In order to meet its commitment compensate to partially savers, the NBK will have to dip into its reserves. Depositors will receive no more than Som3,000 ($262) each and will not be able to recover lost interest. Other possible effects of the collapse of Kyrgyzelbank include a reduction in the rate of economic recovery and a possible weakening of the som as reserves are drawn down.

—amid widespread corruption in the financial sector

In the aftermath of the collapse of Kyrgyzelbank, the government has attempted to crack down on fraud in the financial sector. At the end of April the government had the directors of 17 partly state-owned financial institutions indicted for misappropriating Som27.98m in state loans, of which, according to a Kyrgyz Radio report on April 30, only Som 5.31m had been recovered. The authorities claim that there were 36 documented instances of credit misappropriation between January 1995 and the end of March 1996 which, given the fairly scant supervision of the financial sector, is probably an understatement.

The economy

Output finally recovers—

After five years of recession the economy appears at last to be growing. The Commonwealth of Independent States (CIS) statistical committee, CIS Goskomstat, reported that in the first two months of 1996 industrial output increased by 1.4% on the corresponding period of 1995. Official data indicate that GDP in the first quarter was up by 2% on the same period of 1995. However, data remain sparse and it is difficult to gauge the solidity of the recovery. Agriculture, which is the most important sector of the economy, accounting for one-third of GDP, is reported as continuing to experience severe problems. One recent report claimed that by mid-March the country only had 20,000 tons of the 34,000 tons of seeds needed to plant the 290,000 ha of grain planned for 1996. The grain harvest in 1995 was 1m tons (1st quarter 1996, page 12).

The most recently released official data indicate that economic performance in 1995 was worse than at first reported. The decline in GDP is now estimated at 6.7%, compared with the previous estimate of a decline of just 6.2% (1st quarter 1996, page 11). The new figure indicates that by the end of 1995 real GDP was just 54% of the level in 1994. The state statistical committee reports that GDP in 1995 totalled just Som15.6bn ($1.4bn), equivalent to Som3,466 ($302) per head.

Economic performance
(% real change)

	1990	1991	1992	1993	1994	1995
GDP	3.2	–3.6	–19.1	–16.4	–26.2	–6.7
Industrial output	–0.6	–0.3	–26.4	–24.6	–27.9	–12.5
Consumer prices	3.0	85.0	854.6	1,208.7	278.1	42.6

Sources: IMF; EIU estimates using IMF data for consumer prices 1994-95.

Monthly indicators
(% real change on year-earlier period)

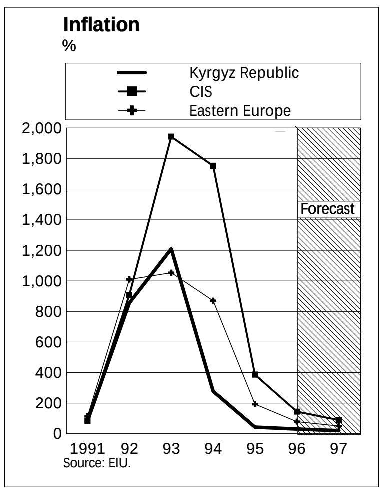
	1995	1996		
	Dec	Jan	Jan-Feb	Jan-Mar
GDP	–7.7	0.2	n/a	2.0
Industrial output	1.6	0.1	1.4	n/a

Sources: World Bank; IMF; CIS Goskomstat; Reuters.

The reported revival in industrial production has led to official optimism about the economy's longer-term prospects. The president, Askar Akayev, believes that growth could be 3.4% in 1996, with year-end inflation of 15-20%. However, Mr Akayev has also expressed his belief that growth could accelerate to 7% per year towards the end of the century. This view is based on the assumption that the Kyrgyz Republic remains in the quadrilateral customs union with Belarus, Kazakstan and Russia and joins the World Trade Organization (WTO). Even if Mr Akayev's forecasts are correct the country will still take until 2008 to reach the 1990 level of output.

—but inflation picks up—

The government's main economic policy success to date was in slowing the rate of inflation: by the end of 1995 the year-on-year rate had been trimmed to just 31.9%, one of the lowest rates among former Soviet republics, with the annual average rate falling to 41.6%. However, monthly inflation has been steadily creeping up since November, and hit 4% in March (26.9% on an annualised basis), the highest monthly rate since February 1995. In the first quarter of 1996 the average monthly inflation rate was 3.8%, well above the monthly average for 1995 of 2.3%. The rise in inflation has been caused by higher than expected increases in food prices. Food price inflation reached 6% in February and 6.3% in March. The prices of other consumer goods, excluding food and of services, have risen well below the average inflation rate for the two months for which there are data.



Inflation trends

(% change)

	Monthly	Annual
1995		
Jan	7.1	77.4
Feb	6.8	62.0
Mar	1.6	53.3
Apr	0.8	47.3
May	1.6	44.6
Jun	0.7	40.7
Jul	0.4	37.4
Aug	–0.3	34.7
Sep	2.5	37.8
Oct	1.1	32.7
Nov	2.6	32.1
Dec	3.4	31.9
1996		
Jan	3.6	27.6
Feb	3.8	24.0
Mar	4.0	26.9

Sources: OECD, *Short-Term Economic Indicators: Transition Economies*; IMF; Kyrgyz Republic Goskomstat.

Components of inflation, 1996

(% change; month on month)

	Feb	Mar
Food	6.0	6.3
Non-food consumer goods	0.0	0.3
Services	0.3	0.0

Sources: Interfax; BBC, *Summary of World Broadcasts*.

—while unemployment remains mostly hidden

Data on unemployment remain inconsistent and unreliable. Nonetheless, the government claims that by the end of February 91,200 people (4.9% of the workforce, according to EIU estimates) were unemployed. The previous unemployment figure was given in September 1995, when 67,000 were registered as unemployed (3.6% of the workforce). In practice, many workers are *de facto* unemployed, as they are unpaid or on short-time working. Most firms are still responsible for the social welfare of their employees, creating a disincentive for workers to quit their jobs even if they are unemployed in all but name. The true level of unemployment is unknown but, given the fall in output, could be as much as 20%.

Foreign trade and payments

A trade deficit of 5.9% of GDP in 1995—

Recently released data from the Kyrgyz state statistical committee put the 1995 trade deficit at $82.7m, or 5.9% of GDP. Given the prevalence of barter trade, the accuracy of these data is debatable. In particular, there is no indication of the exchange rates used for soft-currency or barter trade. The data, which are not consistent with previous series, claim a 18.3% leap in total exports over 1994's level, with imports rising by 90%. If the data are correct, then trade dependency on former Soviet republics is increasing. This region accounted for 66.2% of exports in 1995, up from 63.6% of exports in 1994. The comparable import shares for 1995 and 1994 were 77.3% and 76.1% respectively. An alternative data series, also reportedly from the Kyrgyz state statistical committee, puts the 1995 trade deficit at Som1.49bn ($136.6m). A report in the Kazak journal *Aziya-EZh* also claimed that only 3.8% of all trade went through independent, ie non-state, channels. However, given that trade has been liberalised this appears highly unlikely. The *Aziya-EZh* series is inconsistent with previous data. All the recently released trade data is also inconsistent with series provided by the OECD.

—continues to grow—

According to official sources, the trade deficit opened up in January and February 1996, standing at Som354.8m with total exports of Som306.7m and imports of Som661.5m. Reportedly, 71% of total trade was with the former Soviet republics. An alternative report in *Aziya-EZh* put the January trade deficit at $12.3m. If the trade deficit continues to grow at the reported rate, then the Kyrgyz Republic is likely to miss its current-account target along with its inflation and fiscal targets.

Foreign trade
($ m)

	1994	1995	Jan-Feb 1996
Exports	321.1	379.9	26.8
Former Soviet Union	204.3	251.4	n/a
Outside former Soviet Union	116.8	128.5	n/a
Imports	243.5	462.6	57.8
Former Soviet Union	185.3	357.8	n/a
Outside former Soviet Union	58.2	104.8	n/a
Trade balance	77.7	–82.7	–31.0

Sources: Reuters; Kyrgyz Republic Goskomstat; OECD, *Short-Term Economic Indicators: Transition Economies.*

Foreign trade

	1990	1991	1992	1993	1994[a]	1995[a]
With the former Soviet Union (Rb m)[b]						
Exports	2,448.0	6,481.7	46,303.4	21,184.1[c]	222.9	268.3
Imports	–3,122.9	–5,492.7	–67,257.0	–38,307.5[c]	–209.5	–339.3
Balance	–674.9	989.0	–20,953.6	–17,123.4[c]	13.4	–71.0
Outside the former Soviet Union ($ m)[d]						
Exports	88.0	45.6	76.5	112.1	117.2	139.7
Imports	–1,738.0	–558.7	–70.5	–112.0[e]	–107.5[e]	–168.7
Balance	–1,650.0	–573.1	6.0	0.1	9.7	–29.0

[a] In $ m. [b] At domestic prices (net of trade taxes and subsidies). [c] First three months only. [d] Converted from roubles at the prevailing commercial rate. [e] IMF data which include estimates of undeclared imports.

Sources: IMF; OECD; EIU.

—as does external debt—

External debt at the end of the first quarter was $780m, or 55% of GDP, according to Interfax. Of this total, $595m was reportedly owed to Western creditors, $132m to Russia and $53m to other Commonwealth of Independent States (CIS) republics. Russia recently rescheduled the Kyrgyz Republic's debt with the grace period for repayment extended until 2002. These figures compare with previous data published by Interfax, which put foreign debt at the end of 1995 at $473m. This latter figure conflicts with both IMF and World Bank data.

External debt
($ m unless otherwise indicated)

	1993	1994
External debt (IMF series)	292.00	418.00
% of GDP	29.0	42.0
External debt (World Bank series)	309.00	441.30
% of GDP	8.1	16.2
External debt (Interfax)	n/a	350.01
% of GDP	n/a	n/a

Sources: World Bank; IMF.

Composition of debt
(% of total)

	1993	1994
US dollar	41.8	57.2
Rouble	58.2	42.2

Source: World Bank.

—prompting government concern

The government is worried by both the trade deficit and the reported increase in external debt. There are also indications that the Kyrgyz Republic is having problems meeting its debt-service commitments. The EIU's *Business Eastern Europe* reported that the Kyrgyz Republic ran up arrears of $33m on Russian debt service and $75m in debt service to Turkey in 1995. There were also difficulties with paying off a $10m credit from Pakistan. Further evidence of the country's debt-service problems has come with reports that the government cannot afford to buy Tamara, a Czech military radar system, which implausibly claims to be able to track Stealth bombers. The government's request to pay for Tamara, which costs $17m, through barter has been refused by the Czechs.

Russia gets the usual debt-for-equity deal

Russia has secured two important debt-for-equity swaps. The Unified Energy System of Russia, which runs Russia's electricity grid, is reportedly to obtain 51% of Kyrgyzenergo, which generates and distributes electricity in the Kyrgyz Republic. In the past it has been suggested that Kyrgyzenergo will be sold to Western investors. Second, ITAR-TASS reported on April 15 that $132m of the Kyrgyz Republic's debt to Russia will be paid off in equity stakes in 39 industrial firms.

Business news

- L M Ericsson Telefon AB has won a Skr80m ($11.7m) contract with Kyrgyz Telecom to deliver switching equipment and training from November 1996.
- A Kyrgyz-Russian joint venture will produce the Tu-34 light aircraft and the Tu-54 crop-spraying aircraft, with investment of $40m covered by Russian export credits.
- The Asian Development Bank (ADB) is to lend $50m for the development of road network between Bishkek and Osh. A further $39m in financing for the project is expected from Japan. All the financing has been extended on concessionary terms.
- The Santa Fe Pacific Gold Corporation and the state-owned mining concern, Kyrgyzaltyn, have formed a joint venture to prospect for gold in the Solton-Sary area in the Kyrgyz Republic.

Political structure: Tajikistan

Official name: Republic of Tajikistan

Legal system: on August 31, 1991, the Soviet Socialist Republic of Tajikistan was renamed the Republic of Tajikistan, and on September 9, 1991, it declared its independence from the Soviet Union. After civil war had broken out a special session of the Tajik parliament voted in November 1992 to abolish the presidency and create a parliamentary republic. The presidency was restored in a referendum on November 5, 1994

National legislature: a 181-seat unicameral parliament

Electoral system: universal suffrage over the age of 18

Last election: February 26, 1995

Next elections due: 1999 (legislative and presidential)

Head of state: president, Imamali Rakhmonov, elected November 5, 1994

National government: Council of Ministers, headed by a prime minister, who is nominated by the chairman of the parliament and whose nomination must be ratified by parliament. Although the prime minister names his own Council of Ministers, most of the posts are at present sinecures as many ministries exist only in name. The current government was formed on November 20, 1992, and most recently reshuffled in February 1996

Main political parties: in the wake of the civil war, parties associated with the anti-communist regime of September-November 1992 were banned; Socialist Party (former Communist Party); Islamic Renaissance Party (now banned); Democratic Party (now banned); Rastokhez (Renaissance—now banned); Party of People's Unity and Accord

Parliamentary chairman	Safarali Radzhabov
Prime minister	Yakhyo Azimov
First deputy prime minister	Yuri Ponosov
Deputy prime ministers	Akil Akilov, Kadriddin Giyasov, Bosgul Dodkhudoyeva, Dzhamolidin Mansurov, Kholisdzhan Temurdzhanov
Key ministers	
agriculture	Kurbon Turayev
communications	Nuridin Mukhitdinov
defence	Sherali Khairullayev
economy & planning	Tukhtaboy Gafarov
education	Munira Inoyatova
foreign affairs	Talbak Nazarov
internal affairs	Saidamir Zukhurov
justice	Shavkat Ismailov
security	Saidanvar Kamolov
transport	Faridun Mukhidinov
National Bank governor	Murodali Alimordanov

Economic structure: Tajikistan

Latest available figures

Economic indicators	1991	1992	1993	1994	1995[a]
GDP at current prices Rb bn	10.5	64.8	631.2	1,718.0	14,809.0
GDP at exchange rate $ bn	6.2	0.3	0.7	0.8	3.3
GDP at purchasing power parity $ bn	9.2	6.8	6.2	5.0	4.5
Real GDP growth %	–7.1	–28.9	–11.1	–21.4	–12.4
Consumer price inflation %	112	1,157	2,195	350	635
Population m (mid-year)	5.46	5.58	5.64	5.75	5.86
Exports[b] $ m	3,701.0[c]	110.8	263.1	320.1	472.0
Imports[b] $ m	3,668.0[c]	132.2	373.8	317.7	353.0
Exchange rate Rb:$ (av)	1.7	222.0	930.0	2,212.0	4,554.0

The Tajik rouble (TR) was introduced on May 11, 1995. May 17, 1996 TR280:$1

Origins of net material product 1994[d]	% of total
Agriculture & forestry	19.0
Industry	34.6
Construction	12.0
Transport & communications	3.4
Total incl others	100.0

Components of net material product 1991[d]	% of total
Private consumption	75.0
Public consumption	8.4
Gross fixed investment	6.7
Increase in stocks	8.7
Net exports	–0.4
Losses	1.6
NMP	100.0

Composition of exports 1993[e]	% of total
Fuels, minerals & metals	99.0
Manufactures	1.0
Total	100.0

Composition of imports 1993[e]	% of total
Primary commodities	96.0
Manufactures	2.0
Food	1.0
Total	100.0

Main destinations of exports 1994[e]	% of total
Netherlands	38.7
Switzerland	11.8
Belgium	8.0
UK	8.0
USA	7.1

Main origins of imports 1994[e]	% of total
Switzerland	32.9
UK	22.8
USA	10.7
Netherlands	5.5
Norway	2.2

[a] EIU estimates. [b] Trade outside the former Soviet Union. [c] Rb m; valued at domestic prices which represent internal prices originally set under the centrally planned economic system, and are thus significantly below world market prices. [d] World Bank estimates. [e] Percentage of all trade outside the former Soviet Union. Trade with other Union republics accounted for 77.6% of Tajikistan's exports and 54.6% of its imports in 1994.

Tajikistan

Outlook

No peace agreement is likely in the short term—

The short-term political outlook has deteriorated since the last quarter with the onset of renewed fighting between government forces and the opposition and with mounting division between forces previously loyal to the regime of the president, Imamali Rakhmonov. UN-sponsored peace talks now appear unlikely to be convened, at least in the short term, as the government and opposition have almost no trust in each other or, more worryingly, in the UN or the Organisation for Security and Cooperation in Europe (OSCE). With the onset of summer an upsurge in fighting appears likely. The opposition appears to have been given heart by the mounting divisions within the administration and the outbreak of demonstrations over the worsening economic conditions, and is unlikely to wish to sue for peace in the short term.

—while the administration faces internal divisions—

The administration of Mr Rakhmonov looks precarious and could easily be toppled. Regional jealousies run through the administration, undermining its effectiveness. In particular, relations between the Kulyab regional elite, which dominates the government, and a group from Leninabad, could escalate into open conflict. Underlying these rivalries is a battle for control of mineral resources and assets subject to privatisation. While Mr Rakhmonov has attempted to appease the Leninabad elite by removing many government officials from the Kulyabi region, this is unlikely to be sufficient to ease the jealousies of the former group. The chance that these regional rivalries will break out into open conflict is increased by the worsening economic and social conditions in the country brought about by the recession, which was induced by the demise of the former Soviet Union, and by civil war.

—and foreign powers look on

While there is a common will among all the interested foreign powers (Russia, Uzbekistan, Kazakstan, the Kyrgyz Republic, China, Iran and the USA) to bring the Tajik civil war to a speedy conclusion, there is also an unwillingness to become further embroiled in the dispute. The key player, Russia, already has a motor-rifle division in Tajikistan supporting the Rakhmonov regime in its battle against the opposition and in securing Tajikistan's border from incursions by Islamic fundamentalists from Afghanistan. However, Russia is currently in the middle of a presidential election campaign, and following its previous bad experience in the Afghan war, and more recently in Chechnya, it is unwilling to commit the number of troops required to bring the conflict to a speedy conclusion. Instead, current Russian troop deployments appear as the minimum required to keep the conflict at a low intensity and to prevent it spreading to neighbouring regions of Russia. Prospects for a more proactive Russian policy towards Tajikistan will improve after the June presidential election, although this might mean a modest rise in troop deployments and an increase in diplomatic efforts to bring the various factions to the negotiating table. No large-scale Russian intervention aimed at achieving a military solution appears likely.

Food shortages could make the coming months difficult—

The new prime minister, Yakhyo Azimov, will face serious economic and social pressures which could derail the recently agreed IMF austerity package. The next few months are expected to be critical for the government, given the recurrent shortage of wheat flour in the republic. The World Food Programme recently warned that some sections of the population in the south are very short of grain. In the longer term there are widespread signs that the republic is starting to address this issue by replacing cotton cultivation with wheat. There are fears that the government may try to raid its budget, or even seize hard currency from enterprises, to import food.

—while an end to the recession is some way off

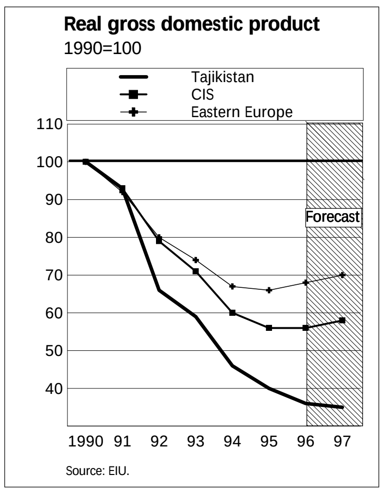
If the available economic data are accurate then the recession may fail to ease as planned by the government and the IMF. The target of a 7% real decline in GDP in 1996, agreed with the IMF in its stand-by facility, appears overly optimistic. Quite apart from the deteriorating political situation, attempts by the government to reduce the size of the budget deficit will slow economic activity. The EIU forecasts a real decline in GDP in 1996 of 10%, moderating to a 5% fall in 1997, but this may worsen if the country slides back into open civil war. Food shortages are also likely to maintain inflation well above the IMF targets. The EIU expects that inflation will remain well into triple digits throughout 1996-97.

Plans to push ahead with privatisation could be derailed—

Mr Azimov indicated in April that the government planned to launch a mass privatisation programme through the use of vouchers. Officially vouchers were to be issued to the population from April 1. However, worryingly, the government press release also indicated that the vouchers would be used to compensate workers for the non-payment of wages. Monetising privatisation vouchers in such a manner would threaten to boost money supply and hence inflation. As yet little information has been released on the number and type of enterprises to be included in the programme, and it is in any event likely to be delayed by the generally chaotic economic environment and by the lack of suitably qualified government staff to supervise it.

—while political instability could threaten investment

There have been some signs of growing foreign investment in the republic, and Western economists hope that the IMF agreement will provide further impetus to this. Zeravshan, a UK-Tajik joint venture in gold-mining, for example, recently poured its first gold. Meanwhile, the government has unveiled a new law to protect foreign mining operations, which it is hoped will further encourage Western investment. However, some of this impetus could be threatened by the latest demonstrations in the Leninabad district. Until now this area has received almost all the inward investment, largely because it has been perceived as stable and has escaped the impact of the earlier violence.



Forecast summary

(% change unless otherwise indicated)

	1994[a]	1995[b]	1996[c]	1997[c]
Real GDP	–21.4	–12.4	–10.0	–5.0
Industrial production	–25.0	–13.5	–11.0	–6.0
Consumer prices	350	635	400	350
Trade balance[d] ($ m)	2.4	120.0	150.0	200.0
Average exchange rate (TR:$)	n/a	175	500	1,000

[a] Actual. [b] EIU estimates. [c] EIU forecasts. [d] Non-CIS trade only.

Review

The political scene

The political situation has deteriorated—

Progress towards normalising the political situation in Tajikistan continues to be halting. In recent months the republic's economy has stabilised slightly and a long-awaited stand-by loan has finally been agreed with the IMF. However, this important boost to the government's credibility comes at a time when the political situation is looking fragile: the opposition has launched a new military offensive in the south and the regional alliance which underpins the government is fragmenting.

—as power battles in Tajikistan are increasingly diffuse—

Politics in Tajikistan is dominated by two conflicts. One is that between the government and the opposition, which lost the 1992 civil war. The second is a set of power struggles between different regional and criminal factions who occupy different wings of the government (1st quarter 1996, page 18).

—and the peace talks are deadlocked—

The first of these battles, that between the government and the opposition, has remained in deadlock in recent months. The latest round of UN peace talks between the two sides ended in Ashgabat in Turkmenistan in February without any clear progress having been made. After the collapse of the talks some attempt was made to restart the peace process, with the government granting the opposition the chance to address the Tajik parliament. However, this proposal collapsed when one of the opposition's representatives in the UN peace process, Zaffar Rakhmonov, was kidnapped by unknown militia in Dushanbe. He is now presumed to have been killed. The incident left the opposition bitter, since they believed that the UN had guaranteed his safety. Consequently, they have shown little interest in restarting the talks. Meanwhile, the president, Imamali Rakhmonov, has given little indication that he is ready to make the type of concessions demanded by the opposition.

—as the opposition attacks a strategic town

With the ceasefire due to expire at the end of May, UN officials have continued their attempts to bring the two sides back to the negotiating table. Despite this, there has been no agreement on a venue or timetable. It is also questionable whether the expiry of the ceasefire would make much practical difference. In April and May skirmishes between the two sides along the Afghan-Tajik border intensified, and in early May the opposition invaded a strategic town, Tavil

Dara. It remains unclear whether the opposition can retain this advantage; the government has since claimed that it has recaptured the area, although this is doubted by Western observers in the region. But in any case, the invasion represents a considerable coup for the opposition, particularly since the town is a key supply route to government troops further east in the Pamirs.

Refugees refuse to return home

There is no sign that the 18,000 refugees from the 1992 civil war who are still in Afghanistan are ready to return home. Indeed, although many did return last year the UN High Commission for Refugees (UNHCR) claims that the process of repatriation has slowed recently. Relations between the refugees and the UNHCR worsened last year after the UN aid agency tried to cut off food assistance to the refugees, which reflected an attempt to persuade the refugees to return home. However, the refugees refused to participate in the UNHCR development schemes and, after pressure, the UNHCR reinstated the food aid programme.

Mr Rakhmonov faces threats from within the administration—

Aside from the skirmishes with the opposition, the government has also faced new threats from groups which were previously loyal to the administration. The first of these occurred earlier this year when two former Popular Front commanders staged a rebellion (1st quarter 1996, page 18). Although their immediate demand was the removal of key government figures, as well as greater control over trade and business, another factor in their discontent appears to have been Mr Rakhmonov’s failure to end the longrunning conflict with the opposition. Some of their demands appear to have been met with a wholesale reshuffle of the cabinet. A number of regional officials have also been changed: the head of the Kurgan-Tyube area, for example, was sacked and replaced with a more popular figure. However, the two men are still effectively waiting in the political wings, while many of the other key officials they objected to are still in positions of power. Makhmadsaid Ubaidullaev, for example, who was removed from his position as deputy prime minister on their request, has been appointed to the powerful post of mayor of Dushanbe.

—and tension is growing between Kulyab and Leninabad—

Tension is also growing between the factions from the Kulyab and Leninabad regions. These groups had hitherto formed the backbone of the government after fighting together against the opposition in the 1992 civil war. These tensions have been building for several months, not least because Abdul Abduladjanov, a Leninabadi, was the main candidate who opposed Mr Rakhmonov, a Kulyabi, in the presidential election in November 1994. However, the conflict has recently been fuelled by two factors. The first is that the Kulyabis have been increasingly taking over positions of power in the government and business. In Dushanbe itself the Kulyabis are popularly perceived by other groups as the prime suspects for a recent spate of unsolved murders. The most recent and shocking of these was the abduction and murder of the head of Tajikistan’s medical institute, a Leninabadi. The second factor behind the rising tensions within the government has been an influx of Kulyabis into the north, which has hitherto been more stable and prosperous than the southern regions. Kulyabis are widely believed to have ousted locals from jobs and government positions.

—with mass anti-Kulyabi demonstrations in the north

In mid-May these resentments flared after a local restaurant owner was killed in the northern town of Khodjent (formerly Leninabad), allegedly by Kulyabis. Some 5,000 locals staged demonstrations in Khodjent and other Leninabadi towns, and these degenerated into rioting in another town, Ura-Tyupe. The demonstrations were probably orchestrated by local Leninabadi officials, but appear to have had strong local support. They were the largest rallies seen in the republic since the demonstrations in early 1992 which triggered the civil war. The government responded rapidly by sending crack troops into the region, and removing some local Kulyabi officials in Leninabad. But it remains unclear whether this will be sufficient to calm the tensions, since the demonstrators have been demanding that all Kulyabis leave the area. In another ominous twist for the government's battle with the opposition, the demonstrators have also demanded that their sons should no longer fight on the Afghan-Tajik border.

The UN's role is dogged by problems

The response of the international community to these developments has been mixed. The UN has repeatedly sought to place pressure on the government to make new compromises with the opposition. However, the UN initiative has been undermined by the recent departure of Ramiro Piriz Ballon from his post as chief UN negotiator. Most diplomats remain hopeful that the UN can continue to play a role. However, the morale of the UN military observers in the area is low, and some senior military officials question whether the UN mandate should be continued if significant progress is not made. As these officials point out, their position is undermined by the fact that much of the current violence in Tajikistan is occurring between different factions within the administration, whereas the UN mandate only extends to the conflict between the government and the opposition.

The OSCE expands its presence—

Within this context, the Organisation for Security and Cooperation in Europe (OSCE) has recently begun to play a more high-profile role. The group took over the UNHCR's three mission posts in the south of the country at the end of last year and has sought to instil civil values and legal norms in the area, as well as protecting returning refugees. The missions are perceived as having been successful and the group is now considering opening two new posts: one in the Garm valley and one in the north. The group has also sought to exert some pressure on the government to engage in negotiations: Gancho Ganchev, the OSCE head of mission in Dushanbe, recently warned that a "third force" could emerge in the country if the government did not make more concessions to the opposition. In a seminar organised by the OSCE in Dushanbe in May, the organisation openly criticised the government's democratic record.

—while Russia and Iran take ambiguous stances

In the long term the two main outside players who are most likely to have an influence on the republic, namely Russia and Iran, continue to take ambiguous stances. The Iranian ambassador, Akbar Velayati, visited the republic in March and is thought to be making efforts behind the scenes to push the peace process forward. However, these have not yet paid off. Meanwhile, the turmoil of the Russian elections means that Russian policy on Tajikistan remains uncertain. Some Western diplomats suspect that sections of the Russian military are losing patience with Mr Rakhmonov. Russian commanders insisted in mid-May, for example, that they did not intend to despatch Russian troops to help the Tajik government repel the opposition from Tavil Dara. Meanwhile, some observers speculate that Russia would prefer a Leninabadi candidate to replace Mr Rakhmonov. However, in practice Mr Rakhmonov continues to benefit from the Russian military presence in the area.

Economic policy and the economy

The IMF approves a stand-by facility—

The most significant economic development in recent months has been an agreement between the IMF and the Tajik government for a stand-by loan for the republic. The agreement, which is for an initial credit tranche of $22m, comes after a year of difficult discussions. The IMF was close to signing an agreement last year but delayed after the government presented unrealistic budget plans. However, in recent months the government has made further efforts to implement the IMF reforms and the loan was finally approved by the IMF board on May 8.

—with a new target for inflation

The agreement is intended to support a reform programme this year, with several key goals. The first of these is to reduce inflation to a month-on-month rate of around 4% by September. This level is significantly lower than the surge in prices seen in the latter part of 1995, when monthly inflation was thought to be running at about 80%. However, economists believe that the target is attainable, given that inflation has recently fallen back sharply. Inflation data remain highly unreliable. A survey by Save the Children, for example, suggests that prices actually fell in March by some 2.5%.

Tajik debt is targeted—

The second aim is to address Tajikistan’s debt and balance-of-payments problems. In recent years the republic has had a shortage of hard currency. The IMF plan requires the republic to build up convertible currency reserves equivalent to nearly six weeks’ worth of its current import levels by the end of 1996, excluding the cost of aluminium imports. It also wants Tajikistan to “normalise” relations with external creditors. At present Tajikistan is believed to owe $1.3bn in debt to former Soviet republics, part of which has been rescheduled.

—output targets are established—

A third plank in the programme is an attempt to slow the country’s decline in output. The IMF provisionally envisages that real GDP will decline by about 7% this year. This follows several years of even more dramatic contractions: in 1994 GDP is believed to have fallen by 22%, while in 1995 it is thought to have shrunk by 12.4%.

—and the government pledges to bring the budget under control

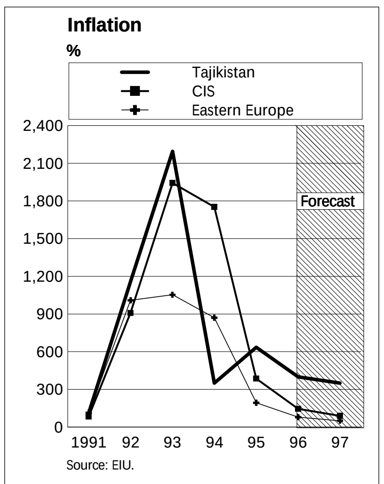
The fourth part of the programme concerns the government’s budget deficit. The IMF estimates that the government ran a deficit of 10.5% of GDP in 1994 and of 11.2% in 1995. The fund has pressed the government to accept a cut in the deficit to 5.4% this year, but these plans seem ambitious. However, economists point out that the government has recently made efforts to boost revenue by instituting an overhaul of the tax system. Export tariffs, for example, have been largely abolished in recognition that they were being widely evaded. In their place the government has imposed “presumptive” taxes on the cotton and aluminium sectors, taxing companies for the level of profits they are presumed to make through their exports. Efforts are also being made to reduce tax avoidance by giving companies greater control over their hard-currency earnings, and thus reducing the motive to hide these from the government.

The IMF loan should trigger other assistance

Whether the Tajik government will be able to stick to the IMF programme remains unclear. Economists point out that Yakhyo Azimov, the recently appointed prime minister, who is now in charge of implementing the IMF programme, appears as committed to reform as his predecessor. However, the big uncertainty is whether Mr Azimov will have the political power to push through the measures. He does have a significant incentive: if the IMF agreement sticks, the World Bank is poised to agree its own assistance package for Tajikistan. This would consist of several separate programmes, covering issues like agricultural reform, technical assistance and privatisation. Taken together, this assistance would probably total some $55m. Meanwhile, the European Bank for Reconstruction and Development (EBRD) and the International Finance Corporation (IFC, the private-sector wing of the World Bank) also have projects for Tajikistan in the pipeline.

Little new economic data is published—

Little new information has been published on the economy since the EIU's first-quarter report; anecdotal evidence indicates that there has been hardly any improvement in the overall performance of the economy. Food supplies remain in short supply, which is helping to keep inflation in double digits on a month-on-month basis. One report suggests that bread prices have risen by over 30% per month since January as a result of shortages. This gloomy picture is supported by data released by the Commonwealth of Independent States (CIS) state statistical committee (CIS Goskomstat), which indicated that industrial production declined by 27.1% over the first two months of 1996 compared with the corresponding period in 1995. In 1995 the comparable fall in industrial output on the corresponding 1994 period was 21.1%.



Consumer price inflation

(% change)

	Monthly	Yearly[a]
1994		
Sep	3.0	245
Oct	7.0	198
Nov	2.0	114
Dec	5.0	6
1995		
Jan	13.3	42
Feb	10.9	75
Mar	17.9	115
Apr	20.9	152
May	27.9	207
Jun	8.2	222
Jul	6.7	231
Aug	78.1	446
Sep	62.9	779
Oct	56.9	1,189
Nov	23.1	1,456
Dec	67.5	2,382

[a] EIU calculations.

Source: OECD, *Short-Term Economic Indicators: Transition Economies.*

Industrial output
(% change; year on year)

	1994				1995		
	1 Qtr	2 Qtr	3 Qtr	4 Qtr	1 Qtr	2 Qtr	3 Qtr
	–17.4	–22.6	–37.8	–45.5	–24.5	–22.3	10.6

Source: OECD, *Short-Term Economic Indicators: Transition Economies.*

—but aid agencies prepare for the worst

With the political situation deteriorating and with food supplies reported to be in short supply, the country is increasingly dependent on food aid from Western donors. Western aid agencies estimate that the country faces a shortfall of 550,000 tons of grain this year and a recent report by the World Food Programme (WFP) indicated that around 85% of the population are currently living below the poverty line. In March the WFP approved a programme to provide 33,000 tons of grain as food aid to Tajikistan at a total cost of $19m. Similar programme have been announced by both the US Department of Agriculture (USDA) and the European Union (EU). At the beginning of May the European Commission approved a package of aid which includes 5,500 tons of bread-making flour.

Political structure: Turkmenistan

Official name: Republic of Turkmenistan

Legal system: Turkmenistan became a constituent republic of the Soviet Union in 1924. In March 1991 some 95% of the population voted to keep the Soviet Union intact. The president, Saparmurad Niyazov, declared Turkmenistan's independence in December 1991. A new constitution concentrating power in Mr Niyazov's hands came into effect in May 1992

National legislature: the Khalk Maslakhty (People's Council) is the ultimate representative body, which must meet once a year. The Mejles (National Assembly) is the main legislature. The Council of Elders and Cabinet of Ministers are theoretically subordinate to the Khalk Maslakhty, but in practice Mr Niyazov's power is absolute

Electoral system: universal suffrage over the age of 18

Last election: presidential elections in which Saparmurad Niyazov was the sole candidate were held on June 21, 1992. The last parliamentary election took place on December 11, 1994

Next election due: January 2002 (presidential)

Head of state: the president, Saparmurad Niyazov

National government: Cabinet of Ministers, headed by a chairman, who is named by the president. Mr Niyazov is currently both the prime minister and the president. The present government was formed in June 1992

Main political parties: in December 1991 the Turkmen Communist Party changed its name to the Democratic Party of Turkmenistan. A government-sponsored opposition party, the Peasant Justice Party, was formed in July 1992. All other political parties are banned. However, two small Ashgabat-based opposition groups, the Democrat Party and Agzybirlik (Unity), many of whose supporters now live in exile in Moscow, are also politically active

Prime minister	Saparmurad Niyazov
Deputy prime minister & minister of economy & finance	Valery Otchertsov
Deputy prime minister & minister of foreign affairs	Boris Shikhmuradov
Deputy prime ministers	Batyr Sarsayev, Orazgeldy Aidogdyev
	Khyakim Ishanov, Yagmur Ovezov
	Matkarim Rajapov, Rejep Saparov
	Muhammet Abalakov, Ilamean Shikhiev
Key cabinet ministers	
agriculture	Ata Nobatov
defence	Danatar Kopekov
education	Ilamen Shikhiev
foreign economic relations	Mered Orazov
interior	Kurbanmukhamed Kasimov
justice	Tagarunrdy Halliev
oil & gas	Aman Esenov
trade	Halnazar Agakhanov
Chairman of central bank	Hudayberbi Orazov

Economic structure: Turkmenistan

Latest available figures

Economic indicators	1991	1992	1993	1994	1995[a]
GDP at current prices Rb bn	15.0	82.0	2,372.0	200.0[b]	2,550.0[b]
GDP at exchange rate $ m	8.8	0.4	2.6	2.7	5.1
GDP at purchasing power parity[a] $ bn	15.5	15.1	14.0	11.5	10.6
Real GDP growth %	–4.7	–5.3	–10.0	–20.0	–15.0
Consumer price inflation %	103	493	3,102	1,748	1,262
Population m (mid-year)	3.74	3.83	3.92	4.01	4.10
Exports[c] $ m	7,906[d]	908	1,049	412	564
Imports[c] $ m	5,497[d]	30	502	328	92
Exchange rate Rb:$ (av)	1.7	222.0	930.0	75.0[e]	500.0[e]

May 17, 1996 Manat3,150:$1

Origins of net material product 1993[f]	% of total	Components of net material product 1990[f]	% of total
Agriculture & forestry	11.3	Private consumption	70.7
Industry	69.3	Public consumption	10.4
Construction	11.0	Gross fixed investment	12.9
Transport & communications	3.0	Increases in stock	9.5
Total incl others	100.0	Net exports	–18.3
		Losses	14.8
		NMP	100.0

Principal exports 1992[d]	% of total	Principal imports 1992[d]	% of total
Oil & gas	75.2	Agricultural & food production	32.8
Electricity	2.6	Machinery & equipment	22.3
Food industry	2.4	Light industry	7.9
Chemicals	1.1	Metallurgy	7.0
Light industry	0.6	Chemicals & products	4.7

Main destinations of exports 1990[g]	% of total	Main origins of imports 1990[g]	% of total
Germany	11.4	Germany	25.4
Other EU	11.4	Other EU	4.2
Bulgaria	9.3	Poland	9.0
Czechoslovakia	7.1	Czechoslovakia	8.1
Other eastern Europe	17.1	Other eastern Europe	18.7

[a] EIU estimates. [b] Manat bn. [c] Trade outside the former Soviet Union. The figures cited are those given in the OECD, *Short-Term Economic Indicators: Transition Economies*. [d] On total trade. Data derived from World Bank estimates. [e] Official rate for the manat. [f] World Bank estimates. [g] Percentage of all trade outside the former Soviet Union. Trade with other Union republics accounted for 85.8% of Turkmenistan's exports and 83.8% of its imports in 1991.

Turkmenistan

Outlook

Political uncertainty remains—

The position of the president, Saparmurad Niyazov, has been strengthened by the removal of a potential rival, Kurban Orazov, the governor of Mary province, from office. The next important decision that Mr Niyazov must make is whether he wishes to be made president for life. In theory the decision is due to be taken by the end of June, but could easily be postponed. Turkmenistan's political scene remains unstable: there is widespread popular discontent and Mr Niyazov's policy of dismissing ministers for his own policy errors is steadily building a large cadre of discontented former supporters. Yet he is unlikely to relinquish power (willingly) and there is no designated or natural successor in the event of his forced departure from office. This suggests that the removal of Mr Niyazov would be followed by a weak successor regime made up of rival regional leaders, a prospect which might deter any potential plotters within the administration.

—and tensions with Uzbekistan will grow—

The impression given by the administration is that the main external threat to its security is neither from Iran nor from Russia but from Uzbekistan. The president of Uzbekistan, Islam Karimov, has openly expressed his contempt for Mr Niyazov and seems determined to bring the Turkmen leader to heel. Turkmenistan is the only Central Asian republic which is neither formally linked to Uzbekistan in the Central Asian Economic Union (which includes Kazakstan and the Kyrgyz Republic) nor politically and economically dependent on Uzbekistan (as is Tajikistan). Verbal attacks from Mr Karimov and regional initiatives to draw in Turkmenistan can be expected. Mr Niyazov will resist both. His fears about Uzbek regional ambitions will not have been calmed by Mr Karimov's recent comments about Kazakstan and the Kyrgyz Republic (see Uzbekistan: The political scene).

—but prospects for a Caspian settlement may improve

Uncertainty over the legal status of the Caspian Sea is holding back investment in the exploitation of the sea's mineral resources. A Russo-Kazak agreement signed on April 30, which urges a negotiated settlement on the legal status of the Caspian Sea, could kick-start talks which have been stalled for a year. The April 30 accord allows both Russia and Kazakstan to prospect and drill in their own waters. At the same time, Almaty and Moscow will launch cooperative ventures in each others' waters.

Options for the export of gas have deteriorated—

Another factor which will continue to blight the Turkmen gas industry will be the lack of viable export routes for gas. To date Turkmenistan has had to rely on Russia to get its gas to market. As a result its access to Western markets has been restricted and since 1993 it has been limited to selling gas to the less than creditworthy states of the Commonwealth of Independent States (CIS). The prospects for Turkmen gas reaching hard-currency markets has worsened with the effective abandonment of the most plausible of the many proposed gas export pipeline routes, via Iran and Turkey. As predicted, the main stumbling block to the project was Western opposition to the regime in Iran. US firms are still banned from doing business with Tehran and hence Iranian involvement in the project effectively blocked access to multilateral funding. Turkmenistan is now stuck with costlier pipeline options such as a trans-Asian route through China or, worse still, the politically risky attempt to lay an export pipeline via war-torn Afghanistan to Pakistan.

—as has the investment climate—

Turkmenistan is set to face a barrage of criticism if current proposals for an oil and gas law are passed. The proposals effectively call on foreign firms to subsidise Turkmenistan, as they offer a very poor rate of return on investment. Unless there is a change of heart in Ashgabat, the oil and gas industry will be forced to fall back on Russian and Iranian investment, which brings with it political strings and technological disadvantages. Matters could well deteriorate further if any of the foreign companies present in Turkmenistan decide to leave. Both Bridas (an Argentinean firm registered in the British Virgin Islands) and Lamarg (of the Netherlands), which are the country's two largest foreign investors, have had export licences withdrawn by the government to allow Turkmenistan unilaterally to renegotiate contracts.

—and problems with Iran could be on the way

Turkmenistan's generally warm relations with Iran could deteriorate in the near future. Iran will have been irked by two recent decisions. First, the Turkmen decision to award the management contract for the Turkmenbashi oil refinery to an Israeli firm, Merhav Management and Finance. This deal has put Iran in an embarrassing position, as part of the rehabilitation of the refinery will be carried out by the Iranian state oil monopoly, the National Iranian Oil Company (NIOC) and yet Tehran maintains a strict boycott on all links with Israel. Second, Iran was annoyed by the manner in which Ankara dropped the plan to build a Turkmenistan-Iran-Turkey gas pipeline (see Oil and gas). The plan, which was launched with great fanfare on January 20, 1995 (1st quarter 1995, page 44), was to have cost at least $6bn.

A strong economic recovery is forecast—

With gas production set to rise by up to 10%, a strong economic recovery of around 4-5% per year can be expected in 1996-97. Gas production accounts for about 60% of GDP and 75% of all exports. The rise in gas production will be offset by continued problems in the unreformed agricultural sector, with cotton and grain harvests likely to miss their 1996 targets.

—with the prospect of a current-account surplus—

Increased gas exports will help to turn the current-account deficit, which Turkmenistan appears to have run in the last two years, into a modest surplus. Gas and cotton export revenue in 1996 could reach $1.57bn, up from an estimated $1.43bn in 1995. As a result, the EIU expects the trade surplus to grow from $280m in 1995 to $422m in 1996. With the net invisibles balance estimated by the EIU to be in deficit to the tune of $400m in 1996, the current-account could be in surplus by $22m, or less than 1% of GDP.

—because gas will offset a decline in cotton revenue—

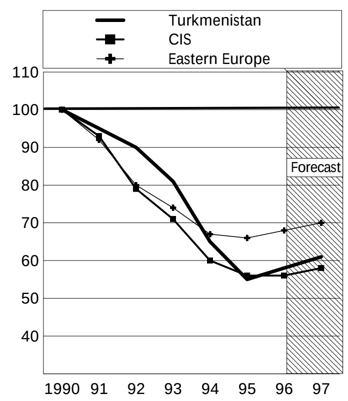
The EIU expects total gas production to reach 38bn cu metres in 1996 (up from an estimated 34.6bn cu metres in 1995), with exports at 28bn cu metres (compared with an estimated 24bn cu metres in 1995). Gas export revenue should therefore reach $1.18bn, up from an estimated $960m in 1995. The additional $216m in gas revenue will more than compensate for a 15.8% drop in cotton prices, forecast by the EIU, from $0.9716/lb to $0.8181/lb. Raw cotton production in 1996 is expected to reach 1.3m tons, with total exports steady at 218,000 tons. As a result, cotton export earnings will drop to $392m from the estimated level of $466m in 1995.

Increased export earnings should also allow Turkmenistan to clear payments arrears. Turkmenistan owes Turkish firms payments arrears of $35m, an issue raised by Mr Niyazov's hosts during his early February visit to Ankara.

—although reform, especially in agriculture, remains urgent

A reported pick-up in gas production could convince the government that a stabilisation programme and a thorough-going commitment to market reforms are now unnecessary. However, as the government will again learn to its disadvantage in the agricultural sector, avoiding reform is extremely costly. The cotton and grain harvests are likely to fail to meet their targets again in 1996, which is largely a reflection of the absence of reform and an irrational obsession with increasing grain production. This latter policy runs counter to foreign advice, which suggests that Turkmenistan has a comparative advantage in cotton production. It would thus be rational to concentrate investment in advanced irrigation techniques, introduce water pricing and plant more cotton, and then to use the increased revenue from cotton exports to import grain.

Real gross domestic product
1990=100



Source: EIU.

Forecast summary

(% change unless otherwise indicated)

	1994[a]	1995[b]	1996[c]	1997[c]
Real GDP	–20.0	–15.0	4.5	5.0
Industrial production	–25.0	–20.0	7.0	8.0
Consumer prices	1,748	1,262	800	400
Trade balance[d] ($ m)	84	472	350	200
Average exchange rate (Manat:$)	75	500	3,500	5,000

[a] Actual. [b] EIU estimates. [c] EIU forecasts. [d] Non-CIS trade only.

Review

The political scene

A rival is ousted—

The president, Saparmurad Niyazov, has sacked Kurban Orazov, the governor of Mary province, who was widely rumoured to be a rival for the presidency (4th quarter 1994, page 63). Mr Orazov was removed on March 15 on the pretext of the poor performance of the province's agricultural sector, which resulted in food shortages. The deputy prime minister, Amanazar Ilamov, a Niyazov loyalist, took Mr Orazov's post. However, it is more likely that Mr Orazov had to be pushed aside because of Mr Niyazov's understandable fears for his own job. Mr Orazov, as a leading member of the Democratic Party (the renamed

Communist Party) and the regional governor of the main gas-producing region, was in a strong position to challenge Mr Niyazov for power. The president may also have felt that, with the ruling Democratic party congress due this year and set to debate whether he should be made president for life, the time was right to remove his rival.

—along with the minister of agriculture—

The disappointing agricultural performance also brought the dismissal of the agriculture minister, Tagandurdy Nuriev; he has been demoted to the position of head of the state grain organisation. He took office in 1994 after Mr Niyazov sacked his agriculture and oil and gas ministers during a cabinet reshuffle. Mr Nuriev was dismissed for reporting inflated production figures. Agriculture ministry officials appear to have lied about the extent of last year's grain harvest. Turkmenistan is aiming for self-sufficiency in grain, and local officials have been inventing the data to please their political masters. Mr Nuriev's successor, Ata Nobatov, took over on April 29.

—as reports of the president's ill-health are scotched

Mr Niyazov underwent a heart by-pass operation in the USA in 1994, and in April 1995 it was announced that he had "an acute respiratory disorder" (2nd quarter 1995, page 36). However, after a medical check-up in Turkey in early February Mr Niyazov is more confident, as it appears that his health is not in as much danger as local press reports in 1995 had indicated.

The Russian State Duma causes irritation in Ashgabat—

Turkmenistan has been angered by the resolution, passed on March 15, by the State Duma (the lower house of the Russian parliament), which condemned the decision, taken in December 1991 by the presidents of Russia, Belarus and Ukraine, to dissolve the Soviet Union. All former Soviet republics, with the exception of Belarus, reacted angrily to the State Duma's decision, although in practice the resolution has no meaning and no force in law. On March 27 Mr Niyazov repeated his standard position on relations with the rest of the former Soviet Union: Turkmenistan prefers to negotiate bilateral ties, such as its security treaty with Russia, because it believes that these are more effective. It dislikes multilateral treaties such as that setting up the Commonwealth of Independent States (CIS) because they tend not to be implemented.

The State Duma resolution was, however, aimed at the Russian president, Boris Yeltsin, rather than at the former Soviet republics. The resolution declared the Belovezhskaya Pushcha accords of December 8, 1991, null and void. These accords, sponsored by Mr Yeltsin, wound up the Soviet Union and created the CIS. The State Duma resolution did, however, force most leaders of former Soviet republics, fearing a communist backlash against the CIS, to back Mr Yeltsin's bid for re-election. Mr Niyazov endorsed Mr Yeltsin during his visit to Armenia on March 19.

—as has Azerbaijan—

Mr Niyazov's tour of the Transcaucasus in March aimed to secure payment for Turkmenistan's gas exports and to discuss with Azerbaijan the legal status of the Caspian Sea. The visit to Azerbaijan was strained: the two countries signed a standard treaty of friendship and cooperation, and then promptly disagreed. During his stay in Baku on March 18, Mr Niyazov told his hosts that he did not oppose the $7bn project to develop the Azeri-Chirag oilfields but he did disagree with Azerbaijan on the legal status of the Caspian Sea.

In sharp contrast, according to Interfax, the president of Azerbaijan, Heidar Aliev, claimed that the two countries' views on the Caspian Sea were "identical or related". Azerbaijan's position on the legal status of the Caspian Sea is that it is a sea in juridical terms and that Azerbaijan is not bound by treaties it has not signed. Turkmenistan also believes that the Caspian is legally a sea but, unlike Azerbaijan, it does not denounce the validity of the 1921 and 1940 Soviet-Iranian treaties which define the Caspian as a lake. Additional tensions between the two countries have been generated by Turkmenistan's stance on the war between Armenia and Azerbaijan in Nagorniy-Karabakh. Despite appeals for pan-Turkic solidarity, Turkmenistan has supplied gas and electricity to Armenia in the face of an embargo organised by Azerbaijan. Mr Niyazov dislikes the nationalism of the Baku government.

—but the main threat remains Uzbekistan

The main external threat to Turkmenistan, in the view of Mr Niyazov and his administration, remains Uzbekistan's regional ambitions. Since the beginning of the year there has been an attempt to ease tensions between the two countries by patching up the row over common water rights. On April 17 the two countries finally signed an agreement on sharing the region's scarce water resources, although the Uzbek deputy prime minister who signed the agreement fiercely denied that there were any disagreements between Tashkent and Ashgabat. However, last September Mr Niyazov boycotted the "Save the Aral Sea" conference in Uzbekistan because of differences over sharing water resources (4th quarter 1995, page 63). Mr Niyazov has also prevented his officials from attending any meeting which promotes the desire of the Uzbek president, Islam Karimov, for a political union of Central Asian republics, which he terms Turkestan.

Links with Iran continue to be built—

Turkmenistan's policy of establishing good relations with Iran is starting to bear fruit. The rail link to Iran, which runs from the shrine city of Mashad to the Iranian border town of Serakhs and then on to Tadzhan in Turkmenistan, is set to open on May 13. Although the rail link has its problems (the gauges used by the two countries are different), it gives Turkmenistan an alternative trade route to those currently existing via Russia, Kazakstan and Uzbekistan. In a similar vein, Turkmenistan is laying a 321-km power line via Iran to Armenia. The line will allow Turkmenistan to sell 2bn kwh of electricity to Armenia as of 1997. Turkmenistan generates around 13bn kwh of electricity per year, of which around 4bn kwh is exported.

—but the US State Department is not happy on human rights

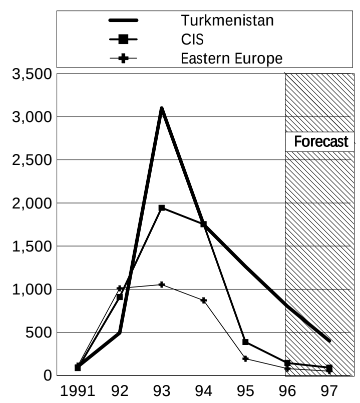
The annual US State Department report on human rights practices gave a detailed assessment of the wide range of human rights abuses and restrictions in Turkmenistan. The report acknowledged that the economy was still centrally planned, that the judiciary was subservient to Mr Niyazov, that internal passports were still used to restrict movement, that passports for exit were hard to obtain and that dissidents granted asylum abroad were prevented from leaving the country. The report was immediately seized upon by the Uzbek opposition leader, Abdumannob Polat. According to Mr Polat, the opening statement, that Turkmenistan had "made little progress in moving from a Soviet-era authoritarian style of government to a democratic system", is a considerable understatement. If anything, Mr Polat claims, Turkmenistan has regressed ten to 20 years back to the human rights practices of the Brezhnev era.

Economic policy

Stabilisation "Turkmen-style"—

The increasingly desperate economic conditions are forcing the government to adopt what resembles a stabilisation programme. The State Bank of Turkmenistan (SBT, the central bank) is trying to tighten money supply and limit credit emission. The SBT claims that it has liberalised all prices except those for meat and flour. In practice, economic policy does not appear to have changed. Turkmenistan has just gone through its usual quarterly round of administrative price and wage increases. In March, the government raised procurement prices for wheat and cotton as well as the price of nan (bread): a piece of nan now costs Manat250 (8 cents), up from Manat100 (3 cents). To compensate for the price increases the government raised the minimum monthly wage by 100% on May 1.

Inflation
%



Source: EIU.

Administrative price increases, Mar 1, 1996

(%)

Cotton for government procurement	200
Wheat for government procurement	200
Nan (bread)	150

Source: BBC, *Summary of World Broadcasts.*

—and a step towards a free exchange rate—

After four devaluations since September 1995, the government has moved to abolish its triple exchange rate system. The first step came on February 21 when the government opened the Turkmenistan Interbank Currency Exchange (TICE). The currency auction at the TICE, which was supposed to have been held at the beginning of the year, had an initial turnover of a mere $1.17m, with the rate set at Manat2,490:$1. The TICE rate sets the cash rate, at which restricted groups of individuals can buy no more than $200 per year. The final step came on April 8, when the government bowed to the inevitable and abolished the official rate (at which the government conducted external operations) and the enterprise rate (at which enterprises had to surrender 50% of their foreign exchange). The cash rate set through the TICE is now the only exchange rate in operation. The most recent TICE rate, at the beginning of May, was reported at Manat3,200:$1.

—with token measures for small enterprises

The government is aware that it must encourage small and medium-sized enterprises, but so far has only opted for limited reforms. In March it announced that the rate of profit tax charged on small firms (those employing less than 50 persons) engaged in production activity will be a flat rate of 30%. There will also be a cut in the number of regulations governing small firms. For example, they are no longer required to register most domestic sales and purchases with the state-run commodities and raw materials exchanges. However, small firms will still have to put all sales and purchases with non-Turkmen firms, peasants' collectives or consumer associations through the cumbersome commodities and raw materials exchanges.

Blame is laid on the banks—

The president, Saparmurad Niyazov, continues to blame the banks for his government's economic policy failures (1st quarter 1996, page 32). At the same time as the SBT is restricting credit to rein in runaway inflation, Mr Niyazov is complaining that the economy is being starved of credit. On March 1 he undermined the financial sector again by authorising the opening of anonymous foreign bank accounts. These accounts will be tax free and no proof of the provenance of the money will be required. The decree is, in effect, a charter for money-launderers.

—and there are more changes in agricultural policy—

The president has again made changes in agricultural policy (3rd quarter 1995, page 48). On March 26 he sacked Kakysh Serdzhaev, the head of Daykhan Bank (the Peasant's Bank) and on April 25 he sacked the agriculture minister, Tagandurdy Nuriev, who had survived in the job just over a year. The new minister, Ata Nobatov, formerly chairman of the state committee on land reform and land use, will take over a much-reduced ministry, with many of the functions of the agriculture ministry now being exercised by the Presidential Administration.

The immediate reason for the changes was Mr Niyazov's discovery that officials had been less than honest about the size of last year's harvest. In 1995 the grain harvest of 850,000 tons was 15% below the target of 1m tons. As a result the government will have to import 190,000 tons of flour and 200,000 tons of wheat in 1996. Some of this will come from Ukraine as barter for Turkmen gas exports. Turkmenistan will also barter 40,000 tons of cotton for 10,000 tons of wheat from Pakistan.

—but the target of self-sufficiency in grain remains

Despite the poor harvest, the government has maintained its objective of achieving self-sufficiency in grain by 1998. It aims to increase grain production to 1.5m tons by 2000, but such a policy involves putting increasingly marginal land under cultivation, often with less than positive effects. With better use of water resources, cotton yields could nearly double to 4 tons/ha and grain yields could reach 5 tons/ha. However, by cultivating grain rather than concentrating on Turkmenistan's comparative advantage in cotton production, considerable export revenue is being foregone. It makes better commercial sense to plant cotton and import grain.

In keeping with its policy objectives the government plans to increase grain production in 1996 to 1.15m tons (4th quarter 1995, page 51), with a prospective yield of only 1.92 tons/ha. Similarly, the cotton crop target has been raised by 3.7% from 1.35m tons to 1.4m tons. According to the specialist journal, *Cotton Outlook*, 564,800 ha will be sown, with an expected yield of 2.48 tons/ha (1st quarter 1996, page 33), up from a yield of 2.19 tons/ha in 1995.

Major crop yields
(tons/ha)

	1990	1991	1992	1993	1994	1995	1996[a]
Cotton	2.34	2.83	2.28	2.31	2.22	2.19	2.48
Grain	2.36	1.9	1.94	2.13	1.82	1.42	1.92

[a] Forecasts.

Source: World Bank.

Cotton planting targets
(ha unless otherwise indicated)

Region	1995	1996
Mary	187,500	178,100
Akhal	99,900	94,400
Tashauz	180,000	180,100
Lebap	127,300	112,200
Total	594,700	564,800
Yield (t/ha)	2.19	2.48

Sources: *Cotton Outlook*; EIU calculations for yield.

The economy

Increased gas output leads economic recovery—

The government data blackout continues, while the little information that is available has been provided by statistical authorities in Moscow. The state statistical committee of the Commonwealth of Independent States (CIS), CIS Goskomstat, claimed in late April that industrial output in Turkmenistan rose 12.9% year on year in the first two months of 1996. The CIS Goskomstat contrasted this with the 23.9% drop over the same period of 1995. Given the depth of Turkmenistan's recession, and the reliance of the economy on one sector, gas, such a sharp recovery is not surprising (1st quarter 1996, page 27). Reports indicate that gas production may have recovered by around 10% (see Oil and gas).

—but agriculture remains weak

The fragility of the economy is illustrated by the continued poor performance of the agricultural sector. The grain harvest, according to government figures, was 850,000 tons in 1995, well below the 1995 target of 1m tons (4th quarter 1995, pages 51-52). The extent to which the cotton crop was below the government's target remains unclear, although the most recent data from the Turkmen authorities indicate that it crop was 13% below the target, at 1.31m tons instead of 1.5m tons (1st quarter 1996, page 33; 4th quarter 1995, page 52), but 0.4% up on the previous year. The Kyrgyz state statistical committee claims that 303,600 tons of cotton were exported in 1995, of which around half, worth $325m, is thought to have gone to hard-currency customers compared with 220,000 tons in 1994. Meanwhile, the US Department of Agriculture (USDA) claimed on April 1 that Turkmenistan's cotton production was 28.6% lower than on the same date in 1995, and that exports had slumped by 31%. Total exports from the 1995 harvest are put by the USDA at 1m 480-lb bales (217,727 tons), equivalent to $466m in export earnings for 1995.

Production of main crops
('000 tons)

	1990	1991	1992	1993	1994	1995
Cotton (raw)	1,457	1,428	1,289	1,296	1,300	1,305
Grain	449	517	737	807	1,091	850

Sources: World Bank, *Statistical Handbook: States of the Former USSR*; *Cotton Outlook*; Reuters; EIU.

Agricultural production

('000 tons)

	1995		1996
	Target	Actual	Target
Grain	1,000	850	1,150
Flour	n/a	433	519
Cotton	1,500	1,305	1,400

Sources: Reuters, Goskomstat.

Oil and gas

The long-awaited recovery could be in sight—

Gas production in Turkmenistan seems finally to be recovering after three years of steady decline. In the first quarter of 1996 Turkmenrosgaz, the joint venture with the Russian gas monopoly, Gazprom, exported 7bn cu metres of gas. Georgia, Armenia and Ukraine have apparently signed contracts to purchase 27bn cu metres of gas although, as in the past, such contracts are worth very little given the tendency for these countries to default on payment.

Gas production is recovering from a low base. Total gas production in 1995 was reportedly 34.6bn cu metres, 59.1% below the 1991 level. The EIU estimates that around 24bn cu metres of the total were exported. Compared with the first four months of 1995, gas exports in 1996 were around 15% lower at just over 9bn cu metres. Turkmenistan is paid $42 per 1,000 cu metres by Turkmenrosgaz, implying export receipts of $390m for the first four months of 1996. Reuters has quoted Turkmen official sources as claiming that Turkmenrosgas will export 60bn cu metres of gas in 1996. However, a 150% rise in exports (which implies that overall production will rise 102%) seems unlikely. The same Turkmen official, Igor Makharov, complained that Russia was still blocking exports to European markets. Turkmenistan was allowed by Gazprom to export to European markets via Russia between 1991 and 1993, but after this Gazprom preferred to retain these markets, which have a better record on repayment than markets in former Soviet republics, for itself.

Energy production and exports

	1990	1991	1992	1993	1994	1995
Gas (bn cu metres)						
Production[a]	87.8	84.7	60.1	63.5	35.6	34.6
Exports to the former Soviet Union	78.7	62.9	41.6	40.28[b]	23.13	n/a
Exports to Europe	0.0	12.0	11.2	11.3[b]	0.0	24.0[b]
Consumption	10.00	8.64	9.33	9.33	10.12	10.60[b]
Oil production						
m tons	55.1	5.4	5.2	n/a	3.4	3.5
b/d[b]	102,000	108,000	104,000	n/a	65,481	70,175

[a] The Energy Research Institute of the Russian Academy of Sciences puts 1992 production at 56.06bn cu metres, 1993 production at 60.91bn cu metres and 1994 production at 33.21bn cu metres. [b] EIU estimate.

Sources: IMF, *Economic Review: Turkmenistan*; *Middle East Economic Survey*; Turkmenistan Goskomstat; *Petroleum Economist*, quoting the Energy Research Institute of the Russian Academy of Sciences.

—but is not accompanied by investor-friendly policies—

Details of a proposed and long-awaited law on oil and gas look set to deter foreign investors, since leaked details of the provisions indicate a very poor rate of return for foreign companies. Indeed, if a report in the *Russian Petroleum Investor* is correct, foreign firms will actually see their share of profits fall as overall profits rise. The large Western oil firms are clearly unhappy at having been shut out of Turkmenistan in favour of smaller companies.

—as a recent conference revealed

Turkmenistan's treatment of existing investors leaves a lot to be desired. A conference in March designed to entice foreign firms to Turkmenistan was instead an excellent platform for disgruntled oil men to vent their dismay at local policy. The largest foreign investor in Turkmenistan is Bridas, which is based in the British Virgin Islands and is headed by Argentineans. Since entering Turkmenistan in 1992 Bridas has reportedly invested $395m, which is more than 90% of all foreign direct investment (FDI) into the country. Bridas has also announced its intention to invest a further $3bn in Turkmenistan. To date, Bridas has invested $140m in the Yashlar gas deposit in the Amudarya basin, which reportedly contains 770bn cu metres in gas reserves and 165m barrels of oil. A further $255m has been invested in the Keimir oilfield in south-eastern Turkmenistan. Production at Keimir has risen from 9,000 barrels/day (b/d) to 17,000 b/d since Bridas took over in 1993. Despite Bridas's investment, Ashgabat has unilaterally renegotiated the profit sharing contract on the Keimir oilfield and in November 1995 put Bridas's export licence on hold.

The other major investor in Turkmenistan is a Dutch company, Lamarg. Production in its Chelekan block is just 10,000 b/d, well below the field's estimated capacity of 75,000 b/d (4th quarter 1996, page 56). The Turkmen government has twice suspended Lamarg's export licences as a means of renegotiating its contract. It has also failed to pay Lamarg for oil sent to the Turkmenbashi refinery. Lamarg is hinting that it may not continue its Turkmen operations if its export licence is suspended for a third time.

Dispute surrounds the Afghan-Pakistan pipeline plan—

Turkmenistan's proposal that Unocal of the USA build a gas pipeline via Afghanistan to Pakistan has run into objections from Bridas (4th quarter 1995, page 56). Bridas claims that it has a contract with Turkmenistan for the construction of the pipeline. It has decided to sue Unocal, claiming that the US firm undermined Bridas's attempts to develop the Yashlar field and its attempt to build a pipeline to Pakistan. Unocal is contesting the suit and denies Bridas's allegations. Unocal is proposing an 895-mile pipeline from Turkmenistan's Dauletabad field to the Sui field in Pakistan. Bridas plans a $2.5bn gas pipeline, 810 miles long, from the Yashlar field to Pakistan. Bridas has also signed a deal to deliver 20bn cu metres of gas to Pakistan on a take-or-pay basis. The head of Bridas, Carlos Bulgheroni, claims that he has signed agreements with the various Afghan factions which will allow the construction and the functioning of the pipeline. However, given the continued instability in Afghanistan, the feasibility of the venture remains in doubt.

—into which Gazprom hopes to invite itself

The Russian gas monopoly, Gazprom, has decided that it wants to be involved in the Afghan-Pakistan pipeline project if it ever comes to fruition. It has already squeezed Turkmenistan out of the European gas market and has also secured a stranglehold on Turkmen gas sales in the Commonwealth of Independent States

(CIS), but wants a still larger cut of the action. Turkmenistan claims that Gazprom will be a partner in the Unocal venture. However, at present it appears that the Russian gas giant's talks with Unocal are only at a preliminary stage.

The Turkish pipeline option is quietly sidelined—

One of the most economically viable pipeline schemes, via Iran and Turkey, has been put on ice. The scheme, to construct a pipeline with an annual capacity of 15bn-25bn cu metres of gas from Turkmenistan via Iran to Turkey, was formalised in 1995 with the creation of the Turkmenistan Transcontinental Pipeline Company (TTPC; 1st quarter 1995, page 44) However, on February 12 Turkmenistan and Turkey signed a memorandum of understanding in Ankara on future gas supplies. The memorandum foresees Turkmen gas reaching Turkey via Kazakstan, Russia and Georgia. The Turkish government's view is that the gas supply agreement supersedes the 1995 Turkmenistan-Iran-Turkey gas export pipeline scheme. A new pipeline will only be needed in 2010 when the existing pipeline route, whose handling capacity is 10bn cu metres, hits capacity constraints.

Proposed gas supplies to Turkey
(bn cu metres)

1998	2004	2010	2020
2.0	5.0	10.0	15.0

Source: Reuters.

—and the Transcaucasus provides the usual headaches—

The main purpose of the visit of the president, Saparmurad Niyazov, to the Transcaucasus in March was to negotiate access to pipelines and to tackle the region's chronic payments arrears for delivered gas. Georgia has the largest arrears but also the least ability to pay, and succeeded in having its $23m in arrears for 1995 written off; it also has $417m in outstanding arrears for 1993-1994, all of which is likely to be rescheduled. Georgia is still arguing about the rescheduling package and has asked for a five-year grace period on repayment (1st quarter 1996, page 34). Georgia is also keen on the idea of a pipeline via Georgia to Turkey. The route is circuitous but would avoid Iran and would give Turkmenistan access to the European gas market. It might also, in the Georgian view, be part of a debt-for-equity swap. The two countries agreed in principle on March 21 to build the pipeline.

Armenia's payment arrears to Turkmenistan for delivered gas, which had reached $34m by March 22 (some reports put the arrears as high as $50m), have been restructured into a five-year loan. This followed Turkmenistan's decision in February to temporarily cut supplies in order to force Yerevan to reach an agreement on paying for energy. Turkmenistan supplied Armenia with 1.5bn cu metres of gas in 1995, but has agreed to supply 2.2bn cu metres of gas in 1996 at a cost of $150m ($68.18 per 1,000 cu metres). The lowering of the price from $80 per 1,000 cu metres will save Armenia $26m per year. Yerevan will also make cost savings as it will no longer pay transportation charges as the gas is being bought at the Georgian border.

Azerbaijan, which owes Turkmenistan $50m in gas payment arrears, managed to negotiate the best deal. It will clear its arrears by the end of 1998 through payment in kind, mainly with oil deliveries; arrears for 1995 of $22m have already been cleared in this manner. Azerbaijan has also indicated its intention to stop importing gas as soon as possible, relying then on its own reserves of oil and gas.

Gas supply contracts and payment arrears

	1996 contract (bn cu metres)	Price ($/1,000 cu metres)	Arrears ($ m)
Armenia	2.2	68.18	34
Georgia	1.6	80	417
Azerbaijan	3.5	80	50
Ukraine	23.0[a]	80	60[a]

[a] 1995 arrears only.

Sources: BBC, *Summary of World Broadcasts*; Reuters.

—while Ukraine gives out even more confused messages

Forecasting Ukrainian demand for gas in 1996 continues to be difficult. On April 2, the Ukrainian president, Leonid Kuchma, claimed that Ukraine's imports of gas fell to 66.3bn cu metres in 1995, down from 69bn cu metres in 1994. He forecast import demand in 1996 at 70bn cu metres, for which Ukraine intends to pay $5.6bn. This implies a purchase price by Ukraine of $80 per 1,000 cu metres of gas, which Turkmenistan has been demanding since 1991. In practice Mr Kuchma's figures are designed as a pitch for international assistance and Ukraine will probably end up paying less. Turkmenistan's gas is sold to Ukraine by Turkmenrosgaz, which buys the gas on the Turkmen-Kazak border for $42 per 1,000 cu metres.

The Turkmenbashi refinery will be refitted—

Turkmenistan's main oil refinery at Turkmenbashi (formerly Krasnovodsk) is to undergo a $466m upgrade. A second refinery is also to be built at Seydi with Iranian assistance. In late February it was announced that an Israeli company, Merhav Management and Finance, had raised the finance for the refit. The cost of the refit is to be covered by the Japanese Eximbank, the French state-owned export credit agency, Coface, the German state-owned export credit agency, Hermes, and the Turkish Eximbank. Merhav Management and Finance will manage the project on behalf of the Turkmen company. The rehabilitation of the plant will involve the construction by 1999 of a catalytic reformer, a catalytic cracker and a hydrotreating plant. An odd feature of the project is that the Israeli company will be managing the input of the Iranian state-owned oil company, the National Iranian Oil Company (NIOC). The Iranians are in a joint venture with a French firm, Technip, to build the 1.8m tons/year (t/y) capacity hydrocracker at a cost of $176m.

Turkmenbashi oil refinery upgrade

Company	Country	Facility	Capacity (m t/y)	Cost ($ m)
Nichimen Corp Chiyoda Corp Gamma	Japan Japan Turkey	Catalytic reformer	0.75-1.00	125
Mannesmann AG	Germany	Lubricating oil & paraffin unit	0.08	165
Technip NIOC	France Iran	Catalytic cracker	1.8	176

Source: Reuters.

—and Caspian exploration blocks come under the hammer

Turkmenistan is trying to attract foreign firms for mineral exploration in the Caspian Sea; the government is planning an international tender for two blocks. The first block is located near Turkmenistan's northern Caspian shore, close to Kazakstan, and the second block is close to the Iranian shore. A US company, Western Atlas International, has undertaken seismological surveys. The two blocks cover an area of 70,000 sq km and reportedly contain 2.5bn tons of oil (18.3bn barrels) and 4.5trn cu metres of gas. Iranian and Russian firms are currently shut out of these particular blocks because of the dispute over the legal status of the Caspian Sea.

Foreign trade and payments

A current-account deficit was recorded in 1995

Although data for 1995 are only available for the trade balance, the EIU estimates that Turkmenistan ran a current-account deficit of up to $100m. Cotton prices in 1995 were $0.9716/lb, which allowed Turkmenistan to export up to $466m worth of cotton to hard-currency markets, which boosted the trade surplus. Gas exports for 1995 are estimated to have reached 24bn cu metres which, with a sale price of $40 per 1,000 cu metres, earned export earnings of $960m. However, although trade was in surplus, net services transactions are thought to have remained in deficit. The IMF estimated that in 1993, the latest year for which data are available, the large trade surplus of $1.27bn offset the deficit on the services account, estimated at $324.4m.

Direction of trade, 1995

(% of total trade)

Ukraine	32.9
Other former Soviet republics	25.0
Outside former Soviet republics	42.0

Sources: Turkmen Press Agency; BBC, *Summary of World Broadcasts*.

Foreign trade

	1992	1993	1994	1995
Exports	n/a	n/a	1,721.6	1,736.5
Former Soviet Union	n/a	n/a	1,309.6	1,172.4
Other countries	908.4	1,049.0	412.0	564.1
Imports	n/a	n/a	672.9	720.0
Former Soviet Union	n/a	n/a	344.5	628.3
Other countries	29.7	501.4	328.4	917.0
Trade balance	n/a	n/a	1,048.7	1,016.0
Former Soviet Union	n/a	n/a	965.1	544.1
Other countries	878.7	547.6	83.6	472.4

Sources: Turkmen Press Agency; BBC, *Summary of World Broadcasts*; Reuters; OECD, *Short-Term Economic Indicators: Transition Economies*.

Business news

- The Israel Discount Bank is to activate a $5m credit line for the Vneshekonombank of Turkmenistan (foreign trade bank). The line will partly fund the construction of a new hospital in Ashgabat.

- The Eximbank of the USA will cover 85% of a $74m loan from the Bank of New York to Turkmenistan. The loan, with a seven-year maturity, is to pay for Ibberson (of the USA) to build four flour mills. The mills will be state-owned.

- The Vneshekonombank of Turkmenistan has started the country's first leasing company, to allow the country to use a $10m credit line from the Indian government.

- The Turkish Petroleum Corporation (TPAO) is to be given a licence to drill a reserve containing 146m barrels (20m tons) of oil.

- Perini Corp (USA) has won a $3.2m contract to build part of GE's 125-mw gas-fed generation facility in Buzmein.

- John Brown Engineering (UK) has won a $57m contract to construct a nitrate fertiliser plant with an annual capacity of 400,000 tons. Construction should be completed by mid-1998.

Political structure: Uzbekistan

Official name: Republic of Uzbekistan

Legal system: the former Soviet republic of Uzbekistan declared its sovereignty in 1990. On August 31, 1991, after the failure of the Moscow coup, 98.2% of voters supported independence in a referendum. A new constitution was adopted on December 8, 1992, declaring Uzbekistan a multiparty democracy and a presidential republic

National legislature: unicameral legislature, 150-member Ali Majlis (parliament), is controlled by the Popular Democratic Party. The small number of deputies from opposition parties have been forced out

Electoral system: universal suffrage over the age of 18

Last election: December 1994-January 1995

Next elections due: 1996 (presidential, cancelled by a referendum held on March 27, 1995); December 1999 (legislative)

Head of state: Islam Karimov, elected president with 86% of the vote on December 29, 1991

National government: Council of Ministers, headed by the prime minister, Utkur Sultanov, nominated by the president. In practice, Mr Karimov exercises total control and appoints *hakim* (regional governors) who have sweeping powers

Main political parties: Popular Democratic Party (PDP; former Communist Party); Adolat, Social Democratic Party of Uzbekistan[a]; Istiklol Yoli[a]; Birlik (Unity)[b]; Erk (Will)[b]; Islamic Renaissance Party[b]

Council of Ministers	
Prime minister	Utkur Sultanov
First deputy prime minister	Ismail Dzhurabekov
Deputy prime ministers	Viktor Chzhen, Saidmukhtar Saidkasymov, Rustam Yunusov, Mirabor Usmanov, Kayim Hakkulov, Abdulkhachim Mutalov Dilbar Gulomova, Rim Giniyatulin
Deputy prime minister & minister of finance	Bakhtiar Khamidov
Key ministers	
agriculture	Marks Jumaniyozov
communications	Tahir Rakhimov
defence	Rustam Akhmedov
education	Dzhurah Yuldashev
foreign affairs	Abdulaziz Komilov
health	Shavkat Karimov
interior	Zakirzhon Almatov
justice	Sirojiddin Mirsafoev
labour	Okilzhon Obidov
power	Valery Otayev
Chairman of the Central Bank	Faizullah Mullazhanov

[a] Government-sponsored opposition party. [b] Banned.

Economic structure: Uzbekistan

Latest available figures

Economic indicators	1991	1992	1993	1994	1995[a]
GDP at current prices Rb bn	61	447	4,816	82[b]	298[b]
GDP at exchange rate $ bn	35.9	2.0	5.2	3.3	9.9
GDP at purchasing power parity $ bn	63.4	58.0	58.3	58.3	58.8
Real GDP growth %	–0.5	–11.1	–2.4	–2.6	–2.0
Consumer price inflation %	105	645	534	1,568	305
Population m (mid-year)	20.90	21.70	21.86	22.35	22.50
Exports[c] $ m	19,535[d]	869	721	966	1,825
Imports[c] $ m	21,475[d]	929	958	1,135	1,650
Exchange rate Rb:$ (av)	1.7	222.0	930.0	25.0[e]	30.0[e]

May 12, 1996 Som37.4:$1

Origins of net material product 1993[f]	% of total
Agriculture & forestry	28.0
Industry	34.1
Construction	11.2
Transport & communications	6.1
Other	20.6
Total	100.0

Components of gross domestic product 1993[f]	% of total
Private consumption	44
Public consumption	22
Gross fixed investment	29
Net exports	n/a
Change in stocks	n/a
GDP incl others	100

Principal exports 1992[d]	Rb m
Light industry (incl cotton)	72,143
Machinery & metalworking	22,614
Gas & oil	16,956
Non-ferrous metallurgy	15,355
Total incl others	150,518

Principal imports 1992[d]	Rb m
Food industry	26,762
Ferrous metallurgy	26,255
Machinery & metalworking	20,164
Light industry	13,690
Total incl others	191,885

Main destinations of exports 1994[g]	% of total
Switzerland	22.3
UK	17.4
The Netherlands	15.2
China	7.7
Austria	4.2
Turkey	4.2

Main origins of imports 1994[g]	% of total
Switzerland	28.5
Germany	14.6
USA	8.4
China	7.8
Turkey	6.0
Hungary	5.4

[a] EIU estimates. [b] Som bn. [c] Trade outside the former Soviet Union. [d] Rb m; valued at domestic prices which represent internal prices originally set under the centrally planned economic system, and are significantly below world market prices. [e] Som. [f] World Bank estimates. [g] Percentage of all trade outside the former Soviet Union. Trade with other Union republics accounted for 81.8% of Uzbekistan's exports and 84.6% of its imports in 1992.

Uzbekistan

Outlook

A difficult year politically—

Uzbekistan's economic problems, particularly as a result of the failed grain harvest, are likely to give the regime of the president, Islam Karimov, a rough ride in 1996. Only modest real GDP growth of 1% in 1996 and 2% in 1997 is forecast. As a result, the personnel shake-out is likely to continue. After the humiliation of the former prime minister, Abdulhashim Mutalov, lower-ranking officials are likely to face the axe. Infighting between members of the ruling clique will worsen as officials struggle to avoid association with the country's agricultural policies. The costs to the economy of the country's economic policies could spill over into social unrest. To date the government has, on the whole, successfully suppressed news of demonstrations and other expressions of popular discontent, although some news of peaceful demonstrations in protest against unpaid wages has filtered out. Social hardship will be worsened by the higher than reported inflation (evident from the fact that the som trades at a discount in the bazaar) and non-payment of wages caused by attempts to limit credit growth.

—with Uzbekistan's new international standing yet to be secured—

Uzbekistan will seek to consolidate its recently improved relations with the USA and the European Union (EU), both of which appear to be taking a softer line on the regime's unimpressive record on human rights and economic reform. However, on the human rights front, the USA will continue to lobby the Uzbek regime behind the scenes to make improvements. The European Commission will also find itself under pressure from the European Parliament (EP) to put pressure on Tashkent to improve its human rights record. The ratification of the Uzbekistan-EU Partnership and Cooperation Agreement (PCA) could be stalled by concern within the EP over this issue. Fears that Uzbekistan could in time turn into a regional bully rather than a regional force for stability will also be aired both in the EP and in the parliaments of the EU's member states.

—and lack of frankness over the economy—

Economic policy failings could also stall the signing of a PCA. In particular, PCA status demands that the non-EU partner country introduces full current-account convertibility. (The clause can be amended at the request of the non-EU partner country.) However, Uzbekistan, which operates a dual exchange rate system and hence fails the current-account convertibility criteria, has not asked for the condition to be waived as Tashkent maintains that the currency is stable and, in any event, full convertibility will be introduced in 1996.

—which creates problems with the IMF

In contrast to the EU's understanding attitude, the IMF will press Uzbekistan to abolish the dual exchange rate system and move rapidly towards full current-account convertibility. In effect, the government will be under pressure to abolish the official rate and to allow the inter-bank rate to float down to the market rate, which is most closely reflected by the rate offered in the bazaar, where the som currently trades at a 30% discount to the official rate.

Uzbekistan has always found IMF medicine hard to swallow. A unified exchange rate will increase the country's import bill at a time when the current account is already under pressure as a result of the need to import up to $615m of grain following the poor 1995 harvest. Consequently, the government will respond cautiously and can be expected to try to delay the reform. At best the som will be "officially" fully convertible on the current account, but in practice restrictions will remain. This may prove insufficient for the IMF, which has hardened its attitude towards some of the more recalcitrant east European countries such as Ukraine and Romania. Future disagreement with the IMF is therefore likely and Tashkent could find fund financing temporarily suspended.

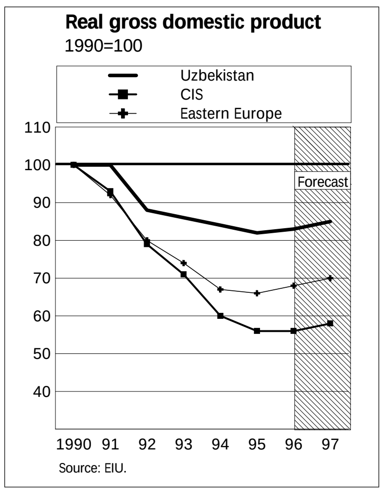
Autarky will prove unattainable—

In the short term there will have to be a major rethink on agricultural policy. The present aim of grain self-sufficiency is not only unattainable, it is also extremely costly. By shifting land from cotton to grain, like Turkmenistan, Uzbekistan is wasting resources and forgoing export revenue. In 1996 330,000 fewer hectares will be given over to cotton than in 1990. At yields of 2.67 tons/ha forecast for 1996, this represents 0.88m tons (4.046 million 480-lb bales) in lost cotton production. Were all such extra production to be exported it would raise export volumes by 83% and increase export earnings.

It is generally accepted that Uzbekistan needs to change the way it produces cotton and uses water. However, current policy is still attempting easy fixes, shifting to grain to achieve food self-sufficiency rather than trying to change the structure of the agricultural sector. Water pricing is an urgent measure which has to be introduced alongside the deregulation of the system of marketing agricultural produce. In theory the state order for cotton has fallen to 50% of the crop in 1996. However, in practice state control remains over exports and over wholesaling and there is still no free market in agriculture. Indeed, Mr Karimov reserves the right to approve sales of cotton in excess of 20,000 tons, although this is still an improvement on Mr Karimov's corrupt Soviet-era predecessor, Sharaf Rashidov, who insisted that he personally approve cotton sales over 5,000 tons.

—and the current-account deficit will grow

The IMF forecasts the current-account deficit for 1996 at 5% of GDP, which is thought to be on the conservative side and probably fails to account for policy failures and unfavourable world market prices. First, the grain shortfall is wider than was initially believed and could reach 3m tons. The need to import additional grain supplies has come at an inopportune time, as world grain prices have been pushed up by the poor harvest in North America. As a result, the cost of importing 3m tons of wheat will be in the region of $615m. The EIU's previous estimate of grain import costs of $170m-380m was based on lower levels of domestic demand and lower international prices. Export prices (basis US No 2 Hard Winter (Ord) fob Gulf ports) rose to a peak of $221/ton in mid-February. The EIU forecast for the year is $204/ton. Second, total Uzbek cotton exports from the 1995 harvest are estimated by the US Department of Agriculture (USDA) at 4.9m 480-lb bales (1.07 tons), equivalent to $2.29bn in



export earnings. The total volume of cotton exports is unlikely to increase in 1996 and, according to EIU estimates, world cotton prices are set to fall by 15.8% from \$0.9716/lb in 1995 to \$0.8181/lb in 1996. As a result, cotton export earnings in 1996 are expected to be \$1.92bn, a loss to Uzbekistan of \$361m.

Forecast summary

(% change unless otherwise indicated)

	1994[a]	1995[b]	1996[c]	1997[c]
Real GDP	–2.6	–2.0	1.0	2.0
Industrial production	1.0	0.2	1.5	3.0
Consumer prices	1,568	305	150	75
Trade balance[d] (\$ m)	–169	175	250	300
Average exchange rate (Som:\$)	25.0	30.0	35.0	40.0

[a] Actual. [b] EIU estimates. [c] EIU forecasts. [d] Non-CIS trade only.

Review

The political scene

The former prime minister is demoted again—

The reverberations of the 1995 grain harvest fiasco continue. The government has been forced to admit that even its scaled-down harvest figures were exaggerated and that the actual harvest was only half of the figure of 3.3m tons which the president, Islam Karimov, announced to the Ali Majlis (the parliament) in December. After his humiliating demotion from the post of prime minister in December on account of the poor harvest, on March 6 Abdulhashim Mutalov lost his job as deputy prime minister. He is now, appropriately, the head of the Uzkhlebprodukt bakery firm. Mr Mutalov’s fellow deputy prime minister, Yuri Paigin, was also sacked. (Uzbekistan has nine first deputy and deputy prime ministers.) Mr Paigin is now in charge of the Uzselkhozmash holding company which manufactures agricultural machinery. On April 5 Mr Karimov also sacked Erkin Khayitbaev, the culture minister. Rising stars in Mr Karimov’s entourage now include Rim Giniyatulin, who has been promoted from his former position as land improvement and water conservation minister to the post of deputy prime minister. The first deputy prime minister, Ismail Dzhurabekov, has taken on the additional portfolio of emergency situations minister.

—as Uzbekistan finds favour in the West—

Uzbekistan’s relative political stability has softened Western criticism of the regime’s record on human rights. On a state visit to France in April Mr Karimov received the French president Jacques Chirac’s backing for a Partnership and Cooperation Agreement (PCA) with the European Union (EU). The EU-Uzbekistan PCA was initialled in Tashkent on April 29 and replaces the Trade and Cooperation Agreement granted to the Soviet Union in 1989. Mr Karimov must have enjoyed the irony: two years ago Mr Chirac’s predecessor, François Mitterrand, while on a visit to Tashkent, criticised Uzbekistan’s poor human rights record and stressed the need for free elections in the Central Asian republic. Hans van den Broek, the EU commissioner responsible for human rights, was also quoted by *Narodnoye Slovo* (Voice of the People, the main government-controlled Russian language daily) on April 9 as saying that

Uzbekistan had made "serious progress in ensuring that human rights were defended and economic reforms carried out".

—because of concerns over regional stability—

The change in Western policy is motivated by three factors. First, both the EU and the USA have thus far found Uzbekistan unresponsive to their exhortations over human rights. The new approach stresses engagement rather than coercion, working with Uzbekistan where fruitful and avoiding difficult issues. Second, Uzbekistan is perceived as being stable, anti-Russian and anti-Iranian. There is therefore a belief among US and European officials that Uzbekistan will contain any Russian attempt to rebuild the Soviet Union and will act to prevent the spread of Iranian-backed Islamic fundamentalism in Central Asia. One Western view is that Mr Karimov could fulfil a similar role to that played by the Shah of Iran during the 1960s and 1970s as a regional anchor. Third, from a position of refusing, outright, to discuss human rights, Uzbekistan now claims to be willing to engage in dialogue on the issue. Some European and US officials believe that this should be taken at face value.

—but doubts remain—

However, the new policy stance is not set in stone. The main problem at present is that European and US policy conflicts with the reports by European and US diplomats and aid officials that Uzbekistan is not stable or democratic or especially committed to economic reform. In public, officials claim that there have been advances in democratic reforms in Uzbekistan, but human rights groups and even the US State Department's annual human rights report contradict this. Diplomatically couched, this latter report opens with the claim that: "Four years after declaring independence, Uzbekistan has made some progress in the transition from its authoritarian legacy towards democracy." The report then proceeds to highlight, in detail, the repression and lack of free speech in Uzbekistan. However, the general view within the EU is that if Russia and Turkey, with equally doubtful human rights records, qualify for trade agreements with the EU, then it is difficult not to agree similar terms with Tashkent.

—despite efforts by Uzbekistan to appease critics—

The authorities in Tashkent have tried to be seen as accommodating towards foreign critics. The government has publicly offered the international human rights organisation, Human Rights Watch, permission to open an office in Tashkent after having kept the organisation out of the country for three years. However, it is unlikely that, once open, the office will be allowed to function without official harassment and surveillance. Worse still, the authorities in Tashkent have not always shown good faith towards the Human Rights Watch/Helsinki organisation. During a November 1995 visit to Uzbekistan by the head of Human Rights Watch/Helsinki's advisory board, Jonathan Fanton, an interview with him on Uzbek State TV was heavily censored. The misleading impression given was that the international human rights organisation had recanted its earlier criticisms. Visiting IMF officials have been subjected to similar treatment.

A Human Rights Watch/Helsinki report released on May 13 noted the government's willingness to talk to its foreign critics, at the same time as it ignored, harassed and imprisoned its domestic critics. The report catalogued the lack of progress on improving human rights. Of particular concern is the government's crackdown on Muslims who do not attend mosques controlled by the government-appointed Spiritual Directorate. Three independent Muslim leaders have disappeared in suspicious circumstances; one, Abdullah Utaev, has been missing since 1992.

—and an offer to let in Radio Liberty—

Radio Free Europe/Radio Liberty (RFE/RL) is to be permitted to open a Tashkent bureau. RFE/RL is in a difficult position. As a news organisation it needs an office in Tashkent; on the other hand, as a US government agency, it is clearly affected by the pro-Uzbek tilt in policy, and the new office will actually train local journalists (all of whom work for the government and are strictly censored). This latter objective could prove difficult to fulfil in light of the government's view of the role of journalists: the head of Uzbek State Television and Radio, Shahnoza Ghanieva, told Human Rights Watch/Helsinki that journalists had to be "patriotic" and that "*perestroika* shattered people's hopes". It will also be interesting to see how far RFE/RL can fulfil its mandate to offer balanced news coverage without offending its hosts. In the past the Uzbek authorities have expressed contempt for RFE/RL and, according to the latest State Department Human Rights Report, Uzbekistan has tried to interfere with RFE/RL broadcasts. RFE/RL stringers in Uzbekistan have also allegedly been beaten up by local security agents.

—although Tashkent still has some problems

A recent incident involving the UK government's printing and stationary office, Her Majesty's Stationery Office (HMSO), has done little to improve Tashkent's reputation with foreign investors. HMSO, keen to establish a new, and potentially lucrative, overseas market before its forthcoming privatisation, extended credits to Uztoshkitob, a state-owned Uzbek company, to purchase stationery for schools. The assumption made by HMSO was that the credits were covered by a Uzbek government guarantee. In the event Uztoshkitob failed to meet its obligations, citing restrictions on the availability of hard currency for its failure to pay. The UK government is reported to have pressed the Uzbek government to honour the contract as UK taxpayers could end up £6.5m ($9.75m) out of pocket. The Uzbek government has thus far refused liability.

Tashkent plays up its anti-Russian stance—

Keen to reinforce its new role as an independent regional power, Tashkent has made great play of its rejection of the March 15 Russian State Duma resolution which condemned the dissolution of the Soviet Union. Uzbekistan responded with a strong anti-Russian media campaign (all of which is government-controlled). Mr Karimov has even published a book attacking the Russian State Duma, entitled: *Our people's path is the path of independence, freedom and thorough-going reform*. The Ali Majlis, the parliament, has also voted to change names of towns and regions from Russian to Uzbek and attacked proposals made in 1994 by the president of Kazakstan, Nursultan Nazarbaev, for a Eurasian Union of former Soviet republics. In an interview on Uzbek TV on March 23, Mr Karimov also derided "Comrade Lukashenka" (the president of Belarus) for supporting the reintegration of former Soviet republics. On March 26 the foreign minister, Abdulaziz Komilov, stated that if Belarus merged with Russia, Uzbekistan would review the cooperation agreements it signed with Belarus in 1995.

—and lambastes the CIS—

Tashkent had already been notably hostile towards the Commonwealth of Independent States (CIS), and became more so after the March 15 Russian vote. Mr Komilov derided the CIS on February 22 in an interview with *Pravda*. He attacked the proposals for increased integration and also reiterated that Uzbekistan was able to guard its own frontiers (a jibe against the Kyrgyz Republic and Kazakstan, which both use Russian border guards). After the Russian State Duma vote, the criticism of the CIS became even more ferocious. In a rambling speech published in *Narodnoye Slovo* on April 13, Mr Karimov ridiculed the CIS, Kazakstan and the Kyrgyz Republic. He claimed that the CIS was in danger of becoming the "Community of Dependent States", and even quoted *Izvestiya*, a Russian newspaper which he has banned in Uzbekistan, as revealing that inter-republican inter-enterprise ties have collapsed. He termed the reintegration of the CIS "a policy of condemning oneself to vegetate in the backyard of the world economy, for the sake of ideological stereotypes from the past".

—but Russia is unconcerned—

Russia has failed to react to Mr Karimov's anti-CIS rhetoric. It is, however, noteworthy that, like most other leaders of former Soviet republics, Mr Karimov has endorsed the Russian president, Boris Yeltsin, in his bid for re-election, although with little enthusiasm. Uzbek-Russian relations have carried on much as before. On April 15 Mr Karimov stated that he wanted better relations with Russia, and in areas of mutual interest Tashkent is eager to work with Moscow, as it is doing in its attempt to bring an end to the civil war in Tajikistan. Tashkent does appear to be treading a delicate diplomatic line: on February 16, as if to curry favour in Moscow and the West, Mr Karimov stated that "Iran's way is unacceptable to us", but on February 28 he warmly welcomed the Iranian foreign minister on an official visit to Uzbekistan.

—and the CAEU remains in a deep slumber

Uzbekistan's neighbours are less than thrilled with the notion of Tashkent assuming a role as a leading regional power. Both Kazakstan and the Kyrgyz Republic have stalled Uzbekistan's ambitions to create a Central Asian Economic Union (CAEU) which groups the three countries together. The prime ministers of the three CAEU members met in Tashkent on April 5 to sign 12 agreements on energy, transport and communications. The next day, Mr Karimov complained in *Pravda Vostoka* that the CAEU was not performing well enough. This is hardly surprising given his consistently hostile comments towards both Kazakstan and the Kyrgyz Republic, along with his thinly disguised contempt for the Kyrgyz president, Askar Akayev. The three countries will, however, set up a joint peacekeeping battalion for UN duties, on the model of the Baltic peacekeeping force.

Economic policy

The budget moves into surplus—

The government claims that in the first quarter of 1996 Uzbekistan ran a small budget surplus. Revenue was reportedly Som33.5bn ($920m at the official rate) and expenditure Som33.2bn ($912m at the official rate). The surplus may well have been a one-off occurrence, caused by the government delaying spending programmes. However, there are also a number of fiscal problems. First, tax arrears in the first quarter alone were Som22bn, equivalent to 66.3% of actual first-quarter revenue. Tax compliance is unlikely to improve as tighter monetary policy makes credit scarcer, forcing enterprises to default on their liabilities. Second, the government's spending commitments remain unchanged. The government wants to protect the average standard of living and therefore raised wages by 40% on April 1. The minimum monthly wage is now Som400 ($11 at the official rate) and the minimum monthly pension is Som900. Income below Som500 per month is untaxed.

Government spending already swallows up a very high proportion of GDP. According to the president, Islam Karimov, social outlays (including health and education) will account for 37% of expenditure in 1996, up from 35.4% in 1995. The ratio of state spending to GDP is 40.6%. To add to the government's social commitments, Mr Karimov decreed the establishment of Tashzhilsberbank to fund housing construction in Tashkent. The bank has start-up capital of Som250m ($7m at the official rate). Individuals will receive a refund from the government of half the cost of buying their homes.

State budget, 1996

	Som bn	% of GDP
Revenue	142.2	37.1
Expenditure	155.6	40.6
of which:		
defence	6.9	2.5
social spending[a]	57.6	20.9
Balance	–13.4	–3.5

[a] Including education, health & culture.

Source: BBC, *Summary of World Broadcasts.*

—and Treasury bills have been launched—

In line with its commitments to the IMF, the government has begun issuing Treasury bills in a step towards abandoning the financing of the deficit through credit emission from the central bank. The total value of T-bills to be sold in 1996 will be Som4bn. Uzbek government paper, initially with a three-month maturity, yielded 61.63% annually, at the first auction on March 29. The first auction brought the sale of bills with a total face value of Som1bn with the minimum sale price set at 85% of the face value of bills. The government plans to sell Som4bn of T-bills in 1996 and, inflation permitting, the government is aiming to extend the maturity of bills to six months. Only local banks can buy the bills, which carry a hefty devaluation risk.

—but the IMF remains less than impressed

The IMF has told the government that the renewal of the existing stand-by arrangement (SBA) requires a tightening of monetary policy. The Fund has repeatedly pushed for an end to the dual exchange rate system. At present Uzbekistan has two officially sanctioned exchange rates. The official rate is Som36.4:$1, while the commercial rate in banks is Som43.5:$1. The dual exchange rate system is a form of hidden subsidy for the government, which is desperate to retain hard currency. There is in fact a third, and unofficial, rate which is available in the bazaar of Som47:$1. The bazaar rate indicates the popular lack of confidence in the som and higher than reported inflation. The existence of three exchange rates belies official claims that the som will be fully convertible by the end of 1996 and is an embarrassment for the European Union (EU) which has demanded current-account convertibility as a condition for the implementation of a Partnership and Cooperation Agreement with Uzbekistan. Uzbekistan must unify its exchange rate if it is to achieve current-account convertibility and so be permitted to sign Article VIII of the IMF charter. The authorities must then lift the present restrictions, both formal and *de facto*, which limit access to hard currency. The government is not keen on this option as the result will be a hefty devaluation of the som with inflationary consequences.

Compensation scheme for lost savings—

The Uzbek government is sticking to its scheme to offer partial compensation for savings wiped out by inflation between January 1, 1992, and January 1, 1996. The government has announced that deposits from before January 1, 1992, will be repaid over the next ten years at a rate of 4,000 times their original value. Interfax reported on February 21 that the compensation scheme would cost $810m, but gave no basis for its figure, which is up compared with the last estimate of Som22bn (1st quarter 1996, page 45). The state-owned savings bank estimates that the total value of these deposits, held by about 5 million residents, was Rb9bn as of January 1, 1992, or Som36bn. Half of the compensation will come from the state budget. The compensation of 4,000 times the original value is not overly generous as prices are estimated to have risen 5,356 times over the same period. Savers will therefore only receive 75% of the value of their original savings.

—is followed by action on the banking system

The Central Bank of Uzbekistan (CBU) has heeded IMF warnings and has started to reform the financial sector. The CBU claims that bad loans in the banking system had risen to Som3.5bn (a low 1.2% of GDP) by the end of 1995, a rise of 2,300% compared with the corresponding period in 1994. After modest measures to increase reserve requirements, the CBU announced that it will close unsound banks, and on March 29 it closed down Sharq (East) Bank in Samarkand for alleged violations of the banking code. Reuters reported that Sharq Bank made profits of Som12m in 1995.

The government announces ambitious privatisation goals—

The government claims that by the end of 1996 over 90% of all enterprises in Uzbekistan will have been privatised. The authorities claim to have already sold off 63,000 firms and plan to transfer another 1,664 into the private sector in 1996, 807 of which will be in the agro-food sector. Management and worker buy-outs have been the preferred means of sale and as yet little stock is finding its way on to the Tashkent Stock Exchange. The exchange did a mere Som390m in business in the first quarter of 1996, and only Som1.3bn in 1995.

—and restrictions

Despite the impressive targets, the privatisation programme is restrictive. The government will not allow privatisation in the key non-cotton export sectors of the economy, while mining of precious metals and gems, oil and gas extraction and processing, defence, aerospace and communications are considered to be strategic sectors and will not to be subject to privatisation. Foreign investment, through joint ventures with state-owned firms, is allowed.

The economy

Real GDP growth is reported—

The scant economic data recently released by the Uzbek authorities indicate that output has recovered. Statistics published in late April by the Commonwealth of Independent States (CIS) state statistical committee, CIS Goskomstat, claim a 0.6% annual rise in industrial output in the first two months of 1996, compared with a 13.5% drop in the same period of the previous year. According to the same source, real GDP declined by a mere 0.4% year on year over the first quarter, while industrial output was up 0.8% over the same period. The authorities also claim that production of consumer goods is up by 2% year on year and capital investment by 12%.

—but despite growing problems in the agricultural sector—

The government has again lowered its estimate of last year's grain harvest. The most recent figure, given on February 14 by Bakhtiar Hamidov, the deputy prime minister, was 2m tons; this compares with an initial estimate of 3.3m tons, which was itself then revised down to 2.7m tons (4th quarter 1995, pages 64-65). The yield in 1995 was 1.54 tons/ha, the lowest yield this decade. As a result of the poor harvest the government is now facing an even larger shortfall in grain supplies than was originally acknowledged. Domestic demand was originally estimated by the authorities at 4m tons; figures provided by a US commodities firm, Cargill, put it at 5m tons. The government will now be forced to import 3m tons of foreign grain at a cost of up to $615m. The EIU is forecasting an average price of $204/ton for US No 2 Hard Winter (Ord) fob Gulf for 1996, without an export subsidy (the previous forecast was $190). Reuters reported that by the end of March 1m tons of grain had been imported.

—the government sets the same ambitious targets

Despite last year's poor grain harvest the government has retained its optimistic target for a harvest of 4.5m tons in 1996. The area sown to grain will rise to 1.7m ha, a 31% rise on the 1.3m ha sown in 1995. The projected yield is 2.65 tons/ha; this dramatic 72% rise on last year's actual yield of 1.54 tons/ha appears unrealistic. Meanwhile, the vital cotton planting season appears to be progressing well. The crop target for 1996 is put at 4m tons, only 0.8% up on 1995's crop of 3.93m tons. The area planted to cotton is planned at 1.5m ha, indicating a target for yields of 2.67 tons/ha. The state has already indicated that it will compulsorily purchase half of the crop.

Grain production

	1991	1992	1993	1994	1995	1996[a]
Production ('000 tons)	1,908	2,257	2,142	2,466	2,000	4,500
Area sown ('000 ha)	1,109	1,201	1,200	1,529	1,300	1,700
Yields (tons/ha)	1.72	1.87	1.78	1.62	1.54	2.65

[a] Government forecasts.

Sources: World Bank; Uzbekistan authorities; Reuters.

Cotton production by province

	1995			1996		
	Area sown (ha)	Production (tons)	Yield (tons/ha)	Area sown (ha)	Target (tons)	Yield (tons/ha)
Andizhan	110,200	345,945	3.14	110,000	310,000	2.82
Bukhara	110,300	355,088	3.22	129,000	350,000	2.71
Dzhizak	134,000	234,258	1.75	111,000	310,000	2.79
Fergana	127,800	394,167	3.08	127,000	375,000	2.95
Karakalpakstan	145,000	288,167	1.99	145,000	310,000	2.14
Kashkadarya	173,000	419,531	2.43	173,000	420,000	2.43
Khorezm	101,500	304,698	3.00	100,000	290,000	2.90
Namangan	95,000	296,618	3.12	95,000	280,000	2.95
Navoi	42,300	123,352	2.92	44,000	120,000	2.73
Samarkand	93,900	234,194	2.49	97,000	250,000	2.58
Surkhandarya	120,600	370,644	3.07	120,000	380,000	3.17
Syrdarya	137,100	286,136	2.09	141,000	325,000	2.30
Tashkent	107,600	281,313	2.61	108,000	280,000	2.59
Total	1,498,300	3,934,111	2.63	1,500,000	4,000,000	2.67

Source: *Cotton Outlook*.

Cotton production

	1990	1991	1992	1993	1994	1995	1996[a]
Cotton ’000 tons	5,058	4,646	4,128	4,264	3,935	3,934	4,000
Cotton % change on previous year	–4.4	–8.1	–11.1	3.3	–7.7	0.0	1.7
Yield (tons/ha)	2.76	2.70	2.48	2.5	2.56	2.63	2.67

[a] Official forecasts.

Source: World Bank, *Statistical Handbook: States of the Former USSR.*

There is lower gold production than the government claims—

The authorities consistently claim that Uzbekistan produces 70-80 tons of gold per year, although detailed figures are treated as a state secret, and some sources in Tashkent report that gold production may be higher still. The reality may be different. Reuters recently quoted a US company, Gold Fields Mineral Services, as estimating average gold output per year between 1992 and 1994 at 65.2 tons. No data were available for 1995.

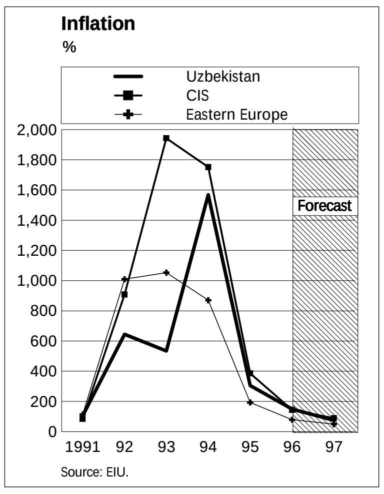
Gold production
(tons/year)

1992	1993	1994
64.5	66.6	64.4

Sources: Reuters; Gold Fields Mineral Services.

—and little data on inflation

On May 2 Mr Hamidov told Reuters that monthly inflation in March 1996 was 2.3%. Before this the only information on inflation was given on March 1, when Mr Karimov revealed that in December monthly inflation was 2.2%, with the year-end rate at 76.8% (1st quarter 1996, page 47). This contrasts with IMF estimates, which put the year-end inflation rate at between 110% and 115%. No data are available for the monthly rate in October and November, but to achieve the annual total quoted by Mr Karimov the average inflation rate in these months would have had to be -5.5%. On the basis of the IMF data the EIU estimates 1995 annual average inflation at 270%.



Consumer price inflation
(%)

	Monthly	Annual[a]
1994		
Dec	11.7	848.4
1995		
Jan	16.9	834.0
Feb	17.8	830.1
Mar	7.8	689.5
Apr	16.7	608.7
May	6.2	516.9
Jun	–2.1	347.4
Jul	0.1	279.5
Aug	0.9	224.5
Sep	6.5	214.2
Oct	3.0[b]	165.3
Nov	3.0[b]	129.6
Dec	2.2	110.1

[a] EIU calculations. [b] EIU estimate.

Source: OECD, *Short-Term Economic Indicators: Transition Economies.*

Oil and gas

Oil production rises—

Oil production in 1995 reached 8m tons or 160,000 barrels/day (b/d); the original government forecast was 7.5m tons (150,000 b/d). As a result, the government has indicated that it will not need to import oil in 1996. Self-sufficiency in oil is quite an achievement considering that in 1991 Uzbekistan imported 5m tons (100,000 b/d) of oil, mostly from Russia. No information has been released on gas production, but the EIU expects Uzneftegaz's forecast of 50bn cu metres to be missed by up to 5bn cu metres because of lower than expected demand in export markets such as Kazakstan and the Kyrgyz Republic. Domestic consumption of gas is estimated at 40bn cu metres, with the balance exported to Kazakstan, the Kyrgyz Republic and Tajikistan.

Oil and gas production

	1989	1990	1991	1992	1993	1994	1995
Oil (m t/y)	1.0	1.0	2.8	3.2	3.9	5.5	8.0
Oil ('000 b/d)	20	20	56	64	78	110	160
Gas (bn cu metres)	41.4	40.8	42.0	42.8	45.0	47.2	50.0[a]

[a] Uzneftegaz forecast.

Sources: Interfax; Uzneftegaz; BBC, *Summary of World Broadcasts.*

—but the gas sector is hindered by problems of non-payment

Rising oil production in Uzbekistan can easily be soaked up by domestic demand. However, with domestic demand for gas limited to 40bn cu metres, any production in excess of this must be exported. Problems in transporting gas limit Uzbekistan to selling to markets within the Commonwealth of Independent States (CIS), where consumers are notorious for failing to pay bills on time. Kazakstan, which buys 4.5bn cu metres of gas per year from Uzbekistan, also has the worst payments record. Gas supplies to Kazakstan have been cut repeatedly, with the most recent curtailment of supply occurring on May 1. Almaty has agreed to clear $14.73m of its estimated $25m arrears on gas delivered in 1994 and 1995 by supplying gasoline and petrochemicals. One of the reasons for non-payment by Kazakstan is the lack of convertibility of the som. The Kazak authorities have complained about Uzbekistan's multiple exchange rate system and are infuriated by Tashkent's insistence that payment be made in dollars and not in Uzbek som.

Uzbekistan has had more luck in extracting payment from the Kyrgyz Republic, which is currently in arrears by around $10m. Uzbekistan has forced the Kyrgyz Republic to pay 15% of its gas bill, equivalent to $9.75m, in advance. The Kyrgyz Republic will buy 1bn cu metres of gas in 1996 at a cost of $65 per 1,000 cu metres. In 1995 the Kyrgyz Republic bought 900m cu metres of gas for $65 per 1,000 cu metres, with the total contract valued at $58.5m.

Foreign trade and payments

Data on the external sector are confused—

Little new information has been released on the trade position, and the available figures are inconsistent. Figures published by the state forecasting committee, Goskomprognozstat, indicate that the trade surplus with countries outside the former Soviet region amounted to $216.2m in 1995, compared with $135.8m in 1994. In 1995 exports to this region were valued at $419.1m, with imports at $202.9m. This does not match up with other data supplied to the OECD by Goskomprognozstat, whose earlier reports put the total trade surplus (on trade with all regions) at $350m. Data from the Ministry for Foreign Economic Relations put the 1995 total trade surplus at $293m (1st quarter 1996, page 48).

Foreign trade outside the former Soviet Union
($ m)

	1991	1992	1993	1994	1995
Exports	647.9	869.3	706.5	944.0	1,825
Imports	–1,325.3	–929.3	–947.3	–1,150.0	–1,650
Trade balance	–677.4	–60.0	–240.8	–206.0	175

Source: OECD, *Short-Term Economic Indicators: Transition Economies.*

Foreign trade outside the former Soviet Union
($ m)

	1994	1995
Exports	362.5	419.1
Imports	190.0	202.9
Trade balance	172.5	216.2

Source: Goskomprognozstat.

—and patchy

Other data from Goskomprognozstat indicate that in 1995 cotton fibre accounted for 57.8% of the value of total exports; energy accounted for a further 14%. Goskomprognozstat claims that the share of foodstuffs in total exports fell from 32.6% in 1994 to just 18.2% in 1995. Energy imports were slashed to 1.9% of all imports, down from 25.8% in 1994. Goskomprognozstat also claims that investment goods were imported in far larger numbers than in 1995, although precise data have not been provided. It is also unclear how much of the value of imported investment goods was a result of the capital-intensive joint ventures in the country and how much was due to domestic firms investing.

Cotton exports to Russia face competition

Goskomprognozstat points out that trade is diversifying away from markets and suppliers in former Soviet republics. Trade with this region accounted for 43.5% of the total in 1995, down from 58.5% in 1994. Uzbekistan has seen its position in the Russian cotton market eroded. This trend will not be helped if the Russian State Duma's decision, on March 15, to abolish the 20% value-added tax (VAT) rate applied to non-Commonwealth of Independent States (CIS) cotton imports is implemented. Around half of Uzbekistan's exports to former Soviet republics consist of cotton fibre.

An attempt is made to simplify foreign trade

Acting under IMF pressure the government is making some attempt to simplify the country's bureaucratic morass of foreign trade regulations. A key indicator of success will be whether the reform lead to an increase in exports while diversifying the country's export profile away from cotton (which accounts for 75% of the value of exports outside the former Soviet region). To this effect the president, Islam Karimov, has issued a decree which cuts taxes levied on exporters of goods and services. Eligible firms are now exempt from VAT for inputs used for the manufacture of goods for export. Loans will also be provided for capital investment, with a three-year grace period on principal repayments. Trading companies, brokerages, cotton, oil and gas and metals producers are excluded. In addition, as of April 1, any inter-state trade or trade within Uzbekistan's many free-trade areas, such as the Central Asian Economic Union (CAEU), the CIS, and the Economic Cooperation Organisation, will be free from customs duties. Any foreign investor in Uzbekistan with over $50m invested will also be exempt from duties if the goods have been produced by the company itself.

Uzbekistan trade incentives, Apr 1, 1996

	Tariff
Output exported, 5-10%	29.6
Output exported, 30%	18.5

Source: BBC, *Summary of World Broadcasts*.

Business news

- The PT Bakrie Communication Corporation of Indonesia has signed a joint venture for a $1.1bn contract to upgrade Uzbekistan's telecommunications system. In the long run PT Bakrie Communication estimates that the contract could be worth $2.2bn. The joint venture will initially upgrade 1.7 million telephone lines by installing digital exchanges. PT Bakrie Communication's stake will be 49% in the joint venture, with Uzbektelecommunications assuming a 51% stake. The first $250m will be raised through a rights issue and the sale of bonds.

- Telecom Italia and Siemens have signed a joint venture with the communications ministry, which holds 51% of the equity, with 41% held by Telecom Italia and 8% by Siemens. The joint venture, Udinet, is worth IL730bn ($480m) and aims to double the number of telephone subscribers in Uzbekistan within ten years to 3 million.

- Uzdunrobita, a joint venture, has signed a contract with Nortel (Canada) to expand cellular telephone coverage in Uzbekistan.

- Case Corp of the USA has won a $50m contract to supply 324 combine harvesters to Uzbekistan.

- WMC Ltd (Australia) is the preferred bidder for the Zarmitan gold mine, which has deposits estimated at 6.9m oz.

- Laing (UK) and Alarko Alsim (Turkey) are building the £40m ($60m) BAT cigarette factory in Samarkand.

- Dainong (South Korea) and Daewoo (South Korea) are to set up a $59m cotton spinning plant with a capacity of 13,000 tons of yarn per year. Daewoo has an 80% equity stake and Dainong 20%.

- UIIC, a joint venture between AIG of the USA (20% of the equity) and the National Insurance Company of Uzbekistan, Uzbekinvest (80% of the equity), has been provided with a licence by the UK Department of Trade and Industry to cover trade and investment between the UK and Uzbekistan. All UIIC underwriting will be through AIG Uzbekinvest, with AIG retaining 51% of the equity and Uzbekinvest 49%.

- The UzDaewoovato joint venture has produced its first minibus. Daewoo is committed to investing $658m in a car and minibus factory and an electronics plant in Uzbekistan.

- Daewoo has sold Uzbekistan $14m of telecoms switching equipment for 11 exchanges in Tashkent which have the capacity to serve a total of 45,000 new subscribers.

- Daewoo Textile has bought the Tashlak textiles plant for $2.5m and has made a commitment to invest a further $60m.

Appendix 1

Quarterly indicators of economic activity in Kyrgyz Republic, Tajikistan, Turkmenistan and Uzbekistan

		1993	1994				1995				1996
		4 Qtr	1 Qtr	2 Qtr	3 Qtr	4 Qtr	1 Qtr	2 Qtr	3 Qtr	4 Qtr	1 Qtr
KYRGYZ REPUBLIC											
Industrial production	Monthly av										
General index	1990=100	60.7	45.4	37.7	34.7	43.2	39.7	29.9	31.3	n/a	n/a
Cement	'000 tons	47.3	43.7	35.3	38.3	24.3	20.3	23.3	32.3	27.0	23.0 [a]
Mining											
Coal	'000 tons	38.7	27.0	24.7	16.0	23.0	16.0	10.7	12.0	13.0	17.0 [a]
Lignite	“	79.0	52.3	46.7	31.7	58.7	36.7	15.0	21.0	42.7	31.5 [a]
Natural gas	m cu metres	3.1	3.4	3.2	3.0	3.3	3.3	3.0	2.8	2.7	1.9 [a]
Crude petroleum	'000 tons	3.8	5.9	9.4	7.4	6.7	6.9	8.0	7.8	6.8	6.6 [a]
Employment											
Industry	'000	255	257	257	232	219	255	245	225	235	n/a
Unemployed, registered	“	3.1	3.6	6.1	8.8	11.8	18.3	28.2	38.3	46.6	59.4 [a]
Wages											
Monthly earnings, ind	som	237	258	330	392	496	519	540	587	718	n/a
Foreign trade	Qtrly totals										
Exports fob	$ m	n/a	53.6	89.9	99.4	96.9	75.3	98.5	123.0	111.2	n/a
of which: CIS	“	n/a	46.8	70.2	51.5	54.2	46.7	59.9	84.6	77.1	n/a
Imports cif	”	n/a	77.3	79.8	56.4	103.5	88.8	129.1	96.7	193.4	n/a
of which: CIS	“	n/a	59.1	40.0	36.9	73.5	64.1	68.5	83.6	123.1	n/a
	End-Qtr										
Exchange rate	som:$	8.03	11.70	11.30	10.50	10.60	10.90	10.60	10.86	11.20	11.40 [b]
TAJIKISTAN											
Industrial production	Monthly av										
General index	1990=100	69.6	51.1	38.7	35.8	37.9	38.6	30.1	39.6	n/a	n/a
Cement	'000 tons	19.7	17.0	21.7	12.7	8.0	5.3	6.3	7.7	6.7	3.0 [a]
Mining											
Coal	'000 tons	18.0	14.7	9.3	6.0	5.7	4.0	1.7	1.7	3.7	1.0 [a]
Natural gas	m cu metres	3.7	3.7	2.6	1.9	2.7	3.2	2.6	2.9	4.1	4.2 [a]
Employment											
Industry	'000	232	200	204	202	194	190	195	192	183	n/a
Unemployed, registered	“	20.0	24.9	27.7	28.2	30.9	34.3	30.9	31.7	34.2	38.7 [a]
Wages											
Monthly earnings, ind	Rb/TR	51,006	63,805	69,758	62,138	64,947	79,200	1,200 [c]	1,703	2,553	n/a
Foreign trade	Qtrly totals										
Exports fob	$ m	n/a	99.4	133.4	77.7	102.6	n/a	n/a	n/a	n/a	n/a
of which: CIS	“	n/a	25.7	25.3	18.0	24.0	n/a	n/a	n/a	n/a	n/a
Imports cif	”	n/a	185.1	122.7	157.6	85.4	n/a	n/a	n/a	n/a	n/a
of which: CIS	“	n/a	107.5	41.8	46.4	37.4	n/a	n/a	n/a	n/a	n/a
	End-Qtr										
Exchange rate	TR:$	n/a	n/a	n/a	n/a	n/a	n/a	53	153	294	280 [b]

continued

Quarterly indicators of economic activity in Kyrgyz Republic, Tajikistan, Turkmenistan and Uzbekistan *(continued)*

		1993	1994				1995				1996
		4 Qtr	1 Qtr	2 Qtr	3 Qtr	4 Qtr	1 Qtr	2 Qtr	3 Qtr	4 Qtr	1 Qtr
TURKMENISTAN											
Industrial production	Monthly av										
General index	1990=100	97.1	82.1	69.7	51.9	75.1	67.9	n/a	n/a	n/a	n/a
Cement	'000 tons	85.7	86.3	50.3	51.7	41.3	44.7	n/a	n/a	40.0 [d]	48.5 [a]
Mining											
Natural gas	m cu metres	4,809	3,840	3,020	2,877	2,142	3,350	n/a	n/a	3,692 [d]	3,615 [a]
Crude petroleum	'000 tons	331	308	313	320	305	308	n/a	n/a	323 [d]	312 [a]
Employment											
Industry	'000	165	152	153	151	144	170	167	170	162	n/a
Wages											
Monthly earnings, ind	manat	408	763	808	1,500	1,928	4,400	4,664	9,800	n/a	n/a
Foreign trade	Qtrly totals										
Exports fob	$ m	n/a	525.5	397.2	439.6	444.9	535.7	456.2	309.1	435.5	n/a
of which: CIS	"	n/a	362.2	336.4	369.1	332.5	358.4	233.1	271.6	309.3	n/a
Imports cif	"	n/a	136.3	221.3	189.0	342.4	87.6	170.1	148.3	314.0	n/a
of which: CIS	"	n/a	90.0	120.5	118.3	231.8	58.0	146.4	129.5	294.4	n/a
	End-Qtr										
Exchange rate	manat:$	2.0	10.0	10.0	10.0	75.0	75.0	75.0	200.0	200.0	2,316.0 [b]
Uzbekistan											
Industrial production	Monthly av										
General index	1990=100	122.8	87.1	92.1	93.4	130.7	72.7	82.2	99.4	n/a	n/a
Cement	'000 tons	325	353	452	428	328	261	276	322	280	208 [a]
Mining											
Lignite	'000 tons	339	301	322	336	298	221	234	269	278	225 [a]
Natural gas	m cu metres	4,185	4,432	3,774	3,313	4,207	4,406	3,968	3,544	4,066	4,481 [a]
Crude petroleum	'000 tons	246	265	298	326	402	437	430	439	464	440 [a]
Employment											
Industry	'000	1,129	1,125	1,115	1,100	1,084	1,120	1,110	1,100	1,070	n/a
Unemployed, registered	"	13.7	16.7	19.3	19.3	21.2	27.6	32.8	28.4	26.4	27.9 [a]
Wages											
Monthly earnings, ind	som	n/a	n/a	n/a	480	660	973	1,475	1,551	2,118	n/a
Construction											
Dwellings completed	'000	7.6	2.2	6.6	6.9	6.4	2.4	5.6	6.4	5.1	n/a
Foreign trade	Qtrly totals										
Exports fob	$ m	n/a	767.7	527.0	449.2	1,276.3	499.0	779.7	577.8	1,243.5	n/a
of which: CIS	"	n/a	539.6	314.5	224.1	998.9	178.7	442.5	235.6	418.2	n/a
Imports cif	"	n/a	565.5	462.8	648.2	790.7	517.9	592.8	488.8	1,300.5	n/a
of which: CIS	"	n/a	376.7	216.2	375.2	378.3	220.0	273.5	316.8	439.7	n/a
	End-Qtr										
Exchange rate	som:$	n/a	n/a	n/a	17.0	25.0	26.1	30.0	33.5	35.5	36.8 [b]

[a] Average for January-February. [b] End-February. [c] Tajik rouble introduced May 1995. [d] December only.

Appendix 2

OECD total trade with Kyrgyz Republic, Tajikistan, Turkmenistan and Uzbekistan

($ '000)

	Finland		France		Germany	
	Jan-Dec 1993	Jan-Dec 1994	Jan-Dec 1993	Jan-Dec 1994	Jan-Dec 1993	Jan-Dec 1994
Imports cif						
Kyrgyz Republic	251	418	2,474	9,023	3,513	7,940
Tajikistan	9,598	3,883	5,931	13,703	12,443	19,798
Turkmenistan	28,816	6,333	43,147	49,109	37,079	40,116
Uzbekistan	7,606	2,758	55,528	106,182	299,204	310,182
Exports fob						
Kyrgyz Republic	116	193	3,069	1,809	11,675	20,815
Tajikistan	554	11	6,375	1,179	7,759	13,996
Turkmenistan	1,286	6,491	2,725	6,903	45,593	89,268
Uzbekistan	1,117	6,178	33,892	27,251	135,816	321,814

	Italy		Japan		USA	
	Jan-Dec 1993	Jan-Dec 1994	Jan-Dec 1993	Jan-Dec 1994	Jan-Dec 1993	Jan-Dec 1994
Imports cif						
Kyrgyz Republic	2,098	4,019	59	190	2,115	800
Tajikistan	42,012	59,157	11,363	16,348	18,661	61,800
Turkmenistan	63,355	98,969	5,234	4,839	2,181	1,800
Uzbekistan	95,870	124,667	36,814	26,453	7,402	2,800
Exports fob						
Kyrgyz Republic	2,362	15,159	33	2,309	18,372	600
Tajikistan	8,573	5,046	377	996	11,652	15,200
Turkmenistan	60,233	54,647	8,331	5,799	45,600	137,400
Uzbekistan	22,664	33,949	19,929	41,487	73,000	89,600

Appendix A

Status of currencies of the former Soviet republics

Country	Name	Status	Introduction date	Remarks
Armenia				
Final currency	Dram	Sole legal tender	Nov 22, 1993	
Azerbaijan				
Final currency	Manat	Sole legal tender	Jan 1, 1993	Manat became sole legal tender on January 1, 1994.
Belarus				
Interim currency	Rubel	Sole legal tender	Jun 1992	
Final currency	Taler		May 1995	
Estonia				
Final currency	Kroon	Sole legal tender	Jun 20, 1992	
Georgia				
Final currency	Lari	Sole legal tender	Sep 25, 1995	
Kazakstan				
Final currency	Tenge	Sole legal tender	Nov 15, 1993	
Kyrgyz Republic				
Final currency	Som	Sole legal tender	May 10, 1993	Sole legal tender as of May 15, 1993.
Latvia				
Final currency	Lats	Sole legal tender	Jun 28, 1993	Lats phased in between March 1 and June 28, 1993.
Lithuania				
Final currency	Litas	Sole legal tender	Jul 20, 1993	Litas phased in between June 25 and July 20, 1993.
Moldova				
Final currency	Leu	Sole legal tender	Nov 29, 1993	
Russia				
Final currency	Rouble	Sole legal tender	1993	Soviet roubles issued between 1961 and 1992 withdrawn. Russian 1993 rouble is devoid of Soviet emblems.
Tajikistan				
Interim currency	Tajik rouble	Sole legal tender	1961, 1993	Tajik rouble replaced the Russian rouble on May 11, 1995.
Final currency	Somon	Delayed	No date set	Introduction indefinitely postponed.
Turkmenistan				
Final currency	Manat		Nov 1, 1993	Multiple exchange rate system abolished April 8, 1996
Ukraine				
Interim currency	Karbovanets	Sole legal tender	Nov 13, 1992	The karbovanets superseded the kupon (introduced January 1, 1992).
Final currency	Hryvnia	Delayed	No date set	
Uzbekistan				
Interim currency	Som	Parallel	Nov 29, 1993	Introduced as a coupon to circulate in parallel with the rouble as of November 29, 1993.
Final currency	Som	Final	Jul 1, 1994	

Appendix B

Currencies of the former Soviet republics

	Exchange rate per $									
	Jan 3, 1994	Apr 4, 1994	Jul 4, 1994	Oct 3, 1994	Jan 6, 1995	Apr 9, 1995	Jul 3, 1995	Oct 6, 1995	Jan 5, 1996	Apr 4, 1996
Outside rouble zone										
Armenia (Dram)	100.0	254.08	310.10	356.68	403.57	406.91	408.20	400.00	402.00	404.23
Azerbaijan (Manat)	n/a	1,000	995	n/a	n/a	4,395	4,395	4,395	4,440	4,376
Estonia (Kroon)	13.9	13.4	12.6	12.4	12.5	11.2	11.1	11.4	11.6	11.9
Georgia (Coupon)	132,275	292,000	1,000,000	2,060,000	n/a	1,300,000	1,300,000	1.28[a]	1.17	1.26
Kazakstan (Tenge)	7.52	19.84	45	50	n/a	60.5	63.6	61.4	64.3	66.0
Kyrgyz Republic (Som)	9.15	12.3	11.3	n/a	n/a	10.90	10.60	10.86	10.95	11.45
Latvia (Lats)	0.59	0.57	0.55	0.54	0.55	0.51	0.51	0.54	0.54	0.54
Lithuania (Litas)	3.9	3.9970	4.00	4.00	4.00	4.00	4.00	4.00	4.00	4.00
Moldova (Leu)	3.6	4.0	4.05	4.19	n/a	4.49	4.54	4.54	4.53	4.58
Turkmenistan (Manat)	24.0	50.0	n/a	75[b]	n/a	230	230	500	2,100	2,500
Ukraine (Karbovanets)	31,849.7	50,000.0	44,500	75,000	104,837	132,900	142,693	172,000	179,900	189,100
Uzbekistan (Som)[c]	n/a	20,000	7[c]	17	n/a	26.1	30.3	33.8	34.6	37.0
Inside rouble zone (local parallel currencies & Russian rouble)										
Belarus (Rubel)	5,662.5	n/a	27,350	5,900	11,195	11,500	11,500	11,500	11,500	12,200
Russia (Rouble)	1,239.2	1,750.01	2,008.5	2,674.5	3,880	4,961	4,548	4,495	4,674	4,825
Tajikistan (Tajikistan rouble)[d]							51[de]	n/a	300[f]	280

[a] Coupon replaced by Lari. [b] August 18. [c] Som-coupon replaced by Som on July 1. Conversion from old currency to new at rate of Som-coupon 1,000:Som1. [d] Used the Russian rouble until May 11, 1995, when the Tajik rouble was introduced. [e] June 16. [f] February 2.

Appendix C

GDP and GDP per head

(purchasing power parities)

	1989	1990	1991	1992	1993	1994	1995
Armenia							
GDP							
$ m	14,943	14,457	13,713	6,721	5,875	6,068	6,530
per head ($)	4,294	4,084	3,798	1,821	1,550	1,709	1,866
Azerbaijan							
GDP							
$ m	21,777	20,049	20,705	16,466	12,992	10,376	8,806
per head ($)	3,076	2,804	2,872	2,228	1,760	1,389	1,223
Belarus							
GDP							
$ m	50,135	50,598	51,991	48,292	43,800	35,160	32,435
per head ($)	4,901	4,932	5,062	4,684	4,228	3,397	3,119
Estonia							
GDP							
$ m	8,072	7,583	6,932	6,111	5,731	6,136	6,528
per head ($)	5,122	4,790	4,390	3,958	3,803	4,070	4,375
Georgia							
GDP							
$ m	23,429	21,398	19,183	11,767	7,352	5,263	5,125
per head ($)	4,299	3,919	3,533	2,163	1,349	966	940
Kazakstan							
GDP							
$ m	71,934	74,399	68,245	61,005	54,517	41,589	38,835
per head ($)	4,371	4,477	4,081	3,612	3,214	2,442	2,271
Kyrgyz Republic							
GDP							
$ m	11,041	11,879	11,737	9,045	7,795	5,875	5,648
per head ($)	2,550	2,706	2,637	2,014	1,721	1,291	1,228
Latvia							
GDP							
$ m	14,544	14,633	13,635	9,107	7,951	8,180	8,217
per head ($)	5,447	5,480	5,126	3,463	3,070	3,208	3,249

continued

GDP and GDP per head *(continued)*

(purchasing power parities)

	1989	1990	1991	1992	1993	1994	1995
Lithuania							
GDP							
$ m	27,288	26,644	23,996	16,027	13,730	14,181	15,044
per head ($)	7,395	7,162	6,416	4,285	3,681	3,812	4,050
Moldova							
GDP							
$ m	16,041	16,473	15,094	10,996	10,300	8,195	8,147
per head ($)	3,688	3,778	3,462	2,528	2,362	1,884	1,852
Russia							
GDP							
$ m	856,913	875,550	865,043	759,951	711,875	636,240	626,060
per head ($)	5,801	5,904	5,821	5,111	4,793	4,290	4,224
Tajikistan							
GDP							
$ m	9,919	10,176	9,832	7,183	6,551	5,266	4,728
per head ($)	1,915	1,920	1,810	1,287	1,162	916	815
Turkmenistan							
GDP							
$ m	10,018	10,654	10,559	10,275	9,488	7,762	6,762
per head ($)	2,798	2,903	2,823	2,683	2,420	1,940	1,610
Ukraine							
GDP							
$ m	246,364	247,613	223,010	197,750	168,400	130,360	117,852
per head ($)	4,765	4,777	4,293	3,799	3,264	2,539	2,291
Uzbekistan							
GDP							
$ m	44,809	47,465	49,117	44,866	44,928	44,749	44,950
per head ($)	2,228	2,312	2,350	2,068	2,055	2,002	1,989

Sources: IMF; World Bank, Statistical Handbook of States of the Former USSR; United Nations Economic Commission for Europe, Bulletin for Europe, Vol 44 1992; EIU calculations.