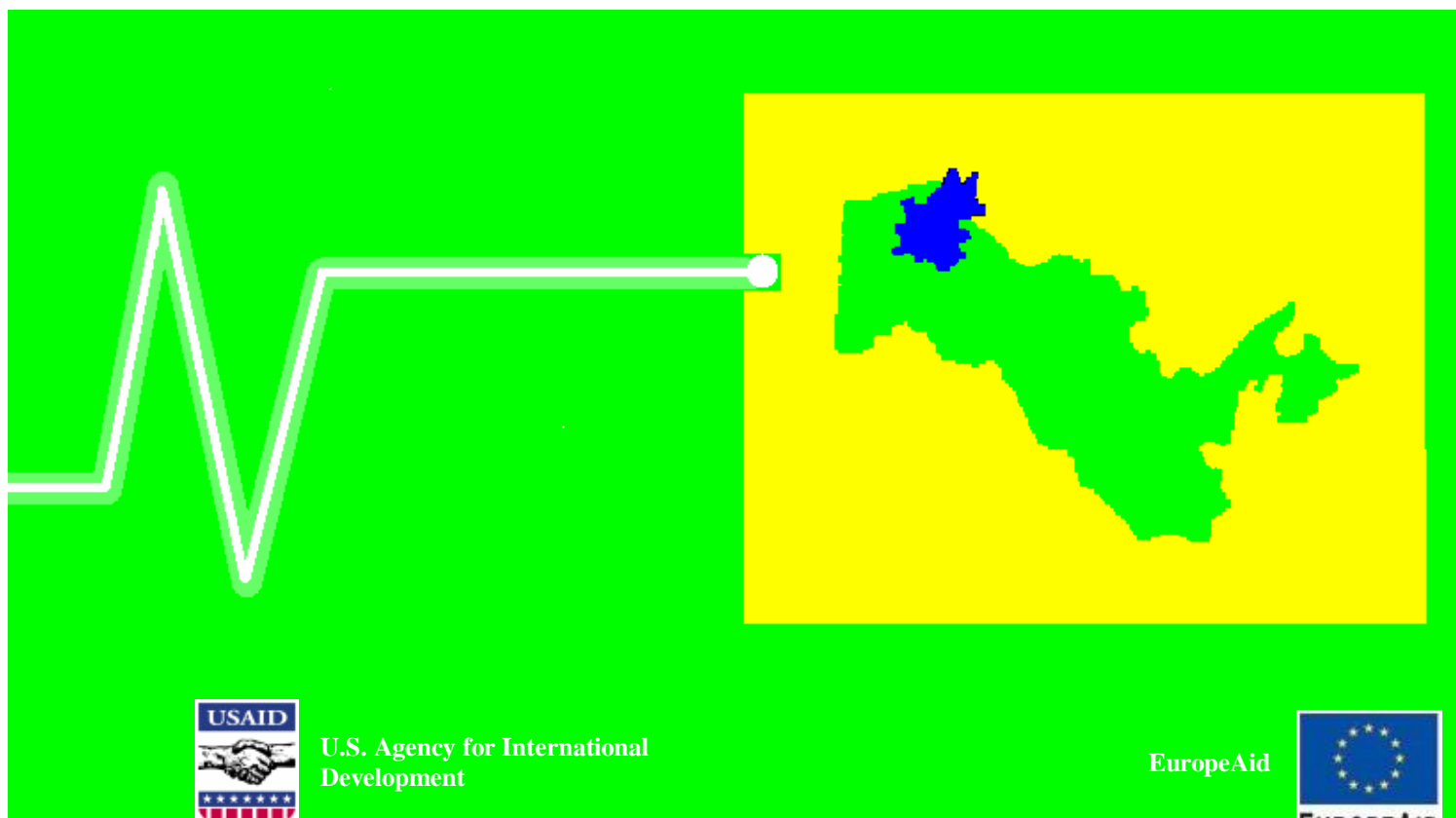




Uzbekistan Economy

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List of Abbreviations

bn.	billion
CabMin	Cabinet of Ministers
CBU	Central Bank of Uzbekistan
CER	Commercial exchange rate
CIS	Commonwealth of Independent States
CPI	Consumer Price Index
EFI	Enterprises with Foreign Investment
ERP	Effective Rate of Protection
FDI	Foreign Direct Investment
FSU	Former Soviet Union
IMF	International Monetary Fund
MER	Multiple Exchange Rate
mill.	million
NBU	National Bank of Uzbekistan
OER	Official exchange rate
p.a.	period average
p.e.	period end
PER	Parallel exchange rate
REER	Real Effective Exchange Rate
RER	Real Exchange Rate
RMC	Republican Monetary Commission
RU	Republic of Uzbekistan
RUR	Russian Ruble
SOE	State Owned Enterprise
T-bills	Treasury Bills
th.	thousand
OTC	Over-the-counter
URCE	Uzbek Republican Currency Exchange
USD	US Dollar
USSR	United Soviet Socialistic Republics
UZS	Uzbek Soum
yoy	year-on-year

Introduction

The report on Uzbekistan Economy 2002 has been developed by the Center for Effective Economic Policy (CEEP) with the financial and technical support from the United States Agency for International Development (USAID) and the European Agency for International Development (EuropeAid).

This report examines trends in the socio-economic development of Uzbekistan during the years 2000 through 2002 and is planned to be published quarterly.

A brief review of Uzbekistan economy encompasses all the components of Uzbekistan's economic policy and reviews causes, factors and indicators of the socio-economic development of Uzbekistan and its regions.

The chapter on Macroeconomic Policy and Economic Growth reviews policy factors influencing the economy and assesses the impact and results of fiscal, monetary, foreign exchange and pricing policies on macroeconomic stability and economic growth in Uzbekistan.

The chapter on Institutional and Market Reforms analyzes efforts to transform to a market-based economy including the privatization and denationalization process, the formation of market infrastructure institutions and the development of the private sector.

The chapter on Structural and Investment Policies examines the trends and challenges in developing real sectors of the economy and reviews the levels of investment activity.

The chapter on Foreign Trade reviews the state of the trade balance, the structural composition of import and export and the activities of joint ventures with foreign investment.

The chapter on Living Standards and Labor Market analyzes the trends in wage changes and the development of domestic trade and services. In addition, the chapter examines the peculiarities of labor market and employment in Uzbekistan.

The chapter on Socio-Economic Development in the Regions discusses the territorial allocation of production facilities and the causes of regional differences in socio-economic development.

CEEP would like to acknowledge the assistance of specialists from, the Center for Monetary Policy of the Central Bank of Uzbekistan, the Center for Fiscal Policy under the Ministry of Finance, the Institute for Deepening Market Reforms under the State Committee for Property Management, and the Center for Studying the Goods Market under the Ministry of Economy in the preparation of this report.

The findings, conclusions and interpretations cited in this publication are those of the authors only and should in no way be taken to reflect the policies or opinions of the government of Uzbekistan, USAID and Europe AID.

The information published in this report is taken from data provided by the State Committee on Statistics, Ministry of Economy, Central Bank of Uzbekistan, Ministry of Finance, the State Committee for Property Management and own calculations developed by the authors of this report.

Main Economic Events

Macroeconomic Policy

On November 30, 2001 a “Memorandum on Economic and Financial Policies” was signed between the Republic of Uzbekistan and the International Monetary Fund for the period from January 1 to June 30, 2002. This memorandum established provisions for a broad set of measures designed to liberalize the currency system, reform the agricultural sector, expand reforms in the banking system, and to unify exchange rates. The memorandum also called for the creation of an independent statistical body. In the mid of 2002, the first phase of the memorandum was mainly fulfilled, namely the spread between over-the-counter (OTC) and curb market exchange rates was substantially reduced, access to the OTC market was expanded, export bans were decreased, reforms in the banking sector were initiated.

A decree was issued on March 21, 2000 by the President of the Republic of Uzbekistan “On Measures for Further Liberalization and Reformation of the Banking System,” which became the basis for implementing the reforms in the banking sector. According to the decree, a special concessionary fund has been created to provide credit to micro-firms, small and medium enterprises, farmers and high-tech projects. Restrictions on setting interest rates for the newly attracted time deposits of individuals and legal entities were introduced at no less than 75% and 50% respectively of the CBU refinancing rate, excluding interest rates for the old deposits which remained unchanged for the period of the deposit agreement. In addition, a system of concessionary taxation of commercial banks was introduced depending on the increase of deposits.

According to the November 24, 2000 resolution from The Cabinet of Ministers of Uzbekistan “On Additional Measures for Reforming the Banking System” a three year program (2000 to 2003) for reforming the banking system was adopted. The resolution targets the stimulation of commercial banks to provide credits to the real sector of the economy, the development of inter-bank competition and universalization, and the reinforcement of banks financial stability.

According to a March 30, 2002 decree issued by the President of Uzbekistan “On Restricting the Increase of the Money Supply and Strengthening the Responsibility for Financial Discipline” a set of essential measures were undertaken which had an effect on both the banking system and money circulation. The measures include more authorized capital requirements for establishing new banks, the release of debenture bonds by the Central Bank and the promotion of non-cash methods of payment.

On April 4, 2002 a bill “On Credit Unions” was adopted which created a base for the development of non-banking financial institutions in Uzbekistan. By January 1, 2003 seven credit unions have been established and are operating.

According to the bill “On the Guarantees for Individual’s Bank Deposits” adopted on April 5, 2002 a fund for guaranteeing bank deposits was created to insure refunds for individuals in case a banks license is revoked by the Central Bank.

Resolution number 280 issued by the Cabinet of Ministers on April 5, 2002 titled “On Measures for Further Reduction of Off-Banking Money Circulation” makes provisions for

reducing the amount of currency circulating outside the banking domain, the elimination of various restrictions on cash circulation, abolishment of state regulation of funds which are used for wages and promotion of non-cash payment methods.

In order to further develop the currency system a number of decisions were taken by the government. On June 29, 2000 a resolution “On the Measures for Further Development and Strengthening of Over-the-Counter (OTC) Currency Market” stated that from July 1, 2000 a new mechanism for selling foreign currency at the OTC market would be adopted.

In accordance with the June 30, 2000 Cabinet of Ministers resolution “On Further Liberalization of the Currency Market and Promotion of the Currency Exchange Operations” authorized banks with sufficient resources to be licensed to buy and sell foreign currency through specialized exchange offices in Uzbekistan.

The Cabinet of Ministers of the Republic of Uzbekistan adopted a resolution “On Measures for Further Liberalization of Foreign Currency” on July 22, 2001. In accordance with the resolution the following decisions were undertaken:

- The creation of consolidated stabilization fund in convertible currency;
- An exemption of small and medium businesses from the compulsory sale of foreign currency revenues earned from the export of produced goods and services;
- Granting foreign companies the right to procure certain types of highly liquid products with convertible currency at the auctions;
- The transfer to the OTC exchange rate of the compulsory sale of 50% of hard currency earnings, imports of equipment, accessories, raw materials, services, servicing of newly attracted foreign credits and the repatriation of profits, dividends and the other income of foreign investors and business travel expenses.
- The exemption of 5% fee for enterprises procuring hard currency at the OTC market.

On July 18, 2001 a resolution from the Cabinet of Ministers “On Additional Measures for Liberalization of the OTC Currency Market” was adopted.

In accordance with the resolution on August 1, 2001 the Central Bank’s licensing mechanisms for granting priority rights for consumery goods importers to convert local currency into hard currency was abolished.

On October 25, 2001 the Cabinet of Ministers issued a resolution “On Unification of the Exchange Rates in the Domestic Currency Market.” In accordance with this resolution, from November 1, 2001 all foreign currency operations, accountancy records and statistical reports on current account operations as well as calculation of all custom payments and other compulsory payments have been transferred into the OTC exchange rates, which have been set taking into consideration inflation rates and total amount of money in circulation.

A decree of the President of the Republic of Uzbekistan “On Additional Measures for Regulation of Cash Foreign Currency Circulation in the Republic of Uzbekistan” issued on June 27, 2002 forbids cash payments for goods, services and jobs in foreign currency by legal entities, residents and non-residents in Uzbekistan.

Institutional Transformations

On March 9, 2001 a resolution of the Cabinet of Ministers of Uzbekistan “On Privatization and Denationalization of Enterprises with Attraction of Foreign Investments in 2001–2002” approved a list of 1,244 state-owned objects to be privatized which include:

- 38 large network and town forming enterprises and banks to be transformed into joint-stock companies through individual projects with attraction of foreign investors, who may buy from 39% to 70% of shares of these enterprises;
- 49 enterprises to be wholly sold to foreign investors;
- 535 enterprises which more than 50% of assets to be sold through the stock and off-stock markets;
- 622 enterprises with state-owned shares in their authorized capital to be privatized through the stock and off-stock markets.

Thus, a new stage of privatization has commenced.

According to a March 26, 2002 decision of the government “On Additional Measures for Provision of Realization of Privatization and Denationalization Programs and Attraction of Foreign Investments” 751 enterprises were added to the previously adopted privatization program for 2001-2002. These enterprises’ shares were assigned to be sold at the stock and off-stock markets during 2002-2003. Besides, a number of measures to accelerate foreign investments attraction to the privatization process were emphasized.

During 2000 to 2002 new legislative, organizational and normative documents aimed at state support for small businesses have been released.

On May 25, 2000 a Bill of the Republic of Uzbekistan “On Guaranties for Free Entrepreneurship” was issued which provided provisions to protect the rights and freedoms of entrepreneurs.

The resolution of the Cabinet of Ministers “On Additional Measures of Financing, Technical Support, Concessionary Customs Payments, Providing Banking and other Services for Small Enterprises and Farmers” issued on September 10, 2001 is directed to stimulate the creation and development of small and medium-sized businesses and farming enterprises by broadening their access to financial, technical and material resources.

The Cabinet of Ministers decree “On Measures of Implementing Micro-Crediting Program with European Bank of Reconstruction and Development” adopted on September 10, 2001 is designed to attract credits from international financial institutions and organizations for the development of small and medium enterprises. The decree also is designed to introduce new forms and ways of crediting, enlargement of businesses access to financial resources and the acceleration of implementing micro-credit programs with the participation of the European Bank of Reconstruction and Development.

The decree of the President of Uzbekistan “On Additional Measures of Stimulating the Development of Small and Medium Enterprises in the Republic of Karakalpakstan and the Khorezm Region” adopted on June 11, 2002 contains benefits to micro firms, small and medium enterprises and newly created enterprises with foreign investments located in the Republic of Karakalpakstan and the Khorezm region.

These background documents have improved the economic environment for the development of enterprises in the republic.

Structural and Investment Policies

The State Investment Program is an annual plan designed to deepen structural transformations in the economy and attract foreign investment.

The State Investment Program has outlined a number of economic projects, which envisaged by the government to ensure economic growth through 2000 to 2002. The following projects have been implemented: Shurtan Gas-Chemical complex, production of caustic soda, fluid chlorine and chlorine-based products at the Azot enterprise in Navoi, production of sodium chlorate and chlorate-magnesium based defoliants at the Azot enterprise in Ferghana, a sugar factory in the Khorezm region, the reconstruction of a radio-relay line and fiber-optic communication line between Tashkent-Bukhara-Alat was created, Nestle-Uzbekistan was established in Namangan, and the joint venture Chinoz Tukimachi was established in the Tashkent region.

In addition, large investment projects are being set up including the construction of the Kungrad sodium plant, a joint venture on accumulator production facility UzExide, a renewal of the model line at the UzDaewooAuto stock company, extensive technical upgrading of the Republic's radio and television networks, modernization of the airport in the cities of Samarkand, Bukhara and Khiva.

Since October 1, 2002 quarterly quotas to banks for purchasing foreign currency at the OTC market have been abolished to ensure a better system for importing consumery goods, creating a competitive environment in the internal market and supporting enterprises and organizations involved in importing staple consumery goods and medicines.

The system of tax benefits is:

- 24% income tax for enterprises producing consumer goods has been reduced by 20%;
- the rate of income tax for enterprises producing children's goods has been established at 7%;
- 12% single income tax for micro-firms and small enterprises producing consumer goods reduced by 25%;
- the profits from increased physical production of consumer goods are free from income and single taxes;
- the expenses for advertising consumer goods produced in Uzbekistan are totally excluded from the taxable base when income tax is calculated.

Several other tax benefits were introduced for the consumer goods producers including taxes on land and property as well as customs benefits on importing raw materials and parts.

Foreign Trade

On May 26, 2000 a new edition of the Republic of Uzbekistan Bill "On Foreign Economic Activity" was adopted which envisaged protection of manufacturers in Uzbekistan. In

addition, protective, compensational, anti-dumping measures, technical, phyto-sanitary, ecological and other accepted worldwide standards on imported goods were reviewed.

According to June 5, 2000 Decree of the President of the Republic of Uzbekistan "On Additional Measures for Stimulation of Export-Oriented Producers," exporters are exempted from profit taxes and property taxes proportionally to the share of exported goods.

A July 8, 2000 Resolution "On Measures for Increasing Decentralized Export of Fresh Fruits and Vegetables in 2000" makes favorable provisions for exporting harvested crops abroad.

On February 2, 2001 the Resolution of the Cabinet of Ministers of the Republic of Uzbekistan "On Measures for Improvement of Foreign Trade Regulations" imposed new customs duties for imported goods. In order to simplify and unify custom duties, the tariff rate levels have been reduced from twelve to five. A new set of pre-loading inspection regulations have also been established to ensure the required qualitative, quantitative and price levels of certain imported consumer goods categories such as meat, alcohol, tobacco, oil, seeds as well as mechanical and electronic machinery for newly established enterprises included in the Investment Program of Uzbekistan.

According to May 31, 2002 resolution of the government of Uzbekistan "On Additional Measures for Unification of Import Customs Duties" beginning from July 1, 2002 a new commodity nomenclature of foreign economic activity based on a harmonized system of commodity description and encoding with changes and supplements introduced by the World Customs Organization (2002 version) has been adopted. This document also authorizes the introduction of new import customs duties starting from July 1, 2002.

In accordance with the August 20, 2002 Resolution of the Cabinet of Ministers of Uzbekistan "On Abolishment of Licensing and Measures for Improvement of Importing and Realization of Consumer Goods in Internal Market of Uzbekistan" it is imperative that all goods imported into the customs area of Uzbekistan for commercial uses possess a certificate of conformity.

Social Policies

An active social policy in Uzbekistan is being developed including social programs such as "For a Healthy Generation" (2000), "Protection of Mothers and Children" (2001), "Protection of Older Generation" (2002), "National Program of Personnel Training", "National Support Program for Socially Vulnerable Strata in 2002-2003", "Provision of Rural Population with Clean Water and Natural Gas" in addition to other social welfare programs.

In order to improve the living standards and strengthen the social protection of the population, a number of decrees and resolutions of the President of the Republic of Uzbekistan have been issued, including measures on the increase of salaries, stipends, pensions and benefit payments. During 2000-2002, as a result of implementing the measures, the increase in payments to the civil workers made up 278%.

1. Macroeconomic Policy and Economic Growth

1.1. Economic Growth

Uzbekistan has experienced economic growth averaging 4.1% from 2000 to 2002 (Table 1.1.1). In 2002 real GDP grew by 4.2% compared to 2001. Since 1996 GDP has risen 31.2% with the GDP growth averaging 4.0% from 1996 to 2002.

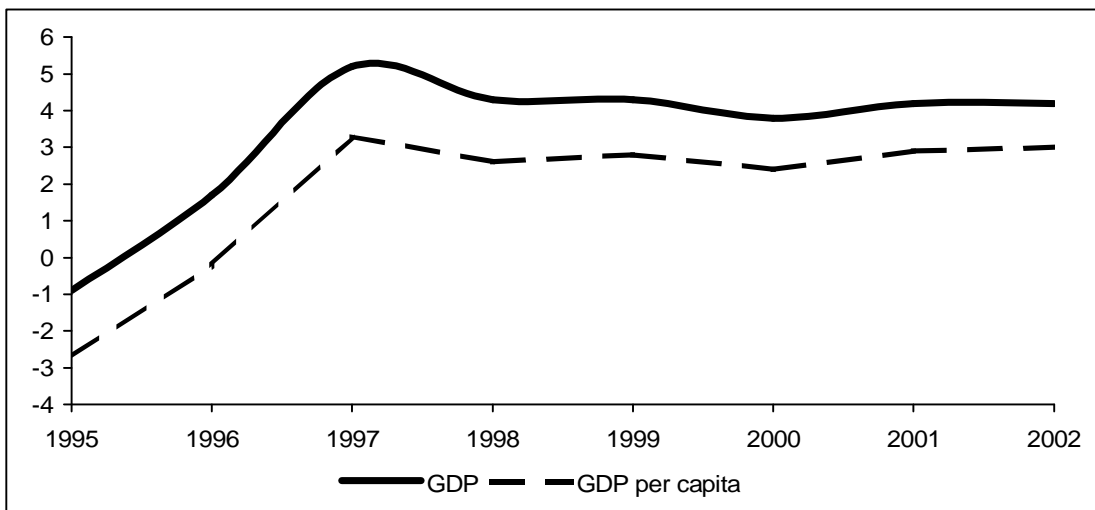
Table 1.1.1. Rates, Production Structure and Final Consumption of the GDP

	2000	2001	2002
1. GDP, billion Soum, in current prices	3,255.6	4,925.3	7,469.3
1.1. Average annual growth of real GDP	3.8	4.2	4.2
1.2. Average annual growth of GDP, per capita	2.4	2.9	3.0
2. Composition of GDP, %	100	100	100
- industry	14.2	14.1	14.1
- agriculture	30.1	30.0	30.6
- construction	6.0	5.8	4.9
- services	37.2	38.2	38.7
- net taxes	12.5	11.9	11.7
3. Structure of GDP by use, %	100	100	100
3.1. Total final consumption	80.6	80.0	76.5
- Private	61.9	61.6	58.5
- State	18.7	18.4	18.0
3.2. Gross accumulation	19.6	21.1	22.9
- Gross domestic investments to capital formation	24.0	27.9	21.9
- Changes in reserves and other	-4.4	-6.8	1.0
3.3. Net exports	-0.2	-1.1	0.6

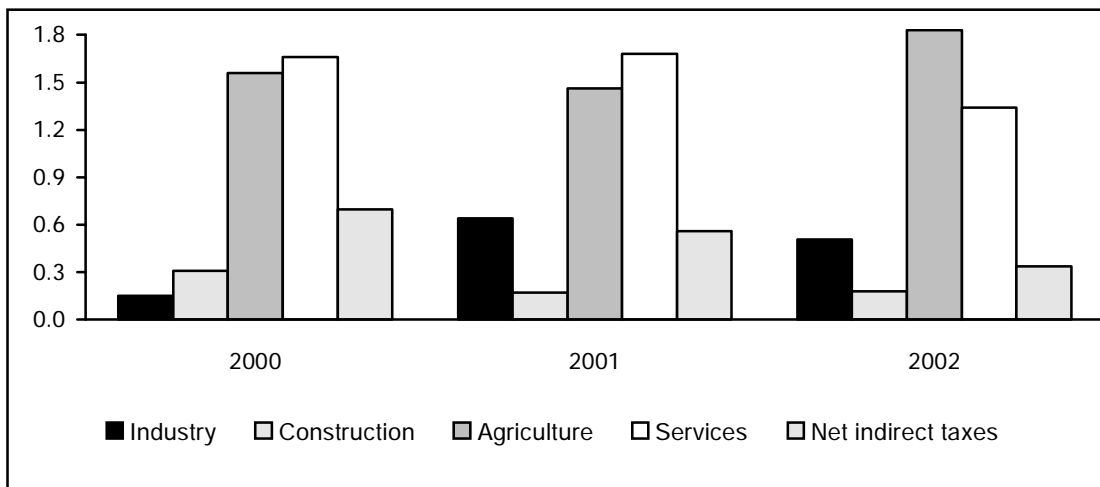
Source: Ministry of Economy of Uzbekistan.

The per capita GDP growth rate during 2002 was 3% and this rate remains about stable since 1997 (Graph 1.1.1). The growth rate of production of industrial goods remained stable in 2002 (8.5%) compared with 2001 (8.1%). In the agriculture sector production was 6.1% in 2002 up from 4.2% in 2001. The construction industry dropped slightly to 3.1% in 2002 from 3.3% in 2001 while the amount of investments to main capital is reported at 3.8% in 2002 and 3.7% in 2001. The most distinguishing aspect during this period is the reduction in retail turnover growth to 1.7% in 2002 from 9.6% in 2001 mainly attributed to new import regulations on consumer goods.

The contributions from different sectors of the economy to GDP were varied (Graph 1.1.2). The increase in the added value of agriculture, services and pure indirect taxes provided approximately 4/5 of the total increase to GDP from 2000 to 2002. On one hand this implies that a portion of the work force is shifting from state-run industries and moving to the trade and services sector. On the other hand the significant share of net taxes to GDP growth, especially during the previous three years, indicates that tax pressures continue to burden producers in the real sectors of the economy.

Graph 1.1.1. Dynamics of GDP and GDP per Capita, annual increase, %

Source: Ministry of Economy of Uzbekistan.

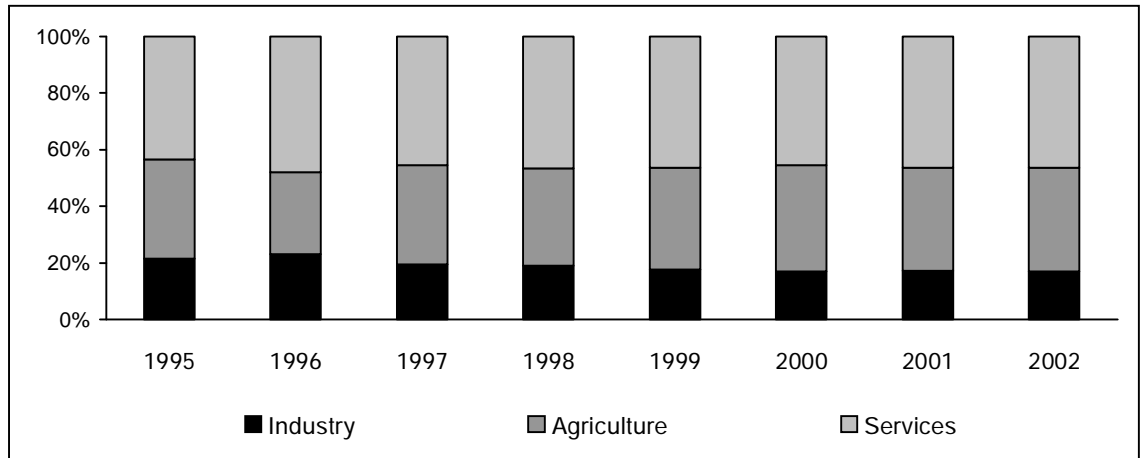
Graph 1.1.2. Contribution by Certain Sectors of Economy into GDP Growth Rates: 2000 - 2002, %

Source: Authors calculations using the data from Ministry of Economy of Uzbekistan.

The share of the Industry sector of GDP decreased from 17.1% in 1995 to 14.1% in 2002. The construction industry declined from 8.2% in 1995 down to 4.9% in 2002 while the service sector increased from 34.6% in 1995 to 38.7% in 2002 (Graph 1.1.3). Both the low rates of fixed capital renewal in the industrial sector and the inefficiency of the privatization process of large and medium enterprises contributed to this process.

The decrease in the share of the final consumption in the GDP from 81.3% in 1995 to 76.5% in 2002 was due to the decrease in the share of state expenditures from 20.5% to 18%. This is a positive trend and an important factor in decreasing inflation. Although the GDP share of total investment declined from 24.2% in 1995 to 22.9% in 2002, the rate remains high enough for transitional economies.

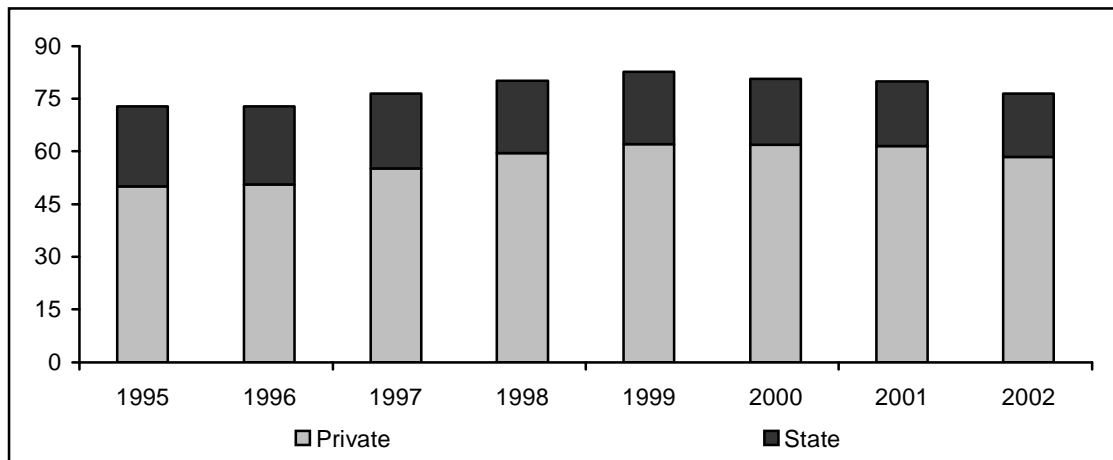
Graph 1.1.3. Branch Structure of the GDP, %



Source: Ministry of Economy of Uzbekistan.

Relatively high level of gross accumulation has facilitated to the high growth of investment in fixed capital, which increased by 59.4% in cumulative terms with the average real growth rate of about 6.9% for the period 1995-2002.

Graph 1.1.4. Structure of Final Consumption of GDP, % to GDP



Source: Ministry of Economy of Uzbekistan.

1.2. Fiscal Policy

1.2.1. State Budget Revenues

State budget revenues in relation to GDP decreased from 28.5% in 2000 to 25.2% in 2002 for a decline of 3.1% (Table 1.2.1). This reduction in state budget revenues is attributed to the decreased tax burden on the economy.

Table 1.2.1. State Budget Revenue, %

	In % to GDP			In % to Total		
	2000	2001	2002	2000	2001	2002
Total:	28.5	26.0	25.2	100.0	100.0	100.0
Direct Taxes, Total	7.5	7.4	6.8	26.4	28.5	27.2
Indirect Taxes, Total	16.0	13.5	13.8	56.0	51.8	54.6
Resource Payments, Total	2.8	2.4	1.9	9.9	9.3	7.5
Tax on Social Infrastr. Development	0.3	0.3	0.5	1.0	1.3	2.1
Other Taxes and Non-Tax Revenues	1.9	2.4	2.2	6.7	9.1	8.6

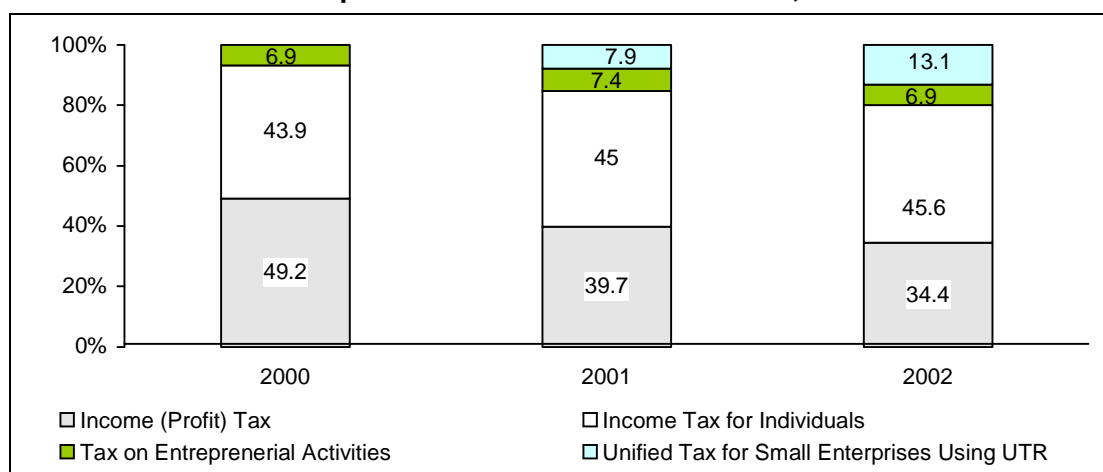
Source: Ministry of Finance of the Republic of Uzbekistan.

In 2000 direct tax revenues to the state budget was 7.5% to GDP. From 2001 to 2002 this indicator gradually fell to 7.4% and 6.8% to GDP respectively. The decline in the direct tax share of GDP is attributed to a decrease in revenue generated from the income tax imposed on the profits of legal entities. Due to a decrease in the tax rate from 31% to 24%, state revenues shrunk to 1.3% to GDP from 3.7% in 2000 to 2.4% in 2002.

The revenue generated from the income tax on individuals also declined slightly from 3.3% to GDP to 3.1%. This decline in revenue has been attributed to the falling personal income tax rate during the period from 2000 to 2002. The maximum rate of personal income tax dropped from 40% in 2000 to 35% in 2001 to 33% in 2002.

Direct taxes are structured to generate revenue primarily from the income tax imposed on the profits of legal entities and income tax imposed on individuals (graph 1.2.1). In 2000 the share of the income tax imposed on the profits of legal entities constituted 49.2% of total direct taxes. In 2002 this income tax on legal entities fell to 34.4% for a decline of 14.8% for the period. During the same period, however, the revenue from individual income taxes increased from 43.9% in 2000 to 45.6% in 2002. In an effort to simplify the tax system, a uniform tax for small enterprises was introduced in 2001. The share of the unified tax increased from 7.9% in 2001 to 13.1% in 2002 in the total revenue from direct taxes.

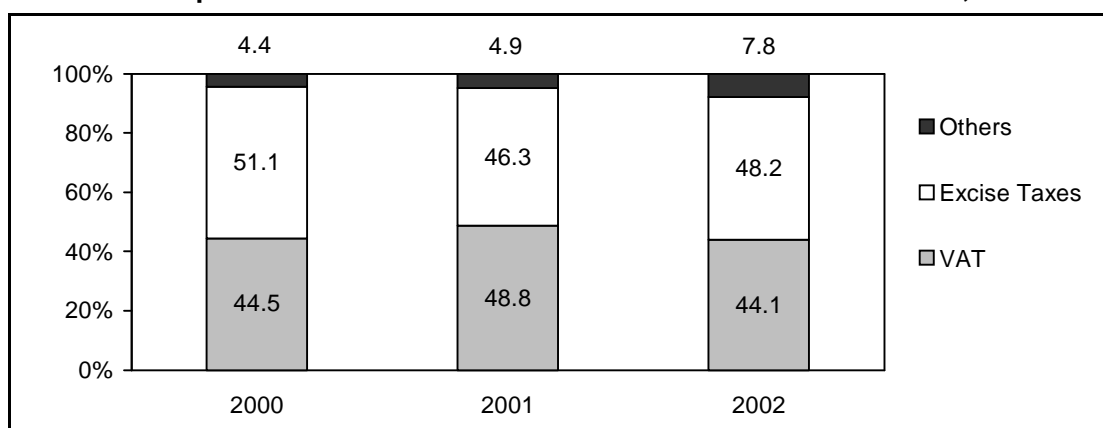
The revenue generated from indirect taxes decreased from 16% to GDP in 2000 to 13.8% in 2002. The revenue generated from both the VAT and excise tax decreased during the period. The share of revenue from the VAT decreased from 7.1% to GDP in 2000 to 6.2% in 2002. The excise tax revenue declined from 8.2% to GDP in 2000 to 6.6% in 2002. Despite this decline, indirect taxes comprise more than half of all state budget revenues constituting 54.6% in 2002.

Graph 1.2.1. Structure of Direct Taxes, %


Source: Ministry of Finance of the Republic of Uzbekistan

In 2002 Uzbekistan introduced a fixed-rate consumption tax on gasoline and diesel oil. During the same period, a tax imposed on individual owners of vehicles was repealed. In 2002 revenue from the gasoline consumption tax contributed 1.3% of the total state budget.

Indirect taxes are mainly derived from a VAT and excise tax. In 2002 the ratio of VAT and excise tax revenues to total revenues collected from indirect taxation equaled 48.2% and 44.1% correspondingly (graph 1.2.2). Revenue collected from customs duties and fees constituted 4.4% in 2000 and increased to 5.3% in 2002. Revenues generated from the newly introduced consumption tax on gasoline made up 2.5% of all indirect taxes.

Graph 1.2.2. Structure of Total Revenues From Indirect Taxes, %


Source: Ministry of Finance of the Republic of Uzbekistan.

1.2.2. State Budget Expenditures

Taking into consideration that state budget revenues to GDP have decreased from 29.5% in 2000 to 26% in 2002, the government is intervening less in the economy (Table 1.2.2).

State budget expenses in the social sphere expressed as a percentage to GDP were 10.4% in 2000, 10.2% in 2001 and 9.9% in 2002 correspondingly. The state continues to provide substantial funding support to develop the education and public health sectors. In 2000-2002 expenses in public education were 25.1% of the total state budget or 6.9% to

GDP, while expenditures in the public health sector totaled 9.2% of the budget or 2.5% to GDP.

Table 1.2.2. State Budget Expenses, %

	In % to GDP			In % to Total		
	2000	2001	2002	2000	2001	2002
Expenses, Total	29.5	27.0	26.0	100.0	100.0	100.0
Social Sphere	10.4	10.2	9.9	35.4	37.9	38.1
- education	7.0	6.8	6.8	23.7	25.5	26.2
- public health	2.6	2.6	2.4	8.7	9.6	9.3
- sport		0.1	0.1	1.5	0.2	0.2
- culture	0.4	0.4	0.4	1.5	1.6	1.4
- science	0.1	0.2	0.1	0.5	0.6	0.5
- social support	0.3	0.1	0.1	1.0	0.5	0.5
Social Security	2.3	2.1	2.0	7.7	7.7	7.5
Expenses on Economy	3.0	2.3	2.4	10.3	8.4	9.0
Centralized Investments	6.0	5.0	4.7	20.2	18.5	17.9
Public Administration	0.6	0.6	0.5	1.9	2.2	2.0
Other Expenses	7.2	6.8	6.5	24.5	25.3	25.5

Source: Ministry of Finance of the Republic of Uzbekistan.

There is a trend toward decreased expenses on economy and centralized investments. In 2000 expenditures on economy comprised 3.0% to GDP or 10.3% of total budget expenses; in 2002 these expenditures decreased to 2.4% to GDP and 9.0% of total budget expenses. Centralized investments in fixed capital also decreased from 6.0% of GDP in 2000 (or 20.2% of the total budget) to 5% in 2002 (17.9% of the total budget).

From 2000 to 2001 the state budget deficit was not more than 1% to GDP while in 2002 this indicator was 0.8%. In 2000 the state budget deficit was primarily covered by loans from the Central Bank. In addition, revenue generated from privatization and other non-inflationary sources, such as GKO, helped cover the budget deficit. In 2001-2002, the share of the Central Bank loans used to finance the state budget deficit decreased by more than half.

1.3. Monetary Policy

The banking system in the Republic of Uzbekistan consists of two levels: The Central Bank of Uzbekistan (CBU) and commercial banks. Under the law “On the Central Bank of the Republic of Uzbekistan”, the main objective of the CBU is to ensure the stability of the national currency – the Soum.

As of January 1, 2003, there were 35 commercial banks with 805 branches throughout Uzbekistan. The commercial banks include 13 privately-owned banks, 6 banks with foreign capital, 2 state banks and the remainder having mixed forms of ownership. The number of privately-owned banks has increased from 8 in 1997 to 13 at the end of 2002.

In 2000 to 2001, the banking system underwent substantial changes designed to further liberalize and reform banking activities.

- A program was developed to liberalize the banking sector for the period of 2000-2003 which was designed to take measures on activating bank intermediation in financial markets and to ensure the banks' financial stability.
- Actions were taken to universalize specialized commercial banks by increasing the number of entities using the banking system, types of industries assisted, and the number of services provided by banks.
- In order to stabilize the financial health of banks and to raise additional capital, from 10% to 30% of banks' net income depending on their level of capitalization is being used to increase the authorized capital. In addition, the amount of authorized capital requirements for newly established private banks was raised from \$0.3 million USD to 1.25 million USD in Soum equivalent.
- A micro-finance program was introduced targeting small and medium-sized enterprises. Banks allocate up to 25% of profits to a Special Fund designed to offer preferential credits to small and medium industrial firms, high technological and innovative projects, and farming enterprises.
- The government expressed its intention to eliminate restrictions on cash withdrawals from bank accounts by legal economic entities, with concurrent introduction of plastic ATM cards.
- For the first time, the CBU financial statements for the year 2001 have been audited by the international audit firm.

The monetary policy in 2000-2002 intended to decrease the inflation rate and strengthen macro-economic stability. The CBU limited the money supply based on target inflation rates.

To more efficiently regulate reserve money, in the second half of 2002, the Central Bank issued bonds in the amount of 2 billion Soum for purchase by legal entities and 1 billion Soum for purchase by individuals.

Beginning in January 2002, the CBU increased the refinance rate from 2.0% to 2.5% per month in order to control the growth of the money supply and has maintained this refinance rate (Table 1.3.1).

Currently, government policy is to stimulate commercial banks by attracting deposits from the population and providing credit to the real economy. In particular, commercial banks are exempt from contributing funds to the Compulsory Reserve Fund with regard to the

deposits of individuals. Moreover, when the commercial bank income taxes are calculated, the tax base is decreased based on the increase of individuals' time deposits. In addition, preferences are stipulated for banks that provide credits to small and medium enterprises.

Table 1.3.1. Changes of Interest Rates, %

	Monthly Refinance Rate	Annual Refinance Rate	Average Weighted Loan Interest Rate
2000			
January	3.0	42.6	21.3
February	3.0	42.6	28.5
March	3.0	42.6	27.4
April	2.5	34.5	23.1
May	2.4	32.9	25.0
June	2.3	31.4	22.1
July	2.0	26.8	23.6
August	2.0	26.8	24.2
September	2.0	26.8	24.6
October	2.0	26.8	19.8
November	2.0	26.8	23.2
December	2.0	26.8	21.0
2001			
January	2.0	26.8	13.3
February	2.0	26.8	22.5
March	2.0	26.8	24.2
April	2.0	26.8	23.9
May	2.0	26.8	25.1
June	2.0	26.8	25.2
July	2.0	26.8	24.7
August	2.0	26.8	27.3
September	2.0	26.8	24.5
October	2.0	26.8	20.1
November	2.0	26.8	27.1
December	2.0	26.8	25.5
2002			
January	2.5	34.5	28.4
February	2.5	34.5	29.2
March	2.5	34.5	30.4
April	2.5	34.5	30.0
May	2.5	34.5	28.7
June	2.5	34.5	30.6
July	2.5	34.5	28.6
August	2.5	34.5	28.9
September	2.5	34.5	31.2
October	2.5	34.5	30.2
November	2.5	34.5	32.3
December	2.5	34.5	29.3

Source: Central Bank of the Republic of Uzbekistan.

The actions taken are designed to stimulate and strengthen the resource base of commercial banks. Within the last few years deposits to commercial banks have increased 3.2 times in nominal terms. This is mainly due to the 8-fold increase in deposits made by

individuals. Specifically, there was a notable nominal 86% increase in deposits made by individuals in 2002.

The total amount of loans granted by the banking system in 2000-2002 increased 5.8 times in nominal terms. By far, the industry sector was granted the largest percentage (57.1%) of loans by the banking system. The transport and communication sectors received 13.7% of the total loans while the agriculture sector acquired 3.4% and commercial and catering sectors obtained 2.4%.

In 2002 the total assets of commercial banks increased by more than one-third and throughout the last three years have increased 4.9 times in nominal terms. Comprising the largest share of commercial banking assets were loans granted to the real sector which are anticipated to increase. Total capital in the banking system has increased 5.1 times within the last three years with a 42.9% increase in 2002 in nominal terms.

1.4. Foreign Exchange Policy

The Central Bank of Uzbekistan follows a managed float exchange rate system and sets exchange rates based on gold and foreign exchange reserves equal to at least 3 month imports.

The major source of the foreign currency supply in the non-cash foreign exchange market is generated from the surrender requirement on centralized export sales to the Central Bank and from the 50% surrender requirement on decentralized export sales in the commercial foreign exchange market.

Transactions in the non-cash foreign currency market are carried out by 27 commercial banks that are members of the Uzbek Republican Foreign Exchange (UZRFE) and participate in trade sessions. The volume of foreign exchange turnover at the UZRFE mainly depends on imports of clients of commercial banks, foreign debt service, profit repatriation, and dividends paid to foreign investors.

From 2000 to 2002 considerable changes in foreign exchange system had taken place including unifying the official and commercial exchange rates on November 1, 2001.

In 2002 additional measures to liberalize the foreign exchange market had commenced. In particular, restrictions placed on preliminary registration of import contracts as a prerequisite for access to foreign currency had been removed. In addition, the list of specified consumer goods for which foreign currency should not be allotted was lifted.

The cash market for foreign currency has also been considerably liberalized. In particular, the documents required to buy foreign currency at exchange offices have been reduced. The amount of foreign currency that could be purchased by individuals was raised to \$2,500 per quarter, including \$1,500 in cash and \$1,000 in traveler checks.

Currently, the main official exchange rates in the domestic foreign exchange market are:

- the exchange rate of the Central Bank which is determined at the level of average weighted rates of UZRFE trade sessions and used for accounting, statistical and other reports and computing custom fees;
- the commercial rate of the exchange offices which is determined with participation of the authorized banks and used in cash foreign currency operations.

Over recent years, the exchange rate of the CBU, as well as the rate established by exchange offices, has been devalued. The devaluation of the CBU exchange rate amounted to 132.1% in 2000 and 41% in 2002.

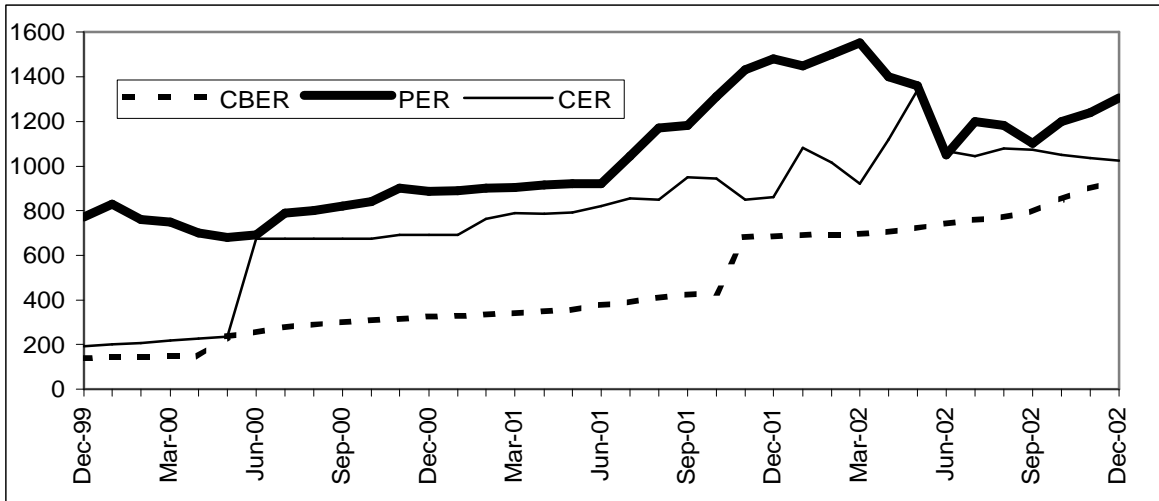
On July 1, 2000 the rate set by exchange offices was devalued by 62% and gradually decreased throughout 2001 and 2002 with some minor deviations. In 2002 the difference between the rate set by exchange offices and the parallel exchange rate was significantly reduced (Table 1.4.1, Graph 1.4.1).

Table 1.4.1. Exchange Rates for Soum, Average Indicators: 2000-2002

Period	CBU exchange rate		Exchange offices rate		Parallel curb market exchange rate	
	Soum per USD	Change in comparison with previous period,%	Soum per USD	Change in comparison with previous period,%	Soum per USD	Change in comparison with previous period,%
2000	236.6	90.0	450.1	183.5	777.7	51.5
2001	421.0	77.9	829.0	84.2	1083.8	39.4
2002	766.9	82.2	1070.4	29.1	1324.2	20.8
2000 Q1	143.3	4.0	208.6	11.0	777.9	15.3
Q2	209.5	46.2	235.2	12.8	691.1	-11.2
Q3	281.7	34.5	675.0	187.0	766.9	11.0
Q4	311.8	10.7	681.7	1.0	875.0	14.1
2001 Q1	332.0	6.5	747.2	9.6	909.6	4.0
Q2	353.7	6.5	799.1	6.9	913.6	0.4
Q3	399.4	12.9	884.5	10.7	1105.4	21.0
Q4	599.0	50.0	885.2	0.1	1406.7	27.3
2002 Q1	692.7	15.6	1005.6	13.6	1482.9	5.4
Q2	706.4	2.0	1174.4	16.8	1336.0	-9.9
Q3	772.3	9.3	1065.1	-9.3	1193.3	-10.7
Q4	896.0	16.0	1036.7	-2.7	1225.3	2.7
2002 Jan	689.9	0.7	1081.3	25.7	1525.8	3.1
Feb	693.6	0.5	1015.5	-6.1	1503.0	-1.5
Mar	694.5	0.1	919.9	-9.4	1420.0	-5.5
Apr	703.2	1.3	1118.1	21.5	1482.0	4.4
May	721.6	2.6	1338.4	19.7	1381.0	-6.8
Jun	742.1	2.8	1066.7	-20.3	1145.0	-17.1
Jul	756.1	1.9	1042.6	-2.3	1214.0	6.0
Aug	768.2	1.6	1080.0	3.6	1243.0	2.4
Sep	792.6	3.2	1072.7	-0.7	1123.0	-9.7
Oct	851.1	7.4	1050.6	-2.1	1159.0	3.2
Nov	898.0	5.5	1034.0	-1.6	1225.0	5.7
Dec	939.1	4.6	1025.5	-0.8	1292.0	5.5

Source: Central Bank of Uzbekistan.

Graph 1.4.1. Central Bank Exchange Rate (CBER). Parallel Exchange Rate (PER) and Rate of Exchange Offices (CER), UZS per USD



Source: Central Bank of Uzbekistan.

1.5. Prices and Inflation

During 2002 the inflation rate in the consumer sector (CPI) was 21.6%. This figure was lower than in 2001 by 5.0 percentage points and lower than in 2000 by 6.6 percentage points. Inflation slowed during the second half of 2002, reducing the 2002 average monthly inflation rate to 1.6% compared with 2.0% in 2001 and 2.1% in 2000 (graph 1.5.1, tables 1.5.1 and 1.5.2). The decreasing average monthly inflation level is attributed to a tight monetary policy being carried out in Uzbekistan.

Table 1.5.1. Trend of Consumer Price Index (CPI) and Wholesale Price Index (WPI), Dec 1993=100%

Year, quarter, month	CPI changes, %			WPI changes, %		
	Month to month (Q to Q)	Annual	Year to year	Month to month (Q to Q)	Annual	Year to year
1994		1 281.4			436.3	1425.0
1995		116.9	304.6		501.0	217.4
1996		64.3	54.0		110.3	75.4
1997		27.5	58.8		53.5	40.3
1998		26.0	17.7		41.1	48.5
1999		26.0	29.1		38.2	34.7
2000		28.2	25.0		60.9	70.2
2001		26.6	27.4		42.2	44.0
2002		21.6	27.6		48.0	36.7
2001 Q1	7.2	32.1	25.5	3.0	12.7	60.2
2001 Q2	1.7	6.8	28.5	3.4	14.4	42.2
2001 Q3	6.8	30.3	28.1	15.7	79.1	32.2
2001 Q4	8.7	39.8	27.5	16.8	85.8	39.3
2002 Q1	8.3	37.6	28.0	9.2	42.1	49.3
2002 Q2	5.6	24.6	31.1	7.1	31.8	57.1
2002 Q3	2.6	10.9	28.6	4.7	20.0	50.0
2002 Q4	3.6	15.1	22.5	13.3	64.6	41.6
01/01	1.8	24.3	25.5	1.2	15.4	67.9
02/01	2.3	31.5	24.8	0.8	10.0	57.8
03/01	2.9	41.1	26.0	1.0	12.7	55.6
04/01	2.9	40.9	28.2	0.4	4.9	50.7
05/01	2.2	30.3	29.2	0.4	4.9	38.8
06/01	-3.4	-33.6	28.1	2.6	36.1	38.0
07/01	-0.1	-1.7	28.9	0.4	4.9	36.6
08/01	3.9	59.0	27.7	8.5	166.2	29.3
09/01	2.9	41.4	27.7	6.2	105.8	31.2
10/01	3.5	51.5	28.2	5.8	96.7	35.3
11/01	2.3	32.0	27.7	5.4	88.0	38.6
12/01	2.6	36.6	26.6	4.7	73.5	44.0
01/02	2.3	31.7	27.2	1.1	14.0	43.8
02/02	3.5	51.6	28.7	6.3	108.2	51.6
03/02	2.2	30.5	27.9	1.6	21.0	52.5
04/02	3.5	50.6	28.6	2.8	39.3	56.2
05/02	4.7	72.7	31.7	0.9	11.4	57.0
06/02	-2.4	-25.7	32.9	3.3	47.6	58.0
07/02	-2.0	-21.1	30.5	0.6	7.4	58.3
08/02	1.7	23.0	27.7	2.6	36.1	49.7
09/02	2.9	40.8	27.7	1.4	18.2	43.0
10/02	0.8	10.3	24.4	7.7	143.6	45.5
11/02	0.1	1.1	21.6	2.0	26.8	40.8
12/02	2.6	36.7	21.6	3.1	44.2	36.7
01/03	2.9	41.6	22.4	1.4	18.2	39.1

Source: State Committee on Statistics of Uzbekistan.

Table 1.5.2. Inflation Level: 2000-2002

	Average monthly level (%)			To December previous year		
	2000	2001	2002	2000	2001	2002
Consumer Price Index	2.1	2.0	1.6	28.2	26.6	21.6
including:						
Food stuff	1.9	2.0	1.5	25.3	27.1	19.9
Non-food stuff	2.1	1.5	1.4	28.0	19.8	18.6
Services	3.6	2.7	2.6	52.0	37.8	36.6

Source: State Committee on Statistics of Uzbekistan.

Graph 1.5.1. Consumer Price Index, Month to Month: 2001-2002


Source: State Committee on Statistics of Uzbekistan.

In general, over the 2001 to 2002 period the increase in tariffs for chargeable services and non-food stuff prices significantly influenced inflation levels (Table 1.5.3). The share of the increase in tariffs on chargeable service to general inflation levels was equal to 12.8% in 2001 and increased to 19.7% in 2002. For non-food stuffs, this relation was 14.1% in 2001 and 18.8% in 2002. The increase in food stuff prices decreased its impact on inflation levels by 11.6 percentage points.

Table 1.5.3. Impact of Prices and Tariff Increase to Inflation

	2000	2001	2002
Consumer Price Index	28.2	26.6	21.6
Food stuff	18.0	19.4	13.3
Non-food stuff	5.5	3.8	4.1
Chargeable services to population	4.7	3.4	4.3

Source: Ministry of Economy of Uzbekistan

The total inflation level was noticeably influenced by the increase in food stuff prices for meat and poultry (31.8%), fruits and vegetables (17.3%), and bread and bakery (14.5%).

The price increases on non-food stuff such as clothing (23%), gasoline (19.2%) and cleansers (17.4%) has most significantly influenced the total level of CPI over the period under consideration.

The general increase in tariffs was mostly accounted for the raise in the prices of chargeable services such as utilities (up to 61.2% growth of the tariff for the year) which included gas (76.9%), electrical energy (58.5%) and public transportation (19.8%).

Table 1.5.4. Factors of Increase in Wholesale Prices Index For 2002

Factors of increase	Impact to WPI, %	In % to total
Energy resources prices	15.1	40.9
CBU exchange rate	7.7	21.0
Transport expenditures	7.8	21.3
Salary	3.4	9.3
Other factors	2.7	7.5
Total for 2002	36.7	100

Source: State Committee on Statistics of Uzbekistan.
Note: regression analysis was used for the estimation.

In 2002 the increase in transport expenditures most significantly impacted the WPI (Table 1.3.4) and a 46% price increase for fuel and electrical resources, including a price increase for electrical energy to industry (54.5%), non-industrial consumers (57.4%) and agricultural producers (59.8%).

Subsidies for housing, communal services and public transportation has been gradually reduced. This has resulted in increased tariffs for maintenance expenditures (up to 55.6%), water supply (48.8%) and public transportation (19.8%).

2. Institutional and Market Reforms

2.1. Privatization and Property Types

2.1.1. Facets of the Current Stage of Privatization

The current stage of privatization is characterized by a shift from the mass to an individual privatization of large enterprises making up base sectors of the economy such as the fuel and energy complex, metallurgical industry and railway transport to name a few. The importance of attracting effectual property owners by the enterprises being privatized and offering large blocks of shares and property as an incentive to foreign investors is being given consideration.

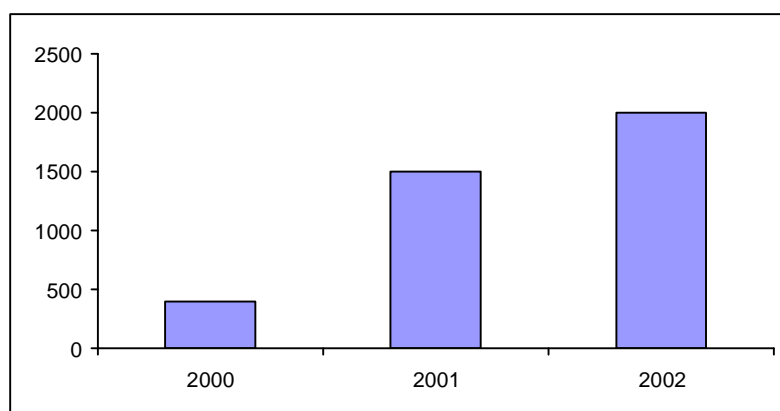
To assist with attracting foreign investment in privatization efforts, a Bureau for Individual Privatization has been created in collaboration with the World Bank. Selected foreign consultants have been invited to Uzbekistan to estimate the value of shares of enterprises being privatized and to search for potential strategic partners. For example, foreign consultants have participated in the valuing of the shares of several large companies such as Uzbekneftegaz (holding company), Uzkimyosanoat and Uzbektelecom (state-share companies), and the Tashkent aviation plant TAPOiCH.

2.1.2. Quantitative Indicators of Privatization

By the beginning of 2000 the privatization of the trading, construction, and machinery sectors had been mostly completed. However, large scale industries such as the fuel, energy and railway, have yet to commence. The privatization program in 2000 included 167 enterprises. However, more than twice of the planned number (374) was privatized. (Graph 2.1.1.)

Subsequently, with the adoption of government resolutions on privatization of large enterprises and the sale of state-owned shares of privatized companies, the number of enterprises to be privatized has substantially increased. For example, in 2002 the government decided to privatize 1,261 state owned properties. In fact, 1,912 enterprises changed ownership form, which is 1.3% more than in 2001 and 1.5 times more than was planned. Enterprises in the base sectors of the economy that were privatized included Electrohimprom, NavoiAzot, Uzbekrezinotehnika, the Tashkent and Ferghana power plants and the Syrdarya hydropower plant.

Graph 2.1.1. The Quantity of Privatized Objects



Source: State Property Committee of Uzbekistan.

From 2000 until 2002 approximately 3,410 new enterprises with various forms of ownership have been created. Large plants and companies were transformed into share-holding entities and smaller state properties were mostly transformed into private individual enterprises. (Table 2.1.1.)

Table 2.1.1. Number of Enterprises with Privatized Property (units)

Managerial and legal forms of newly established enterprises	2000		2001		2002	
	Number	In % to the end of period	Number	In % to the end of period	Number	In % to the end of period
1. Stock companies	152	40.9	227	18.3	223	12.4
2. Private enterprises	103	27.7	827	66.8	1252	69.5
3. Enterprises of other forms	117	31.4	184	14.9	325	18.1
Total	372	100.0	1238	100.0	1800	100.0

Source: State Property Committee of Uzbekistan.

The increase in the number of private individual enterprises created from 2001 to 2002 was mainly due to independent privatizations of the large number of social infrastructure industries (trade, services, catering) written off the balance of large scale enterprises, and the privatization of certain productions unrelated to the main activity of large enterprises. In addition, local authorities have privatized more than 700 non-inhabited premises for utilization by small enterprises.

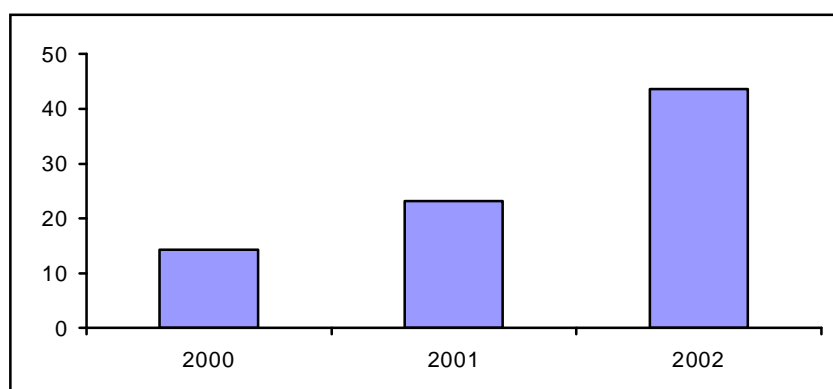
2.1.3. Privatization Proceeds

Substantial funds have been generated from the sale of state property, and these funds continue to increase every year. The lowest privatization rates (374) occurred during 2000, yet the funds generated during 2000 surpassed those of previous years due to the size and free market valuations of the enterprises privatized.

Privatization proceeds during 2002 reached 43.6 billion Soum, which is 3 times more than that of in 2000 and 1.9 times more than in 2001 (Graph 2.1.2.).

Graph 2.1.2. Privatization Proceeds in Uzbekistan

(bn. Soums)



Source: State Property Committee of Uzbekistan.

The growth of revenue generated by the sale of state assets to foreign investors is also evident with 32.3 million USD invested in 2002 which is 2.5 times more than in the previous year.

Revenue generated from the sale of state-owned enterprises is redirected into post-privatization support of enterprises and the development of private entrepreneurship. (Table 2.1.2.) For example, revenue generated from privatization finances the Business Fund which is used to support small and medium enterprises (SME). Through the credit lines of the Business Fund, SMEs received 2.6 billion Soum in 2001 and 5.3 billion Soum in 2002.

Table 2.1.2. Distribution of Privatization Proceeds (in %)

	2000	2001	2002
Collected proceeds were directed to:			
State budget	33.2	27.8	24.3
Local budgets	9.7	9.6	7.6
Business fund	10.3	9.6	7.7
Enterprises under privatization	18.8	17.2	9.1
Enterprises and organizations in accordance with state decisions	28.0	35.8	51.3
Total (%)	100	100	100
Total (bn. Soum)	14.5	22.9	43.6

Source: State Property Committee of Uzbekistan.

In accordance with acting legislation, 25% of the revenue from the sale of state-owned enterprises is transferred back to the enterprises being privatized to fund equipment upgrades, modernization of production processes and replenishment of circulation assets. In addition, by special government decisions 50% or more of generated revenue can be re-allocated to joint-stock companies, restructuring of which is considered vital to the country's economy.

During 2001 and 2002 the electro-energy company "Uzbekenergo" received 100% proceeds from the sale of the company's shares (excluding operational expenditures) totaling 1.4 billion Soum for the development and reconstruction of its facilities. In total, throughout 2000-2002 the government has re-allocated from 28.0% to 51.3% of total revenue generated from privatization in accordance with special government decisions.

In addition, 50% of dividend profits from the shares owned by the state are transferred back to privatized enterprises for reconstruction and technical re-equipment.

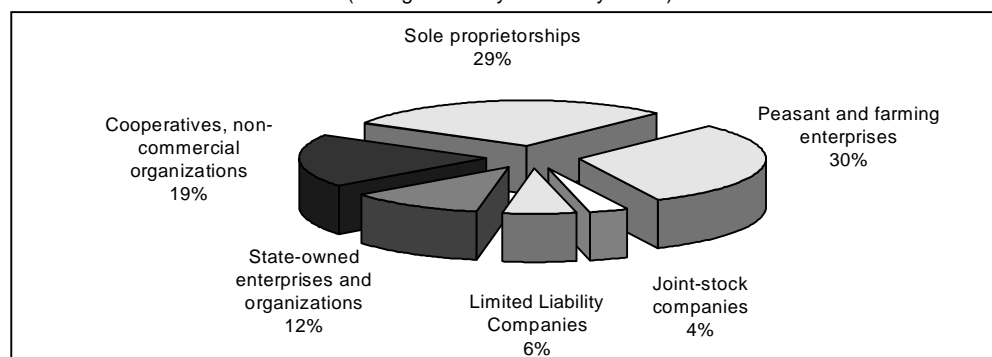
2.1.4. Ownership Changes

The ownership structure of businesses has changed significantly due to wide-ranging privatization efforts, the stimulation of small and medium enterprises and the emergence of sole proprietorships. If at the outset of transition state-owned companies represented the basis of Uzbek economy, then by the beginning of 2002 the share of state-owned enterprises in the total number of registered legal entities decreased to 11.7%. (Graph 2.1.3.)

The non-state business sectors with the largest number of employees and produced goods and services are joint-stock companies and limited liability companies, though their shares in the total number of registered legal entities make up 3.5% and 6.4% respectively.

Graph 2.1.3. Distribution by Organizational Forms of Legal Entities

(as registered by 1 January 2002)



Source: State Property Committee of Uzbekistan.

The combined share of such small and medium enterprises as sole proprietorships, dekhkan (peasant) and farming enterprises reached almost 60% of the total number of registered legal entities by the beginning of 2002. This number is expected to increase further given government efforts to stimulate the growth of private enterprises.

Table 2.1.3. Agricultural Organization in Uzbekistan

Old Structure	New Structure	Legal Form	Form of Land Tenure	Form of Labour	Other Comments
Sovkhoz / Kolkhoz	Sovkhoz – only residual	State enterprise	State ownership	Hired labour	
	Collective enterprise	Collective enterprise	Collective permanent possession	Labour contracts with the members (+ system of bonus), possible hired labour	
	Shirkat	Co-operative	Collective permanent possession	Allotment of land and inputs, family contracts shared benefit	
	Farming enterprise (Fermerski khozyaystvo)	Legal entity, whatever form	Long term lease (10 to 50 years)	Family workers (1) + hired labour	Size limits depending on activity: Cattle >30 heads + 0.3 ha per head in irrigated area or 0.45 in not irrigated or 2 ha in desert vegetables, fruits, grapes: >1ha wheat or cotton: >10 ha
	Farm	Not necessarily a legal entity	Short term lease (3 years)		
	Dekhkan Farm Dekhkan Farm itself	Not necessarily a legal entity	Lifetime possession	Family workers (1) only occasional hired labour	>0.35 in irrigated area or 0.5 not irrigated or 1 ha in desert
Household Plots	Household Plots		Lifetime Inheritable possession		<0.35 ha (irrigated area) or 0.5 (non irrigated)

(1) Family workers include the head of the family, his or her spouse, children (including adopted children, foster children), parents and other relatives of labouring age, living together and conducting peasant farming activities (Law on Dekhkan farming, Art. 3).

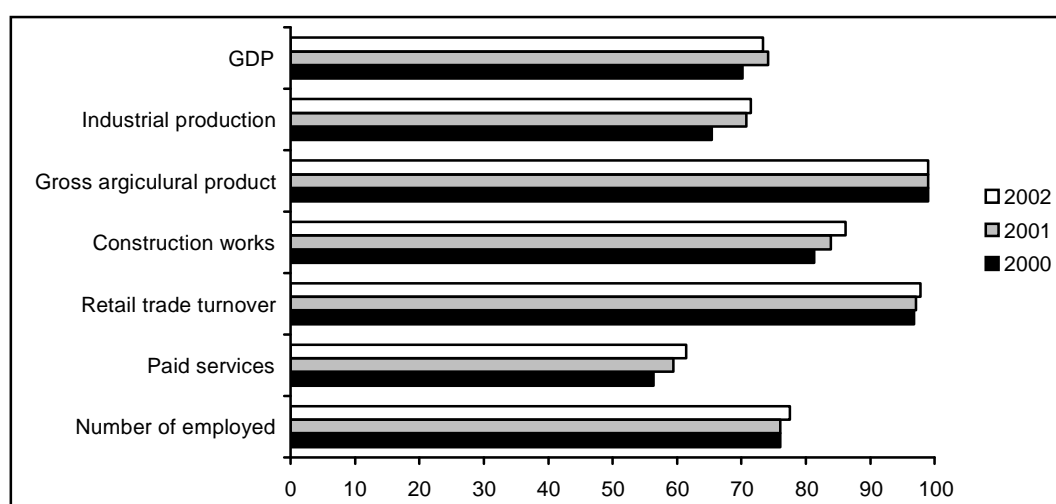
Source: Uzbekistan Economic Trends, 3^d quarter issue of 2001.

With the increase in the number of private enterprises, employment is decreasing in state-owned industries and increasing in non-state sector. Prior to market reforms, in 1991 non-state sector weight in the total number of employed was less than 22%. This figure increased to 66% in 1995 and surmounted 77% in 2002. (Graph 2.1.4.)

The non-state sector has contributed 73.3% to the total GDP, 71.4% to the industrial production and supplied almost all agricultural output in 2002. In addition, the non-state sector weight has increased in the construction, retail trade and paid service sectors.

As a result of privatization and the stimulation of small and medium enterprises, the social structure in Uzbekistan is changing. If prior to independence, private property ownership was formally forbidden, then currently, a new social class of proprietors – capitalists – is being formed.

Graph 2.1.4. Non-State Sector Weight in the Economy (%)



Source: State Property Committee of Uzbekistan.

There were 1.2 million registered share holders in the beginning of 2002, 1.4 million share holders in agricultural cooperatives (shirkats), 55.4 thousand farmers, 3.3 million owners of farming (dehkan) enterprises (including those who are not currently registered as legal entity) and 279.1 thousand private entrepreneurs with relatively small amounts of capital.

Approximately 14 thousand limited liability companies with private ownership, 65 thousand individual enterprises as well as owners of private accommodations and transport means have emerged.

Thus, during the relatively short period of market transformation a new class of capital owners representing more than half the economically active population in Uzbekistan has been established.

2.2. Market Infrastructure

2.2.1. Security Market Structure

The formation of the corporate securities market is closely related with development of the privatization process. The Republican Stock Exchange (RSE) "Toshkent" and the National Depository "Vakt" were established in 1994 during the first year the "mass" process of reorganizing medium and large enterprises into joint ventures was instituted. New security market institutions were subsequently established and efforts to improve existing institutions presently continue.

The current structure the securities market consists of the following entities:

- RSE "Toshkent" which has branches in each region of Uzbekistan.
- A two-tiered system of depositaries comprised of a Central Depository with 30 branch offices linked by corresponding accounts.
- An electronic system of off-exchange of bids operated by Elsis-Savdo; A settlement clearing entity (Elsis-Savdo) designed to minimize market risks by offsetting the mutual debts of participating organizations.
- The state investment firm Davincom, which is the authorized agent of the State Property Committee, is charged with the distribution of state-owned securities to privatized enterprises through internal and international stock markets.
- A non-governmental agency Consauditinform which provides consultative auditing and informational services to participants in the securities market.
- The Center for Electronic Informative-Analytical Support of Participants of the Stock Market "Ahborot Tahlil Markazi".

The structure of the securities market also includes broker's offices, investment funds, investment companies and other investment institutions. There were a total of 304 operating investment institutions in the beginning of 2003 (Table 2.2.1).

Table 2.2.1. Number of Investment Institutions

Types of Investment Institutions	Number of the Year End			2002 in % to 2000
	2000	2001	2002	
Investment Intermediaries	71	91	101	142.3
Investment companies	12	11	10	83.3
Investment consultants	29	28	25	86.2
Depositaries	31	35	30	96.8
Register holders	63	61	53	84.1
Privatization Investment Funds	36	40	23	63.9
Managing Companies	27	34	31	114.8
Investment Funds	3	6	15	500.0
Nominal Holders of Securities	7	9	10	142.9
Other institutions	10	7	6	60.0
Total	289	322	304	15.2

Source: State Property Committee of Uzbekistan.

In comparison with 2001 the number of some investment institutions has decreased. The licenses of some depositaries and stock brokers were cancelled due to violations or changes in the profiles of their activities. In addition, the number of investment funds also

decreased due to mergers and the reorganization of 9 investment funds to open investment funds as they repaid state loans ahead of the due date.

The State Property Committee of Uzbekistan oversees an entity called The Center for Coordination and Control over Functioning of the Securities Market which performs public administration activities for securities market participants including the protection of their rights and interests.

More than 160 normative-legal acts have been passed to form the legal basis on the establishment of security market institutions and to govern their activities. The following are examples of the laws passed by the Republic of Uzbekistan:

- “On Securities and Stock Exchange” 1993
- “On the Mechanism of Securities Market Functioning” 1996
- “On Activities of Depositaries at Securities Market” 1998
- “On Protection of Investors Rights at the Securities Market” 2001

According to the Center for Coordination and Control over Functioning of the Securities Market, a total of 12.2 thousand corporate securities (shares and bonds) were registered as of January 1, 2003. The total number of securities equaled 2 billion units in the amount of 2218 billion Soum, including 625 securities registered representing almost 300 million units in the amount 316 billion Soum in 2002.

Overall, the share of corporate bonds equaled only 5.8 billion Soum (0.26% of the total value corporate securities). In particular, the entity “Almalyk Mine-Metallurgic Plant (AGMK)” issued bonds totaling 2 billion Soum, “Sovplastital” issued 1 billion Soum in bonds, and Coscom issued bonds worth 1 billion Soum. This data reveals that the corporate bond sector of the securities market is in the initial stage of development and does not play an important role in the overall market turnover.

The main type of securities available in the stock market is shares of privatized enterprises. Their total turnover in 2002 reached 41.7 billion Soum which was, in nominal terms, 2.4 times higher than in 2000 and 1.6 times higher than in 2001 (Table 2.2.2).

Table 2.2.2. Stock Turnover at the Primary and Secondary Securities Markets

(bn. Soums)

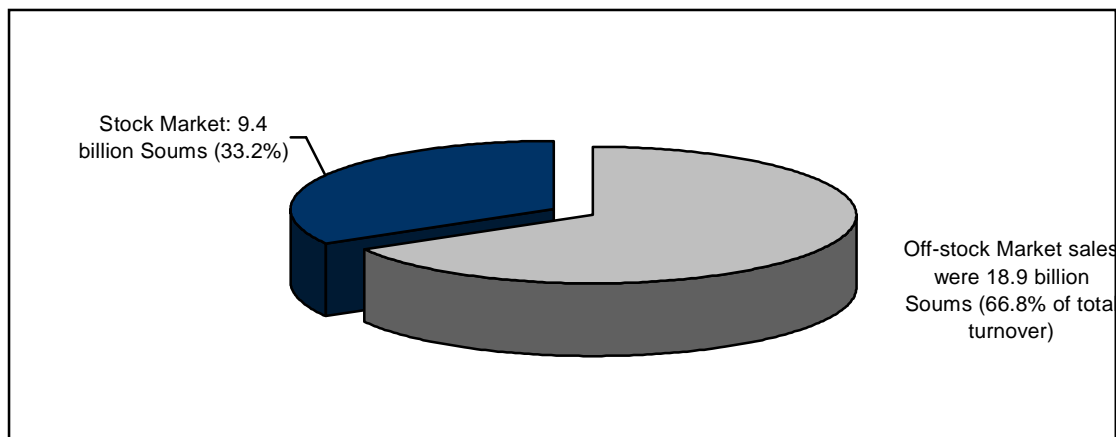
Types of Markets	2000		2001		2002	
	Amount	The same in % to Total	Amount	The same in % to Total	Amount	The same in % to Total
Primary Market	6.2	36.3	12.1	46.5	16.3	39.1
Secondary Market	10.9	63.7	13.9	53.5	25.4	60.9
Total	17.1	100	26.0	100	41.7	100

Source: State Property Committee of Uzbekistan.

Sale of shares in the primary market constituted the largest portion of total corporate securities turnover prior to the completion of “mass” privatization stage in 1999. In the following years turnover in the secondary market exceeded the turnover of shares in the primary market. Shares in the secondary market sold for 25.4 billion Soum constituting 60.9% of the total volume of shares sold during 2002. The stable growth of the value of shares (in nominal terms) sold in the primary and secondary market continues.

Operations in both the primary and secondary markets are conducted in stock market and off-market. In 2000-2002, the share of sold shares on the stock market ranged from 30% to 36.2% in total turnover of shares, whereas off-market sales of shares accounted for 63.8% to 70%. On average for the period 2000-2002, sales of shares in the stock market accounted for was about 33.2% of total volume of the sales, while the off-market turnover averaged at 66.8% (Graph 2.2.1).

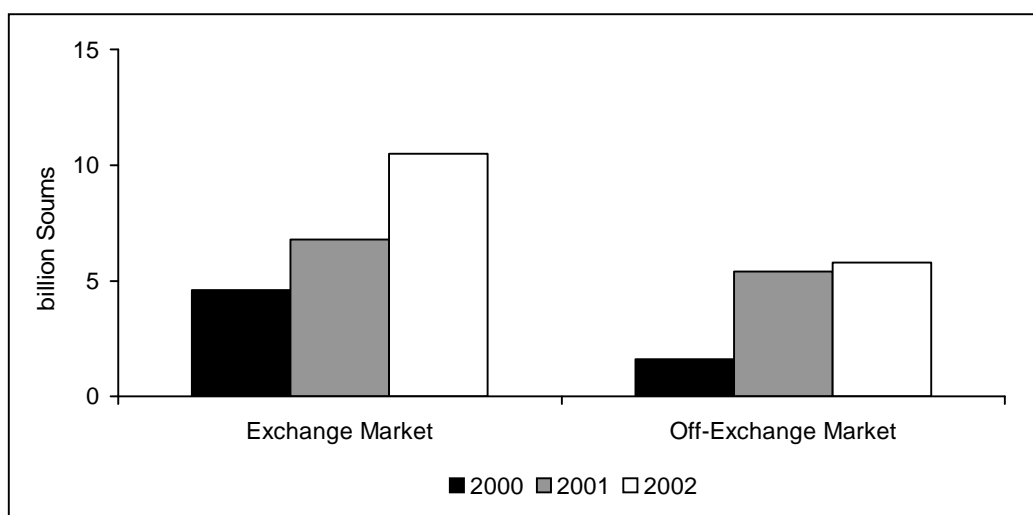
Graph 2.2.1. Average Stock and Off-market Sales of Shares in 2000-2002



Source: State Property Committee of Uzbekistan.

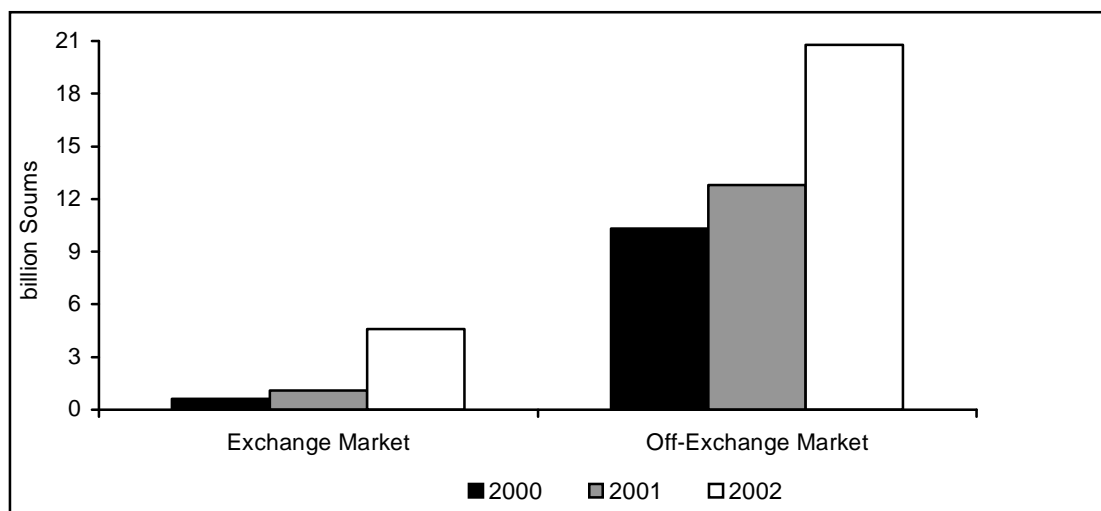
The largest sale of shares of newly privatized enterprises was conducted through RSE Toshkent (graph 2.2.2). For example, in 2002 the primary market accounted for share sales in amount of 16.3 billion Soum, including 10 billion Soum (64.4% of the total) in sales in the stock market and 5.8 billion Soum (35.6% of the total) in sales through tender bids and direct negotiations.

Graph 2.2.2. The Primary Stock Market Turnover of Shares: 2000-2002



Source: State Property Committee of Uzbekistan.

In the secondary market, turnover of shares in the off-stock market is substantially greater than in the stock market. (Graph 2.2.3) In 2000 the volume of sales in the off-stock market was 17.2 times higher than in the stock market, whereas this ratio was 11.6 times in 2001 and 4.5 times in 2003. Although off-stock sales are several times higher than sales in the stock market, the stock market trade is increasing.

Graph 2.2.3. Volumes of Shares Sale at the Secondary Exchange Market: 2000-2002

Source: State Property Committee of Uzbekistan.

The sale of shares in the secondary off-stock market is partially completed through an electronic bidding system by Elsis-Savdo. The procedures for conducting sales are set by Elsis-Savdo to ensure compliance with existing laws on market securities. Procedures such as determining share price on the basis of supply and demand, disclosure of information concerning issuers and buyers of concluded deals, and conducting auctions open to the public are handled by Elsis-Savdo.

In the period of 2000-2002, the secondary off-stock market sale of shares was conducted through direct contracts between buyers and sellers. Though this direct method of sales is simpler and less costly for some traders, it did not allow proper disclosure of the related market information and set fair market value of shares.

To increase the role of RSE Toshkent and the use of the electronic bidding system from Elsis-Savdo in secondary market sales, the Center for Coordination and Control over Functioning of the Securities Market developed and taken a number of actions. These actions include lowering service charges of securities market dealers, regulating the procedure for off-stock market sales by closer monitoring of professional participants of the market, introducing limitations on the circulation of securities in the off-stock secondary market and persuading securities issuers to list themselves on the official listing at RSE Toshkent.

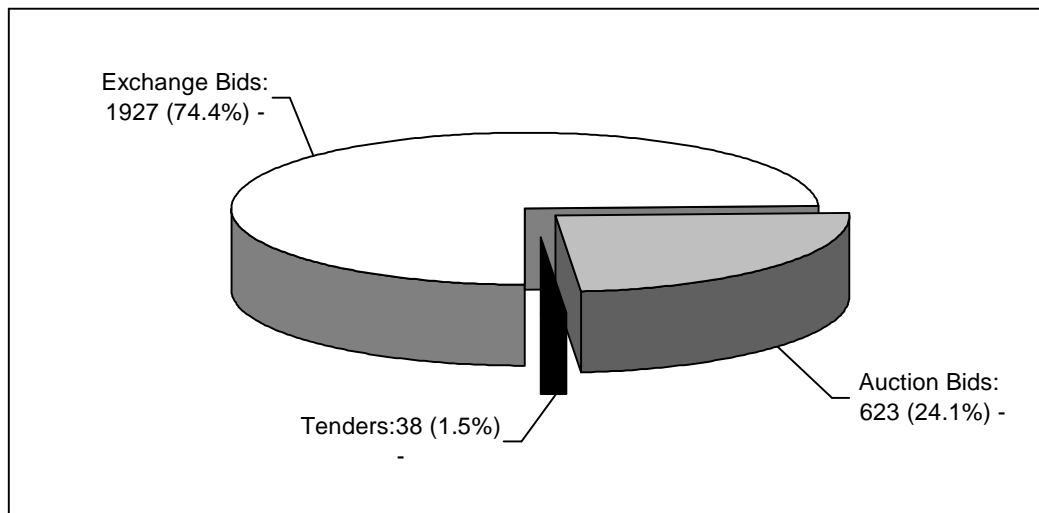
2.2.2. Real Estate Market Structure

The real estate market was created from the privatization of residential and non-residential properties and from the sale of property owned by enterprises.

In 2002 the Republic Real Estate Exchange (RREE) and its branches conducted 2,588 bid auctions which was 1.5 times more bids than in 2000 and 2 times more than in 2001. The largest number (74.4%) of all bids was conducted in the exchange auction while the smallest number of bids (1.5%) was in the form of tenders (graph 2.2.4).

For the period 2000-2002, the total number of properties sold totaled 71 thousand and this composes 53.6% of the total sales ever conducted by RREE and its branches and this shows that the last three years have been active.

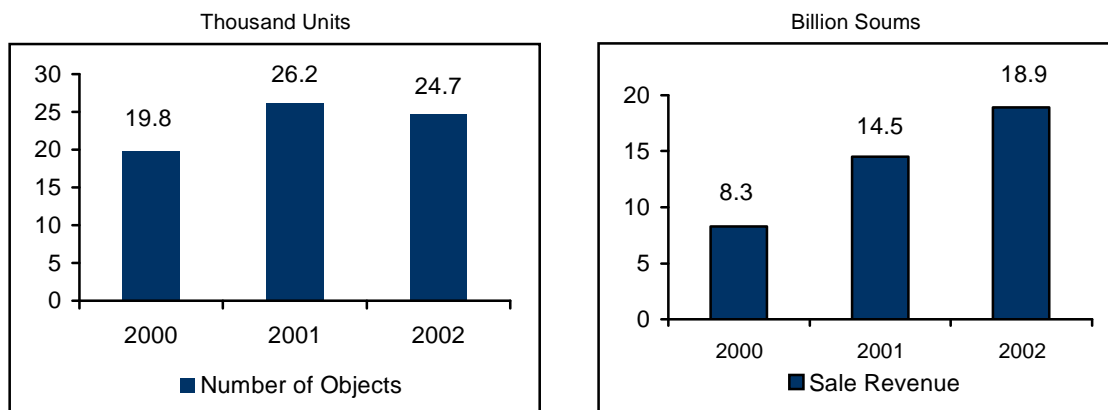
Graph 2.2.4. The Number of Bids at the RREE and at Its Branches by the Forms of Bids in 2002



Source: Republican Real Estate Exchange.

RREE and its branches experienced a reduction of property item sales in 2002 down 5.6% from 2001. However, the value of the items sold in 2002 increased 1.3 times in nominal terms in comparison to the level of 2001 (graph 2.2.5). This is due to more expensive properties being put on the market for sale.

Graph 2.2.5. Sale of Real Estate Objects through RSE and Its Branches



Source: Republican Real Estate Exchange

RREE and its branches handle approximately 95% of real estate sales offered by the state for privatization. The highest number of real estate sales and the amount of revenue generated was from the sale of state-owned properties till 2000. However, real estate offered by private legal entities and individuals began to increase after 2000 resulting in the overall number of sold objects to reach 60.2% in 2000, 59.3% in 2001 and 65% in 2002.

The largest number of objects sold through RREE and its branches was in motor transports (42.2% of all objects sold in 2002) offered by legal entities (Table 2.2.3). A relatively large share of the overall proceeds from sales (14.5%) is also represented by motor transports.

Table 2.2.3. Structural Composition of the Property Sold Through RREE and Its Branches

(in % to total)

Object Type	Number of objects sold, %			Value of Sales, %		
	2000	2001	2002	2000	2002	2002
Construction in Progress	1.5	1.0	0.7	7.6	3.9	4.4
Commercial Objects and Objects Rendering Consumer Services	2.1	2.1	1.8	5.5	8.4	5.5
Property of Bankrupt Enterprises	2.2	2.2	1.2	12.4	8.7	3.8
Property Sold to Cover Tax Debts to State Budgets	-	8.5	9.0	-	9.2	7.5
Property Sold by Orders of Economic Courts	-	1.9	1.4	-	2.9	1.6
Land Lots	28.7	33.1	33.7	3.1	3.5	2.9
Motor Transport	55.0	41.8	42.2	25.2	14.8	14.5
Residential Buildings and Other Property	10.5	9.4	10.0	46.2	48.6	59.8
Total	100	100	100	100	100	100

Source: Republican Real Estate Exchange

Under current legislation, land falls under the control of the state and cannot be freely purchased or sold. The state, operating through the Republican Real Estate Exchange, sells only inheritable life tenure rights to land lots allocated for residential construction in the cities and farms in rural areas. In 2001 to 2002 these land lots equaled 1/3 of the total number of objects sold through the RREE but their proceeds did not exceed 3.5% of the total annual turnover of the RREE due to low prices.

The largest percentage of real estate proceeds (11.3 billion Soum or 59% of total proceeds in 2002) is generated by sale of residential dwellings and other buildings, despite the small number of these objects sold. The largest percentage of total real estate sales comes from sales of industrial buildings, equipment, and other properties freed after restructuring of enterprises.

2.2.3. Commodity Market Structure

The following represent the main structural elements of the commodity market in Uzbekistan.

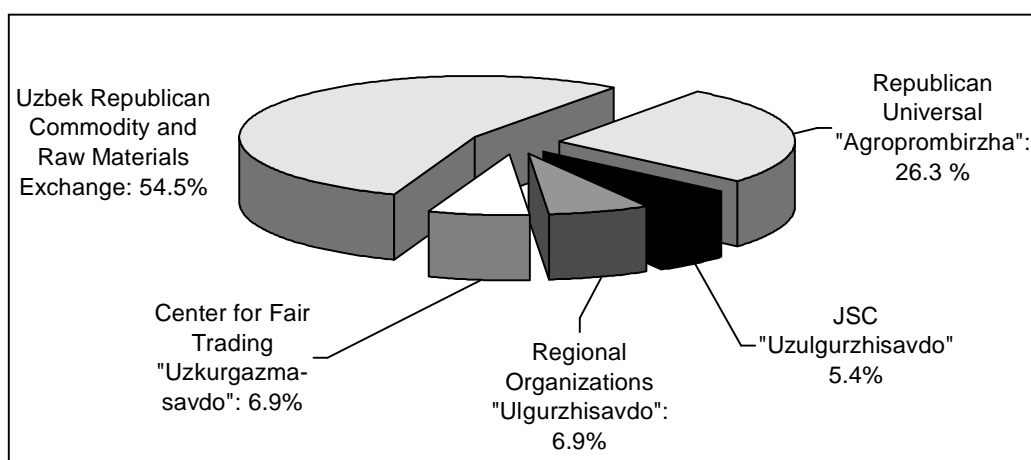
- The joint stock company "Uzulguzhisavdo" consists of 8 republican joint stock companies which specialize in wholesale markets of such products as metals, timber, paper, machine tools, conductor cables, etc.
- The joint-stock company "Uzгурzhisavdo" engaged in the wholesale trade of materials and technical resources for mainly small and medium-sized enterprises.
- The joint-stock company "Uzkurgasmasavdo" specializes in organizing exhibitions and fairs of goods produced mainly by small and medium enterprises in Uzbekistan.

- The Uzbek Republican Commodity and Raw Materials Exchange (UzRCRME) conducts bids on metal products, construction materials and many other.
- The Republican Universal Agricultural Exchange (“Agroprombirzha”) markets materials and technical resources for agriculture and agricultural production.

The joint-stock companies “Uzbeksavdo” and “Uzbekbirlashuv”, in addition to other private companies, specialize in wholesale trading of consumer goods. The wholesale trade of products used in production is usually conducted through direct agreement between producers and consumers, and also through the joint-stock company “Uzulgurzhisavdo”, UzRCRME, “Agroprombirzha”, regional wholesale organizations and the Center for Fair Trading “Uzkurgazmasavdo”. The largest share by volume of annual turnover among these organizations belongs to UzRCRME (54.5%) and “Agroprombirzha” (26.3%) (graph 2.2.6).

These figures reveal that the commodity exchange markets have been significant in trading. The value of goods sold by the above mentioned organizations totaled 475.5 billion Soum in 2002 which was an increase by 3.5 times from 2000 and 1.6 times from 2001 in nominal terms. There was a substantial increase in the turnover of all trading organizations (Table 2.2.4). The Center for Fair Trading “Uzkurgazmasavdo” has the largest growth rate of turnover. This Center was established in 2000 and has shown an annual increase in the volume of services rendered to small and medium-sized businesses.

Graph 2.2.6. The Market Share of Wholesale Traders in 2002



Source: Organizations Presented on the Graph.

Table 2.2.4. Trade Turnover Volumes of the Wholesale Traders

Organization Title	Trade Turnover, billion Soum			Level of 2002 in % to 2000	Level of 2002 in % to 2001
	2000	2001	2002		
JSC “Uzulgurzhisavdo”	9.7	23.0	25.8	266.0	112.2
UzRCRME	63.7	157.5	259.2	406.9	164.9
RUz “Agroprombirzha”	47.7	88.2	125.1	262.2	141.8
Territorial Organizations “Ulgurzhisavdo”	7.0	12.6	32.8	468.6	260.3
Center for Fair Trading “Uzkurgazmasavdo”	6.4	18.8	32.5	507.8	172.9
Total	134.4	300.2	475.5	353.8	158.4

Source: The wholesale traders.

There wholesale traders that served to small and medium enterprises (SMEs) have been becoming more active. In 2002 the traders sold 187.2 billion Soum in resources for production of SMES (which is, in nominal terms, 4.4 times greater than the level of 2000 and 1.8 times greater than the level of sales 2001) and facilitated to sale of SMEs' production in the amount of 123.1 billion Soum (which is, in nominal terms, 3.4 times greater than the level of 2000 and 1.7 times greater than the level of sales in 2001).

The Decree of the President of the Republic of Uzbekistan No 2836 on April 27, 2001 "On Measures on Further Improvement of Wholesale and Exchange Sale" and to the Resolution of the Cabinet of Ministers No 198 on May 1, 2001 "On Improvement of the System of Organization of Wholesale and Exchange Trade" Have substantially contributed to significant growth in turnover of the wholesale traders for the last two years. These decrees foresee independent market structure status for the Uzbek Republican Commodity and Raw Materials Exchange and regional wholesale organizations. Previously these organizations were operated under the association "Uzoptbirzhetorg" that was subsequently liquidated. The territorial commodity and raw material exchanges were also merged to UzRCRME as branch organizations and included into the common electronic bidding system.

2.3. Private Sector, Small and Medium Business

The development of small and medium enterprises in the private sector is important to ensuring stable economic development and is a priority of Uzbekistan in the national economy. The main objective in the restructuring of the economy is job creation and ensuring employment of the work force. In addition, increasing the entrepreneurial activities in the economy is the basis for developing a middle class.

Currently, medium and small enterprises make up 34% of the GDP in Uzbekistan. On average, there are 8.6 enterprises per 1,000 people. Taking into account there are 4.1 million individual enterprises, the total number of people engaged in small businesses is 5 million. This represents 54.5% of the total people employed in the economy.

Over recent years numerous steps have been taken to stimulate small business activities including introducing a simplified tax structure, limiting the number of inspections by authorities and the registration of small, medium and micro firms has been simplified. This has positively influenced the growth of entrepreneurship and has increased its share in the gross domestic product and employment rates. The trend of small and medium business development and some important indicators are shown in the Table 2.3.1 and Graphs 2.3.1, 2.3.2 and 2.3.3.

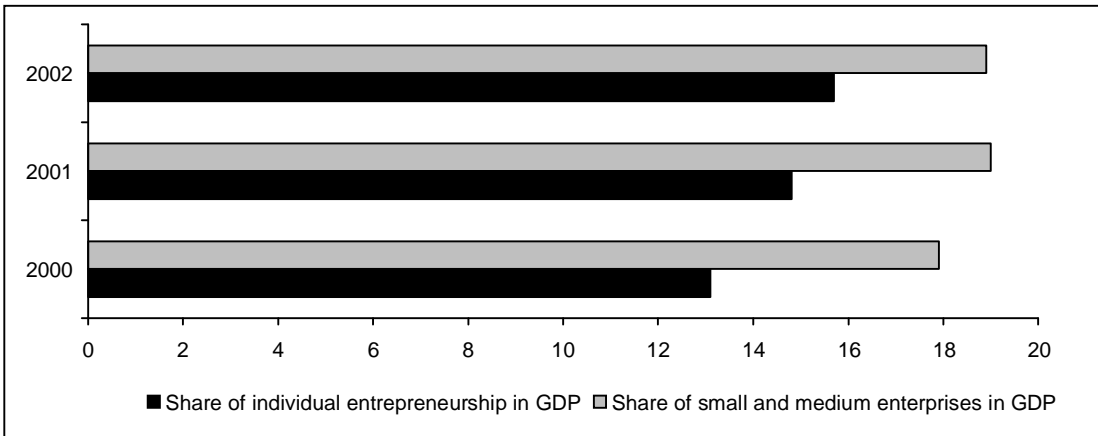
Table 2.3.1 Development of Small and Medium Entrepreneurship

Indicators	Units	2000	2001	2002
1. Share of small and medium entrepreneurship in GDP of the republic – total	%	31.0	33.8	34.6
<i>Including:</i>				
Small and medium enterprises	%	13.1	14.8	15.7
Individual entrepreneurship	%	17.9	19.0	18.9
2. Number of operating legal entities	Thous.	149.3	177.7	236.4
3. Number of employed in SM sector in total number of the employed in economy	Thous. people	4462.7	4842.5	5086.4

Source: State Committee of Statistics of Uzbekistan.

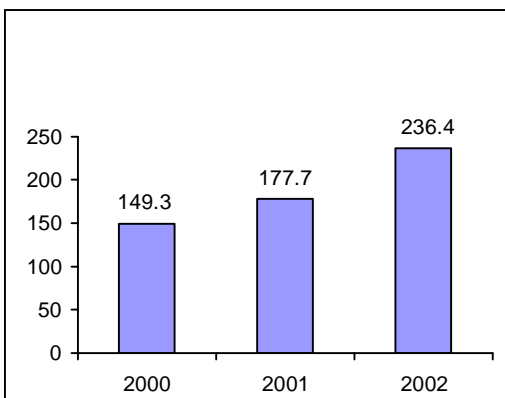
Throughout the past three years the number of operating enterprises has increased approximately by 58% and 236.4 thousand new enterprises have been established. However, in spite of the increase in the number of new enterprises, this increase is not enough to be considered critical.

Graph 2.3.1 Share of Small and Medium Entrepreneurship in GDP



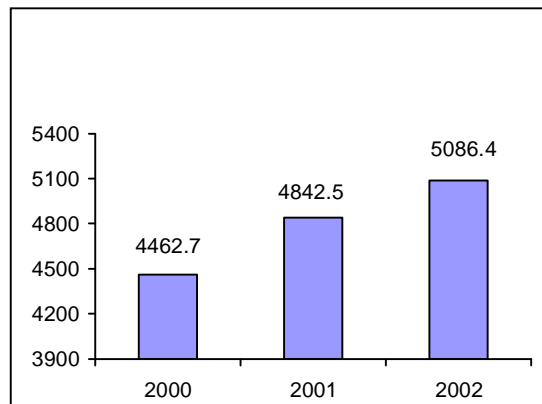
Source: State Committee of Statistics of Uzbekistan.

Graph 2.3.2 Number of Legal Entities



Source: State Committee of Statistics of Uzbekistan.

Graph 2.3.3. Total People Employed in SME



Source: State Committee of Statistics of Uzbekistan.

The growth rates of small and medium enterprises from 2002 to 2001 were in the following sectors: industry 8.5%, agriculture 6.1%, chargeable services 8.3%. The growth in these sectors has fueled the increase in the number of operating economic agents and the growth in the volume of production.

The share of small and medium enterprises engaged in the industry sector has increased from 11.3% in 2000 to 14.1% in 2002. It should be noted that the share of total production increased in the small enterprise category, but decreased in the medium enterprises category (Table 2.3.2). In 2002 the share of small and medium enterprises to total production of consumer goods was 23%, agriculture production was 76.4% and 41.3% in the construction industry. Small and micro enterprises experienced the highest growth rates in each of these sectors.

The total sales figures of small and medium enterprises in 2002 were lower than in 2001, while the total sales of small and medium enterprises from 2000 to 2002 decreased by 2.1 percent.

Table 2.3.2 Share Small and Medium Entrepreneurship in Production on Sectors of Economy

Indicators	2000	2001	2002
<i>Industry</i>			
Share in total production	11.3	14.1	14.1
<i>Including:</i>			
Medium entrepreneurship	4.2	6.0	5.5
Small entrepreneurship	7.1	8.1	8.6
<i>Including:</i>			
Individual entrepreneurship	2.9	3.4	4.0
<i>Agriculture</i>			
Share in total production	72.4	75.6	76.4
<i>Including:</i>			
Medium entrepreneurship	0.3	0.6	0.2
Small entrepreneurship	72.1	75.0	76.2
<i>Including:</i>			
Farms	5.1	6.9	9.9
Personal subsidiary plot (PSP)	66.0	66.3	65.5
<i>Retail sales</i>			
Share in total sales	45.9	45.8	43.8
<i>Including:</i>			
Medium entrepreneurship	3.4	3.8	3.7
Small entrepreneurship	52.5	42.0	40.1
<i>Including:</i>			
By individuals	32.2	32.0	30.1
<i>Chargeable services</i>			
Share in total chargeable services	37.9	39.9	41.3
<i>Including:</i>			
Medium entrepreneurship	1.3	1.1	1.0
Small entrepreneurship	36.6	38.8	40.3
<i>Including:</i>			
By individuals	32.2	34.1	34.9

Source: State Committee of Statistics of Uzbekistan.

The trend of the number of established small and medium enterprises engaged in various chargeable services is growing. In 2002 the share of SME engaged in this sector increased up to 41.3%. These figures are related to the structural reforms in the economy and are characteristic of the development of small and medium enterprises.

However, the structure of small entrepreneurship is changing slowly. Small businesses are predominately being developed in the trade and public catering sectors as it is possible to quickly turn over a relatively small amount of capital. Small business developments in other sectors of the economy are progressing slowly.

An important indicator characterizing the development of small and medium enterprises is the degree to which they participate in foreign trade operations. In 2002 small entrepreneurs exported 7.5% of the total national production (work and services) and imported 24.9% of total national production. However, the share of small and medium enterprises participating in foreign trade operations remains at a low level (Table 2.3.3.).

Table 2.3.3. Share of SME in Foreign Trade Operations

Indicators	2000	2001	2002
<i>Export</i>			
Share in total export, %	10.2	9.0	7.5
<i>Import</i>			
Share in total import, %	27.4	26.9	24.9
Number of SME participating in foreign trade activity, units	2832	2452	2690

Source: State Committee of Statistics of Uzbekistan.

The decrease in total exports over the 2002 to 2002 period by small and medium enterprises is a result of significant changes in the commodity market. Beginning in 2000 the range of products exported has shifted from mainly cotton fiber to furniture, jewelry produced with precious and semi-precious metals and stones, construction materials, salt and other goods.

The importation activities of small and medium enterprises have remained unchanged due to government support through a favorable tax break and customs benefits. These goods include food stuff, industrial machinery and equipment.

In recent years, the cooperation between large and small enterprises has been emphasized. Typically, small enterprises supply raw materials and components to large industry in addition to other goods and services. The supply of raw materials from small enterprises to large organizations comprises 74% of all goods and service supply while the share of components equals 17% and the share of requests for other goods and services totals approximately 8%.

Small and medium enterprises most efficiently cooperate in the production of consumer goods, supply and processing of local raw materials and in the construction sector. The percentage of total production in each of these sectors by small enterprises equals between 20% and 30%.

The main indicators of small and medium enterprise activities are different in the various regions of Uzbekistan in terms of how these enterprises impact the overall economy.

In 2002 the highest level of growth rates by small and medium enterprises were in Jizzakh (71.4%), Andijon (52.2%), Namangan (30.5%), Bukhara (46.3%), Novoiy (24.9%) while fairly moderate growth occurred in Fergana (30.8%), Surkhandarya (2.5%) and Tashkent (4.7%). Syrdarya experienced low growth rate at (-3.3%).

Agricultural production reached the highest growth rates by small enterprises and micro-firms in Kashkadarya (116.8%), Fergana (109.6%), Jizzakh (82.5%), Navoiy (79.2%), Samarkand (61.7%), Tashkent (45.4%) and in the autonomous region of Karakalpakstan

(44%). Small agricultural enterprises in Andijon had insufficient growth rates of 3.4% while the Surkhandarya region experienced very low growth rates –(minus)15.3%.

In the construction industry the highest growth experienced by small enterprises were achieved in Surkhandarya (35%), Fergana (29%), Khorezm and Namangan (22%) and in the region of Andijon (23%).

The potential of small and medium enterprises in the private sector is high, but is currently not achieving full potential. The small and medium business sectors needs additional state support in term of providing start-up loans and providing high liquid security. It is also necessary to intensify the implementation of measures are taken to further develop insurance, credit and other institutions to ensure the financial resources of small and medium enterprises. Priority must be given to develop the structures that support small and medium enterprises in rural areas including small cities, villages and rural settlements.

3. Structural and Investment Policy

3.1. Industry¹

Throughout 2000 to 2002 government policies which focused on the development of specific industries were put into practice. During the initial years of independence, governmental policy focused on speeding reforms in the mining, gas-oil and non-ferrous metallurgy industries while from 2000 to 2002 these policies shifted to transforming the processing sector.

Industrial growth rates have been sustained by an increase in the mining and gas-oil export-oriented sectors and by an increase in the production of consumer goods. The highest growth in industrial products (8.5%) was achieved in 2002. However, the growth in the processing sector, which contributed more than half of total industrial production growth, surpassed industrial production growth rates.

The largest contribution to the total industrial growth rates was in food processing, chemical and hydrocarbon, timber and light industries due to modernization which has enabled these industries to increase production capacities. The food processing industry provided the highest percentage of total industrial growth and achieved a growth rate of 21.9% in 2002. The sectors which produced consumer goods provided more than 30% of the total industrial growth rate.

According to the results of a study conducted by the Center for Effective Economic Policy on business activities and the state of the economy, enterprises capable of functioning in a free market economy play an essential role in the increase of growth indicators. The percentages of enterprises that have increased production or whose production not decreased make up 77% to 83 % of total operating enterprises. The percentage of enterprises whose general economic situation has been improving constitutes 27% while enterprises with no considerable changes make up 57%.

According to Graph 3.1.1 the growth in a selection of industrial sectors, such as electricity production and fuel energy, is not stable. The growth indicators for the ferrous metallurgy industry have slowed through 2000 to 2002 due to insufficient supplies of raw materials and excessive productive capacity. The growth in the machinery and building materials industries has also slowed.

¹ All data used in this report provided by State Committee on Statistics.

Table 3.1.1. Industrial Production

	Structure , %			Growth (decline) compare to previous year, %		
	2000	2001	2002	2000	2001	2002
Industry	100.0	100.0	100.0	5.9	7.6	8.5
Electricity Production	9.5	8.0	7.6	1.1	(4.2)	1.1
Fuel Energy	16.7	12.9	12.2	(0.3)	(3.6)	2.4
Ferrous Metallurgy	1.4	1.4	1.3	18.7	10.6	4.9
Non Ferrous Metallurgy	11.3	10.7	10.8	2.5	1.8	7.1
Chemical and Hydro Chemical	5.9	5.3	6.0	12.7	4.1	16.0
Machinery and Metal Processing	9.0	10.5	10.0	(10.5)	24.9	7.7
Forestry and Wood Processing	0.9	1.4	1.4	30.1	8.6	8.4
Construction Materials	4.6	5.3	5.2	4.3	5.9	5.6
Light Industry	20.1	20.5	20.4	17	12.4	8.2
Food Processing	11.8	13.9	15.0	8.5	9.4	21.9
Other branches	9.6	10.1	10.1	9.5	28.5	18.8

Source: State Committee on Statistics of Uzbekistan.

Changes in the industrial sector in Uzbekistan from 2000 to 2002 are characterized by:

- High growth rates in processing sectors working in internal markets;
- Growth in the chemical, food processing and light industries;
- A decrease in capital investment in the mining and energy sectors: electrical production is down to 7.6% from 9.5%, fuel energy dropped from 16.7% to 12.2% and non-ferrous metallurgy decreased from 11.3% to 10.8%.
- A decline in the number of unprofitable enterprises.
- The processing sector increased their share of the total volume of profits from 25.1% to 27.3%.
- The percentage of private ownership in the industrial sector increased to 71.4%.

Nevertheless industrial development does not provide a sustainable economic growth. The share of industry contribution to GDP remains at approximately 14%.

Industrial production structure is dominated by the electricity production, fuel and metallurgy industries (32%) while the machinery sector contribution to (10%) overall production rates is considered low due to high value added costs and insufficient production of final goods.

There is a lack of structural shift in range of investment products, innovative technology and export goods. The share of innovative technology in the total volume of industrial manufacturing is decreasing with the exception of machinery and mechanical engineering which achieved an increase from .005% to .12% due to the production of new automobile models. The reduction of innovative activity of industrial plants is due to the lack of resources for research and development in new technologies and the weak financial conditions of certain industrial enterprises.

The aging machinery and equipment along with low levels of production has negatively influenced industry transformation. The renewal of fixed assets is essential for enterprises which export raw materials where the coefficient of renewal and modernization is 14% to 15%. The mechanical engineering sector, mainly in the automobile industry, and producers of consumer products have higher renewal coefficients of fixed assets up to 19%.

The trend in utilizing industrial capacity is characterized by a slight increase from 40.7% to 41.5% for the 2000 to 2002 period. The increase in utilizing industrial capacity is primarily in enterprises exporting raw materials and consumer goods. Industrial capacity utilization increased in raw materials exporting enterprises from 54.4% in 2000 to 55% in 2002 and 46% in 2000 to 46.5% in 2002 for consumer goods. According to a review of the state of the economy and business activities of industrial enterprises, the capacity utilization increased in non-ferrous metallurgy (79.9% to 82%), chemical and petrochemicals (38% to 40%) and in the construction industry (35% to 41.1%).

The growth of the physical volume of industrial production remains at the same level in the mining and fuel sectors such as electricity, natural gas, coal, steel and certain types of chemical products (Table 3.1.2).

Table 3.1.2. Main Industrial Products

	2000	2001	2002
Electricity (mill. kW/h)	46838	47927	49306
Crude oil (1000 tons)	7533.6	7253.0	7240.9
Gas (mill. cubic meters)	56401.1	57413.8	58429.6
Coal (1000 tons)	2500	2711.0	2737
Steel (1000 tons)	406.9	433.6	450.0
Tractors (unit)	954	2966	3148
Cars (1000 units)	30.7	41.0	34.7
Isolated cable (km)	695	1562	1539
Mineral fertilizers (1000 tons)	832.0	711.0	789.6
Including: Nitric (1000 tons)	715.4	586.5	644.7
Phosphoric (1000 tons)	116.6	124.5	144.9
Synthetic Ammonia, (1000 tons)	985.7	812.3	904.8
Sulfuric acid, (1000 tons)	259.7	127.8	280.0
Synthetic Resin and plastic (1000 tons)	15.0	14.0	15.5
Chemical fiber and tail (1000 tons)	14.7	13.5	15.1
Paintings (1000 tons)	27.7	16.2	16.2
Synthetic Washing facility (1000 tons)	2.3	1.6	0.3
Chemical means of plants protection (1000 tons)	3.4	1.5	3.5
Cotton fiber, (1000 tons)	1018.6	1015.0	1008.0
Yarn cotton wool, (1000 tons)	135.1	147.0	168.0

Source: State Committee on Statistics of Uzbekistan.

Relatively high rates of growth in industrial production during recent years has been achieved by firms which were previously experiencing a slow down or recession. Firms experiencing high growth rates include those which are producing tractors, power cables for machinery, phosphate fertilizers, sulfuric acid, synthetic tar, plastics, and chemical fibers.

Industrial processing and final production sectors have slowing growth rates.

The main causes in the reduction of production volumes are:

- Reduction of orders;
- Delays in supplying raw materials
- Ineffective utilization of industrial capacities;
- Low processing levels using local materials.

3.2. Consumer Goods Market

The development in the consumer market is designed to meet popular demand for a variety of high-quality products including foodstuff in particular. The goals for the development of the consumer goods market are stated in the government resolution "Program of Measures for Supplying the Internal Market with Domestic Products and Services during 2001 to 2005."

The consumer goods market in Uzbekistan is comprised of light industries and food processing industries which produce agricultural products such as cotton, silk, leather, fur, cereals, fruits, vegetables, meat and milk. Most popular consumption items are produced by various small, medium and corporations. In 2002 the total percentage of all domestic consumer goods produced in Uzbekistan was 75.7%, including food stuff comprising 95.6% and non-food stuff 45.6%.

From 2000 to 2002 the growth in production within the consumer goods market ranged from 7.8% to 11.8%. The highest rate of growth occurred in the food production sector which rose from 11.6% to 20.7%. Non foodstuff production growth rates were characterized as unstable with growth rates in 2001 of 8.7% which dropped in 2002 to 3.9%. As shown in Table 3.2.1 the highest growth rates have been achieved in food processing (21.9%). Overall, the volume of consumer goods produced during the three year period has increased by 23.7%.

Table 3.2.1. Consumer Goods Production Growth Rates, %

	2000	2001	2002
Growth rate	7.8	10.9	11.8
Including : food	11.6	13.0	20.7
Nonfood	3.9	8.7	3.9
Including : light industry	17.0	12.4	9.5
Food processing	8.5	9.4	21.9

Source: State Committee on Statistics of Uzbekistan.

The growth in consumer goods production from 2000 to 2002 was achieved in each region of Uzbekistan with the highest rates registered in the Djizzak region which doubled its production from 2000 to 2002. The lowest growth rates were registered in the Khorezm region at 5.1%.

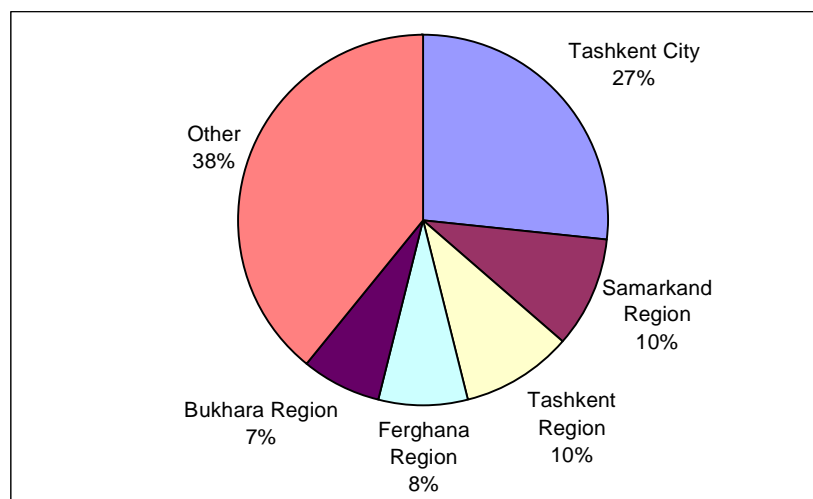
The share of the foodstuff goods production in the consumer goods market in 2002 was 55.5% with 15.2% of this amount being alcohol and breweries. The light industry production constituted more than 25% of the total volume of non-foodstuff produced with automobiles making up 20% of the production.

The total volume of consumer goods in 2002 was produced in Tashkent City (19.9%), Andijon region (15.1%), Samarkand region (11.1%), Tashkent region (11.3%) and the Ferghana region (10.3%).

Foodstuff goods production manufacture, not including alcohol and breweries, achieved the highest growth rates from 2000 to 2002 and averaged 36.4%. The average growth rate for alcohol production was 23.4% and light industry manufacture averaged 26.3%.

The production of foodstuff in 2002 was mainly concentrated in Tashkent City (Graph 3.2.1.).

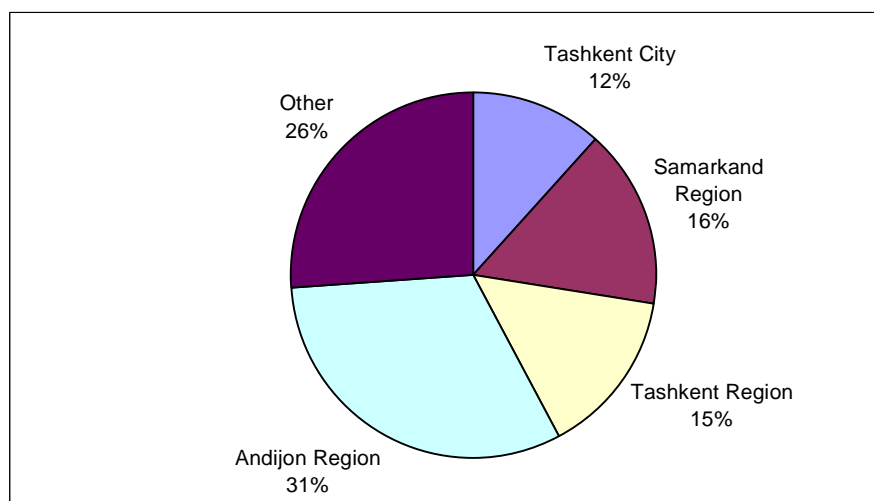
Graph 3.2.1. Share of Regions in Production of Foodstuff Goods



Source: State Committee on Statistics of Uzbekistan.

The non foodstuff consumer goods production occurred in mostly in Andijan region (Graph 3.2.2.).

Graph 3.2.2. Share of Regions in Production of Non-foodstuff Goods



Source: State Committee on Statistics of Uzbekistan.

The production of light industry items is concentrated in the Bukhara region (24.4%), Tashkent City (16.4%), Andijon region (12.4%), Namangan region (9.8%), Tashkent region (8.3%) and Ferghana region (8.4%).

In foodstuff goods made more than 90% of all consumer goods produced in Djizzak, Surhandarya and Syrdarya regions; in the Republic of Karakalpakstan, Khorezm region and in Tashkent city – more than 70%; in Kashkadarya, Namangan and Tashkent regions – more than 50%; elsewhere – less than 50%. The biggest share of non-foodstuff production in consumer production sector was observed in Andijan region (78,1%) and Bukhara region (60,1%).

The production of most foodstuff items remained steady in 2000 and 2002. For example, the production of sugar has increased 21.4% from 2000 to 2002 due to the utilization of both domestic and imported sugar for final processing. During the same period, the following foodstuff items have increased:

- Fermented Tea increased 3.3 times;
- Tinned Meats 2.5 times;
- Salt production has doubled;
- Cereals 1.5 times;
- Processed Meat 1.4 times;
- Milk Products 1.3 times;
- Meat Products, Ice Cream, Wine 1.2 times.

Lesser growth rates have been reported in the production of cheese, bread, confectionaries and margarine. In addition, items such as floor, vegetable oil, alcohol, and tobacco have decreased from 2000 to 2002. (Table 3.2.2)

Table 3.2.2. Consumer Goods Production

	2000	2001	2002
Finished cotton fabric (1000 sq. km.)	354865	393120	428726
Finished silk fabric (1000 sq. km.)	5336	5245	5181
Carpets (1000 sq. km.)	1572	1668	1458
Socks (pair)	23249	15129	12576
Ready wear (1000 units)	38887	36924	32858
Footwear (1000 pair)	4208	6540	6776
Sewn wear (mil. Soum)	10828.9	14778.1	19759.0
Meat and meat products (tons)	121593	132014	148620
Sausages and meat in cans (tons)	3505	5435	5351
Animal fat (tons)	1981	2004	1953
Cheese, Brinza (tons)	1425	1430	1501
Milk and dairy products (tons)	180627	184902	213439
Products in cans (total units)	480353	439399	423360
Sugar (tons)	10169	28748	217239
Flour (tons)	1756118	1784744	1543613
Bread products (tons)	832206	875891	840934
Confectionery products (tons)	53268	55268	56511
Noodle Products (tons)	81824	98607	80082
Vegetable oil (tons)	245714	236566	221373
Wine (1000 deciliter)	5609	7036	7336
Champaign (1000 deciliter)	346	301	316
Vodka and liquor (1000 deciliter)	7195	6698	6037
Brandy (1000 deciliter)	131	116	116
Non alcoholic drinks (1000 deciliter)	15213	13682	12446
Cigarettes (mil. packs)	7766	6976	7044
Salt	28166	36873	56397
Furniture	7339.9	13535.7	15442.0
Drugs and Medicine	4361.5	8981.4	11807.8

Source: State Committee on Statistics of Uzbekistan.

During 2000 and 2002 the manufacture of certain non-foodstuff increased by the following:

- China Dishware (7.5 times)
- Toothpaste (6.7 times)
- Perfume (5.9 times)
- Cream (2.7 times)
- Medicine (2.2 times)
- Clothing, Leather Footwear, Furniture, Ceramics (1.5 times)
- Cotton Fabric (1.2times)
- Cotton and Haberdashery (1.1times)

The export of foodstuff goods has decreased by 30% which has led to growth of their share in the domestic market to 90.8% in 2001 and to 95.6% in 2002. A substantial part of the non-foodstuff products for export consists of sewn and knitted cotton fabrics.

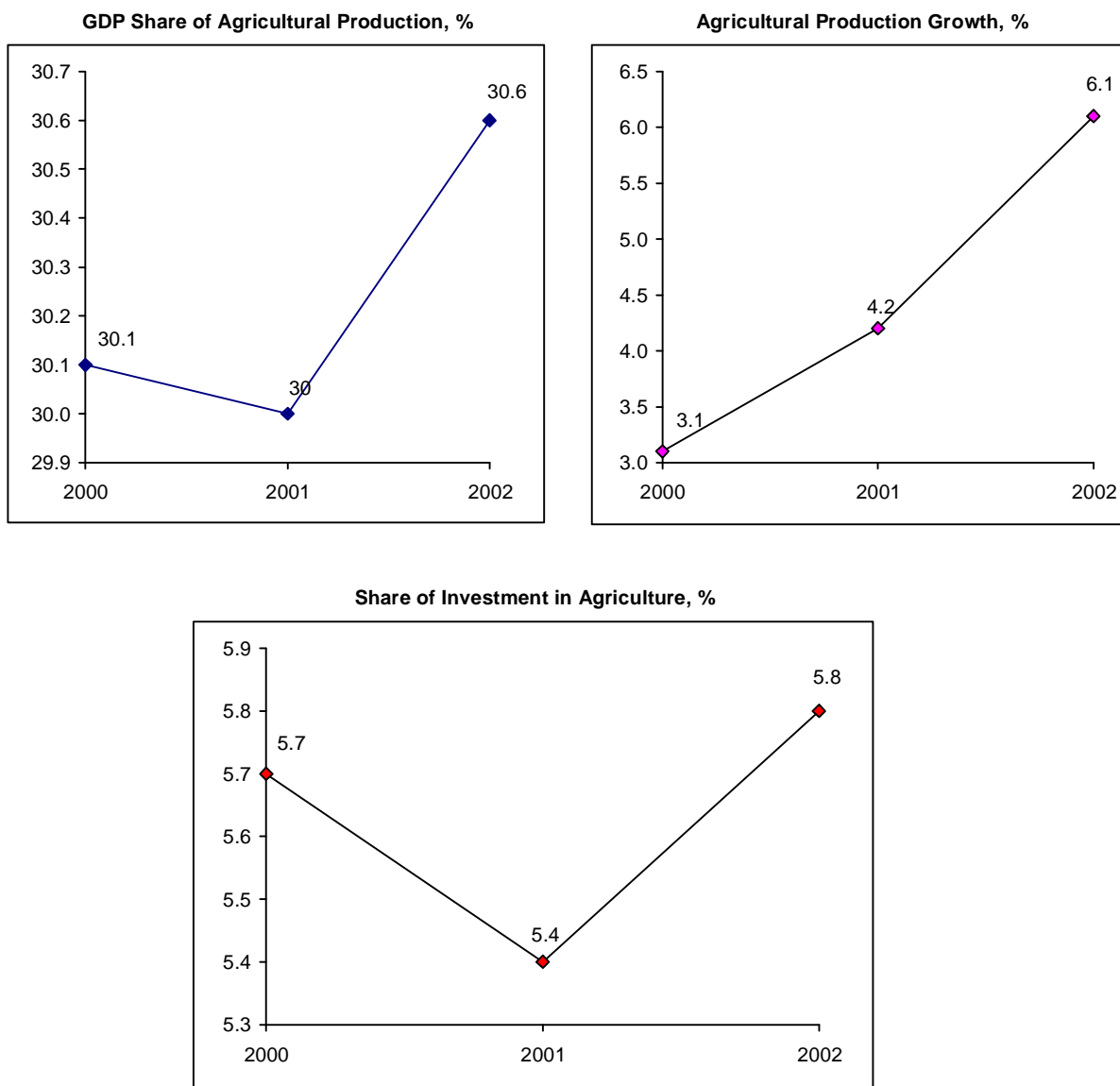
The types of consumer goods imported during 2000 to 2002 were clothing, footwear, animal fat, tea and other products.

The growth in the consumer goods market in Uzbekistan can be directly linked to the measures of liberalization of foreign exchange market, measures to reduce inflation and efforts to stimulate small and medium enterprises.

3.3. Agrarian Sector

The rate of growth in agricultural production reached 3.1% in 2000, 4.2% in 2001 and 6.1% in 2002. The share of the agricultural sector to GDP remained at 30%. (Graph 3.3.1)

Graph 3.3.1. The Main Indicators of Agricultural Development



Source: Ministry of Economy of Uzbekistan.

In gross agricultural production structure the share of crop production decreased from 52.6 % in 2000 to 50.6 % in 2002, while the share of livestock-breeding increased from 47.4 % in 2000 to 49.4 % in 2002. The correlation between the share of gross added value of the agriculture and share of the intermediate consumption to gross production was 66.5 % and 33.5 % in 2002, respectively, and at the same time the growth of the share of gross added value is being observed. (Table 3.3.1).

Throughout this period a number of measures have been implemented. In accordance with the government resolution "On Measures for Reorganization of Agrarian Enterprises" actions to transform farming enterprises not generating profits have been taken including transferring vineyards and gardens to non-specialized farming enterprises.

Table 3.3.1. Breakdown of Agricultural Production, %

	2000	2001	2002
Gross agricultural production	100.0	100.0	100.0
Share of crop production	52.6	51.6	50.6
Share of livestock production	47.4	48.4	49.4
Share of value added	65.6	65.6	66.5
Share of intermediate consumption	34.4	34.4	33.5

Source: Ministry of Economy of Uzbekistan.

The transformation of agrarian enterprises into private farms is primarily being handled by family contractors and through settlement payments.

The essential organizational and legal conditions have been created for the formulation, development and stimulation of the farming sector. The number of private farms increased 25.5% from 2001 and 1,278 thousand hectares of land have been consolidated into private farms. The growth from 2001 to 2002 was 27.8%. In 2002 there were 403.3 thousand people employed in private farming. The reforms in the farming sector resulted in a redistribution of resources and agricultural production from collective to private farms. The share of private farm ownership is consistently increasing. (Table 3.3.2)

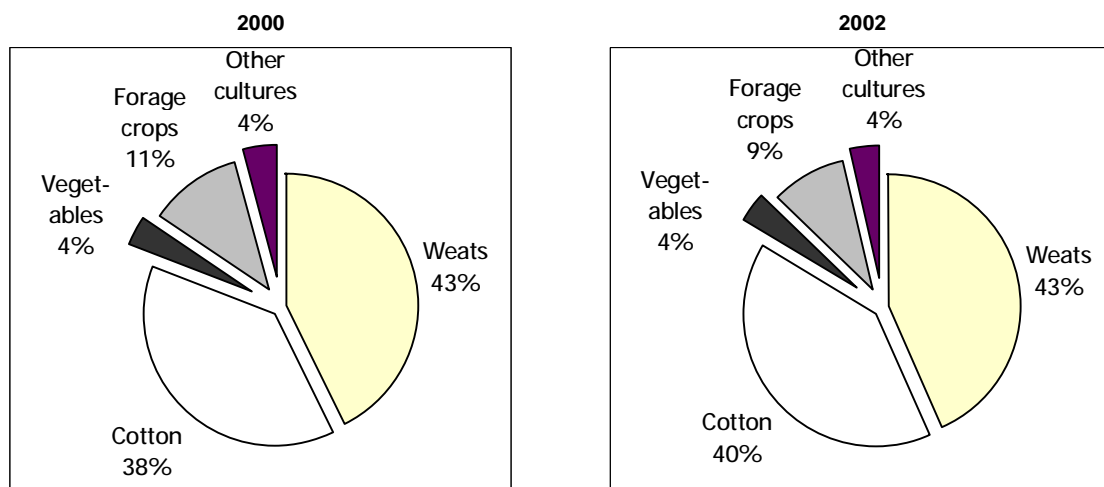
Table 3.3.2. Agricultural Production by Forms of Ownership, %

	Rural Enterprises			Farmers			Peasants		
	2000	2001	2002	2000	2001	2002	2000	2001	2002
Agricultural production	27.8	26.8	24.6	5.5	6.9	9.9	66.7	66.3	65.5
Including: Crop production	46.4	42.6	42	9.7	11.7	17.6	43.9	45.7	40.3
Livestock production	9.0	9.3	6.8	1.3	1.6	1.9	89.7	89.1	91.3
Cultivated areas	72.7	68.6	60.5	16.7	20.2	28.0	10.6	11.2	11.5

Source: Ministry of Economy of Uzbekistan.

The percentage of farming activities contributing to gross agricultural production increased from 5.5% to 9.9% from 2000 to 2002. During this same period, crop production also increased its share of total agricultural production from 9.7% to 17.6% while livestock-breeding has grown from 1.3% to 1.9%. The area of land harvested for agriculture has increased from 16.7% to 28%.

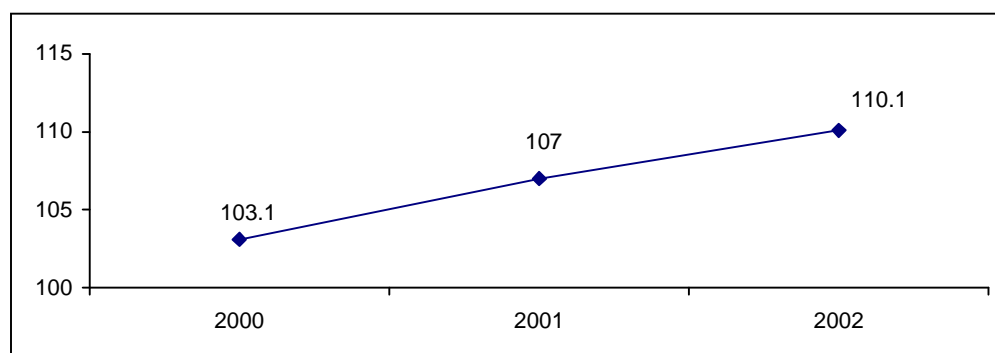
The lands harvested for agricultural production are primarily used to grow cereals and cotton (83.5%). (Graph 3.3.2)

Graph 3.3.2. Structure of Harvested Areas, %

Source: Ministry of Economy of Uzbekistan.

In the Republic of Uzbekistan, 98% of total crop production is located on irrigated land. The challenge in the agriculture sector is how to exploit irrigated lands and effectively manage irrigation and sewage systems.

During the period being analyzed (2000 to 2002) crop production has been steadily increasing mainly due to the yield increases of the main agricultural crops and cereals. (Graph 3.3.3)

Graph 3.3.3. Crop Production

Source: State Committee on Statistics of Uzbekistan.

In 2002 approximately 5,539 thousand tons of cereal crops were harvested from which 5,181.2 thousand tons were grain (in 2001 accordingly 407.2 thousand tons and 3825.2 thousand tons), and the growth consequently was 136.0 and 135.4%. The 2002 cereal harvest generated 2 million tons of seeds which were sold to family contractors and private farms. The average cereal harvest was 36.3 centners per hectare (30.0 centner per hectare in 2001), including 42.6 centners per hectare on irrigated lands and 9 centners per hectare on non-irrigated lands.

In 2002 Uzbekistan produced 3.16 million tons of cotton. Of this amount 2541.5 thousand tons (or 80,2%) were sold as grade 1 and grade 2 products. In 2001 Uzbekistan harvested 3.26 million tons of cotton or 78% were sold as grade 1 and 2. (Table 3.3.3)

Table 3.3.3. Cotton Production

Years	Crop areas 1000 ha	Gross collection 1000 tons	Yields c / ha
2000	1444.5	3002.4	21.8
2001	1452.1	3264.6	23.3
2002	1420.7	3164.7	22.3

Source: Ministry of Economy of Uzbekistan.

According to official data, rice sowing areas in 2002 when compared with 2000 have been reduced by 67.8 thousand hectares, which means that in comparison to 2001 they have increased by 24.5 thousand hectares, crop accordingly - from 21.1 centners per hectare to 27.2 centners per hectare.

From 2000 to 2002 the following crops increased:

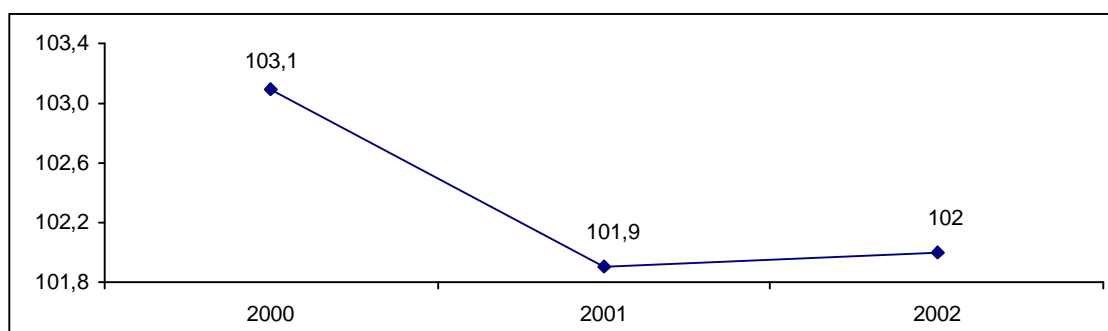
- Potatoes by 6%
- Vegetables by 11%
- Melons and gourds by 5%
- Fruits and Berries by 5%

However, the production of grapes has decreased from 624.2 thousand tons in 2000 to 503.8 thousand tons in 2002 due mainly to the productivity decrease from 63.1 centners per hectare in 2000 to 50.4 centners per hectare in 2002 (20% decline).

From 2000 to 2002 livestock-breeding production slightly decreased (Graph 3.3.4). Total livestock (except pigs and horses) increased:

- Cattle by 1.5%;
- Sheep and goats by 2.7%;
- Chicken by 5.5%.

Meat production has also increased by 2.4%, milk by 2.4%, and eggs by 9%. (Graph 3.3.5)

Graph 3.3.4. Livestock Production (%)

Source: Ministry of Economy of Uzbekistan.

Table 3.3.4. Number of Livestock and Poultry (in 1000)

	Cattle	Cows	Pigs	Horses	Sheep and goats	Poultry
2000	5353,4	2343,4	85,8	146,3	8932,5	14510
2001	5416,1	2361,8	81,6	144,7	9022,6	14828,7
2002	5437,6	2381,2	76,9	143,4	9177,0	15312,7

Source: State Committee on Statistics of Uzbekistan.

Table 3.3.5. Livestock Production

	Meat 1000 tons	Milk 1000 tons	Eggs mill.	Wool 1000 tons	Cocoon tons	Karakul 1000 pieces
2000	501,8	3632,5	1254,4	15,8	16500	748,6
2001	507,6	3665,2	1287,8	16,9	17300	738,8
2002	514,0	3719,4	1367,1	16,5	19900	685,0

Source: State Committee on Statistics of Uzbekistan.

The main economic reform objectives in the agrarian sector are as follows:

- Improving the management of agricultural enterprises in order to increase the economic dependence in the farming community;
- Improving contracting and agreement relations between buyers and sellers including family contractors and intra-farming affairs;
- Improving farming activities including strengthening selection criteria for land-leasing applications and regulation of labor relations;
- Introducing economic mechanisms to manage the rational utilization of land and water resources;
- Developing measures to specialize farming in regions with consideration to their soil, climatic, demographic and economic conditions;
- Furthering the development of rural infrastructure;
- The creation of alternative machine-tractor parks, a network for managing fertilizers, fuel and other resources, agro-technological, consulting and other services,
- The creation of wholesale agrarian markets in the regions outside Tashkent.

3.4. Investments

According to the Table 3.4.1 the share of investments in the GDP in 2002 decreased in comparison with 2001 figure, as well as in comparison with 2000 figure.

Table 3.4.1. Share of Investments and Capital Capacity of GDP growth

	2000	2001	2002
Share of investments in GDP, %	22.9	26.8	19.3
ICOR (Incremental Capital Output Ratio)	6.6	5.4	6.4

Source: State Committee on Statistics of Uzbekistan.

The ICOR indicator of GDP growth ranged from 5.4 to 6.6 with annual investment growth of 1 to 3.8%. (Table 3.4.2)

Table 3.4.2. Dynamics of Capital Investments (in constant prices)

	2000	2001	2002
Capital investments mill Soum	9122	9460	9819
In % to the previous year	101	103,7	103,8

Source: State Committee on Statistics of Uzbekistan.

A decrease in the amount of direct investment by the state noted from 2000 to 2002 reducing the share of state direct investment in total capital investment from 29.2% to 25%. (Table 3.4.3) The majority of state budget funds (95%) were directed to high priority investment projects.

Table 3.4.3. Capital Investments by Financing Sources (%)

	Total	Including:								
		State budget	Own investments of enterprises	Savings of population	Foreign investments		Bank credits		Others credits	Investments from Non budgetary funds
					Total	Including guaranteed by state	Total	Credits of commercial banks		
2000	100	29.2	27.1	12.0	23.2	85.5	6.9		0.4	1.2
2001	100	21.5	31.0	10.3	28.0	83.0	8.1	27.2	0.6	0.5
2002	100	25.0	40.0	12.0	20.4	76.8	1.7	91.4	0.6	0.3

Source: State Committee on Statistics of Uzbekistan.

The percentage of private enterprise and organization funds to the total volume of capital investment increased from 27.1% in 2000 to 40% in 2002. Funding from enterprises and organizations remains the most important source of financing in the economy.

At the same time the share of bank credits in the total volume of capital investments decreased from 6.9% in 2000 to 1.7% in 2002 due to difficulties in crediting mechanisms.

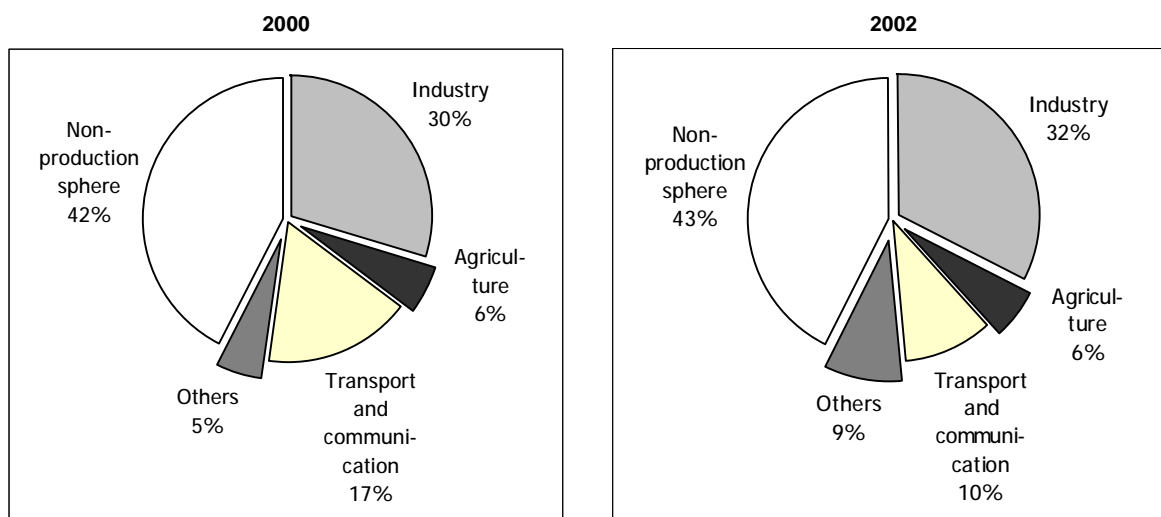
The percentage of individual savings in the total volume of capital investment has remained stable at 12% from 2000 to 2002. A majority of these funds were directed to the construction of individual housing.

The state budget in 2002 directed funding toward the following national programs:

- Personnel Training. Rural Infrastructure. Potable Water and Natural Gas to Rural Communities (57.1%);
- Water Provision Objects (13%)
- Industrial Agriculture and Industry (5.2%)
- Fuel and Energy Industry (3.2%)
- Construction and Construction Materials Industry (2.4%)
- Communications (1.8%)

There has been a decrease in investment in the energy resource and transportation industries. The percentage of investment to the energy and transportation industry dropped from 24.3% in 2000 to 21.5% in 2002. (Graph 3.4.2: Table 3.4.4)

Graph 3.4.1. Capital Investments by Sectors of Real Economy (%)



Source: State Committee on Statistics of Uzbekistan.

The amount of investment utilized in the agrarian sector increased slightly from 5.7% in 2000 to 5.8% in 2002.

There was an investment increase 1.7% in the social sphere including health services.

The total investment allocated to the industrial sector increased from 29.7% in 2000 to 32.4% in 2002. The fuel and energy sector investment rose from 7.6% in 2000 to 11.5% in 2002 while the metallurgy jumped from 2.7% in 2000 to 4.7% in 2002 and the light industry from 2.4% to 4.6% in 2002.

Investment in mechanical engineering decreased from 4.1% to 3.5% while food processing declined from 2.5% to 2% and the investment in chemical and oil industry weakened from 7.9% to 3.6%.

Table 3.4.4. Capital Investments by Sectors of Economy (%)

	2000	2001	2002
Total	100	100	100
Including:			
A. For production purposes	57.5	63.1	57.1
Including distribution by sectors:			
I. Industry – total	29.7	38.9	32.4
Including:			
1. Energy sector	7.6	14.0	11.5
2. Metallurgy	2.7	4.4	4.7
3. Machinery	4.1	5.7	3.5
4. Light industry	2.4	6.2	4.6
5. Food processing	2.5	2.2	2.0
6. Chemical and petrochemical	7.9	3.9	3.6
7. Construction materials	0.3	0.5	0.4
8. Other sectors of industry	2.3	2.0	2.1
II. Agriculture and forestry	5.7	5.5	5.8
III. Construction	0.5	0.6	0.4
IV. Transport and communication	16.7	14.0	10.0
V. Trade and catering			
Logistics and marketing	4.3	1.5	2.6
VI. Other	0.4	2.6	5.9
B. Non production purposes	42.5	36.9	42.9
Including distribution by sectors:			
- Dwelling	13.0	11.2	12.5
- Public construction	4.7	4.1	4.9
- Health care and social provision	2.4	3.5	4.2
- Education	14.0	9.9	10.6
- Culture and arts	1.1	1.5	1.8
- Other	7.4	6.6	9.0

Source: State Committee on Statistics of Uzbekistan.

The share of funds invested in the construction of new enterprises and the expansion of existing enterprises through capital investments in technology are relatively high at 56.9% in 2000 and 52.5% in 2002.

The investment structure and investment activities differ between the regions of Uzbekistan. Major investments volumes are concentrated in Bukhara, Kashkadarya, Navoi, Samarqand, Tashkent and Ferghana regions and in Tashkent City. (Table 3.4.5)

Table 3.4.5. Structure of Capital Investments (%)

	2000	2001	2002
Uzbekistan total	100	100	100
Including:			
Karakalpakstan	5.2	3.9	5.0
Andijan	5.1	4.7	3.9
Bukhara	4.2	4.3	6.2
Jizzakh	2.4	4.4	4.6
Kashladarya	17.5	17.5	14.5
Navoi	6.6	7.8	6.7
Namangan	5.7	4.4	3.8
Samarkand	5.9	4.6	4.4
Surkhandarya	3.5	4.1	3.2
Syrdarya	2.1	1.8	1.8
Tashkent	7.4	8.2	8.5
Ferghana	6.6	8.3	10.1
Khorezm	3.5	3.9	4.6
Tashkent city	24.3	21.3	18.0

Foreign investment has been mainly restricted to regions with sophisticated market infrastructure and rich natural resources such as Tashkent City (30% to 40%) and Navoi and Kashkadarya (15% to 20%). Foreign investment is practically non-existent (0.9% to 1.5%) in regions with weak infrastructures such as Syrkhandarya, Syrdarya, Khorezm and the autonomous region of Karakalpakstan.

4. Foreign Trade

4.1. Trade balance, export and import

The period under review is characterized by a new foreign economic and exchange rate policy liberalization process which included to a certain extent liberalization of the exchange market and rapid devaluation of the Soum rate. In addition, this period is characterized by export liberalization (e.g. food), adoption of several normative-legal acts to ensure a legal basis for liberalization and regulation of foreign economic activities. For example, a new edition of the law "On Foreign Economic Activity" was adopted, and a new list of goods according to international classification was introduced to the trade system in January 1, 2002. Also the Interagency Council on Customs and Tariffs was created in order to study foreign trade experiences and modernize the measures used to regulate foreign economic activity. The amount of prohibited goods for export has been reduced. The unification of the commercial, official, and parallel exchange rates is also being gradually implemented.

During the 2000 to 2002 period Uzbekistan had a positive trade balance, particularly with non-CIS countries (Table 4.1.1, Graph 4.1.1). Foreign trade turnover in 2002 fell in contrast with 2000 and 2001, comprising 91.8% of the 2000 level, including export 91.5% and import 92%. The slowdown in overseas trade was mainly connected with decreased foreign market prices for goods exported from Uzbekistan including cotton-fiber and copper.

Table 4.1.1. Uzbekistan's Foreign Trade

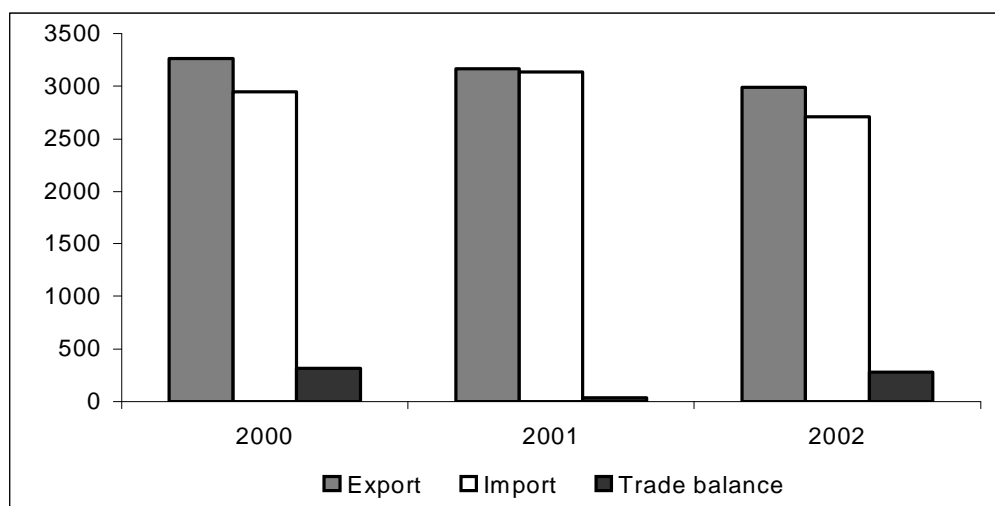
Indicators	2000	2001	2002	In % to the previous year		
				2000	2001	2002
Trade turnover, total, ml. USD	6212.1	6307.3	5700.4	97.9	101.5	90.4
including:						
CIS countries	2297.8	2258.7	1823.8	128.2	98.3	80.7
non CIS countries	3914.3	4048.6	3876.6	86.0	103.4	95.8
Exports, total, ml. USD.	3264.7	3170.4	2988.4	100.9	97.1	94.3
including:						
CIS countries	1172.2	1090.6	823.5	119.3	93.0	75.5
non CIS countries	2092.5	2079.8	2164.9	92.9	99.4	104.1
Imports, total, ml. USD.	2947.4	3136.9	2712.0	94.8	106.4	86.5
including:						
CIS countries	1125.6	1168.1	1000.3	139.0	103.8	85.6
non CIS countries	1821.8	1968.8	1711.7	79.2	108.1	86.9
Trade balance, total, ml. USD.	317.3	33.5	276.4	x	x	x
including:						
CIS countries	46.6	-77.5	-176.8	x	x	x
non CIS countries	270.7	111.0	453.2	x	x	x
Structure of foreign trade turnover, %						
CIS countries	37.0	35.8	32.0	x	x	x
non CIS countries	63.0	64.2	68.0	x	x	x

Source: State Committee on Statistics of Uzbekistan.

The exports of chemical products, machines, equipment and services have increased in 2000 to 2002. The share of chemical products exported increased from 2.9% in 2000 to 3%

in 2002. The share of exports of services has increased from 13.7% to 15.9% with the highest percentage being transport services (Table 4.1.2). Though the share of machines and equipment exports increased from 3.4% in 2000 to 3.9% in 2002, the volume of exports of ready industrial goods based on highly technological and scientific production was very small.

Graph 4.1.1. Track Record of Foreign Trade, million US dollars



Source: State Committee on Statistics of Uzbekistan.

Table 4.1.2. Tracking Changes in Exports, %

Group of goods	2000	2000	2002
Cotton fiber	27.5	22.0	22.4
Chemicals products , plastics and plastic items	2.9	2.7	3.0
Ferro and non Ferro metals	6.6	7.0	6.4
Machines and equipment's	3.4	3.9	3.9
Food	5.4	3.9	3.5
Energy	10.3	10.2	8.1
Services	13.7	14.6	15.9
Others	30.2	35.7	36.8
Total	100	100	100

Source: State Committee on Statistics of Uzbekistan.

Cotton-fiber continues to dominate the export market, but its share fell from 27.5% in 2000 to 22.4% in 2002. The share of the export of non-ferrous and ferrous metals fell from 6.6% in 2000 to 6.4% in 2002 while power systems dropped from 10.3% to 8.1% and food exports declined from 5.4% to 3.5%.

From 2000 to 2002 the structure of imports changed with the amount of imports of food, non-ferrous and ferrous metals, and power systems decreased while the import of machines, equipment, chemical products and services increased.

In accordance with the policies of import substitution, the share of energy resources and food imports fell in 2000 to 2002 fell from 3.8% to 1.3%. The share of the import of machines and equipment increased from 35.4% in 2000 to 41.4% in 2002 and is connected with the industrial changes being implemented in the economy (Table 4.1.3).

Trade with the CIS fell from 37% to 32% including exports from 35.9% to 27.6% and imports from 38.2% to 36.9% during 2000 to 2002 (Table 4.1.4 and 4.1.5). These export

decreases to the CIS are mainly the result of the redistribution of main export commodities to countries outside the CIS.

Table 4.1.3. Tracking Changes in Imports, %

Group of goods	2000	2001	2002
Food	12.3	10.8	12.5
Chemicals products , plastics and plastic items	13.6	12.7	15.1
Ferro and non Ferro metals	8.6	10.9	8.0
Machines and equipments	35.4	41.2	41.4
Energy	3.8	1.9	1.3
Services	8.5	10.3	10.6
Others	17.8	12.2	11.1
Total	100	100	100

Source: State Committee on Statistics of Uzbekistan.

A positive indicator is the increase in exports of machines and equipment to non-CIS countries from 10.8% in 2000 to 23.9% in 2002 in the total exports of this group of commodities. In the same time, traditional markets in CIS countries are still dominant for exports of food and energy products.

Table 4.1.4. Geographical Structure of Exports, %

Countries	2000	2001	2002
Total	100	100	100
CIS countries	35.9	34.4	27.6
Kazakhstan	3.1	3.7	2.7
Latvia	1.9	2.1	2.6
Russia	16.7	16.6	10.6
Tajikistan	3.1	2.7	3.4
Turkmenistan	5.4	4.4	2.2
Ukraine	4.7	4.7	5.4
Other CIS countries	1.0	0.2	0.7
Countries outside of the CIS	64.1	65.6	72.4
United Kingdom	7.2	6.5	7.7
Iran	2.2	2.6	5.8
Korea	3.3	4.3	2.2
USA	1.6	2.9	2.6
Turkey	3.0	2.6	3.4
Switzerland	8.3	6.3	6.3
Other non-CIS countries	38.5	40.4	44.4

Source: State Committee on Statistics of Uzbekistan.

The growth of deliveries from the CIS states included all groups of goods except for energy products. This is linked with the purchase of relatively cheap goods produced in CIS countries and their delivery.

The leading export markets for 2000 to 2002 amongst the CIS countries were Russia (10.6% of the total exports in 2002), Ukraine (5.4%), Tajikistan (3.4%), and Kazakhstan (2.7%). Leading export markets outside the CIS were Great Britain (7.7%), Switzerland (6.3%), Iran (5.8%), USA (2.6%), and Korea (2.2%). Turkey became on the leading market for Uzbek exports (3.4%) in 2002(table 4.1.4). Exports to Russia, Kazakhstan, Turkmenistan, Great Britain, Korea, and Switzerland during this period decreased while exports to the Ukraine, Latvia, Tajikistan, Iran, USA and Turkey have increased.

Among the main countries which are source of imports to Uzbekistan within the CIS states are Russia (22% of total imports in 2002), Kazakhstan (6.7%), and the Ukraine (4.5%). Outside the CIS, the main trade partners for imports to Uzbekistan included USA (12.1%), Korea (9.5%), Germany (7.8%), China (4.2%), Turkey (3.2%), Great Britain (2.7%) and France (2.1%). During the 2000 to 2001 period Japan was a leading source of imports though the amount of deliveries to Uzbekistan have reduced in 2002 by 2.7 times in contrast with 2000. During the same period the increase of imports from Israel increased 2.1 times (table 4.1.5).

Table 4.1.5. Geographical Structure of Imports, %

Countries	2000	2001	2002
Total	100	100	100
CIS countries	38.2	37.2	36.9
Kazakhstan	7.3	6.2	6.7
Russia	15.8	19.2	22.0
Ukraine	6.0	7.1	4.5
Other CIS countries	9.1	4.7	3.7
Countries outside of the CIS	61.8	62.8	63.1
United Kingdom	2.0	2.6	2.7
Germany	8.7	7.8	7.8
Israel	0.6	0.9	1.6
China	2.5	2.9	4.2
Korea	9.7	11.1	9.5
USA	8.7	6.4	12.1
Turkey	3.3	3.4	3.2
France	2.9	4.0	2.1
Japan	1.9	4.2	0.7
Other non-CIS countries	21.5	19.5	19.2

Source: State Committee on Statistics of Uzbekistan.

Russia is the most prolific trade partner for all types of products while trade with other states includes only limited number of products. Uzbekistan's positive trade balance with countries outside of the CIS is primarily with Great Britain (\$155.9 million) and Iran (\$142.2 million).

4.2. Joint Ventures with Foreign Capital

The normative and legal basis for the functioning of foreign investment, in addition to a wide range of measures to create favorable conditions for foreign capital enterprises have been adopted in Uzbekistan.

There are more than 3,400 enterprises with foreign capital (EFC) registered in January 1, 2003. The amount of charter capital of enterprises with foreign capital in the beginning of 2003 was \$1607.2 or 143.1% when compared to the 2000 level. The main portion of foreign investment (60%) came in the form of equipment, technology and other material assets.

Table 4.2.1. The Main Performance Indicators of Enterprises with Foreign Capital

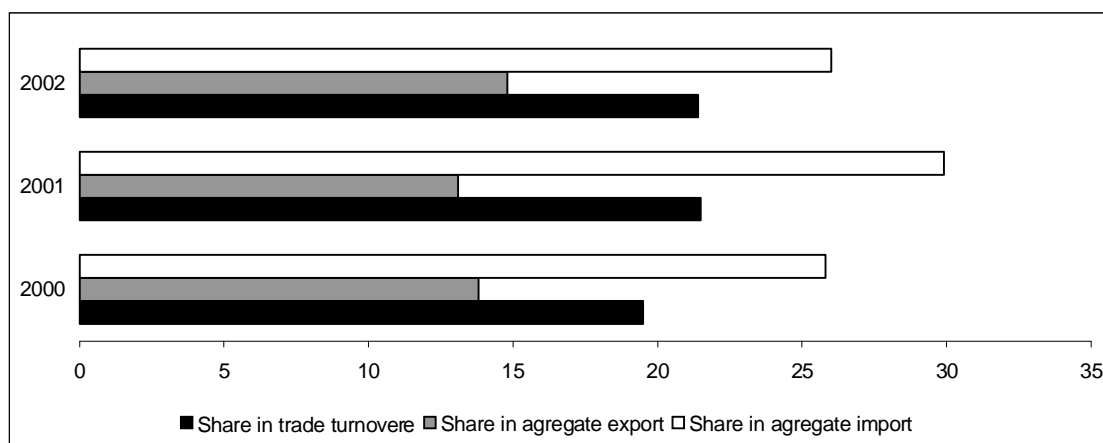
	2000	2001	2002	Growth rate, %	
				2002 to 2000	2002 to 2001
Number of registered EFC	3445	3301	3400	95.8	103
Number EFC presented report	525	1708	1861	354.5	109
Charter funds EFC at the beginning of year mill. USD	1123.3	1437.4	1607.2	143.1	111.8
Export of EFC, mill. USD.	451.6	416.9	442.96	98.9	106.3
Import of EFC, mill. USD.	760.5	937.2	705.1	92.7	75.2
Number of employees, 1000	76.6	90.4	94.05	122.8	104
Share of EDC production in GDP, %	10.9	12.5	14.7		
Share of export of EFC in volume of production (works, services), %	30.2	29.7	32.7		
Share of EFC export in countries total export, %	13.8	12.8	14.8		
Share of EFC import in countries total import, %	25.8	29.9	26.0		

Source: State Committee on Statistics of Uzbekistan.

The number of employees in foreign capital enterprises for the period 2000-2002 increased up to 22.8%. Enterprises with foreign capital produced goods and services worth 1049.5 billion Soum or 14.7% to the GDP in 2002. The largest enterprises with foreign capital are UzDaewooAuto Co (car production), Zerafshan-Newmont (gold extraction), Kabool-Uzbek and Daewoo Textile Company (textile products) and Kyzylkumcement (cement).

The highest volume of products and services have been in machine building, metal works, food production, light, chemical and oil-chemical branches of industry in addition to trade and food consumption. The percentage of production in the real sector increased from 79% in 2000 to 83.1% in 2002.

Enterprises with foreign capital contributed 21.4% of foreign trade turnover in 2002 and 19.5% in 2000. The amount of enterprises with foreign capital import of goods and services was valued at 705.1 million Soum or 26% of total imports to Uzbekistan. The reduction of EFCs imports is seen as a positive sign as it means they are relying more on local resources. However, enterprises with foreign capital are mainly net importers (Table 4.2.1). The majority of enterprises with foreign capital continue to be net-importers. The volume of imports was more than the volume of exports by 1.6 times.

Graph 4.2.1. Share of the Enterprises with Foreign Capital in Foreign Trade

Source: State Committee on Statistics of Uzbekistan.

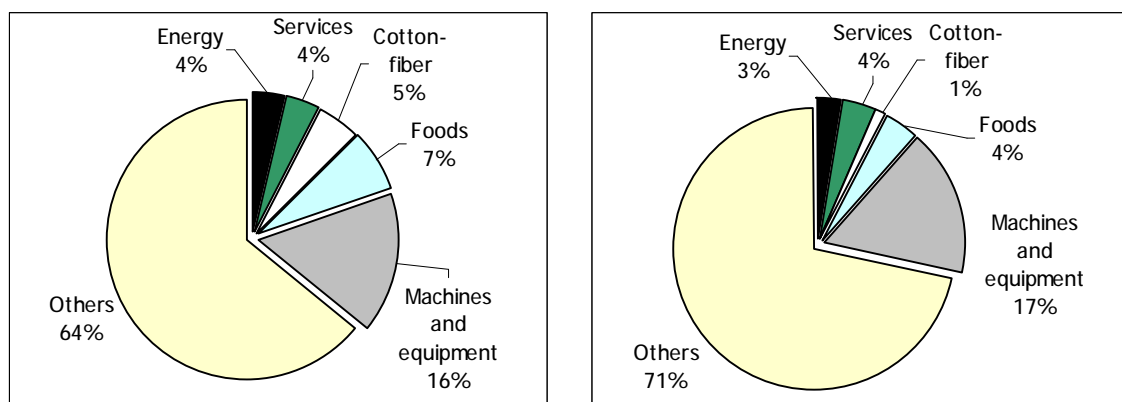
The total exports of enterprises with foreign capital are valued at 442.96 million Soum in 2002 or 14.8% of Uzbekistan's total exports (Table 4.2.2). This means that the export of goods and services has increased 2.5% when compared to 2000.

Table 4.2.2. Export of Goods and Services of Enterprises with Foreign Capital, %

	2000	2001	2002
Total export	100	100	100
Cotton fiber	4.8	2.4	1.0
Foods	7.4	4.4	4.1
Chemical products	1.5	2.6	2.1
Energy	3.7	4.7	2.9
Ferrous and nonferrous metals	0.3	0.2	0.5
Machinery and equipment's	16.0	21.1	16.5
Service	3.9	4.4	3.8
Other	62.4	60.2	69.1

Source: State Committee on Statistics of Uzbekistan.

The largest share of goods exported by enterprises with foreign capital was machines and equipment (16.5%), foodstuff (4.1%), and services (3.8%). The relative growth of exports in comparison to 2000 totaled 157.8% for ferrous and non-ferrous metals and 140.2% for chemical products.

Graph 4.2.2. Export Structure of Goods of the Enterprises with Foreign Capital

Source: State Committee on Statistics of Uzbekistan.

The majority of exports by enterprises with foreign capital were in Tashkent, Navoi, Andijan and Ferghana (Table 4.2.4). The regions export more than 90% of enterprises with foreign capital throughout Uzbekistan. These exports include production of automobile, gold mining and light industries. The largest exporters are the state owned enterprise Kyzylkumredmetzoloto, Uzavtosanoat and Uzbekengilsanoat. The enterprises with foreign capital in the Republic of Karakalpakstan, Bukhara, Jizzakh, Surkhandarya and the Khorezm regions export less than 1% of total exports throughout Uzbekistan.

Table 4.2.4. Territorial Export of Enterprises with Foreign Capital, %

	2000	2001	2002
Total	100	100	100
Karakalpakstan	0.0	0.03	0.2
Andijan	13.3	18.63	14.0
Bukhara	0.3	0.05	0.4
Jizzakh	0.1	0.29	0.1
Kashkadarya	0.0	0.04	1.6
Navoi	31.9	28.96	35.9
Namangan	4.2	1.95	2.2
Samarkand	2.8	2.19	1.8
Surkhandarya	0.0	0.01	0.1
Syrdarya	5.1	1.00	0.8
Tashkent	14.0	18.70	17.4
Ferghana	7.2	7.41	11.0
Khorezm	0.2	0.20	0.4
Tashkent city	21.0	20.53	14.1

Source: State Committee on Statistics of Uzbekistan.

The main investors in Uzbekistan are Korea, the United States, Great Britain and Turkey (Table 4.2.5). The foreign investors share in the production of goods and services in cooperation with enterprises with foreign capital range from 4.2% for Turkey to 30.3% for Korea. For the period under consideration, the number of joint ventures has increased with the above mentioned states and with Germany, Italy, Israel, China, Switzerland and other states.

Table 4.2.5. Performance of Enterprises with Foreign Capital

Investors by Country	Number of Enterprises		Volume of Production In % to the total	
	2000	2002	2000	2002
Total number of EFCs	527	1861	100	100
United Kingdom - Uzbekistan	36	77	9.9	5.9
Germany - Uzbekistan	20	68	1.6	2.0
Germany	7	25	0.2	0.2
Israel	6	23	1.1	0.8
Italy	11	24	0.9	0.4
China	12	42	0.1	0.6
Korea	5	18	4.9	2.6
Korea - Uzbekistan	25	73	25.4	30.3
Russia - Uzbekistan	204	237	2.0	2.4
USA	15	57	1.8	0.5
USA - Uzbekistan	67	145	25.2	19.2
Turkey	13	44	0.7	1.1
Turkey - Uzbekistan	44	160	6.5	4.2
Czech Republic - Uzbekistan	15	17	0.8	0.7
Switzerland - Uzbekistan	12	38	2.4	1.2
Other	25	837	16.5	28.5

Source: State Committee on Statistics of Uzbekistan.

Note: in the first column, the countries of origin for enterprises' owners are given.

For more efficient operations of enterprises with foreign capital further liberalization of foreign trade, protection of intellectual property, development of market and production infrastructure and skilled personnel are needed.

5. Living Standards and Labor Market

5.1. Wages

According to official statistics, the average monthly salary in 2002 was 27,511 Soums and had nominally increased by 49.3% in comparison to the previous year. Such an increase occurred in accordance with the decrees of the President signed on March 26, July 1 and August 7, 2002, which were aimed at ensuring the further growth of the population's income and strengthening social protection. As a result, all types of pension payments and social allowances, stipends for the students of universities and special and professional educational institutions were increased on average 1.3 times. Meanwhile, the salaries of the teachers at primary schools, academic lyceums, professional colleges and universities, as well as of the research fellows at universities and research institutions financed by state organizations were additionally increased by a factor of 1.2.

The increase of salaries during 2002 took place in all branches of the economy, particularly in the sphere of information service (from a reduction of 5.3 % in 2001 to an increase of 74% in 2002), trade (from 24.4% in 2001 to 76.1% in 2002), the banking system (from 25.4% in 2001 to 51.8% in 2002), industry (from 28.6% in 2001 to 43.5% in 2002) and transport (from 18.5% to 57.8% in 2002). . They provide motivation for people to study and gain skills in these fields. (Table 5.1.1.).

Table 5.1.1. Average Nominal Wages in Selected Branches of the Economy (Soums)

Period	Average mean	Industry	Transport	Construction	Trade	Information service	Health care	Public education	Finance and credit
2000	12,492	23,166	20,259	20,299	9,901	42,387	8,566	9,967	25,046
2000 Q1	9,012	18,263	15,880	15,322	7,856	36,073	6,704	7,521	20,260
Q2	9,638	19,252	16,160	17,491	8,499	31,426	7,104	9,438	16,055
Q3	14,640	22,920	19,420	20,433	9,500	33,029	9,858	10,785	20,148
Q4	16,676	32,229	29,575	27,951	13,748	69,021	10,599	12,125	43,719
2001	18,424	29,797	24,002	23,193	12,312	40,228	10,853	11,930	31,401
2001 Q1	16,760	26,935	21,745	20,062.7	11,028	34,590	9,935	11,045	30,648
Q2	17,427	28,318	22,278	22,117	11,311	36,146	10,090	11,442	30,133
Q3	18,847	30,376	24,535	24,214	12,828	44,776	11,300	12,205	30,607
Q4	20,661	33,561	27,449	26,377	14,082	45,401	12,086	13,030	34,214
% increase 2001/2000	47.5	28.6	18.5	14.3	24.4	-5.3	26.7	19.7	25.4
2002	27,511	42,747	37,882	34,405	21,677	70,008	16,227	17,262	47,672
2002 Q1	24,906	24,906	42,531	32,357	28,529	69,975	15,002	15,385	46,310
Q2	26,663	45,308	33,083	32,424	18,516	61,593	15,781	17,071	46,405
Q3	28,271	48,753	35,894	35,304	19,370	68,373	16,588	17,831	46,277
Q4	30,206	52,020	40,020	37,535	20,292	80,093	17,536	18,763	51,698
% increase 2002/2001	49.3	43.5	57.8	48.3	76.1	74.0	49.5	44.7	51.8

Source: State Committee on Statistics of Uzbekistan.

In 2002 In the health sector, salaries nominally increased by 49.5% (26.7% in 2001), in education - by 44.7% (19.7% in 2001.). However, the level of payment for highly skilled labor in education and health sectors ranks around 25% of the payment for labor in information service, 35% that of the banking sector and 40% that of the industrial sector.

The difference between the minimum and maximum salary levels in various branches of the economy is rising and is at the ratio of 1:4.3 (as opposed to 1:3.7 in 2001.).

The inter-regional difference among salary levels has also been rising gradually and in the considered period stands at 1: 2.99, as compared to 1: 2.86 in 2001 and 1: 2.78 in 2000. Only three regions in the country have surpassed the national average salary (over 27,511 Soum): Navoi (54,510 Soum), Tashkent (40,262 Soum), and the Tashkent region (35,591 Soum). Higher growth rates in salaries (above the national average of 49.3%) were observed in 4 regions: the Tashkent region (59.3%), Andijan (50.8%), Navoi (50.5%) and Ferghana (50.0%) (Table 5.1.2.).

Table 5.1.2. Average Salary within the Regions of the Country

Period	Average mean	Nukus	Andijon	Bukhara	Djizak	Karshi	Navoi	Namangan	Samarqand	Termez	Sirdarya	Tashkent Reg.	Ferghana	Khorezm	Tashkent
2000	12492	10571	10732	12913	8787	9756	21263	9919	8174	9672	10718	15008	10448	10157	22704
2000 Q1	9012	7657	6602	7788	5763	7299	15237	6504	6145	6393	8116	11227	7059	6755	18390
Q2	9638	7719	8035	9167	6610	7462	17970	7475	6928	7902	8546	11598	7517	7116	18239
Q3	14640	13470	13551	18112	9830	11848	23570	12842	9233	13816	11991	15268	14224	14127	21840
Q4	16676	13436	14739	16583	12944	12415	28276	12854	10390	10577	14217	21937	12993	12631	32348
2001	18424	13592	13784	16988	12641	14117	36212	13169	13449	14198	16825	22338	15172	13832	27224
2001 Q1	16760	12733	12270	15515	11028	12965	31245	12585	12581	13115	15379	20121	13858	12765	24908
Q2	17427	13040	13243	16210	12032	13592	32836	12718	12700	13655	16128	21073	14457	13260	25585
Q3	18847	13606	14331	17289	12733	13753	38659	13037	13593	14543	17064	22708	15356	13941	27759
Q4	20661	14991	15293	18939	14769	16158	42108	14338	14923	15477	18731	25448	17017	15359	30643
2001/2000	47.5	28.6	28.4	31.6	43.9	44.7	70.3	32.8	64.5	46.8	57.0	48.8	45.2	36.2	19.9
2002	27511	20034	20787	25241	18303	21069	54510	18976	19969	18204	24470	35591	22756	20304	40262
2002 Q1	24906	18132	18160	22652	16862	18385	47305	17342	18583	17312	21915	31973	20288	18229	37437
Q2	26663	19442	21030	24509	17843	20551	53622	18568	19393	17792	23983	33738	22061	19864	38505
Q3	28271	20599	21539	26002	18629	22087	56520	19491	20323	18412	25254	36901	23556	20884	40917
Q4	30206	21962	22419	27802	19879	23252	60593	20503	21578	19300	26729	39750	25117	22240	44187
2002/2001	49.3	47.4	50.8	48.6	44.8	49.2	50.5	44.1	48.5	28.2	45.4	59.3	50.0	46.8	47.9

Source: State Committee on Statistics of Uzbekistan.

During the period under consideration, the real level of salaries, as a result of their more rapid rise than prices for goods and services, rose 21.8% (16.9% in 2001). (Consumer prices in 2002 increased by 22.6% compared to 2001; salaries increased by 49.3%).

5.2. Domestic Trade and Services

5.2.1. Retail Trade

The volume of retail trade in 2002 comprised 3,772 billion Soums, an increase of 19% in constant prices comparing to 2000. Tashkent, Andijan, Ferghana, Samarkand and the Tashkent region traditionally make up the largest share of the retail trade in consumer goods in the Republic. Their share of retail trade in the country in 2002 made up 63.8% of the whole volume of turnover in the Republic.

Table 5.2.1 reflects the growth in the nominal volume of retail trade turnover and paid services in 2001. The growth rate of retail trade turnover was 9.5% (in 2000 - 7.8%, 2002 - 1.7%); paid services - 14.4% (in 2000- 14.0%, 2002 - 8.3%).

Table 5.2.1. Retail Trade Turnover and Paid Services

Years and quarters	Retail trade turnover				Services	
	Total		Including		In current prices, bn. Soum	Changes compared to the previous year in comparable prices, %
	Total, bn. Soum	Changes compared to the previous year in comparable prices, %	Trade turnover of enterprises with status of legal entities, bn. Soum	Changes compared to the previous year in comparable prices, %		
2000	1789.4	7.8	649.4	-5.8	305.4	14.0
2000 Q1	351.4	5.1	128.1	-7.0	52.9	13.9
Q2	395.8	0.2	112.1	-13.4	69.8	14.3
Q3	472.5	7.8	173.2	-8.8	82.9	14.2
Q4	582.4	14.4	215.5	+0.7	99.8	14.0
2001	2697	9.5	943.0	4.9	472.2	14.4
2001 Q1	520.3	7.0	179.3	2.9	85.4	12.6
Q2	602	11	214.3	6.5	108.8	13.5
Q3	714.4	7.5	257.6	7.5	126.4	14.2
Q4	860.3	11.7	291.8	9.2	150.6	14.0
2002	3772.3	1.7	1120.4	-14.1	709.3	8.3
2002 Q1	841.6	8.7	269.6	2.9	132.9	13
Q2	953.2	7.0	277.9	-10.5	175.1	12.7
Q3	929.7	3.6	279.8	-14.4	192.3	12.0
Q4	1032.3	3.7	293.1	-14.2	209.0	12.1

Source: State Committee on Statistics of Uzbekistan.

A drop in retail trade during the third and fourth quarters of 2002 (3.6% and 3.8%) can be explained by some Government's restrictive measures to regulate the import and sale of consumer products.

Population spending on goods decreased (from 74.8% in 2001 to 70.1% in 2002), while spending for services slightly increased. This is explained by changes in prices and by a reduction in the volume of production and of import goods.

The growth rate of tariffs for services have been exceeding the growth rate of prices for goods. During this period consumer prices rose 62.5%, including a 59.3% increase in the price of goods (of which 63.7% for foodstuff and 44.4% for other items), and a 93.4% increase in the price of services. The most significant price increases for food items include meat, chicken and fish products; for non-foodstuffs – fabrics; and for services – housing facilities. The rise in price of eggs, tobacco and basic services were insignificant.

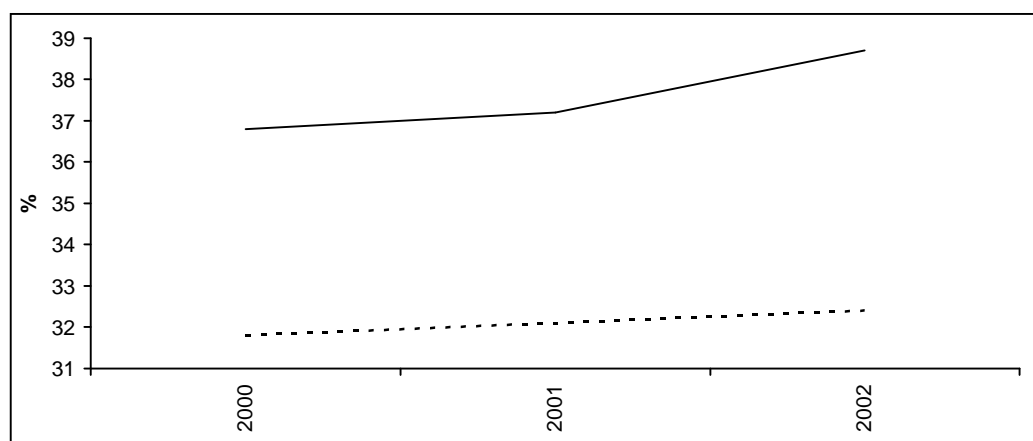
The share of foodstuff within retail trade increased from 59.6% in 2001 to 60.3% in 2002. A growth in sales rates was observed for livestock products (except for milk and some dairy products), and for alcoholic and non-alcoholic drinks. The volume of sales for sausage products increased by a factor of 1.8; for animal oil and cheese – 1.3. The sales rate of meat, chicken and eggs rose slowly. The population began purchasing less flour, bread, rice and noodles.

The reduction in the volume of retail sales of many non-food products was due to a decrease in their production by local producers and a decline in imports. There was an increase in the retail sales of clothing and linen, footwear, tobacco products, building materials and drugs. Sales of knitted products, hosiery and synthetic cleaning products declined by less than 1/4. Sale volumes of home appliances (television sets, radios, computers, refrigerators, washing machines, vacuum cleaners) also significantly decreased. The main reason for these trends is the drop in the purchasing power of the population.

5.2.2. The Service Industry

The service industry has become an important factor in the country's economic development, comprising 38.7% of the GDP in 2002. The growth in the service sector's share of the GDP has been accompanied by a rise in employment in this sphere (graph 5.2.1., 5.2.2.).

Graph 5.2.1. The Share of Services in the GDP and the Share of the Employed in Services (%)



Source: State Committee on Statistics of Uzbekistan.

The tendency of differentiation in using services across the regions is still evident and in the given period is a ratio of 1:11.3. The highest rate of using services per capita is in Tashkent city (113,000 Soums) and the lowest is in the Republic of Karakalpakstan (10,000 Soums).

5.2.3. Health Sector

At present there are 5296 dispensaries and clinics, of which 2079 are rural and 42 urban medical centers, 607 surgery clinics, 3114 medical aid and obstetrics centers, 1175 hospitals with 147,000 beds, and 223 ambulance stations serving the population of the country.

The role of the private sector in the healthcare system is also developing, not only with regards to medical insurance, but also in connection with the development of stationary and surgical clinics, polyclinics and private practices, the majority of which are being formed as small and medium businesses.

There are more than 80 private hospitals and 956 surgical centers and polyclinics in the country. Nearly, all pharmacy enterprises in the country are either private or with a small state stake in them (less than 35%).

The population's access to healthcare has slightly increased during the period under review. The hospitalization capacity per 10,000 people has increased from 55.9 beds in 2000 to 57.8 beds in 2002.

Table 5.2.3. Track Record of the Main Indicators of Development in the Healthcare System

Indicators		2000	2001	2002*
Share of public expenditures on healthcare in GDP	%	2.5	2.5	2.4
Live expectancy	years	70.2	70.2	70.2
Rate of hospitalization	For 100 persons	13.7	14.2	14.6
Access of Population to healthcare services	Per 10,000 persons			
- outpatient clinics		157.7	160.4	163.1
- hospital beds		55.9	55.8	57.8
- medical staff		104.7	104.7	104
- doctors		32.8	32.4	31.9
Number of patients per 1 doctor	Persons	305	309	310
Number of population per 1 medical staff	Persons	95	96	97
General ratio of birth and death	Per 1000 persons			
a) number of births	Per 1000 persons	21.3	20.4	20.0
b) number of deaths	Per 1000 persons	5.5	5.3	5.2

Source: State Committee on Statistics of Uzbekistan.

The average hospital stay of patients decreased to 10 days in 2002 from 12 days in 2000. The number of patients treated in round-the-clock hospitals has increased: from 13.7 cases per 100 persons in 2000 to 14.6 in 2002. The average death rate (for every 1000 persons) has slightly decreased from 5.5, in 2000 to 5.2 in 2002. The average life expectancy in 2002 remained at the same level as in 2000 -- 70.2 years (table 5.2.3.).

5.2.4. Education

As a result of extending of the right of educational institutions to accept students on tuition payment basis and the development of a network of non-governmental educational centers, the institutions have been able to accept more students. During 2000-2002 with practically no change in the number of higher education establishments (61 in 2000 and 62 in 2002), the number of students in them increased to 130%. 54,300 people entered the higher education establishments, 16.5% more than the previous year.

In 2002 about 9665 daytime comprehensive schools were functioning, 1.9% of which were primary schools, 20.6% - semi-secondary and 77.5% secondary schools. At present pupils of the primary grades are provided with free textbooks, while pupils of secondary classes rent some textbooks from library funds, which are supported by the state budget.

Table 5.2.4. Track Record of the Main Indicators of Development in the Educational System

Indicators		2000	2001	2002
Share of public expenditure on education in GDP	%	6.7	6.8	6.8
High schools		9802	9788	9665
Number of pupils	in thousands	6037.7	6076.4	6286.8
Academic lyceums				
Total number		46	47	51
Number of students	in thousands	9.8	17.5	20.5
Enrolled students	in thousands	3.0	10.6	9.3
Colleges				
Total number		241	303	414
Number of students	in thousands	59.5	130.0	336.8
Enrolled students	in thousands	30.1	77.3	183.9
Specialized high schools				
Total number		194	181	141
Number of students	in thousands	254.8	211.9	158.5
Enrolled students	in thousands	73.5	47.7	43.1
Universities and institutes				
Total number		61	61	62
Number of students	in thousands	183.6	195.8	230.8
Enrolled students	in thousands	44.7	46.6	54.3

Source: State Committee on Statistics of Uzbekistan.

From 2000 to 2002 the number of academic lyceums in the country increased by 5 and professional colleges by 173. Some specialized high schools changed their status to status of professional colleges. Some professional schools were restructured and received the status of professional colleges. In 2002 six academic lyceums for 5175 students and 115 professional colleges for 86,600 undergraduates were opened (table 5.2.4.).

5.2.5. Housing/Public Facilities

In 2002 the housing fund of the Republic comprised 357.8 million square meters, 61.2% in rural areas. 79.3% of the total housing fund is under private ownership. In 2002 about 7572 thousand square meters of housing were built.

Uzbekistan has a relatively low level of housing. The average proportion was 13.9 square meters per person in 2001 and 14.2 square meters in 2002 (16 square meters is considered the norm). The level of housing varies across the regions from 9.6 square meters to 20.1 square meters, making the ratio of difference 2.09 (1.97 in rural areas).

The installation of water pipelines in 2002 made up 1960.6 km or 102% compared to 2001, including 1852 km in rural areas, 104% compared to 2001.

Similarly, 3380.2 km of gas pipelines were laid in 2002, with the gasification of rural areas proceeding at an increased pace, with 3243.6 km of pipeline in 2002 -- 107% more than in 2001.

In order to regulate the use of gas and drinking water, gas and water meters have been installed into houses for the last 3-4 years. In 2002 the level of installation of gas meters across the country was 26%. (The rational use of gas and water will not only allow the preservation of resources, but also the modernization of tariff policies in the sphere of public utilities.) The modernization of tariff policies in the sphere of public utilities should rationalize the use of gas and water.

The transition to the practice of paying for services (in healthcare, education, housing and public services), as well as the rise in prices for services exceeding the growth rate of income levels have led to a decline in access to services. At the same time the maximum of the population's expenditures on housing / public services are two times less than in developed countries. Within the conditions of the low living standard of the population, the transition to the practice of unsubsidized housing and public services should take place gradually.

5.3. Employment and Labor Market

5.3.1. Population

In the beginning of 2003 approximately 25.4 million people were living in Uzbekistan. The population of Uzbekistan is 1.4 times that of Kazakhstan, 3.9 that of Tajikistan, 5.1 that of Kyrgyzstan and 5.2 times that of Turkmenistan. Uzbekistan makes up 42% of the population of all Central Asian states. The rate of demographic growth in the country has been falling, especially in the last few years. During 2000-2002 the population of Uzbekistan increased by 0.9 million people or 3.7%, with an average growth per annum of 1.2% as opposed to 2.2% in the beginning of the 1990s. This is mainly due to the fall in birth rates (within just 3 years from 21.3 to 20.0 per thousand).

The overall death rates fell for 2000-2002 from 5.5 to 5.2 per thousand, primarily because of a decline in the rate of infant mortality to 18.3 per thousand, as opposed to 35.5 in the beginning of 1990s.

The above-mentioned demographic changes have had a significant influence on the age structure of the population. Within just last two years, the share of young people under the age of 16 in the population decreased from 40.6% to 38.8%, the proportion of able-bodied people increased from 52.0% to 54.0%, while the number of people of retirement age fell from 7.4% to 7.2%. As these data demonstrate, Uzbekistan has a young population with sufficient quantitative potential.

5.3.2. Population Employment

During 2000-2002 the labor resources in the country increased by 5.3%, or 2.6% a year on average. The rapid growth of labor potential makes the problem of employment particularly relevant.

More than 300 thousand workplaces are created each year in the country, 70-75% in rural areas. Small businesses have become an appreciable source of job creation. At present more than 800 thousand people work in small and micro-enterprises alone. The scale of freeing labor from agriculture and re-distributing it to other spheres of activity such as services and small business has increased significantly. Private auxiliary economies of the market type are created, with a significant production share. In response to the structural changes in the economy and the changes of the population's work priorities, the employment in branches of the economy is changing (Table 5.3.1).

The share of those employed in agriculture is decreasing (from 34.4 to 33.0% in just the last three years), while the proportion of those employed in the social sphere and information services is increasing.

Table 5.3.1. Dynamics of the Branch Structure of Employment (in %)

Employment by sectors	2000	2001	2002 *)	Employment Growth Rate 2000-2002
Total employment in the economy	100	100	100	103.7
Including :				
Industry	12.7	12.7	12.7	103.4
Agriculture and forestry	34.4	33.5	33.0	99.4
Transport and communication	4.2	4.3	4.3	102.3
Construction	7.5	7.7	7.8	107.4
Trade , catering, logistics	8.4	8.5	8.6	106.3
Housing and non-production sphere of communal services	2.8	2.9	2.9	109.4
Healthcare, sports, social service	6.5	6.6	6.8	108.0
Education, culture, arts, science and scientific service	12.8	12.8	13.0	105.7
Finance, banking, insurance, pension funds	0.6	0.6	0.6	107.5
Public sector	1.4	1.5	1.7	122.6
Other	8.7	8.9	8.6	111.2

Source: Ministry of Labor and Social Protection.

*) Estimate.

5.3.3. Labor Market

The formation of the labor market has been taking place in a condition of labor surplus. The demographic pressure on the labor market remains high. From 2000-2002 alone the growth of labor resources consisted of 656 thousand people (5.3%), significantly exceeding the demand in the economy for workforce (336 thousand people or 3.7%) (Table 5.3.2).

Table 5.3.2. Correlation of Labor Resources and Population Employment (in %)

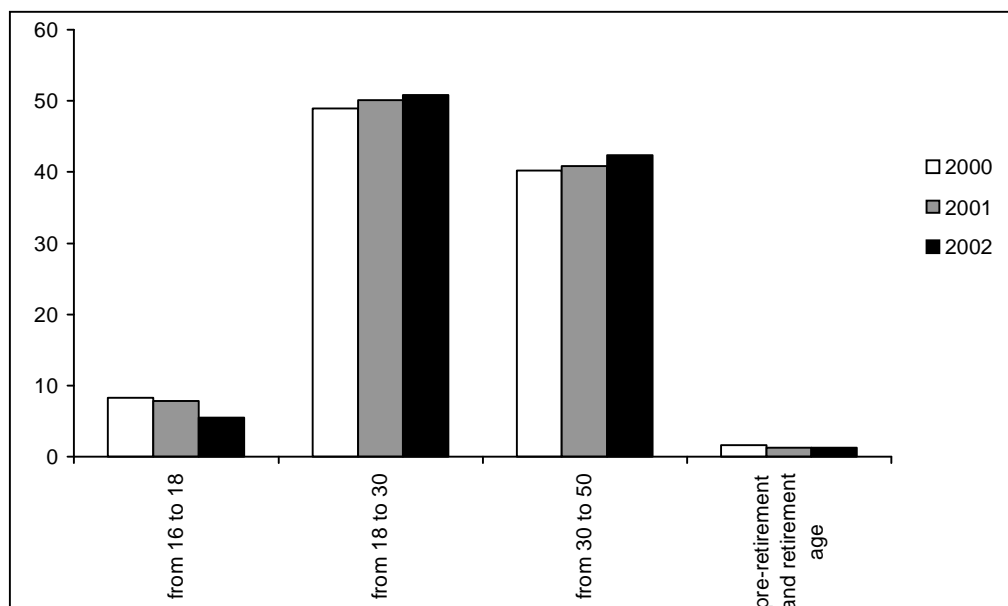
Indicators	2000	2001	2002	Growth over 2000-2002
Labor resources	100.0	100.0	100.0	105.3
Economically active population	72.3	71.6	71.4	103.9
Population employed in the economy	72.0	71.2	71.0	103.7
-- in production (as % of total employed population)	69.6	69.3	69.2	103.1
-- in non-production sphere (as % of total employed population)	30.4	30.7	30.8	105.1
Officially registered unemployed (as % of economically active population)	0.4	0.5	0.5	132.5

Source: State Committee on Statistics of Uzbekistan.

The urban labor market is actively supplemented by rural workers who migrate or commute to the cities.

Annually, the number of job-seekers increases by 30-40 thousand persons and the number of those employed by job centers by 20-30 thousand. In 2002 these indicators decreased.

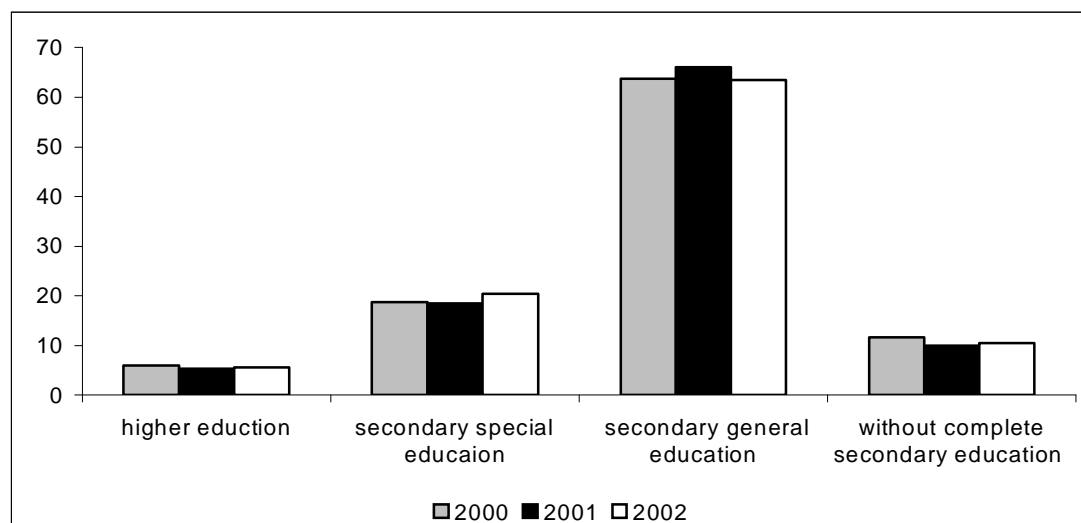
The main categories of people applying for jobs through job centers are young people – university graduates (38-40 %) and individuals trying to change their jobs (45-48 %) (Graph 5.3.1.).

Graph 5.3.1. Labor Supply Market (by age)

Source: Ministry of Labor and Social Protection.

The growth of the labor supply in recent years has made finding a job difficult on one's own; therefore, the share of unemployed persons applying to job centers has significantly increased: in 2000 it comprised 14.3%, in 2001 – 38.3%, in 2002 – 86.8%, as compared to only 10 – 12% in the 1990s. Labor discharge mainly comes from the agricultural sector (up to 60%). The maximum level of labor discharge was reached in 1999 and 2000, as a result of the deliberate withdrawal of workers from the agricultural sector. Until 1998 labor discharge from agriculture ranged between 4,000-8,000 people, in 1999 – 197,300 and in 2000 – 138,200 people. After 2000 this process slowed somewhat.

Although men predominate among those who apply to job centers, the share of female applicants is increasing gradually, with women comprising 47.3% of applicants in 2002. The majority of applicants to job centers have attended high school or a specialized professional school (50-55% in cities, 70-75% in rural areas); workers and specialists comprise 20-25% of applicants (Graph 5.3.2.).

Graph 5.3.2. Labor Supply Market (by education level)

Source: Ministry of Labor and Social Protection

For the last 3-4 years the influx of skilled personnel into job centers and the level of employment of specialists with higher and secondary specialized education have increased.

In 2000 the highest influx of people looking for jobs was from the Ferghana Valley and the Samarkand region. However, according to grading estimates the most tense labor markets are in Navoi region and, especially, in the Republic of Karakalpakstan.

A peculiarity of the present labor market is the surplus of workforce supply over demand. According to estimates, in 2000 this surplus was 33.3%. However, there are signs of improvement of this ratio (Table 5.3.3).

Table 5.3.3. Labor Market Situation in the Republic of Uzbekistan

Years	Supply of labor forces th. persons	Demand for labor, th. persons			Relation of Supply to Demand in %
		Satisfied	Not satisfied	Total	
2000	421.4	280.6	26.9	307.5	137.0
2001	462.8	318.1	27.0	345.1	134.1
2002	448.2	322.1	27.1	349.2	128.4
Total	1332.4	920.8	81.0	1001.8	133.0

Source: Ministry of Labor and Social Protection.

5.3.4. Unemployment Rate

The official unemployment rate in the country is 0.5% and has remained unchanged for several years. However, the official statistics do not reflect the real situation in the labor market. There is a hidden unemployment in Uzbekistan, the scale of which is higher than the official rates recorded in job centers.

The low level of unemployment registration can be attributed to: the widespread practice by organizations of using unpaid leave, the reduction of working hours, delays in paying salaries instead of dismissing workers, low unemployment benefits, the unattractiveness of the jobs offered by the job centers, and the existence of the shadow economy. Therefore, the majority of the population arranges employment while bypassing established structures and official registration.

According to the estimates of the Ministry of Labor and Social Protection of the Republic of Uzbekistan, the actual level of unemployment in Uzbekistan is 3.8 – 5.0%. Worldwide, the critical level of unemployment is considered to be 10%.

Among the total population in need of employment, young people under the age of 30 make up a significant share (56.3% in 2002).

There are advertised vacancies in job centers. At certain periods the demand for the workforce exceeds the rate of the officially unemployed by 130-150%, which is the result of a qualitative mismatch between the supply and demand of the workforce. In the years 2000-2002 the

number of vacancies decreased somewhat, but the problem of balancing supply and demand remains and may well be exacerbated by the influx of skilled personnel into the job centers.

In this way, during the early years of this decade the employment of the population in Uzbekistan has undergone significant changes. General positive results include structural shifts in the utilization of the workforce and the market-influenced development of labor motivation, efficiency and entrepreneurship, which may be considered a long-term tendency and a strong base for the further growth of labor involvement, the adaptation to market conditions and the effectiveness of labor activity. As research indicates, problems remain in this area, in particular the quantitative and qualitative misbalance in the supply and demand of the workforce, youth and gender problems in the formation of employment and others.

6. Socio-Economic Development in the Regions

The regional aspects of economic development have a significant importance for Uzbekistan because of the climatic, geographic and economic differences among the regions. Regional factors may significantly influence the nature and results of the socio-economic transformations in the country.

In recent years some positive results have been achieved in the development of the regions by expanding the rights and powers of the local authorities, strengthening local economies, and stationing and modernizing facilities for the exploitation of their mineral and raw material resources, as well as their natural and economic potential.

During the period 2000-2002, the Shurtan gas and chemical complex was built in the Kashkadarya region; the second stage of reconstruction of "UzDaewoo" for the renewal of car models was completed in the Andijan region; a major enterprise for refining gas condensate was set up in the Bukhara region; the first line of Kyzylkum phosphoric plant was established in the Navoi region; and construction of the Kungrad sodium plant in the Republic of Karakalpakstan is still continuing.

In order to attract local and foreign investments, the government pays attention to the development of industrial and social infrastructure. To facilitate the rapid development of production capacity and the exploitation of the rich natural resources in the less-developed southern and western regions, the new railway lines Guzar-Baysun-Kumkurgan and Nukus-Sultanuizdag-Uchkuduk are under construction. Territorial reform programs and the development of education, health, and the provision of drinking water and gas to the rural population are also in the process of realization.

During the period 2000-2002, most regions achieved some growth in the basic macroeconomic indicators (regional GDP, industrial and agricultural production volume, investment, trade turnover and paid services (table 6.1)).

The highest growth rates of gross regional production in 2002 were reached in the Kashkadarya (10.1%), Jizzakh (9.5%), and Samarkand (7.6%) regions. From 2000-2002, the Republic of Karakalpakstan stands out among the regions with unstable economic development.

The real sector growth rate and composition have varied across different regions. In 2002, the highest growth of industrial production by regions was 33.1% in Jizzakh, followed by 12.0% in Namangan, 11.2% in Kashkadarya and 11.0% in Ferghana regions, and 17.7% in Tashkent city. This is due to the creation of new production sites, as well as to the reconstruction and modernization of existing enterprises.

A comparatively high rate of growth in agriculture was observed in the Andijan, Jizzakh, Navoi, Samarkand, and Ferghana regions. After a noticeable drop in 2000 (-32%), agricultural production in the Republic of Karakalpakstan has slightly increased in 2002.

Table 6.1. The Main Indicators of Social and Economic Development in the Regions

(% growth of the value of the previous year, in constant prices)

Provinces	Gross Regional Output			Volume of Industrial Output			Production of Consumer Goods		
	2000	2001	2002	2000	2001	2002	2000	2001	2002
Karakalpakstan	88.6	96.8	101.6	106.0	97.4	98.1	106.2	111.6	104.0
Andijan	103.2	108.8	103.4	88.6	128.9	107.1	80.5	125.6	98.9
Bukhara	104.5	103.3	102.7	102.9	108.7	104.6	105.9	108.2	104.8
Jizzakh	104.0	104.2	109.5	124.1	118.9	133.1	125.9	122.4	164.3
Kashkadarya	100.1	105.3	110.1	103.4	105.7	111.2	113.7	116.4	106.9
Navoi	104.4	102.7	104.8	102.7	100.1	106.4	116.6	100.2	113.2
Namangan	108.2	104.8	103.7	123.7	120.8	112.0	125.4	118.0	115.7
Samarkand	103.9	104.2	107.6	100.5	104.1	109.6	92.4	105.4	109.2
Surkhandarya	104.8	108.0	104.0	105.9	105.9	110.1	111.2	107.7	114.3
Syrdarya	101.6	105.2	98.3	112.2	122.8	101.6	107.8	112.4	101.3
Tashkent	110.3	104.5	103.1	112.0	112.6	110.0	118.2	115.7	109.8
Ferghana	107.1	100.3	105.1	109.3	102.9	111.0	113.6	102.7	108.8
Khorezm	94.7	103.5	102.9	104.5	100.6	104.9	108.6	103.0	102.0
Tashkent city	104.2	104.1	102.6	111.5	112.1	117.7	109.7	106.5	133.1
Uzbekistan	104.0	104.5	104.2	106.4	108.1	108.5	107.7	110.9	111.8

Continuation of Table 6.1

Province	Gross Agricultural Production			Investment			Trade Turnover			Services		
	2000	2001	2002	2000	2001	2002	2000	2001	2002	2000	2001	2002
Karakalpakstan	68.0	87.0	101.2	83.0	99.0	109.0	102.8	115.7	102.6	115.0	104.0	112.3
Andijan	108.8	107.1	102.1	101.0	103.0	105.0	108.8	113.6	107.3	140.5	118.3	115.7
Bukhara	107.2	101.9	102.6	108.0	102.0	103.0	110.0	114.2	107.1	113.5	107.7	116.4
Jizzakh	102.2	102.1	113.8	111.0	138.0	132.0	110.3	124.7	116.2	108.6	115.7	113.9
Kashkadarya	89.7	107.0	119.9	93.0	115.0	94.0	109.8	115.4	105.5	136.9	114.7	119.7
Navoi	104.5	107.3	106.7	116.0	111.0	100.2	103.8	111.5	105.0	118.5	117.2	108.1
Namangan	111.7	102.2	101.5	103.0	100.2	100.5	110.0	118.5	109.9	133.4	117.3	110.0
Samarkand	103.4	104.7	112.4	104.0	105.0	102.0	114.8	105.0	100.1	115.5	116.2	103.8
Surkhandarya	107.1	110.8	102.8	102.0	110.0	105.0	119.5	111.4	113.3	108.5	110.8	114.0
Syrdarya	100.2	107.2	98.9	100.2	94.0	88.0	105.2	102.1	95.4	108.3	126.1	109.8
Tashkent	115.3	104.2	102.8	106.0	103.0	102.0	123.2	113.7	101.1	109.2	107.6	108.0
Ferghana	114.0	102.1	105.7	107.0	103.0	108.0	103.2	103.0	106.2	115.2	110.3	109.8
Khorezm	82.6	104.1	106.8	102.0	103.0	105.0	110.5	108.8	101.1	106.4	101.9	100.0
City of Tashkent	-	-	-	92.0	100.4	80.0	100.4	105.0	90.1	108.5	115.7	113.4
Uzbekistan	103.2	104.5	106.1	101.0	103.7	103.8	107.8	109.5	101.7	114.0	114.4	108.3

Source: Ministry of Economy of Uzbekistan.

Some positive signs have been observed in social infrastructure provision in the regions. The housing rate has increased in many regions. If the national average in 2002 was 14.2 square meters per person, then the Khorezm and Navoi regions had more than 20 sq/m. The greatest number of hospital beds per 10,000 people was in Tashkent city (86.2), followed by the regions of Namangan (66.0) and Syrdarya (65.9) (table 6.2.).

Nearly all regions witnessed a growth in the capacity of dispensaries and clinics from 2000-2002, particularly the Navoi, Namangan and Kashkadarya regions.

An increase in the centralized water and gas supplies to the population has been observed in all regions except Ferghana and Khorezm.

Despite these achievements, a number of shortcomings and disproportions in socio-economic development of the regions have not yet been overcome.

There remains a relatively high level of differentiation among the regions in the categories of gross regional product (in 1991 by a factor of 2.1; in 2000 – 3.4; in 2002 – 4.3), the industrial sector (7.1, 11.2 and 8.6 respectively), and agriculture (2.2, 3.6 and 3.8). The range of variation among the regions in 2002 was 6.9 times in the production of consumer goods, 5.3 times in investments, 5.0 times in retail trade turnover and 11.4 times in paid services (table 6.3.).

The high level of differentiation in the socio-economic development of the regions is confirmed by indexed calculation. The Republic of Karakalpakstan and the Namangan and Surkhandarya regions are lagging behind on the level of socio-economic development. From 2000-2002 the situation in the Jizzakh and Syrdarya regions improved slightly, while that in the Khorezm region worsened.

Although the territorial socio-economic disproportions are caused by a number of objective factors (differences in geographic and economic potential), the present situation and the dynamics of the inter-regional differentiation need to be alleviated.

The main reasons for the differentiation of the socio-economic development in the regions are:

- the high level of concentration of industrial production and production infrastructure in the Tashkent and Ferghana economic regions;
- the insufficient level of adaptation of the mostly agrarian regions to the market environment (the Republic of Karakalpakstan, Khoresm, Surkhandarya, Syrdarya, Jizzakh regions);
- the territorial disproportion of the distribution of local and foreign investment;
- the irrational use of the natural and economic potential of the regions;
- disproportions in the budget provisions of the regions and the low income level of the local budgets in some regions;
- the inadequate economic regulation of the regions taking into account their particularities.

Adjusting the level of the socio-economic development in the regions by removing the current obstacles and disproportions is seen as an important factor for the sustainable and balanced development of the country's economy.

Table 6.2. The Provision of Social Infrastructure to the Population in the Regions

Province	Access of population to								
	Housing, square meters/person			Hospital beds per 10,000 persons			Outpatient clinics per 10,000 persons		
	2000	2002	Change (+,-)	2000	2002	Change (+,-)	2000	2002	Change (+,-)
Karakalpakstan	14.2	15.2	+1.0	47.8	58.7	+10.9	153.8	160.2	+6.4
Andijan	9.6	9.6	0	62.6	61.8	-0.8	161.0	168.1	+7.1
Bukhara	13.2	13.4	+0.2	49.4	47.1	-2.3	184.4	183.7	-0.7
Jizzakh	12.2	12.6	+0.4	50.3	48.8	-1.5	153.3	165.2	+11.9
Kashkadarya	12.6	12.8	+0.2	46.8	55.0	+8.2	101.2	116.0	+14.8
Navoi	18.7	20.0	+1.3	48.0	53.2	+5.2	160.5	185.0	+24.5
Namangan	11.3	12.9	+1.6	56.7	66.0	+9.3	131.1	154.1	+23.0
Samarkand	13.7	14.0	+0.3	56.1	53.3	-2.8	122.2	129.1	+6.9
Surkhandarya	12.6	12.4	-0.2	42.9	47.5	+4.6	109.5	107.8	-1.7
Syrdarya	13.6	14.5	+0.9	65.0	65.9	+0.9	252.4	255.9	+3.5
Tashkent	13.7	13.7	0	47.1	46.3	-0.8	195.3	197.8	+2.5
Fergana	14.1	14.7	+0.6	61.2	60.2	-1.0	155.8	169.4	+13.6
Khorezm	18.7	20.1	+1.4	50.5	54.3	+3.8	145.4	144.4	-1.0
City of Tashkent	17.5	17.6	+0.1	80.9	86.2	+5.3	220.7	223.7	+3.0
Uzbekistan	13.7	14.2	+0.5	55.7	57.8	+2.1	158.2	163.1	+4.9

Continuation of Table 6.2

Province	Centralized water-supply (%)			Natural gas supply (%)		
	2000	2002	Change (+,-), percentage point	2000	2002	Change (+,-), percentage point
Karakalpakstan	62.3	67.7	+5.4	87.3	90.1	+2.8
Andijan	87.7	90.1	+2.4	64.6	68.8	+4.2
Bukhara	67.2	68.3	+1.1	72.6	81.2	+8.6
Jizzakh	75.9	76.4	+0.5	71.4	70.9	-0.5
Kashkadarya	80.0	81.0	+1.0	55.2	64.8	+9.6
Navoi	64.2	69.3	+5.1	77.4	75.6	+1.8
Namangan	79.5	81.5	+2.0	57.0	71.9	+14.9
Samarkand	78.5	73.4	-5.1	85.6	86.4	+0.8
Surkhandarya	76.0	76.5	+0.5	55.0	58.1	+3.1
Syrdarya	93.2	93.9	+0.7	84.7	87.1	+2.4
Tashkent	91.5	93.0	+1.5	80.3	82.8	+2.5
Ferghana	89.4	88.0	-1.4	76.4	75.7	-0.7
Khorezm	64.1	63.8	-0.3	91.4	89.9	-1.5
City of Tashkent	99.2	99.6	+0.4	97.2	97.4	+0.2
Uzbekistan	81.0	82.5	+1.5	73.9	77.4	+3.5

Source: Ministry of Economy of Uzbekistan.

Table 6.3. Indicators of the Social and Economic Development in the Regions (per capita)

Provinces	Years	Gross Regional Product	Industrial production	Production of consumer goods	Capital investments	Gross production of Agriculture	Retail trade turnover	Services	Overall index	Average index
Karakalpakstan	2000	0.456	0.279	0.425	0.819	0.425	0.470	0.410	3.284	0.469
	2002	0.392	0.201	0.341	0.832	0.360	0.491	0.358	2.975	0.425
Andijan	2000	0.911	0.909	1.354	0.552	1.169	0.277	0.870	7.042	1.006
	2002	0.834	0.979	1.667	0.439	1.150	1.356	0.771	7.196	1.028
Bukhara	2000	1.109	1.100	1.501	0.705	1.340	0.756	0.927	7.438	1.063
	2002	1.101	1.133	1.550	1.063	1.321	0.902	0.878	7.948	1.135
Jizak	2000	0.742	0.278	0.256	0.577	1.331	0.420	0.455	4.059	0.580
	2002	0.666	0.380	0.573	1.155	1.329	0.630	0.448	5.181	0.740
Kashkadarya	2000	0.722	0.931	0.616	1.897	0.831	0.662	0.436	6.122	0.875
	2002	0.780	0.917	0.560	1.608	0.980	0.715	0.423	5.983	0.855
Navoi	2000	1.239	3.144	0.616	2.014	1.238	0.728	0.707	9.689	1.384
	2002	1.490	4.046	0.640	2.125	1.149	0.808	0.663	10.921	1.560
Namangan	2000	0.667	0.466	0.665	0.701	1.019	0.691	0.500	4.709	0.673
	2002	0.599	0.396	0.571	0.476	1.042	0.805	0.448	4.337	0.620
Samarkand	2000	0.709	0.515	1.226	0.523	1.037	0.791	0.626	5.427	0.775
	2002	0.693	0.398	1.016	0.404	1.110	0.707	0.606	4.934	0.705
Surkhandarya	2000	0.716	0.323	0.433	0.470	1.187	0.588	0.480	4.197	0.600
	2002	0.760	0.283	0.364	0.451	1.311	0.665	0.444	4.278	0.611
Syrdarya	2000	0.807	0.460	0.700	0.772	1.397	0.691	0.366	5.193	0.742
	2002	0.776	0.427	0.659	0.713	1.373	0.639	0.366	4.953	0.708
Tashkent	2000	1.040	1.368	1.071	0.747	1.511	1.033	0.732	7.502	1.072
	2002	1.032	1.569	1.184	0.899	1.268	1.038	0.616	7.606	1.087
Fergana	2000	0.941	1.169	1.076	0.587	0.977	1.219	0.610	6.579	0.940
	2002	0.843	1.072	0.934	0.931	0.995	1.232	0.556	6.563	0.938
Khorezm	2000	0.832	0.507	0.787	0.690	1.144	0.662	0.707	5.569	0.795
	2002	0.720	0.414	0.551	0.855	1.072	0.668	0.581	4.861	0.694
City of Tashkent	2000	1.563	1.700	2.093	2.730	-	2.854	3.455	14.395	2.399
	2002	1.671	1.729	2.630	2.131	-	2.452	4.090	14.433	2.062
Uzbekistan	2000	1.000	1.000	1.000	1.000	1.000	1.000	1.000		
	2002	1.000	1.000	1.000	1.000	1.000	1.000	1.000		
Variation coverage (times)	2000	3.4	11.2	8.2	5.8	3.6	6.8	8.4		
	2002	4.3	8.6	6.9	5.3	3.8	5.0	11.4		

Source: Ministry of Economy of Uzbekistan.

