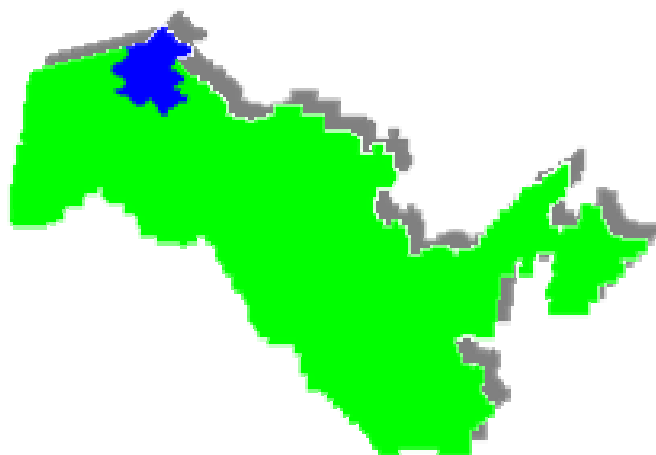


UZBEKISTAN ECONOMY

Statistical and Analytical Review
for the 1st half year 2004



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List of Abbreviations

bill.	Billion
CabMin	Cabinet of Ministers
CBU	Central Bank of Uzbekistan
CER	Commercial Exchange Rate
CIS	Commonwealth of Independent States
CLM	Combustive-Lubricating Materials
CPI	Consumer Price Index
EFI	Enterprises with Foreign Investment
ERP	Effective Rate of Protection
FDI	Foreign Direct Investment
FSU	Former Soviet Union
GATS	General Agreement of Tariffs and Trade
GDP	Gross Domestic Product
JSC	Joint Stock Company
IFC	International Financial Corporation
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
RREE	Republican Real Estate Exchange
RU	Republic of Uzbekistan
RUR	Russian Ruble
SOE	State Owned Enterprise
SME	Small and Medium Enterprise
T-bills	Treasury Bills
TTF	Truck and Tractor Fleet
'000	Thousand
OTC	Over-the-counter
VAT	Value Additional Tax
URCE	Uzbek Republican Currency Exchange
USD	US Dollar
UZS	Uzbek Soum
UZSE	Uzbekistan Stock Exchange
USSR	Union of Soviet Socialistic Republics
yoy	Year-on-year

Introduction

The series of the Uzbekistan Economy Review has been developed by the Center for Effective Economic Policy (CEEP) with USAID and EuropeAid support.

The fifth, most recent review comprises an analytical survey of dynamics and trends in the social and economic development of Uzbekistan in 1 half year of 2004, including analyses of major economic events of the period.

The overview of the Uzbekistan economy covers major constituents of the government's economic policy and surveys trends of the macroeconomic situation, institutional, structural and Investment transformations, foreign economic activity, living standards and complex development of the republican regions.

The Macroeconomic Policy Section reviews factors and prerequisites for macroeconomic stability and economic growth, and the trends and outcomes of implemented fiscal, monetary, foreign exchange and pricing policies.

The Institutional and Market Reforms Section focuses on the market transformation processes in the economy, including denationalization and privatization, the establishment of market infrastructure institutions and private sector development.

The Structural and Investment Policies Section presents trends and issues in the development of real sector of the economy and the level of investment activity.

The Foreign Trade Section includes an analytical review of the trade balance status, import and export structure, and the activity of joint ventures with foreign investment.

The Living Standards and Labour Market Section analyzes trends in wages, domestic trade and services development, and reviews specific issues of employment and the labor market.

The Social and Economic Development in the Regions Section discusses production facilities, territorial allocation rates and ratios, as well as reasons for interregional differentiation in social and economic development.

The publication includes analytical articles on the most vital issues of social and economic development and reform progress in Uzbekistan.

The following national experts contributed to the review drafting: Furqat Baratov, Shukhrat Shukurov, Tursun Akhmedov, Jakhongir Muinov, Rinat Yaushev, Valentina Baturina, Elvira Bikeeva, Dildora Karimova and Farkhod Jurakhanov.

The findings and conclusions cited in the review are those of the authors only and should in no way be taken as reflecting the policies or opinions of the government of Uzbekistan, USAID or Europe Aid.

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Main Economic Events

January

In the Resolution of the Cabinet of Ministers of the Republic of Uzbekistan (25 December 2003) "On Parameters of the State Budget of the Republic of Uzbekistan for the year 2004" the main changes in the tax policy of the republic for 2004 were indicated. This envisaged further reduction of the tax burden on the economy, improvement of the tax administration system and encouragement of taxpayers to fulfill their tax obligations promptly and completely. The measures taken provided the following:

- the reduction of the profit tax rate for legal entities from 20% to 18% and the maximal rate of individual income tax from 32% to 30%;
- the introduction of a uniform rate of social tax in the amount of 33% from salaries instead of the system of mandatory payments for social insurance (with an aggregate rate of 37.2%);
- the abolishment of advanced payments of VAT.

Since January 1, 2004, in line with the Resolution of the Cabinet of Ministers of the Republic of Uzbekistan of January 7, 2004 "On Measures for the Further Improvement of Customs and Tariffs Regulation", rates of 5-10% for custom duties for some types of foodstuffs (fish, soybeans, vegetable oil, animal oil and butter, meat, meat products) were introduced, instead of the zero-rates which had applied before. Also, zero-rate import custom duties were established for machinery and technological equipment, including those for building materials and constructions output, which are imported by legal entities and via foreign trade companies for their own needs.

On January 14, 2004 the Cabinet of Ministers of RU adopted the Resolution "On additional measures for the implementation of the Program for the localization of finished goods and components production based on local raw materials for the period 2004-2005", aimed at the implementation of the priority directions of the government's structural policy, the implementation of a modern technological foundation and production upgrade. The Resolution provides a number of privileges for Program participants, stimulating their investment activity.

A meeting of representatives of 17 leading Indian companies and business circles of Uzbekistan under the aegis of the Federation of Indian Export Organizations (FIEO), the Agency for Foreign Economic Relations and the Chamber of Commodity Producers and Entrepreneurs of RU took place on January 22, 2004. The business field of represented Indian companies included textile, pharmaceutical and medical products as well as components for automobiles and others. The meeting gave new impetus to bilateral relations and sustainable contacts between Indian and Uzbek businessmen.

The President of the Republic of Uzbekistan Mr. I. Karimov visited Kuwait with the purpose of determining the priority directions of mutually beneficial cooperation in the spheres of transportation and communications, agriculture, energy power and water-supply. An agreement was reached on joint participation in investment projects in the area of water-supply and power engineering, irrigation and construction in accordance with the Memorandum of the Kuwait Foundation for Arabian Economic Development.

The President of RU Mr. I. Karimov addressed the extraordinary session of Kengash (Council) of Tashkent province people's deputies with the report "Rationally Using Potential and Resources as a Factor of Progress". It was noted that the current social and economic situation in the region calls for the intensification of economic reforms and implementation of new relations and approaches in production management. The new khokim of the province, K.N. Tulyaganov, was elected at the session.

In an effort to strengthen accord in society, to support the defenseless population and to coordinate the activity of state and public organizations, the Resolution of the Cabinet of Ministers of January 27, 2004 "On the Program 'The Year of Kindness and Mercy'", targeted the following: a) attracting resources for the material and spiritual support of the insufficiently provided, invalid, lonely old and other defenseless members of society; b) implementation of measures to increase the strength of families; c) bringing up youths in the spirit of national traditions and contemporaneity; d) ensuring stable social accord.

February

The Resolution of the Cabinet of Ministers of February 26, 2004 "On contributing amendments and declaring stale some of the resolutions of the government of the Republic of Uzbekistan" stipulated an increase in the maximum share of single shareholders or group of joint shareholders in the statutory capital of banks from 7% up to 25%. As expected this measure will lead to the intensification of privatization of commercial banks.

On February 5, 2004 the Resolution of the Cabinet of Ministers of RU "On further introduction of market mechanisms of sale of highly liquid types of products, raw materials and finished materials", was adopted. The implementing market mechanism provides the enterprises equal right of access to resources which had been delivered before only by administrative channels.

On February 7, 2004 the President of RU Mr. I. Karimov reported at the session of the Cabinet of Ministers on the overall results of social and economic development of the country in 2003 and primary directions for the intensification of economic reforms for 2004. The report contained deep analysis of the country's development in 2003 and primary directions for further advancement in 2004.

The issues of collaboration between Uzbekistan and Russia in the sphere of mining industry development was discussed at a meeting of the President of the Republic of Uzbekistan with J. Shafranic, the chairman of the Supreme Mining Council of RF and the "Council of oil-and gas manufacturers of Russia". During the visit, sessions of working groups of representatives from "Gazprom", "LUKOIL Overseas Holding Ltd.", "Uzbekneftegaz NHK" and Navoi mining and smelting plant, were also held.

A presentation of the German company Sennebogen Maschinenfabrik GmbH organized by the bureau of the German machine-building enterprises in Central Asia (VDMA) jointly with NAK "Uzavtoyol" was held. The representatives of the German company demonstrated the potential and results of the company's activity in the field of load-lifting equipment production.

The municipal round of the competition between entrepreneurs "Tashabbus-2004" was held in Tashkent. An exhibition of the entrepreneurs was featured in the central show-room of the Academy of Arts of the Uzbekistan "Khamar". 22 winners of the district rounds of the competition "Tashabbus-2004" struggled for the title of the best entrepreneur.

On February 2004 the Resolution "On measures for the regulation of imports and exports of cash national currency of the Republic of Uzbekistan" was adopted by the Cabinet of Ministers. It determined that beginning from March 1, 2004 resident and non-resident individuals will be permitted to import into Republic and export from the Republic an amount of cash national currency not exceeding 50 minimum wages, established in the Republic of Uzbekistan. The export of national currency in cash amounts in excess of the stated sum are allowed by the authority of the Central Bank of Uzbekistan.

The Cabinet of Ministers of RU jointly with the State Committee for Property Management of the Republic of Uzbekistan conducted a press conference for the mass media which broadly covered the essential issues of the new stage of administrative reform being conducted in the republic, as well as the strategy of privatization processes, the intensification of stock market activity and efforts to attract foreign investors to purchase privatized objects.

The Resolution of the Cabinet of Ministers "On the implementation of market mechanisms for selling highly liquid goods" was adopted on February 5, 2004. The intensification of liberalization of commodity markets will lead to the shortening of investment cycles and consequently, to a reduction in the costs of construction.

An Uzbek delegation headed by the deputy Prime Minister of the Republic E. Ganiev visited Great Britain. The great interest of financial and industrial circles in trade and economic cooperation with Uzbekistan was emphasized at the meeting of the Uzbek-British Trade and Industry Council. It was decided to conduct regular conferences on the subject "Doing Business in Uzbekistan" and to study the issues of establishing an Uzbek-British chamber of commerce and industry. The protocol of intention between SJSK "Uzbeklegprom" and the British company "Global Infrastructure Holding Ltd." on the establishment of a cotton fiber deep-processing JV was signed.

March

The fifth international exhibition "Uzbek Construction Week" opened in "UzexpoCenter", in the framework of which the first international exhibition "Furniture and Production Technologies" was held. The exhibition was organized jointly by the company Itesa-Osiyo and its British partner ITE JV, Ltd.

The meeting of the head of the State Committee for Property Management with the representatives of the European Bank for Reconstruction and Development (EBRD) and International Financial Corporation (IFC) initiated a project for the technical assistance of the EBRD, targeted at the regulatory basis of Uzbek telecommunications development.

In an effort to protect businesses' interests, to increase the strength of economic interrelations and agrarian reforms, as well as to provide priority development of the farming movement, the Presidential Decree "On additional measures to provide the fulfillment of legislation, directed at agricultural reform" was passed on March 11, 2004. This document provides lawfulness and protection of businesses' rights in the agrarian sector as the main task of legal bodies.

A meeting with the representatives of a Korean commercial delegation took place in Tashkent. The organizers were the Agency for the Development of Trade and Investments of Korea (KOTRA) with the assistance of the Chamber of Commodity Producers and Entrepreneurs of Tashkent city. The commerce mission arrived in Uzbekistan with the purpose of establishing lasting business contacts with the businessman of our country. Representatives from state and private companies took part in the meeting.

An international seminar took place in Tashkent on the subject of the importance of an intellectual property protection system for attracting investments and technology transfer, in particular, in the sphere of information and telecommunications. Organizers of the seminar were the World Organization for Intellectual Property Security (WOIS) and the UN Economic and Social Committee of the Asian and Pacific Region (UNESCAP) in cooperation with the State Patent Department of the Republic of Uzbekistan.

The seventh session of the joint committee for collaboration between Uzbekistan and Azerbaijan took place in Tashkent. Participants of the session had noted that the indicators of bilateral trade and economic cooperation remain insufficient, in particular in the use of technical and scientific potential for the development of trade and the implementation of new joint projects in the field of agriculture and transportation as well as the establishment of joint ventures. The subject of fulfilling the program for economic cooperation between the governments of Uzbekistan and Azerbaijan for 2001-2010 was also discussed by members of the Committee.

With a view to improving the training of skilled personnel in the republic and increasing the strength of personnel potential in the fields of management, marketing, tourism and services, the Resolution of the Cabinet of Ministers of the Republic of Uzbekistan of 26 March 2004 "On the Foundation of the Samarkand Economy and Services Institute" was adopted.

A seminar on the subject "An overview of the WTO's agreements and the process of entrance of Uzbekistan into the WTO" was conducted on March 15-19 at the Agency for Foreign Economic Relations of RU. Such issues as the rules of the WTO on regional trade agreements, the experience of new entrants and countries in the process of entrance and others, were reviewed. The seminar will help to increase the efficiency of the efforts to solve the issues on accession into this organization.

UzbekTurkish JV "Emtex" and JV "Balikchitex" started operations in the Balikchi district of Andijan province, where high quality knitwear and yarn will be produced from local raw materials.

JV "Iskovuttex" cotton yarn and stockinet production enterprise, based on local raw materials, started operation in the Pap district of Namangan province. Putting all productive capacities into effect will provide about 400 persons with permanent jobs.

April

On April 15-16, President Islam Karimov was in the Russian Federation on a working trip. An agreement was reached on the legalization of the strategic partnership between Uzbekistan and Russia, the continuation of dialog, summit consultations and meetings.

At the Republican Trade and Exhibition Center "Uzexpotsentr" the Ninth International Healthcare Exhibition was held – "Medicine Uzbekistan – 2004," represented by two sections – pharmaceuticals and medical equipment.

On April 15-16, in Tashkent the seminar "Standard ISO 9000: the Tool for Effective Competition on the Modern-Day International Market" was conducted for managers of enterprises operating in the area of foodstuffs production. The seminar's organizers were the Ministry of Industry and the Institute for Italy's Foreign Trade with the assistance of the AVES of Uzbekistan.

In April, at the state-owned joint-stock company "Uzbekengilsanoat" a presentation was held on the potential for the further development of light industry. It was conducted within the framework of the implementation of the Resolution of 3/25/2004 of the the Cabinet of Ministers of Uzbekistan "On Measures for the Improvement of the Management Structure of the State-Owned Joint-Stock Company 'Uzbekengilsanoat', and Promotion of Further Development of the Republic's Light Industry."

On April 30, 2004 the Cabinet of Ministers of the Republic of Uzbekistan adopted Resolution No. 205 "On Improvement of the Activities of the Uzbek Association of Enterprises of the Radio-Electronic, Electrical, and Instrument-Making Industries (Association 'Uzeltekhsanoat')." It is primarily aimed at enhancing the efficiency of management of one of the leading sectors of the country's machine-building complex.

On April 3, in an effort to improve environmental protection, the Cabinet of Ministers of the Republic of Uzbekistan adopted the Resolution "On the Creation of a Charity Fund for the Protection of the Aral Sea Region's Gene Pool."

The Asian Development Bank (ADB) has awarded a grant at the rate of 1.4 mill. USD for three projects directed at supporting the acceleration of economic reforms in Uzbekistan. The first project, in the amount of 400 thous. USD, was directed towards supporting reforms in the grain-growing sector. The second project, in the amount of 500 thous. USD. – towards developing an integrated cadastral system for land resources management. The third project – in the same amount – towards supporting the implementation of legal and institutional reforms in the water resources sector.

A training seminar was conducted in Tashkent, organized by the Ministry of Agriculture and Water Industry of Uzbekistan jointly with the US Agency for International Development (USAID), the Academy for Education and Development (AED), and the International University Winrock International. Issues relating to factors of development of the farmers' movement, and to the study of the advanced experience of economically developed countries were discussed at the seminar.

The international business forum "The Role of Insurance in the Creation of a Uniform System for Stimulating Foreign-Economic Activity" was held in Tashkent. Its goal was to exchange experience and to develop main directions for the improvement and motivation of the system of foreign-economic activities under conditions of globalization processes. Issues related to the application of financial and non-financial instruments for the inducement of investment processes were discussed.

A meeting took place between a group headed by the Federal Minister for Economic Cooperation and Development of the Federal Republic of Germany Ms. Haidemarie Vichorek-Zoil and the Deputy Prime-Minister of the Republic of Uzbekistan Mr. E. Ganiyev. The parties exchanged their opinions on the present-day state of trade and economic ties, and prospects for the further development of relations between both countries in this area.

At the AVES of the Republic of Uzbekistan, a meeting was conducted between the heads of diplomatic missions of EU countries accredited in Uzbekistan. The basic directions of the outlook for the development of partnership and cooperation were discussed, in particular such issues as increasing and diversifying trade with the EU countries, introducing ISO standards, overcoming technical obstacles while getting access to the European market, attracting foreign investments, harmonizing the legal system and legislations of the Republic and the EU in priority areas of cooperation, and others.

The President of the Republic of Uzbekistan issued the Directive "On the Measures for Preparing a Program for the Development of Secondary School Education for the Years 2004 – 2008." The Program provides for the mutual coordination of the development of the educational system with measures for implementing the Program for Manpower Training, and is aimed at the modernization of secondary education.

Within the framework of the "Europe-Air" Project, medical equipment worth 105 thous. Euros was delivered to the Kashkadarya Region. The given project is aimed at improving clinical and diagnostic work at the medical-epidemiological laboratories of the region and at equipping medical emergency units with state-of-the-art equipment.

In an effort to ensure the implementation of the target program of measures for the realization of priority guidelines for improving medical awareness in families, building up women's health, and improving childbirth and upbringing of a healthy generation, on April 23, 2004 the Cabinet of Ministers of the Republic of Uzbekistan issued the Regulation "On Measures for the Further Development of the State System 'Mother and Child Screening'", which provides for the further development of the system for early detection of congenital and hereditary pathologies in newborns and pregnant women.

May

In Riyadh, the second session of the joint governmental commission of the Republic of Uzbekistan and the Kingdom of Saudi Arabia took place. At the session the issues of the development of trade and economic cooperation, attraction of investments, and interaction in the areas of education, culture, sports, information

exchange, tourism, and the organization of pilgrimages for religious believers were discussed. A Memorandum of Cooperation between the Chamber of Manufacturers and Entrepreneurs of Uzbekistan and the Kingdom's Council of Chambers of Commerce and Industry was signed.

In Samarkand, a working meeting of local manufacturers and representatives of governmental structures was held. The main goal of the meeting was the solution of problems regarding the certification of products. Similar meetings also took place in Karshi and Urgench. All of them were organized by the Project of the Association of Business Women of Uzbekistan, with the assistance of USAID's program for the support of civil initiatives (CASP).

The 8th International Exhibition "Oil and Gas - 2004" was conducted in Tashkent, at the Republican Trade-and-Exhibition Center "Uzekspotsentr".

In Astana a meeting of the Council of Heads of States/Members of the organization "Central Asian Cooperation" took place. The President of the Republic of Uzbekistan Islam Karimov participated. He put forward a proposal to create a future market in the region on a step-by-step basis.

A meeting of the ministers of economy and trade of the states/members of the Shanghai Organization for Cooperation (SOC) took place in Tashkent. Groups from Uzbekistan, the People's Republic of China, the Russian Federation, Kazakhstan, Kyrgyzstan, and Tajikistan participated. The importance of expanding and deepening regional cooperation of the countries/SOC members was emphasized at the meeting. Participants discussed the issues of creation of a fund for the development of regional cooperation, a web-site, and a forum of business circles of the states/SOC members.

At the Banking and Finance Academy the international scientific and practical conference "Issues of Increasing the Efficiency of Finance and Credit Mechanisms in Securing Economic Growth of the Republic of Uzbekistan" was held. Representatives of banks and a number of international organizations, scientists and faculty members from a number of institutions of higher learning, as well as the academy's undergraduates, participated. At the plenary session, and during the conference's section meetings, lively discussions were conducted on the intensification of money and credit mechanisms, the development of the securities market, the strengthening of the impact of taxes on the country's economy, and on other topical issues.

The Cabinet of Ministers adopted the Regulation "On Measures for the Acceleration of Sale of a Number of State-Owned Objects at Zero Redemption Value," which has approved a list of 302 state-owned objects offered for sale on a competitive basis at a zero redemption value under investment obligations.

At the Oliy Majlis of the Republic of Uzbekistan, a round-Table session was conducted on the subject of "Improving the Legislation on the Securities Market". It was organized by the Committee of Oliy Majlis of the Republic of Uzbekistan for Issues of the Reformation of the Economy and Entrepreneurship. Deputies of Oliy Majlis, managers and specialists of the State Property Committee, of the Ministry of Economy, the Ministry of Finance, and other interested organizations participated in the session.

At the "Uzjilsberbank" an official ceremony was held, during which a credit agreement was signed on granting a credit line by the EBRD for funding small business projects at the rate of 5 mill. USD.

The leasing company "Business Leasing" was opened. Its primary line of activity is to support small businesses and private enterprises through the constant introduction of modern-day technologies and new banking services. The new leasing company's founders are: the Private Open Joint-Stock Commercial Business-Bank and the CASEF (Central Asian Small Enterprise Foundation).

On May 12-13, in Tashkent an informational seminar was conducted on the subject of "Introduction of ISO Standards at Enterprises in Light of the Further Integration of Uzbekistan into the International Economic Community." Its organizers were the AVES of Uzbekistan jointly with the Uzbek-German JV "Global Consulting Network." About 150 managers of holdings, associations, and companies, as well as specialists of these organizations, engaged in the development and introduction of a system of quality management, expressed their interest in the seminar.

A Resolution of the Cabinet of Ministers of the Republic of Uzbekistan of May 4 2004 has approved the Provision "On the Procedure for the Financing by Commercial Banks of Contract Construction Organizations When Constructing 'Turnkey' Objects at the Expense of Centralized Sources of Funding".

The Decree of the President of the Republic of Uzbekistan of May 21, 2004 "On the State Nation-Wide Program for the Development of School Education for the years 2004 - 2009" has created an off-budget fund for

school education, the primary tasks of which are as follows: the accumulation of budgetary and sponsored means for financing the volume of construction of new schools stipulated by the Program of Development of School Education, capital reconstruction, capital and current repairs of schools, and for equipping them with training-and-laboratory equipment, computer hardware, school desks and furniture, and sports gear.

The Government of the Republic of Uzbekistan and the Organization on Security and Cooperation in Europe (OSCE) organized and conducted a regional conference "Education – Investment in the Future", where it was pointed out that the introduction of an educational system meeting world standards would facilitate economic and social progress and is an important factor in strengthening global and local security and stability.

On May 28, a meeting of ministers of economy and trade of the states/members of the Shanghai Organization for Cooperation (SOC) took place in Tashkent. Groups from Uzbekistan, Kazakhstan, China, Russia, Kyrgyzstan, and Tajikistan participated. The significance of further expanding economic cooperation within the SOC's framework, as well as the necessity of creating a Central Asian common market that would facilitate favorable conditions for the free development of the market for products, investments, services and labor for the peoples of the given region, was pointed out.

June

On June 25, the Cabinet of Ministers of the Republic of Uzbekistan adopted the Regulation "On Organizing Activities in Connection with Monitoring the Effective Usage of the State-Owned Portion of Shares in Joint-Stock Associations and Companies," which approved the composition of the Commission for Monitoring the Effectiveness of Use of State-owned Shares, and determined its primary objectives, functions, rights and authority.

The sixth meeting of the Uzbek-Ukrainian Commission for Comprehensive Cooperation took place in Tashkent. Based on the meeting's results, along with a number of important documents, an agreement was also signed between the State Property Committee of the Republic of Uzbekistan and the State Property Fund of Ukraine in the area of informational exchange.

The law of the Republic of Uzbekistan of June 30, 2004 "On Making Changes and Additions to Certain Legislative Acts of the Republic of Uzbekistan" determined a number of amendments to the Law of the Republic of Uzbekistan of May 25, 2000 «On the Guarantees of Freedom of Entrepreneurial Activity."

Within the framework of the FAO Project "Integrated Management for the Continual Use of Saline and Contaminated Soils in Uzbekistan", the first seminar on the subject of organizing field schools for farmers (FSF) was conducted in Tashkent. The given project's objective is to render assistance to the Government of Uzbekistan in implementing the national program for ensuring the country's foodstuffs security.

On June 17, at the Intercontinental Hotel in Tashkent, the summit of the Shanghai Organization for Cooperation (SOC) was conducted, with participation of the heads of the following states: Uzbekistan, Russia, China, Kazakhstan, Kyrgyzstan, and Tajikistan. The heads of Afghanistan and Belarus were present as observers. At the summit, the heads of states exchanged their opinions as regards development of the SOC and expansion of multilateral cooperation, as well as a number of international and regional issues.

In an effort to deepen healthcare reforms aimed at increasing the income of the Republic's specialized medical centers (Centers) and developing their material and technical base, as well as providing incentives and increasing the salaries of medical personnel, the Cabinet of Ministers adopted a Resolution on 6/8/2004.

ANALYSIS OF STATISTICS

1. Macroeconomic policy

1.1. Economic growth

In the first half of 2004 GDP growth in nominal terms totaled 4695 bn. UZS. Real GDP growth, for the first time since independence, amounted to 6.2%, which was 1.6 times higher than the growth reached in the first half of 2003 (Table 1.1.1.).

The main results of implemented fiscal and monetary policies were: a decrease in the monthly average level of inflation (from 0.7% in the first quarter of 2004 down to -0.1% in the second quarter of 2004), the implementation of the budget with a surplus (0.2% to GDP), and a moderate devaluation of the exchange rate.

The growth in GDP consisted of growth in the real added value of industry to the level of 5.8%, agriculture – 10.3%, construction – 1.5%, transportation and communications – 7.6%, trade – 10.4%, other sectors, including services – 3.2%.

Of the 6.2% growth of GDP, the share of industry was equal to 1.15%; agriculture accounted for 1.45%; and services – 2.7% (including transportation and communications – 0.8%, trade – 1.1%, other sectors of services – 0.8%). The rest of the growth was due to construction and net taxes (0.9%).

Table 1.1.1. Growth and Production Structure of GDP

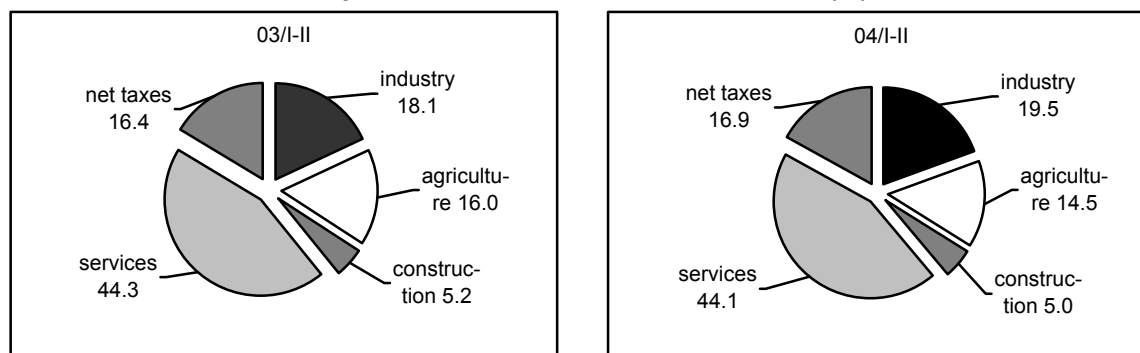
Period	GDP		Production Structure of GDP %				
	In actual prices of corresponding year, UZS bn.	To corresponding period of previous year, % (in comparable prices)	Industry	Agriculture	Construction	Services	Net taxes
1995	302.8	99.1	17.1	28.1	7.1	34.6	13.1
1996	559.1	101.7	17.8	22.4	8.2	37.2	14.4
1997	976.8	105.2	15.6	28.3	7.3	36.4	12.4
1998	1416.2	104.3	14.9	26.8	7.5	36.4	14.4
1999	2128.7	104.3	14.3	29.0	6.7	36.6	13.4
2000	3255.6	103.8	14.2	30.1	6.0	37.2	12.5
2001	4925.3	104.2	14.2	30.2	5.9	37.3	12.4
2002	7469.3	104.2	14.5	30.1	4.9	38.4	12.1
2003	9664.1	104.4	15.0	28.8	4.5	38.3	13.4
03/I	1620.0	102.2	20.4	11.1	4.5	46.3	17.7
03/I-II	3718.6	103.8	18.1	16.0	5.2	44.3	16.4
04/I	2080.7	104.8	21.4	9.4	4.2	45.2	19.8
04/I-II	4695.0	106.2	19.5	14.5	5.0	44.1	16.9

Source: State Committee of Uzbekistan on Statistics

In the production structure of GDP, the share of industry grew from 18.1% to 19.5% (Graph 1.1.1.). This was to a certain degree facilitated by the growth of industrial production – 9.6%, which was mainly due to significant production growth in machinery building – 32.0% and ferrous metallurgy – 15.2%.

The share of construction increased in the first half of 2004 in comparison with the 1st quarter, which was connected with institutional and structural reforms being undertaken in this sector of economy. These are improvements in the organizational structures of management, the implementation of a program to denationalize and privatize big construction organizations, the growth of the share of the private sector and small businesses, and others.

Graph 1.1.1. Production Structure of GDP (%)



Source: State Committee of Uzbekistan on Statistics

In the structure of using GDP there was a decrease in the share of expenditures for final consumption from 72.9% down to 66.9% (Table 1.1.2.). This was mainly due to the decrease in the share of expenditures for final consumption of households (from 56.5% to 50.8%).

As a result of changes in the holdings of circulating material assets (from -7.4% to -2.0%) gross accumulations grew from 15.5% to 20.2%.

The share of net exports in GDP grew from 11.6% to 12.9% thanks to measures aimed at developing the real sector, the stabilization of the currency market, and the growth of exports by 25.2% (mainly due the increase in exports of chemical products by 2.1 times, energy carriers – 67.7%, products of machinery building – 38.1%, and consumer goods – 2.2. times.

Table 1.1.2. Structure of Using GDP (%)

Period	Expenses for final consumption total, %		Gross accumulations, %		Net exports, %
	Private	State	Gross domestic investments into basic capital*	Changes in holdings and others	
1995	50.6	22.3	33.0	-8.8	2.9
1996	55.2	22.1	36.8	-13.8	-0.3
1997	60.8	20.5	33.9	-15.0	-0.2
1998	59.6	20.5	29.8	-8.9	-1.0
1999	62.1	20.6	27.4	-10.3	0.2
2000	63.7	19.7	25.0	-9.4	0.7
2001	60.6	19.4	27.9	-6.8	-1.1
2002	57.6	18.9	21.9	1.0	0.6
2003	54.8	18.5	22.1	-1.3	5.9
03/I	55.7	13.2	23.1	-6.2	14.2
03/I-II	56.5	16.4	22.9	-7.4	11.6
04/I	50.0	13.6	21.7	0.0	14.7
04/I-II	50.8	16.1	22.2	-2.0	12.9

Source: State Committee of Uzbekistan on Statistics.

* including net gained values.

1.2. Fiscal Policy

Revenues of the state budget in relation to GDP were 28.2%, which was 2.8 percentage points less than in the first half of 2003 (Table 1.2.1.). This decrease was due to the reduction of the share of direct taxes to GDP from 7.9% to 7.0% and the share of indirect taxes to GDP from 18.2% to 16.6% as a result of the decrease in tax rates on income of individuals and legal entities and the shift of medium enterprises to a simplified system of taxation. Inflows from resource payments and property taxes increased (from 2.6% to 3.0%) as a result of the increase of property tax rates from 3.0% in 2003 to 3.5% in 2004.

Revenues to the Republican Road Fund were provided at 109.7%, to the Pension fund – at 100.6%.

Table 1.2.1. Structure of Revenues of the State Budget (% to GDP)

Indicators	1998	1999	2000	2001	2002	2003	03/I	03/I-II	04/I	04/I-II
Revenues	32.4	30.0	28.5	26.0	25.2	24.2	28.3	31.0	30.2	28.2
Direct taxes	10.2	8.9	7.5	7.4	6.8	6.4	8.2	7.9	7.4	7.0
Indirect taxes	16.6	16.4	16.0	13.5	13.8	14.0	15.9	18.2	18.3	16.6
Resource payments and property tax	3.9	3.3	2.8	2.4	1.9	2.3	2.3	2.6	2.9	3.0
Social infrastructure development tax	0.4	0.3	0.3	0.3	0.5	0.4	0.6	0.5	0.5	0.5
Other revenues	1.3	1.1	1.9	2.4	2.2	1.1	1.3	1.8	1.1	1.1

Source: Ministry of Finance of the Republic of Uzbekistan.

In the structure of revenues of the state budget, an increase in the share of indirect taxes from 58.3% to 59.0% was observed, while the share of direct taxes in the corresponding period decreased by 1

percentage point, due to a certain extent to the reduction of tax rates on individual income (from 32% to 30%) and legal entities (from 20% to 18%) (Table 1.2.2.). In addition, inflows from resource payments and property taxes increased by 2 percentage points.

Table 1.2.2. Structure of Revenue Part of State Budget (% to total)

Indicators	1998	1999	2000	2001	2002	2003	03/I	03/I-II	03/I-III	04/I	04/I-II
Revenues	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Direct taxes	31.5	29.3	26.4	28.5	27.2	26.3	29.0	25.7	26.5	24.4	24.7
Indirect taxes	51.0	53.9	56.0	51.8	54.6	57.8	56.3	58.3	57.4	60.6	59.0
Resource payments and property tax	11.9	10.9	9.9	9.3	7.5	9.5	8.2	8.5	9.3	9.5	10.5
Social infrastructure development tax	1.2	1.0	1.1	1.3	2.1	1.7	2.0	1.6	1.8	1.7	1.6
Other revenues	4.4	4.9	6.6	9.1	8.6	4.7	4.5	5.9	5.0	3.8	4.2

Source: Ministry of Finance of the Republic of Uzbekistan.

The decrease in income tax from 20% to 18% allowed enterprises to increase a part of their income by 9.1 bn. UZS, which was left for them to develop production and add to turnover assets.

The level of tax administration grew due to tax reforms. The number of legal entities paying taxes increased by 9.1%.

In the structure of direct taxes the largest share consisted of individual income tax. In the first half of 2004, the share of this tax increased by 1.7 percentage points and reached 47.5%. At the same time, there was a decrease in the share of income tax of legal entities (from 32.0% to 28.4%), which was caused by the lower tax rate (Table 1.2.3.).

Table 1.2.3. Structure of Direct Taxes (% to total)

Indicators	2000	2001	2002	2003	03/I	03/I-II	04/I	04/I-II
Direct taxes	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Enterprise income taxes	49.4	39.7	34.4	34.1	32.9	32.0	28.0	28.4
Tax on gross income of trading and public catering companies	-	-	-	-	-	-	8.6	8.7
Single tax from micro-firms and small enterprises that use simplified system of taxation (SST)	-	7.8	13.1	14.1	17.1	17.1	10.6	10.2
Individual income tax	44.5	44.9	45.6	46.7	45.2	45.8	47.8	47.5
Fixed tax on income of entrepreneurs engaged in entrepreneurship	6.1	7.6	6.9	5.1	4.8	5.1	5.0	5.2

Source: Ministry of Finance of the Republic of Uzbekistan.

Analysis of the structure of indirect taxes show that during the period under review the share of value added tax increased from 37.6% to 39.4% as a result of the decrease in the share of excise taxes from 53.1% to 51.5% (Table 1.2.4.).

Table 1.2.4. Structure of Indirect Taxes (% to total)

Indicators	2000	2001	2002	2003	03/I	03/I-II	04/I	04/I-II
Indirect taxes	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Value added tax	47.3	48.8	43.9	39.6	45.1	37.6	37.4	39.4
Excise tax	48.4	46.3	48.3	51.3	43.8	53.1	53.7	51.5
Customs tariffs	2.0	2.7	2.9	3.0	3.5	3.1	3.5	3.4
Single customs fee from individuals	2.3	2.2	2.4	3.3	4.3	3.4	2.8	3.0
Individual tax on consumption of gasoline, diesel, and natural gas for transportation	-	-	2.5	2.8	3.3	2.8	2.6	2.7

Source: Ministry of Finance of the Republic of Uzbekistan.

Expenditures of the state budget in relation to GDP decreased from 28.6% to 26.6%, i.e. by 2 percentage points (Table 1.2.5.). This took place mainly because of decreasing expenditures in centralized investment financing (from 4.0% to 3.6%) and other expenses (from 8.1 to 6.4%). The increase in the share of expenditures for the economy (from 3.0% to 3.4%) occurred mainly due to rising prices for electrical power.

The financing of the expenses included in the state budget – for payment of all types of benefits, for maintenance of citizens' self-management bodies, and compensations from the state budget for price differences for socially significant services to the population – is totally provided by local budgets.

Table 1.2.5. Structure of Expenditures of State Budget (% to GDP)

Indicators	1998	1999	2000	2001	2002	2003	03/I	03/I-II	04/I	04/I-II
Expenditures	34.5	32.2	29.5	27.0	25.8	24.6	27.4	28.6	26.2	26.6
Social sphere	12.3	11.9	10.4	10.2	9.8	9.3	10.3	10.3	9.2	10.5
Social protection	3.3	3.0	2.3	2.1	2.0	2.1	2.5	2.5	2.2	2.1
Expenditures for economy	4.0	3.7	3.0	2.3	2.3	3.0	2.7	3.0	3.4	3.4
Expenditures for financing centralized investments	7.0	6.8	6.0	5.0	4.7	3.3	3.2	4.0	4.0	3.6
Maintenance of state power bodies, management and court bodies	0.8	0.8	0.6	0.6	0.5	0.5	0.6	0.6	0.5	0.6
Other expenditures	7.1	6.0	7.2	6.8	6.5	6.4	8.0	8.1	6.9	6.4

Source: Ministry of Finance of the Republic of Uzbekistan.

Table 1.2.6. The Level of State Budget Fulfillment (% to GDP)

Indicators	1998	1999	2000	2001	2002	2003		2004	
						I	I-II	I	I-II
Deficit (-).	-2.1	-1.7	-1.0	-1.0	-0.8	0.9	2.4	4.0	0.2
Surplus (+).									

The surplus of the state budget in the first half of 2004 was 0.2% to GDP (Table 1.2.6.).

1.3. Monetary Policy

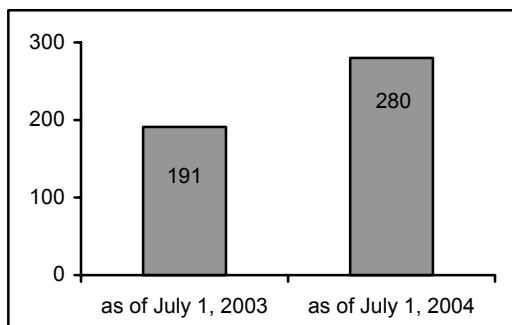
Banking system development. In the first half of 2004 the banking system of Uzbekistan was represented by CBU and 33 commercial banks with 805 branches throughout the Republic. The structure of commercial banks consists of 12 private banks, 5 with involvement of foreign capital, 3 state banks, and 13 with combined forms of ownership. In order to improve convenience for clients and to strengthen inter-bank competition, the number of mini banks was increased to 1003, which is 324 more than in the first half of 2003.

Loan resources were mainly directed to financing priority projects and supporting small businesses and individual entrepreneurship, the volume of which increased by 18.2% since the beginning of the year, which was 2 times greater than the corresponding period of the previous year and amounted to 127.4 bn. UZS. In the sectoral structure the largest portion of credits was given to industrial development – 58.4%, transportation and communications – 15.1%, construction – 4.9% and material-technical provision – 4.7%.

As of July 1, 2004, the total amount of assets of commercial banks increased by 14.9% in comparison with that of July 1, 2003 and amounted to 4614 bn. UZS.

Similarly, the gross capital of commercial banks increased by 9.4% as of July 1, 2004, in comparison with the indicator of July 1, 2003 and equaled 835 bn. UZS. This was made possible by measures undertaken by the Government, CBU and commercial banks aimed at raising the level of capitalization of banks and attracting new shareholders, including individual shareholders. Particularly, on the 26th of February, 2004, the Cabinet of Ministers issued Decree # 89, which envisaged the increase in the share of a shareholder or a group of bound shareholders in the charter fund of a bank from 7% to 25%. As a result of those measures, the number of shareholders of commercial banks increased by 4.7 thous. from that of July 1, 2003, reaching 170.9 shareholders, including 4.6 thous. individuals and 116.8 thous. legal entities.

Graph 1.3.1. Monetary Income of Population in Banks (bn. UZS)



At the same time, a trend towards an increased time for repayment of bank deposits was observed. And this indicates that inflation expectations have been decreasing and that the trust of population in commercial banks of the Republic has been increasing. Thus, on July 1, 2004, the share of deposit and credit accounts in total monetary deposits of the population accounted for 78%, while the same indicator was equal to 69% in the corresponding period of the previous year.

Monetary policy. The implementation of the complex of measures in the spheres of economic, fiscal and monetary policies has brought about a sharp reduction in the level of inflation. In the first half of 2004, the consumer

price index equaled -0.8%, against 4.2% in the first half of 2003. And this, in turn, brought about a decrease in the interest rates of commercial banks and consequently, a significant increase in the volume of loans for the real sector of the economy.

During the first half of 2004 the CBU's refinancing rates remained unchanged at 20% annually, as opposed to 34.5% in the first half of 2003.

The average weighted interest rate on loans of commercial banks lending for a period less than 1 year in national currency, decreased by 10.8 percentage points compared to similar indicators from 2003 and equaled 20.6%.

The weighted average interest rate on fixed-term deposits of legal entities in national currency decreased almost by 7.6 percentage points and amounted to 12.5%, and on fixed-term deposits of individuals – by 6.1 percentage points, amounting to 32.2% (Table 1.3.1.).

Table 1.3.1. Change in Interest Rates (%)

Period	Refinancing rate per annum	Average weighted rate on short term loans in UZS	Average weighted rate on fixed-term deposits of legal entities in UZS	Average weighted rate on fixed-term deposits of individuals in UZS
2000	32.3	25.7	12.9	32.2
2001	26.8	28.0	16.0	38.1
2002	34.5	32.2	19.2	40.2
2003	27.1	28.1	17.1	36.2
03/I	34.5	30.9	19.2	38.5
03/II	34.5	31.4	19.5	38.3
04/I	20.0	19.8	13.0	33.9
04/II	20.0	20.6	11.9	32.2

Source: Central Bank of the Republic of Uzbekistan.

Further maintenance of high rates of economic growth requires accelerating the process of implementation of measures to reform the banking system, aimed at increasing their charter funds and credit abilities, reducing out-of-bank turnovers, and resolving the problems of unification of cash and non-cash monetary circulations.

1.4. Foreign Exchange Policy

In the first half of 2004 foreign currency policy was aimed at ensuring the stability of the exchange rate, maintaining international reserves at a level sufficient for implementing monetary policy, and conducting timely calculations on foreign debts and international operations.

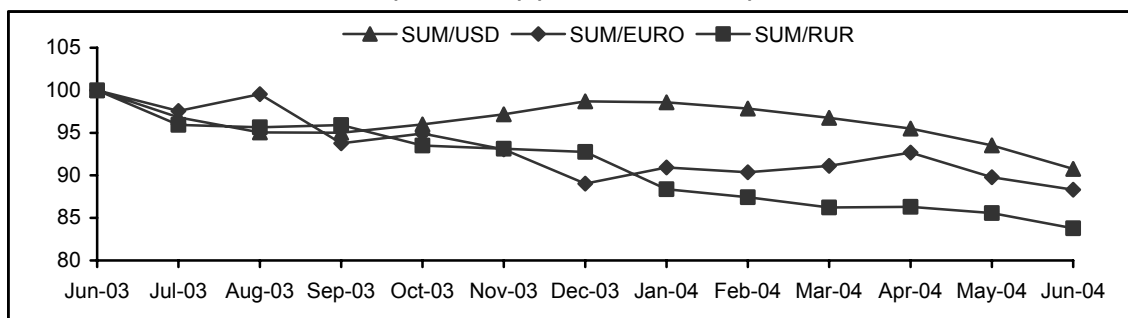
The implementation of tight monetary policy promoted the stability of the exchange rate of the national currency. In the first half of 2004, the monthly average nominal exchange rate of UZS in relation to USD decreased by 3.4% and in comparison to the similar indicator of 2003 – by 4.5%. During the first half of the current year, the monthly average exchange rate of cash foreign currency decreased by 3.2%, and in comparison with the similar indicator of the previous year – by 2.4% (Table 1.4.1.). The gradual trend of decrease in the dynamics of the exchange rate of the national currency can be explained by the impact of such factors as inflationary expectations and changes in monetary aggregates.

Table 1.4.1. Exchange Rate of UZS against USD (average indicators for the period of 2000-2004)

Period	Exchange rate of CBU (UZS/\$)	Change compared with previous period (in %)	Rate of exchange of-fices (UZS/\$)	Change compared with the previous period (in %)
2000	236.6	89.9	450.1	183.5
2001	422.9	78.8	829.0	84.2
2002	770.8	82.3	1093.8	31.9
2003	971.6	26.0	995.1	-9.0
03/I	965.3	7.7	1014.7	-3.1
03/II	970.0	0.5	1005.0	-1.0
04/I	989.1	1.0	993.8	1.0
04/II	1010.1	2.1	1012.8	2.0

Source: Central Bank of the Republic of Uzbekistan

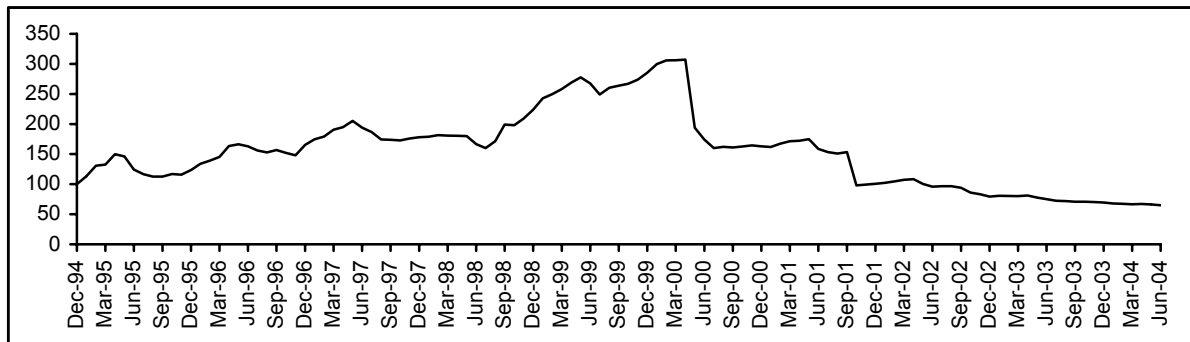
According to the statistics of the first half of 2004, **the real national currency exchange rate** has decreased by 6.8% against the USD, by 16.3% against the Euro, and by 4.8% against the Russian ruble in comparison with the similar indicators of the previous year (Graph 1.4.1).

Graph 1.4.1. Real Exchange Rate of UZS against USD (UZS/USD), EURO and Russian Ruble (UZS/RUR) (March 2003=100)


Source: International Financial Statistics (IFS). IMF; Central Bank of the Republic of Uzbekistan; the author's calculations

This is explained by the relatively high devaluation of the nominal exchange rate of UZS at the same time as a rapid decrease in the index of consumer prices. The gradual decrease of the real exchange rate of the national currency with regard to currencies of major foreign trade partners contributes to the maintenance of price competitiveness of local products in foreign markets. Another important indicator of competitiveness of local producers in foreign markets is the real effective exchange rate. As this rate decreases, exports become more profitable, and imports – less profitable, and vice-versa as the rate increases. In calculations of this rate, the real exchange rate of UZS with regard to individual currencies is totaled, taking into account the share of each country in the foreign trade turnover of Uzbekistan. Presently, Uzbekistan carries out foreign trade activities with more than 140 countries of the world. About 20 countries make up the list of main foreign trade partners, who account for about 70% of the total foreign trade turnover of the country. Based on the indicators of the second quarter of 2004 the following countries have become the main foreign trade partners of Uzbekistan: Russia, whose share accounts for 16.6% of the foreign trade turnover of the Republic, USA – 6.0%, Great Britain – 5.8%, Turkey – 5.1, China – 4.9%, Korea – 4.6%, Kazakhstan – 4.4%, Iran – 4.2%, Germany – 3.2%, and Switzerland – 3.2%.

Graph 1.4.2. Real Effective Exchange Rate of UZS (December, 1994 =100)



Source: International Financial Statistics (IFS), IMF; Central Bank of the Republic of Uzbekistan; the author's calculations

Lately, the dynamics of the real effective exchange rate of UZS has tended to decrease (Graph 1.4.2.). If during 2000-2002 sharp decreases were observed in the dynamics of the real effective exchange rate of UZS, starting in 2003 this rate became significantly more stable. Thus, during 2003, the decrease of the real effective exchange rate equaled 12.1%, and in the first half of 2004 – 6.6%. The stabilization of the real exchange rate of the national currency was contributed to by the strong monetary policy of the CBU.

1.5. Prices and Inflation

In the first half of 2004, in comparison with the corresponding period of 2003, the monthly average level of inflation declined from 0.7% down to -0.1%, as a result of the tight monetary policy conducted by the CBU (Tables 1.5.1. and 1.5.2). During this period the slow in growth of tariffs for paid services (11.4% in the first half of 2003 and 10.0% in the first half of 2004) and in prices for non-foodstuffs (5.0 % in 2003 and 2.4% in 2004) affected the overall level of inflation. For the first time in a year prices for foodstuffs have declined (-4.4%).

Table 1.5.1. Major Indicators of Inflation in the Republic of Uzbekistan for 1995-2004 (increase of prices in % to corresponding period of previous year)

Years	Consumer price index (CPI) consolidated	Foodstuffs	Non-foodstuffs	Services
1995	249.5	252.7	185.0	465.2
1996	54.0	99.3	31.9	100.9
1997	58.8	55.2	65.1	71.4
1998	17.9	12.6	18.8	52.6
1999	29.1	25.6	33.7	43.8
2000	24.9	18.9	36.6	47.1
2001	27.4	27.9	21.1	36.9
2002	27.6	28.0	19.3	41.3
2003	10.3	5.4	13.9	30.9
03/I	19.7	17.3	17.5	38.2
03/II	12.4	8.5	15.6	30.1
04/I	0.7	-6.4	7.2	26.6
04/II	-1.3	9.1	6.6	25.6

Source: Uzbekistan State Committee on Statistics

Table 1.5.2. Level of Inflation for the First Halves of 2003 and 2004 (increase in prices in %)

	Average monthly level		To December of the previous year	
	03/I-II	04/I-II	03/I-II	04/I-II
CPI	0.7	-0.1	4.2	-0.8
Foodstuffs	0.4	-0.7	2.5	-4.4
Non-foodstuffs	0.8	0.4	5.0	2.4
Services	1.8	1.6	11.4	10.0

Source: Uzbekistan State Committee on Statistics

In the regional context, the consolidated CPI increased slightly in Samarkand province (0.04%), while its decrease was observed in all other provinces (Table 1.5.3.).

Factor analysis of the inflation process in the Republic of Uzbekistan in the first half of 2004 indicated that the greatest effect on the level of inflation was provided by inflation of expenses (1.4 percentage points) and the growth in the amount of money (1.4 percentage points).

The increase in prices for foodstuffs is closely related to the increase in wholesale prices of producers, due to the increase in constant expenditures per unit of a product. During the first half of 2004, the inflation of supply was higher than inflation of demand: wholesale prices of manufacturers of industrial products increased in monthly average terms (2.1%), while consumer prices decreased (by -0.1%).

Table 1.5.3. Level of Inflation in the Republic of Uzbekistan for the First Half of 2004 in Regional Context (%)

Province	Increase in prices	Monthly average
Republic of Uzbekistan	-0.8	-0.1
Sirdarya	-1.6	-0.27
Fergana	-1.5	-0.25
Namangan	-1.5	-0.25
Navoi	-1.3	-0.21
Andijan	-1.2	-0.21
Tashkent	-0.8	-0.13
R. of Karakalpakstan	-0.7	-0.11
City of Tashkent	-0.7	-0.11
Bukhara	-0.5	-0.08
Jizzakh	-0.5	-0.09
Kashkadarya	-0.3	-0.05
Surkhandarya	-0.3	-0.04
Khorezm	-0.2	-0.04
Samarkand	0.5	0.07

Source: Uzbekistan State Committee on Statistics

Factor analysis of sources of increase in wholesale prices of manufacturers of industrial products indicated that, in the first half of 2004, the biggest impact on the level of inflation in the real sector of the economy was caused by the increase in prices for energy carriers (48.0%), increase in wages (6.7%), devaluation of the national currency (5.7%) and increase in transportation costs (2.4%) (Table 1.5.4).

In Uzbekistan fruits and vegetables are a typical example of seasonal goods.

In the first half of 2004, the decrease in prices in the consumption sector (-0.8%) was ensured because of the decrease in prices in the group of fruits and vegetables (by 26.5%).

Changes in the OTC foreign exchange rate, which is used in customs collections, had an impact on the increase in prices for imported goods. In the first half of 2004 the devaluation of the OTC foreign exchange rate was equal to 3.9%.

In accordance with the program of economic reforms, subsidies in housing and communal services have been decreased gradually, resulting in an increase in tariffs for heating – by 36.2%, electrical power supply – by 26.8%, and water supply – 17.0%.

In general, the low inflation level was achieved as a consequence of the implementation of tight monetary policy and the surplus in the State budget.

Table 1.5.4. Factor Analysis of the Level of Inflation in Real Sector for the 1st Half of 2004.

	Impact on the CPI (%)	in % to Total
All factors	13.3	100.0
Centralized rise in tariffs for energy carriers	6.4	48.0
OTC foreign exchange rate	0.8	5.7
Wages	0.9	6.7
Transportation expenses	0.3	2.4
Other factors	4.9	37.2

Source: Ministry of Economy of the Republic of Uzbekistan

2. Institutional and Market Transformations

2.1. Denationalization and Privatization, Property Types

In the 1st half of 2004, in accordance with approved schedules of denationalization and privatization, 660 production enterprises and social sphere objects, including 295 in the 2nd quarter, (Graph 2.1.1 and Annex 2.1.1) were reorganized into non-state forms of property, amounting to 94.6% and 113.5%, respectively, compared to the corresponding periods of the previous year.

In the context of sectors, the largest number of enterprises was privatized in the oil-and-gas industry (61), public education (61), in the area of agriculture and water industry (58), and public healthcare (37); and in the territorial context – enterprises of the city of Tashkent (124), and the Fergana (73), Surkhandarya (58), and Sirdarya (53) Regions.

On the basis of privatized enterprises, during the 1st six months of the current year, 13 new joint-stock companies, 102 limited liability companies, and 527 private enterprises (with a sole proprietor), including 48 limited liability companies and 258 private enterprises in the 2nd quarter, were founded (Table 2.1.1).

The study of quarterly dynamics of development of the privatization process (Table 2.1.1) has shown that in the 2nd quarter of the current year no joint-stock company was founded on the basis of a state-owned enterprise. At present, as opposed to the previous years, only large-scale privatized enterprises, whose statutory fund is equal to an amount equivalent to at least 50 thous. USD., are reorganized into joint-stock companies.

The sale into private ownership of state-owned and previously unplaced blocks of shares (stakes) of a large number of previously privatized enterprises, which had started last year, including with the application of new mechanisms of realization of state-owned assets, continued.

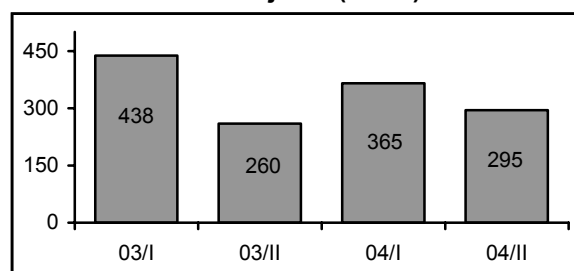
In the first half of 2004, state-owned and previously unplaced blocks of shares of 343 of joint-stock companies and state-owned stakes in the statutory fund of 225 limited liability companies were sold into private ownership, which is 1.9 and 22.5 times more than for the corresponding period of the previous year, respectively. As a result, the number of fully privatized enterprises in the country has increased by 568 units.

During the period of operation of the mechanism for the step-by-step reduction of the starting price of sale of shares at the stock exchange, since September, 2003, blocks of shares of 861 joint-stock companies have been sold for 6.4 bn. UZS, including 232 joint-stock companies for 4.2 bn. UZS during the first half of 2004. In addition, 447 real estate objects were sold for 3.3 bn. UZS.

The practice has increased of transferring low-profit, unprofitable and economically unsound enterprises and objects into private ownership at a zero redemption value, on a competitive basis, and on condition that investors assume investment obligations, aimed at the financial improvement of these enterprises and objects. In this way, while in the 1st quarter of 2004 3 objects were sold – on the basis of the given mechanism – with investment commitments for 71.4 mill. UZS, in the 2nd quarter, 70 objects were sold, with investment commitments for 11.9 bn. UZS. For many of these objects investment commitments have considerably exceeded the minimum amounts set by tender commissions. For example, the territorial tender commission of the Andijan Region, as an obligatory condition for transfer of 94.7% of the share in the statutory fund of the limited liability company “Oltynkul HKMS-101” to private proprietors at a zero redemption value, set a minimum amount of investment obligations at the rate of 40.0 mill. UZS. The given share at the statutory fund was transferred to a private proprietor under investment obligations at the rate of 100.0 mill. UZS.

At the same time, not all the objects that have been put up for tender sale have found private proprietors. For instance, in the Namangan Region, out of 4 objects that had been put up for sale only 2 were transferred

Graph 2.1.1. Number of Privatized Enterprises and Objects (Units)



Source : State Property Committee of Uzbekistan

Table 2.1.1. Number of Non-State-Owned Enterprises Created in the Course of Privatization (Units)

Periods	Total founded	Including		
		Joint-stock companies	Limited liability companies	Private enterprises
03/I	301	19	27	255
03/II	342	5	36	301
04/I	352	13	54	269
04/II	306	-	48	258

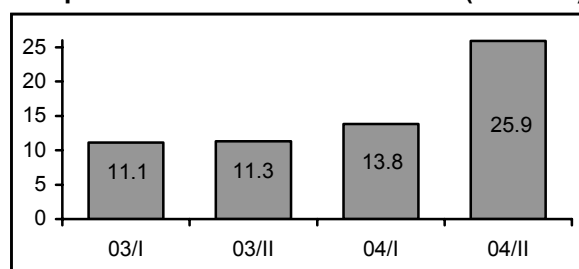
Source : State Property Committee of Uzbekistan

by the tender commission into private ownership at the zero redemption value; in the Surkhandarya Region – only 5 of 7 objects were transferred; and in the Tashkent Region – 3 objects out of 5. The reasons for this are insufficient organizational work at the local level aimed at the involvement of potential investors in competitive sales; noncompliance of the documents submitted by investors with the requirements of the tender commission; and the putting up for sale of a number of objects on condition that new proprietors retain the objects' type of activities, which quite often does not meet the interests of potential investors.

The quick sale of some other types of state-owned objects into private ownership does not always work. For example, for over a year 51 filling stations remain unsold due to their high assessed value. Out of 73 state-owned objects of the association "Uzagromashservis" that had been scheduled for sale during the 1st half of 2003, only 29 were sold into private ownership, which is connected with the low investment attractiveness of many of these objects.

Altogether, during the 1st half of 2004, special accounts of the State Property Fund received 39.7 bn. UZS from the privatization of state property, which exceeds the indicator of the corresponding period of the previous year by 1.8 times. The bulk of these funds – 25.9 bn. UZS (65.2%) – were obtained in the second quarter of the current year (Graph 2.1.2.). This is connected with the transfer of monetary funds by investors in the given quarter on agreements that had been concluded with them in the past (mainly at the end of the 1st quarter of 2004) for the sale of large blocks of shares of a number of joint-stock companies ("Uzkabel", "Urgench Eg", etc.).

Graph 2.1.2 Privatization Proceeds (Bn. UZS)



Source : State Property Committee of Uzbekistan

The funds obtained through privatization, in accordance with the effective procedure of their usage, are directed to the republican and local budgets every month, for the financing of social and economic development projects, for the formation of market infrastructure institutes, and to the privatized enterprises themselves for the purpose of technical re-equipment and production modernization, based on their applications.

A considerable proportion of the funds obtained through privatization is distributed on the basis of specific governmental decisions (34.6% in the 1st quarter, and 36.3% in the 2nd quarter of 2004). They are transferred, predominantly, to privatized enterprises in strategically important sectors of the economy (electric power industry, railway transport, etc.) for the purpose of accelerating their restructuring.

Table 2.1.2. Structure of Distribution of Privatization Proceeds (%)

Directions of Proceeds Distribution	03/I	03/II	04/I	04/II
State Budget	38.9	33.3	41.3	40.9
Local Budgets	6.5	11.9	21.2	19.3
Business Fund	6.5	11.9	-	-
Enterprises under Privatization	10.1	7.1	2.9	3.5
Economic Associations, Enterprises and Organizations, in accordance with specific governmental decisions	38.0	35.8	34.6	36.3
Total	100	100	100	100

Source: State Property Committee of Uzbekistan.

The Business Fund was liquidated on January 1, 2004, and 15% of privatization proceeds, which had been previously transferred to the Fund, are now given as supplements to local budgets.

The quarterly change of the structure of distribution of privatization proceeds (Table 2.1.2) takes place depending on the cost value of sale of shares of privatized enterprises in each quarter, for which specific governmental decisions about providing financial support have been previously made; and on new governmental decisions about the use of the funds involved.

2.2. Market Infrastructure

The following entries were added to the State Registry of Securities as of July 1, 2004:

- 13,408 share issues with a total volume of 2,554.2 bn. UZS, including 417 issuances in the amount of 178.7 bn. UZS in the 1st half of 2004;
- 67 issues of corporate bonds to the amount of 33.4 bn. UZS, including 20 issuances in the amount of 10.0 bn. UZS in the 1st six months.

The total volume of sale of shares on the securities market amounted to 52.4 bn. UZS in the 1st half of 2004, including 22.0 bn. UZS in the 2nd quarter. Growth rates, compared to the corresponding periods of the previous year, were 2.1 times and 2.3 times greater, respectively. At the same time, a more than twofold growth in sales of shares can be observed for the indicated periods of time both on the primary and the secondary securities markets (Table 2.2.1 and Annex 2.2.1).

Altogether, on the primary market, shares worth 32.1 bn. UZS were sold in the 1st half of 2004, including shares worth 11.7 bn. UZS in the 2nd quarter. Almost 84.0% of the given sales volumes consists of the total value of the sales to private organizations and individuals of shares of joint-stock companies founded on the basis of state-owned enterprises.

The tendency, which has formed in recent years, towards the preferential sale of initially placed shares on the off-exchange market by means of conducting direct negotiations with investors and tender biddings (Graph 2.2.1) has been retained. With these forms of sale, preference is given to investors ready to assume obligations regarding investing additional funds into the development of production, in addition to the payment of the cost of the shares sold to them.

In the total volume of concluded transactions, the greatest proportion belongs to the shares of privatized enterprises of the associations "Uzeltekhanoat" (45.5%) and "Uzkurilishmaterialari" (18.9%), the joint-stock company "Uzdonmakhsulot" (5.2%), and the state-owned joint-stock company "Uzbekenergo" (3.1%).

In the 1st half year of 2004, shares worth 7.9 bn. UZS (24.6%) were sold on the primary exchange market, and 24.2 bn. UZS (75.4%) – on the off-exchange market, including 4.2 bn. UZS (36.3%) and 7.5 bn. UZS (63.7%), respectively, in the 2nd quarter. At the same time, as compared to the corresponding periods of the previous year, the ratio of the off-exchange and exchange markets in the total volume of primary sale of shares has not changed significantly. This is connected with the nearly identical growth rates during the periods of time under review (over 200%) of absolute volumes of sales of shares on the exchange and off-exchange securities markets.

The interest of foreign investors in participation in the privatization process intensified, after having rapidly increased in the previous year. Their portion in the total volume of transactions carried out on the primary securities market reached 74.9% in the 1st half of 2004. The given indicator was equal to 28.0% for all of 2002, and to 70.2% in 2003.

The increase in activity of foreign investors on the primary securities market has resulted from a number of factors, including the putting up for auction of controlling and blocking packets of shares of many enterprises attractive in terms of investment, and the application of new flexible mechanisms for their sale; the transition to free convertibility of the national currency for current operations, including foreign economic operations; and the improvement of legislation on corporate management by privatized enterprises.

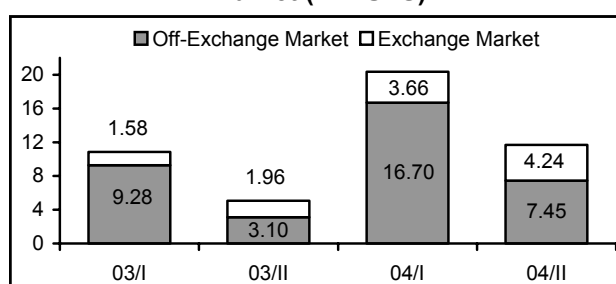
The governmental decision, taken last year, on the exemption from taxes for a period of five years on individuals' income received in the form of dividends from shares (stakes) of economic societies, founded on the basis of privatized enterprises, facilitated an increase of interest of the Republic's citizens in purchasing primarily placed shares. They purchased shares worth 439.8 mill. UZS in the 1st half of 2004, including shares worth 269.4 mill. UZS in the 2nd quarter. Growth rates, as compared to the corresponding periods of the previous year were 3.1 times for each period. However, the share of individuals in the total volume of concluded transactions on the primary market remains low (1.6% for the 1st half of 2004). This is connected in many respects with the difficulty for individuals of obtaining information on joint-stock companies/issuers, dividend yields and prospects for development of enterprises, as well as the low interest of stock brokers in servicing retail investors.

Table 2.2.1. Volume of Sale of Shares on Securities Market (Bn. UZS)

Period of Time	Primary Market		Secondary Market		Total	
	Sum	In % to the total	Sum	In % to the total	Sum	In % to the total
03/I	10.86	68.8	4.93	31.2	15.79	100
03/II	5.06	51.9	4.69	48.1	9.75	100
04/I	20.36	67.2	10.03	33.8	30.39	100
04/II	11.69	53.2	10.3	46.8	21.99	100

Source: Center for Coordination and Control of Operation of the Securities Market at the State Property Committee of Uzbekistan.

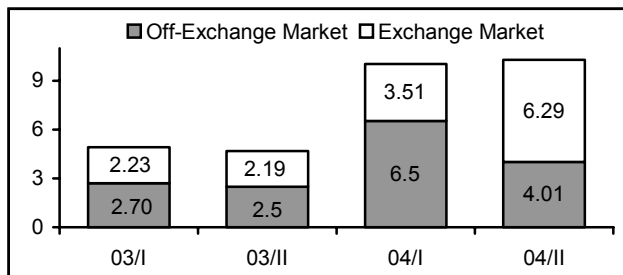
Graph 2.2.1. Sale of Shares on the Primary Stock Market (Bn. UZS)



Source: Center for Coordination and Control of Operation of the Securities Market at the State Property Committee of Uzbekistan.

The share of other categories of investors in the total volume of transactions concluded on the primary securities market was: 7.2% – for small-scale business, 8.1% – large-scale allied enterprises, 1.4% – investment funds, 5.8% – investment intermediaries, and 1.0% – commercial banks.

Graph 2.2.2. Sale of Shares on the Secondary Stock Market (Bn. UZS)



Source: Center for Coordination and Control of Operation of the Securities Market at the State Property Committee of Uzbekistan.

exchange market (Annex 2.2.1). After that, the volume of sales of shares on the exchange market tended to exceed that on the off-exchange market, with the exception of the 1st quarter of the current year. The greatest volume of sales on the exchange market was registered in the 2nd quarter of 2004 – in the amount of 6.3 bn. UZS, which comes to 61.1% of the total volume of the secondary securities market and exceeds the indicator for the corresponding period of the previous year by 14.4 points (Graph 2.2.2.).

The increase of the role of the exchange market in the secondary sale of shares has occurred, in many respects, as a result of the ban introduced in April 2003 on conducting operations regarding the purchase and sale of shares on the secondary unorganized off-exchange market, and because of the insufficient degree of development of the infrastructure of the organized off-exchange market.

The main participants of the secondary securities market are individuals. In the 1st half of 2004, they purchased 14.6 bn. UZS worth of shares, which amounts to 71.8% of the total volume of transactions on the given market. This amount is 3.4 times larger than the volume of shares purchased by individuals for the corresponding period of the previous year, which testifies to an increase in the interest of the citizens in investing available funds in the shares of the Republic's enterprises and organizations which are attractive for investment.

Shares of commercial banks, enterprises of the joint-stock company "Uzdonmahsulot", the association "Uzgunsanoat", and the state-owned joint-stock company "Uzbekengilsanoat" enjoyed the highest demand. Transactions regarding the purchase and sale of these shares amounted to almost 1/3 of the total turnover of the secondary securities market. In a territorial context, the largest volume of transactions was carried out in connection with the sale of shares of joint-stock companies of Tashkent City (74.8%) and the Andijan (6.2%) and Tashkent (4.8%) Regions.

The turnover on the securities market of corporate bonds, issued by a number of investment-attractive joint-stock companies, has increased. The issue of these bonds, unlike additional issuance of shares, allows investment to be attracted without reducing the participation share of proprietors in the stock capital. Thus, their prior degree of participation in management control is retained.

During the 1st half of 2004 the following transactions were conducted for purchase and sale of bonds: on the stock-exchange market – in the amount of 153.5 mill.UZS, and on the off-exchange market – 12.6 bn. UZS. During the corresponding period of the previous year, bonds were sold for a total of 2.2 bn. UZS.

At the Republican Real Estate Exchange (RREE) and its branches, besides regular electronic stock-exchange biddings (three times per week), in the 1st half of 2004, 303 auctions and 8 competition biddings were conducted. The share of exchange and off-exchange trade in the total quantity of sold objects amounted to 45% and 55% respectively.

A total of 7.5 thous. real estate objects worth 14.8 bn. UZS were sold, including 3.6 thous. objects worth 6.2 bn. UZS in the 2nd quarter (Graphs 2.2.3 and 2.2.4). Growth rates, compared to the corresponding periods of the previous year, amounted to, respectively: 23.0% and 5.9% – by the number of sold objects, and 54.2% and 12.7% – by the volume of sales proceeds. The more rapid growth of sales proceeds, compared to the number of sold objects, resulted from an increase in the structure of sold property of large-scale high-priced objects.

Within the last year and a half, the sale into private ownership of a large number of shares which had previously belonged to the state has facilitated the expansion of the volume of transactions on the secondary securities market. In the 1st half of 2004, the turnover of the secondary market amounted to 20.3 bn. UZS, including 10.3 bn. UZS in the 2nd quarter, (Table 2.2.1). Growth rates, in comparison with the corresponding periods of the previous year, amounted to 2.1 and 2.2 times, respectively.

Until the 2nd half of 2003, the bulk of secondary sales of shares was carried out on the off-

A tendency towards increasing volumes of sale of property put up for sale both by the state and by private legal entities and individuals (Graphs 2.2.3 and 2.2.4) can be observed. In the 1st quarter of the current year more real estate objects were sold than during the corresponding period of the previous year: in quantitative and cost terms, respectively, state-owned objects – 1.1 and 1.7 times; and privately-owned objects – 1.7 and 1.5 times.

In the total number of sold objects the share of state-owned property is predominant, amounting to 4.3 thous. units (57.3%) in the 1st half of 2004, including 1.9 thous. units (52.8%) in the 2nd quarter. However, fewer proceeds were received from the sale of state-owned objects than from the sale of objects put up for auction by private persons. During the 1st half of the year, state-owned objects brought 3.4 bn. UZS in sales, including 1.8 bn. UZS in the 2nd quarter, which amounts to 35.1% and 29.0% of the total proceeds from the sale of real estate objects, respectively.

The greatest share in the total amount of real estate property sold through the RREE was comprised of land lots intended, mainly, for individual housing construction or, to be more exact, the right to heritable life tenure of these lots. In total, during the 1st half of 2004, the rights to heritable life tenure of 3,633 land lot units were sold (Annex 2.2.2), of which 3,586 units were intended for individual housing construction, and 47 units – for the founding of dekhkan farms. The share of these land lots in the total quantity of real estate sold through the RREE amounted to 48.4%.

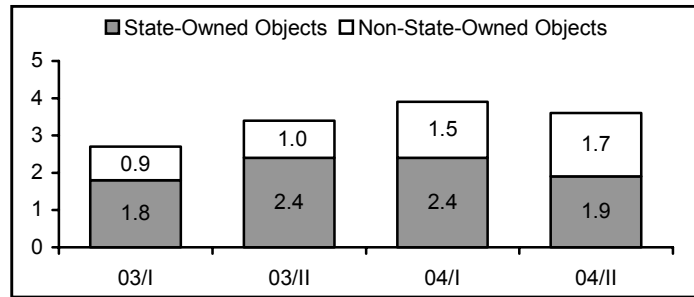
Despite the large number of land lots, the right to heritable life tenure of which was sold through the RREE, proceeds from that group made up an insignificant portion in the total cost volume of the exchange: in the 1st quarter – 1.8%, and in the 2nd quarter – 3.3% (Table 2.2.2.). This is a consequence of the low sale price of the given right.

The highest share in the RREE's cost turnover consisted of proceeds from the sales of residential and non-residential premises, including production objects (in the 1st and 2nd quarters of 2004 – 38.0% and 39.8%, respectively), as well as from sales of commercial and consumer services objects (in the 1st and 2nd quarters of 2004 – 36.9% and 32.6%, respectively). At the same time, as compared to the corresponding quarters of the previous year, the share of commercial and consumer services objects rose sharply, while the share of residential and non-residential premises decreased (Table 2.2.2). This was caused by the offering for auction of 545 high-priced commercial and consumer services objects by private persons in the current year.

In the 1st half of the current year, the sale of agricultural and water industry objects (livestock farming premises, poultry farms, etc.) grew considerably. 1,188 objects were sold in the amount of 2.2 bn. UZS, which exceeds indicators of the corresponding period of the previous year by 3.3 and 3.4 times, respectively. As a result, the share of the given objects increased in the 2nd quarter of 2004, as compared to the corresponding period of the previous year: for the total number of sold objects – by 8.4 points, and for the cost volume of sales – by 17.1 points.

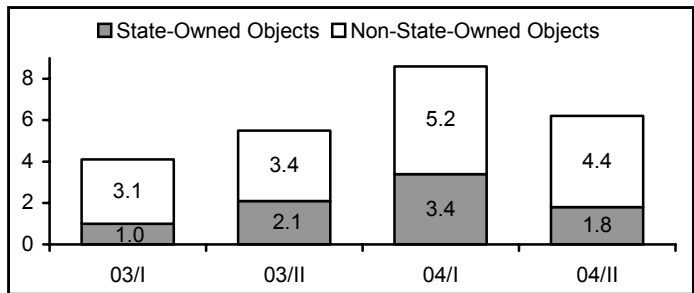
Also, the tendency towards an increase in the sales of construction-in-progress objects through the RREE can be observed. In total, in the 1st half of 2004, 418 objects were sold in the amount of 614 mill. UZS, which exceeds indicators of sales of the given objects for the corresponding period of the previous year by quantity – 2.0 times, and by cost – 1.8 times. An overwhelming majority of the construction-in-progress objects (409 units) was put up for sale by non-state-owned enterprises in the course of carrying out the restructuring of their property complex.

Graph 2.2.3. Number of Objects Sold through the RREE (Thous. Units)



Source: Republican Real Estate Exchange

Graph 2.2.4. Proceeds from Sale of Real Estate Objects (Bn. UZS)



Source: Republican Real Estate Exchange

Table 2.2.2. Structural Composition of Property Sold through the RREE (in % to the total)

Types of Property	2003/I	2003/II	2004/I	2004/II
Construction in Progress:				
Quantity	3.5	3.3	4.7	6.6
Amount	2.7	3.6	4.0	4.3
Commercial and Consumer Services Objects:				
Quantity	7.5	8.2	10.5	11.1
Amount	10.8	13.6	36.9	32.6
Property of Bankrupt Enterprises:				
Quantity	0.3	0.8	0.6	-
Amount	4.5	2.7	6.1	-
Property Sold to Cover Tax Debts to State Budgets:				
Quantity	4.4	2.3	0.1	-
Amount	5.7	1.9	0.1	-
Property Sold by Orders of Economic Courts:				
Quantity	0.9	0.6	0.7	-
Amount	0.4	2.4	1.7	-
Objects of Agriculture and Water Industry:				
Quantity	-	7.1	16.2	15.5
Amount	-	2.9	11.4	20.0
Land Lots:				
Quantity	59.6	64.2	55.3	41.0
Amount	2.2	2.8	1.8	3.3
Residential Buildings and Non-Residential Premises, Other Property:				
Quantity	23.8	13.5	11.9	25.8
Amount	73.7	70.1	38.0	39.8
Total:				
Quantity	100	100	100	100
Amount	100	100	100	100

Source: Republican Real Estate Exchange

In the 2nd quarter of 2004, as opposed to a number of previous periods, there was no sale of real estate objects under compulsion (by orders of economic courts). Few such objects were sold in the 1st quarter of the current year as well (Table 2.2.2 and Annex 2.2.2), as they were rarely put up for sale.

At the RREE, in addition to real estate objects, since 2004 shares in the statutory fund of limited liability companies have been put up for sale by the state and by private legal entities and individuals. In the 1st half of 2004, shares in the statutory fund of 240 limited liability companies were sold in the amount of 1.9 bn. UZS, including shares of 225 companies that had previously been owned by the state, for 1.8 bn. UZS.

2.3. Small Enterprises

In the 1st half of 2004, small enterprise (SE) entities produced 29.1% of the GDP, which exceeded the level of the corresponding period of the previous year by 0.2 points. The share of small businesses and microfirms in the GDP increased by 0.6 point and amounted to 13.9%, while part of SE's added value was created by individual entrepreneurship – its share in the GDP amounting to 15.2%) (Table 2.3.1 and Annex 2.3.1).

The number of SE employees, including individual entrepreneurs, reached 5,897.3 thous. persons. Growth, compared to the corresponding period of the previous year, amounted to 11.4%. At the same time, the highest growth of the number of employees has been

Table 2.3.1. Main Indicators of Development of Small Entrepreneurship

Indicators	Unit	03/I-II	04/I-II
Share of Small Enterprises in the GDP	%	28.9	29.1
Small Businesses and Micro-Firms	%	13.3	13.9
Number Employed by Small Enterprises and Micro-Firms	Thous. Persons	936.0	1203.6

Source: State Committee on Statistics of Uzbekistan.

registered at microfirms – 32.8%. The ratio of persons engaged in small enterprise to the total number of those employed at economic entities amounted to 61.1%. The growth of the number of SE employees was registered as higher than the Republic's average level in the Surkhandarya (16.8%), Namangan (14.3%), Tashkent (13.2%), and Sirdarya (12.6%) Regions.

Although the number of operating SE entities per 1000 persons in the Republic on the whole increased by 1.0 point, compared to the corresponding period of the previous year, amounting to 9.2 units, it is still insufficient. This indicator was higher in the Kashkadarya (16.5 units), Jizzakh (15.8 units), Sirdarya (15.5 units), Bukhara (11.3 units), and Navoi (11.6 units) Regions as a result of the khokimiats' policy actively pursued with a view to encouraging the development of small business. At the same time, this indicator was lower than the Republic's average level in the Namangan (5.8 units), Surkhandarya (6.3 units), Tashkent (6.9 units), and Fergana (7.0 units) Regions, and in the Republic of Karakalpakstan (7.9 units).

In the 1st half of 2004, the growth of industrial products manufactured by small enterprise entities was 26.7% over the corresponding period of the previous year. This was achieved mainly owing to the intensification of activities of small businesses, whose production output grew 42.6%. Within the half year the percentage of SE in the total volume of industrial production stabilized at the level of 10.6% (Table 2.3.2 and Annex 2.3.2).

The share of small enterprises in consumer goods production has grown. The percentage of SE in the total volume of their production amounted to 21.8%, with the bulk (11.5%) consisting of individual manufacturers, 8.2% – small businesses, and 2.1% – microfirms.

Activities of SEs have particularly intensified in the area of foodstuffs production where the rate of growth within the half year amounted to 15.9%, compared to the corresponding period of the previous year. SEs manufactured 34.2% of the total volume of foodstuffs production output, of which 23.3% was produced by individual entrepreneurs.

The share of small enterprises in nonfoods production is still low – 13.8%, of which 8.5% of products were manufactured by small businesses.

SE entities produced 86.8% of the total gross volume of agricultural output, exceeding the level of the corresponding period of the previous year by 0.7 point. About 75% of agricultural products were produced by dekhkan farms.

Activities of small enterprises have somewhat increased in the retail trade, in comparison with the corresponding period of the previous year. Their ratio in the total volume of goods turnover has risen by 0.6 point (Table 2.3.2). The increase was caused, mainly, by the growth of trade carried out by individuals, whose share was 28.0%. The proportion of private small enterprises (citizens' property) in the total volume of goods turnover increased, reaching 36.0%.

Table 2.3.2. The Share of SE Entities in Production Output by Sectors of Economy (%)

Sectors of Economy	03/I-II	04/I-II
Industry	10.6	10.6
Agriculture	86.1	86.8
Retail Turnover	41.2	41.8
Paid Services	44.1	45.3

Source: State Committee on Statistics of Uzbekistan.

The share of SE entities in the total volume of paid services grew particularly rapidly, amounting to 45.3%, which is higher than the level of the 1st half of 2003 by 1.2 points. At the same time, the share of private entrepreneurship amounted to 41.3%.

During the 1st half of 2004, 270,651 SE entities were registered, of which the number of operating entities came to 235,408. The share of operating SE entities in the total number of registered SE entities amounted to 87.0%. The number of newly founded enterprises within the period under review reached 34.7 thous. units, exceeding the level of the 1st half of 2003 by 7.8 thous. units.

A tendency towards gradual change in the structure of operating enterprises by area of the economy has taken shape. While their number has grown in industry (by 0.3 thous. units), construction (by 0.5 thous. units), and transport, it has decreased in trade (by 1.7 thous. units).

The highest growth in the number of operating SE entities was observed in agriculture, where it amounted to more than 26 thous. units within the period under review. This was a result of the process of transformation of unproductive shirkats into farms, and the intensification of economic activities of the rural population.

Table 2.3.3. Number of Operating SE Entities by Sector of Economy (thous. Units)¹⁾

Indicators	03/I-II	04/I-II
Republic of Uzbekistan	208.8	235.4
Industry	20.7	21.0
Agriculture	115.4	141.5
Transport and Communications	2.0	2.2
Construction	10.8	11.3
Trade and Public Catering	44.6	42.9
Other Areas	47.3	16.5

Source: State Committee on Statistics of Uzbekistan.

¹⁾ For legal entities, as of the first day of the following quarter.

The number of operating entities in the Republic of Karakalpakstan increased by 2.1 thous. units, in the Kashkadarya Region – by 3.4 thous. units, Sirdarya Region – by 1.5 thous. units, Bukhara Region – by 2.7 thous. units, and Tashkent Region – by 1.7 thous. units (Table 2.3.4).

Within the 1st half of 2004, the share of SEs in the total volume of exports increased by 0.1 point and made up 5.1%. The share of exports of finished articles amounted to: 13.2% for machinery and equipment, and 5.2% for chemical products. The share of raw materials in the total volume of exports increased, amounting to 12.4%.

At the same time, a 1.1 point reduction was observed in the share of small enterprise entities in the total volume of imports. In the commodity structure of imports, the share of foodstuffs dropped sharply (by 10 points), and the share of chemical products grew (by 5 points), which is connected with the needs of the domestic market.

Table 2.3.4. Number of Operating SE Entities by Region (Thous. Units)¹⁾

Regions	03/I-II	04/I-II
Republic of Uzbekistan	208.8	235.4
Republic of Karakalpakstan	10.2	12.3
Andijan Province	18.1	19.1
Bukhara Province	15.7	18.4
Jizzakh Province	15.4	16.3
Kashkadarya Province	25.1	38.5
Navoi Province	8.4	9.3
Namangan Province	13.2	11.9
Samarkand Province	19.6	20.2
Surkhandarya Province	10.8	11.8
Sirdarya Province	8.9	10.4
Tashkent Province	15.1	16.8
Fergana Province	18.3	19.7
Khorezm Province	11.6	12.6
Tashkent City	17.7	18.1

Source: State Committee on Statistics of Uzbekistan.

¹⁾ For legal entities, as of the first day of the following quarter.

Table 2.3.5. Ratio of SE Entities in Foreign Economic Activities (%)

Indicators	03/I-II	04/I-II
Exports	5.0	5.1
Imports	32.0	30.9
Number of SE Entities Participating in Foreign Economic Activities, thous. units	2.1	2.6

Source: State Committee on Statistic of Uzbekistan.

Within the 1st half of 2004, the number of participants in foreign economic activity increased by more than 500 units, reaching 2,625 entities (Table 2.3.5 and Annex 2.3.3). However, the share of SE entities which were legal entities in foreign economic activity remained at a low level.

Annex 2.1.1. Main Indicators of Privatization of State-Owned Enterprises (Units)

Indicator	1995	1996	1997	1998	1999	2000	2001	2002	2003	03/I	03/II	04/I	04/II
Number of Privatized Enterprises	8537	1915	1231	451	448	374	1449	1912	1519	436	260	365	295
Number of Enterprises with Non-State Form of Ownership, Founded on the Basis of Privatized Property	8537	1915	899	266	373	372	1238	1800	1452	301	342	352	306
Joint-Stock Companies	1026	1257	456	110	141	152	227	223	75	19	5	13	-
Private Enterprises	6036	420	260	103	156	103	827	1252	981	255	301	269	258
Enterprises of Other Organizational-and-Legal Types	1475	238	183	53	76	117	184	325	396	27	36	54	48
Total Proceeds from Privatization (bn. UZS)	2.4	5.3	4.4	8.9	9.1	14.3	23.2	43.6	56.1	11.1	11.3	13.8	25.9

Source : State Property Committee of Uzbekistan

Annex 2.2.1. Dynamics of the Volume of Sale of Shares on the Securities Market (Bn. UZS)

Indicator	1995	1996	1997	1998	1999	2000	2001	2002	2003	03/	03/	04/	04/
Total Shares Sold on Securities Market	1.74	8.27	8.37	17.92	10.78	17.11	26.13	41.74	74.7	15.79	9.75	30.39	21.99
On Primary Market	1.58	5.94	5.48	9.99	4.51	6.23	12.26	16.33	53.9	10.86	5.06	20.36	11.69
On Exchange Market	1.32	2.78	2.28	3.25	3.13	4.60	6.84	10.53	19.7	1.56	1.96	3.56	4.24
On Off-Exchange Market	0.26	3.16	3.18	6.74	1.38	1.63	5.42	5.80	34.2	9.28	3.10	16.70	7.45
On Secondary Market	0.16	2.33	2.89	7.93	6.27	10.88	13.87	25.41	20.8	4.93	4.69	10.03	10.3
On Exchange Market	-	0.03	0.02	0.27	0.51	0.63	1.10	4.60	12.4	2.23	2.19	3.51	6.29
On Off-Exchange Market	0.16	2.30	2.87	7.66	5.76	10.25	12.77	20.81	8.4	2.7	2.5	6.5	4.01

Sources: Indicators for 1995 – 1998 – Research Institute for the Intensification of Market Reforms at the State Property Committee of Uzbekistan;
Indicators for 1999 - 2004 – Center for Coordination and Control of Operation of the Securities Market at the State Property Committee of Uzbekistan.

Annex 2.2.2. Quantity and Cost of Property, Sold through the Republican Real Estate Exchange (Units/ mill. UZS)

Types of Property	1995		1996		1997		1998		1999		2000	
	Units sold	Value	Units sold	Value	Units sold	Value	Units sold	Value	Units sold	Value	Units sold	Value
Construction in Progress	177	141	646	320	550	369	280	247	257	196	296	630
Commercial and Consumer Services Objects	880	338	347	94	296	162	232	172	278	198	419	450
Property of Bankrupt Enterprises	4	1	40	66	86	98	56	109	315	176	435	1028
Property Sold to Cover Tax Debts to State Budgets	-	-	-	-	-	-	-	-	-	-	-	-
Property Sold by Orders of Economic Courts	-	-	-	-	-	-	-	-	-	-	-	-
Agricultural and Water Industry Objects	-	-	3463	218	1105	336	606	170	470	245	602	450
Land Lots	2845	52	7911	143	6456	206	4454	185	4060	158	5700	254
Residential and Non-Residential Premises, Other Property	2888	334	3093	757	1844	460	1260	883	1090	1415	1491	3368
Total	6794	864	15500	1598	10337	1631	6888	1766	6470	2388	8943	6180

Annex 2.2.2 continued

Types of Property	2001		2002		2003		2003/I		2003/II		2004/I		2004/II	
	Units sold	Value	Units sold	Value	Units sold	Value	Units sold	Value	Units sold	Value	Units sold	Value	Units sold	Value
Construction in Progress	265	559	180	832	586	1176	96	134	114	200	184	343	234	271
Commercial and Consumer Services Objects	548	1221	436	1039	954	3203	205	526	279	744	414	3159	397	2034
Property of Bankrupt Enterprises	565	1264	289	719	372	1559	8	220	26	150	23	524	-	-
Property Sold to Cover Tax Debts to State Budgets	2211	1345	2230	1409	209	388	120	278	77	102	3	1	-	-
Property Sold by Orders of Economic Courts	496	415	343	312	147	391	24	21	21	131	26	149	-	-
Agricultural and Water Industry Objects	510	367	413	396	904	653	-	-	242	158	636	976	552	1250
Land Lots	8662	504	8335	551	7391	490	1632	109	2199	152	2169	158	1464	203
Residential and Non-Residential Premises, Other Property	1959	6675	2058	10913	3350	15600	652	3605	465	3839	469	3252	923	2480
Total	15216	12350	14284	16171	13913	23460	2737	4893	3423	5476	3924	8562	3570	6238

Source: Republican Real Estate Exchange

Annex 2.3.1. Main Indicators of Level of Development of SME

Indicators	Unit	1999	2000	2001	2002	2003	03/I**	03/I-II	04/I	04/I-II
Ratio of Small and Medium Business in the GDP	%	29.1	31.0	33.8	34.6	35.5	28.9	28.9	27.8	29.1
Small and Medium Enterprises	%	12.6	13.1	14.8	15.7	16.4	13.8	13.3	13.4	13.9
Number of Operating Legal Entities	Thous. Units	125.6	149.3	177.7	236.4	229.6	209.1	208.8	222.4	235.4
Number of Employees at SME ¹⁾	Thous. Persons	647.7	745.3	801.8	900.3	1045.1	903.2	936.0	1007.0	1203.6

Source: State Committee on Statistics of Uzbekistan.

¹⁾ Excluding Individual Entrepreneurs.

** Indicators calculated taking into account the Cabinet of Ministers' Regulation of 10/11/2003.

Annex 2.3.2. Share of SMEs in Production Output by Sector of Economy (%)

Areas of Activity	1999	2000	2001	2002	2003	03/I	03/I-II	04/I	04/I-II
Industry	10.5	11.3	14.1	14.1	16.6	9.6	10.6	9.8	10.6
Agriculture	68.0	72.4	75.6	76.4	76.8	92.8	86.1	93.2	86.8
Retail Turnover	45.6	45.9	45.8	43.8	45.5	39.9	41.2	41.1	41.8
Paid Services	35.9	37.9	39.9	41.3	45.7	41.0	44.1	42.9	45.3

Source: State Committee on Statistics of Uzbekistan.

Annex 2.3.3. Share of SME Entities in Foreign-Trade Operations of the Republic

Indicators	1999	2000	2001	2002	2003	03/I	03/I-II	04/I	04/I-II
Exports, %	29.4	10.2	9.0	7.5	7.3	5.3	5.0	8.7	5.1
Imports, %	35.5	27.4	26.9	24.9	33.7	33.5	32.0	29.4	30.9
Number of Entities Participating in Foreign Economic Activity, thous. units	2.4	2.8	2.5	2.7	3.3	1.2	2.1	1.8	2.6

Source: State Committee on Statistics of Uzbekistan.

3. Structural-Investment Policy

3.1. Industry

The index of total industrial output in the 1st half of 2004 had the highest value for the entire period of reforms and amounted to 9.6%. Industrial enterprises manufactured products in the amount of 3,810.6 bn. UZS.

In the production structure of GDP, one of the components providing growth was the significant increase in the growth rate of added value of industry. In the 1st half of 2004 the index of the growth rate of added value exceeded the level of the corresponding period of the previous year by 2.8 points, amounting to 5.8%. The share of industry in GDP grew from 18.1% to 19.5%.

The positive dynamics of development in the industrial sector resulted mainly from internal factors of growth. The financial stability of enterprises was ensured by the active reconstruction of enterprises and the stable situation on the foreign currency market.

The machine-building sector maintains its leading position in industrial growth. The index of growth in the machine-building production amounted to 32.0% (Table 3.1.1).

Table 3.1.1. Indices of Industrial Production Output

	Index of industrial production output (in % to corresponding period)	
	03/I-II	04/I-II
Industry	105.5	109.6
Electric-Power Industry	100.9	102.2
Fuel Industry	97.9	108.5
Ferrous Metallurgy	111.5	115.2
Non-Ferrous Metallurgy	100.2	105.7
Chemical Industry	104.9	100.1
Machine-Building	119.2	132.0
Timber, Wood-Working Industry	100.7	108.5
Construction Materials Industry	99.7	113.5
Light Industry	110.5	104.7
Foodstuff Industry	104.8	101.2
Other	106.7	141.6

Source: State Committee on Statistics of Uzbekistan

market structures have been implemented. Based on the overall results of the 1st half of 2004, the number of public corporations with a government share fell from 20 to 9, allowing the influence of shareholders on decision-making to be strengthened.

An important factor of positive development in the machinery-building complex was the effective realization of projects for localization, aimed at the reduction of the import-dependence of key manufactures. More than 55% of the total number of industrial projects in localization were in the machine-building sector.

However, in the development of the machine-building sector, which differs from other sectors in its higher dynamics of adaptation to market reforms, there remains the tendency towards a decrease in some kinds of products. For example, in agricultural machinery, as a result of a reduction of market capacity in the 1st quarter of 2004, the share of the physical volume of output of the main types of products decreased, including tractors – by 7.0% and tractor sowers – by 15.7% (Table 3.1.2).

Within the period under review the index of growth of production output in ferrous metallurgy amounted to 15.2%. Positive tendencies were connected with an increase in the level of provision of resources for the enterprises. An additional factor in growth was the high liquidity of manufactured production, and the ratio of sales volume to the volume of products offered for sale through commodity exchange stocks was high: from 94.9% to 100.0%. According to the overall results of the 1st half of 2004, the production of steel increased by 10.5 % and of rolled ferrous metals by 11.8%.

The machine-building complex provided more than one third of the growth in industrial output (9.6%), mainly due to the forward pace of development of the motor-car construction industry. Based on the overall results of the 1st half of 2004, production of cars grew 1.7 times, including an increase in the production of the new modification “Matiz” of 7.9 times.

As a result of the effective activity of joint-ventures in the electrotechnical industry, volumes of production of cable and conducting materials increased 1.4 times, including isolated cable – 2.3 times and TV-sets – 1.4 times.

In the framework of measures aimed at reconstruction and institutional reforms in the electrotechnical industry, reforms of enterprises' management systems targeted at the abolition of needless duplicated branches and the formation of new modern

Table 3.1.2. Indices of Growth of Production of Main Types of Industrial Products

	Unit	Production of major products in kind		Indices of production of major products (in % to previous year)	
		03/I-II	04/I-II	03/I-II	04/I-II
Electric Power	Mill. K.W.H	24629	25582	100.6	103.9
Fuel Industry					
Oil	Thous. tons	2121.6	2151	106.0	101.4
Gas	Mill. M ³	28386.6	30054.7	99.8	105.9
Coal	Thous. tons	876	1250	66.0	142.6
Metallurgy					
Steel	Thous. tons	254	280.7	108.5	110.5
Machine-Building					
Tractors	Units	1476	1372	101.4	93.0
Cotton Harvesting Machines	Units				
Excavators	Units	23	18	55.8	78.3
Cars	Units	18972	32263	85.8	170.1
Color TVs	Units	9643	13557	35.6 times	140.6
Isolated Cable	Km	599	1379	112.5	2.3 times
Chemical Industry					
Mineral Fertilizers	Thous. tons	429.5	441	97.5	102.7
Nitrogen Fertilizers	Thous. tons	365	370.4	102.3	101.5
Phosphate Fertilizers	Thous. tons	64.5	70.6	77.2	109.5
Synthetic Ammonia	Thous. tons	509.1	511	101.8	100.4
Sulphuric Acid	Thous. tons	461.4	398.4	94.8	86.3
Synthetic Resins and Plastics	Tons	29917	55600	3.7 times	185.8
Chemical Fibers and Threads	Tons	7254	4550	94.4	62.7
Synthetic Detergents	Tons	800	954	58.2	119.3
Chemical Protectants of Plants	Tons	1813	2709	161.6	149.4
Construction Materials Industry					
Walling	Mill.Pieces cond. bricks	67	61.9	67.3	92.4
Light Industry					
Cotton Fiber	Thous. tons	535.1	492	97.9	91.9
Cotton Yarn	Thous. tons	84.1	87.1	102.0	103.6
Raw Silk Threads	Tons	198.9	226.8	36.9	114.0

Source: State Committee on Statistics of Uzbekistan.

The index of growth in production of non-ferrous metallurgy amounted to 5.7%, which was 5.5 points higher than the level of the corresponding period of the previous year. The acceleration of the pace of production essentially resulted from the improvement of the conjuncture of foreign markets, and the maintenance of position in the category of goods with a high liquidity on the home market.

In the sector of the fuel and energy complex (FEC), the growth rates of main types of products were maintained. The index of growth of production in the fuel industry amounted to 8.5%, and in the electric power industry – 2.2%.

The main factor in achieving positive shifts in the dynamics of economic indicators of the fuel industry was the increase in volume of production of oil by 1.4%, gas by 5.9% and diesel by 9.3%.

As a result of introducing a non-traditional scheme of work with the use of basic elements of cyclic-assembly-line operations, volumes of coal production increased by 42.6% with respect to the corresponding period of the previous year.

Electricity generation in the 1st half of 2004 grew by 3.9% as a result of the increase in consumption on the home market and the growth of export deliveries. The process of stage-by-stage reforming of the energy system of the country continues to play an important role in increasing the production and financial stability of power industry enterprises.

The index of growth of construction materials production amounted to 13.5%. The current dynamics of development of the construction materials industry (CMI) has been impacted by the investment activity of enterprises and the attracting of preferential credits directed towards the development of new competitive types of products.

Within the analyzed period a positive shift in the development of the chemical complex sector was observed. Enterprises of this sector succeeded in overcoming the downturn reported in the 1st quarter of 2004 (-3.9%). The index of growth of chemical industry production output amounted to 0.1%.

The main contribution to ensuring this growth was the production of mineral fertilizers. As a result of the increase in the level of provision with raw materials, the physical volume of phosphate fertilizers increased by 9.5% and nitrogen by 1.5%. Growth tendencies were observed in the production of chemical protectants of plants by 19.3%, synthetic resins and plastics by 85.8%, synthetic detergents by 49.4% and synthetic ammonia by 0.4%.

At the same time, the decrease in demand on the home and foreign markets for chemical fibers and threads, resulting from the low level of price competitiveness, furthered their decline in production, by 37.3%. The production volume of sulphuric acid fell by 13.7%.

In the sectors oriented at final internal demand, the tendency towards growth continued. The volume of production output of light industry increased by 4.7%. Positive indicators of development were achieved due to the increase in the physical volumes of production of cotton yarn by 3.6%, hosiery by 1.4%, raw silk threads by 14.0%, and carpets and carpet goods by 48.9%.

Based on the overall results of the 1st half of 2004, a decline of 8.1% was observed in the production of cotton fabric, of finished cotton fabric (14.8%) and knitwear goods (15.2%). It is expected that the change in the level of provision of the cotton-cleaning sector with cotton of this year's harvest will have a positive influence on the dynamics of development in these sectors.

Growth in food production amounted to 1.2%. This growth was observed in flour production (2.1times), pasta (5.0%), and tinned fruits and vegetables (25.2%).

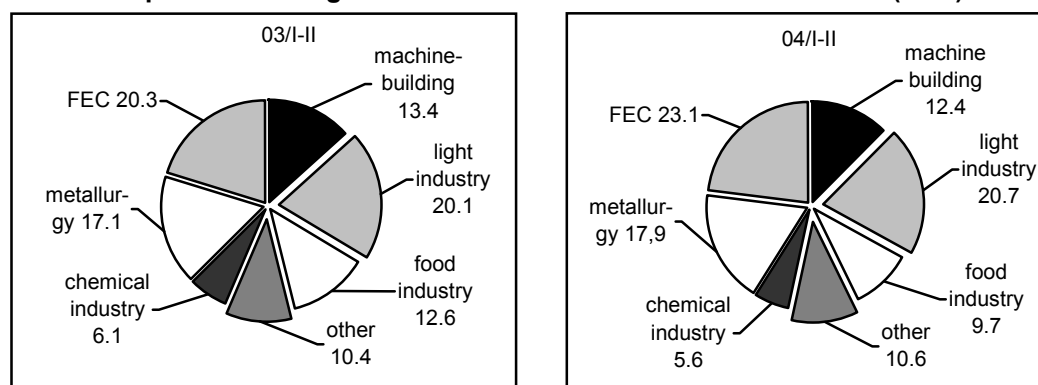
Trends remain positive in the development of other sectors of industry manufacturing goods with high added value. The index of growth of these sectors, including pharmaceutical, printing, medical, microbiological, and the flour and cereal sector, had the largest contribution to the total dynamics of industrial development, amounting to 41.6%.

The dynamics of the development of other sectors of industry formed under the impact of the rapid growth rates of the flour and cereal industry, the production output of which grew 1.8 times as a result of the improvement of joint-venture activity.

The domestic demand for individual types of goods from the wood-working and pulp and paper industry was retained. The index of production output of these sectors amounted to 8.5%.

Within the period under analysis structural shifts in industrial output extended to the increasing share of the fuel-energy complex, from 20.3% to 23.1%, and the metallurgy complex, from 17.1% to 17.9% (Graph 3.1.1.).

Graph 3.1.1. Changes in the Structure of Industrial Production (in %)



The total share of the sectors of the fuel/energy and metallurgical complexes increased by 3.6 points. The share of light industry increased from 20.1% to 20.7%.

The share of the foodstuffs industry decreased from 12.6% to 9.7%, the machine-building complex from 3.4% to 12.4% and the chemical industry from 6.1% to 5.6%.

The share of the construction materials industry in total structure of industrial production remained at the level of the previous year and amounted to 4.0%. The rising growth rates of other sectors of industry determined the increase of their share in the production structure from 5.4% to 5.8% (Table 3.1.3.).

With a view to increasing the efficiency of structural shifts in industrial production, supporting the crucial importance of processing sectors in the industrial development of the country, the following measures have been envisaged: the further restructuring of enterprises; the increase of the pace of reform of the banking system and its ability to significantly increase the volume of long-term credits for enterprises; and the improvement of the competitive environment

Table 3.1.3. Structure of Industrial Output

	Structure of Industrial Production Output, % (in current prices)	
	03/I-II	04/I-II
Industry	100.0	100.0
Electric Power Industry	8.5	10.2
Fuel Industry	11.8	12.9
Ferrous Metallurgy	1.9	2.3
Non-ferrous Metallurgy	15.2	15.6
Chemical Industry	6.1	5.6
Machine-building	13.4	12.4
Timber, Wood-Working Industry	1.0	0.8
Construction Materials Industry	4.0	4.0
Light Industry	20.1	20.7
Food Industry	12.6	9.7
Other	5.4	5.8

Source: State Committee on Statistics of Uzbekistan

3.2. Consumer Goods Market

In the 1st half of 2004, the growth in consumer goods production amounted to 14.4% as opposed to 4.0% in the 1st half of 2003. The production of foodstuffs grew by 12.8% as opposed to 5.1% and non-foods by 17.3% as opposed to 5.1% (Table 3.2.1). The tendency towards growth in the production of foodstuffs was caused by the rising level of processing of agricultural raw materials by farms and dekhkan farms, and the intensification of activity of processing plants.

Growth in the nonfoods group had an upward trend as a result of an increase in the production output of carpet, hosiery and clothing manufacturers of light industry, and also in the motor-car sector, where a particularly high level of growth in car production was observed (70.1%). In the production of household equipment – refrigerators, washers, electric irons, TV-sets – significant growth occurred.

Table 3.2.1. Tracking Changes in Consumer Goods Production (in % to Corresponding Period)

	03/I-II	04/I-II
Consumer Goods	104.0	114.4
Foodstuffs	105.1	112.8
Wine and Liquor, Beer	93.2	104.5
Non-Foods	105.1	117.3
Light Industry Goods	110.5	105.5

Source: State Committee on Statistics of Uzbekistan.

Some reduction in the production volume of finished cotton and silk fabrics, knitwear goods and cottonseed oil by large-scale industrial enterprises resulted from the technical reequipment and reconstruction of enterprises. Growth in the production of carpets and carpet goods compared to the 1st half of 2004 amounted to 48.9%, and hosiery to 1.4%. The increase in the volume of production of flour influenced growth in the production of bread, baked goods, and pasta (Table 3.2.3).

There has been a sizable increase in the volume of foodstuffs and non-foods (finished cotton and silk fabrics, knitwear, hosiery goods, and ready-made garments, footwear, milk and dairy products, sausages and cheese, vegetable oils, including made of non-traditional materials, bread and baked goods, non-alcoholic beverages, mineral water etc.) produced by small enterprises. However, their bookkeeping is conducted separately and their consolidated results from throughout the country are received much later; therefore, this section presents only data regarding large-scale enterprises.

The structure of the consumer goods complex remained practically unchanged and kept the tendency of correlation characteristic for the corresponding period of the previous year. However, as a result of more significant growth in the production of non-foods, their share in consumer goods grew by 2.5 points, while foodstuffs decreased by 0.8 points (Table 3.2.2).

Table 3.2.2. Structure of Consumer Goods Production (%)

	03/I-II	04/I-II
Consumer Goods	100	100
Foodstuffs	43.2	42.4
Wine and Liquor, Beer	8.3	6.7
Non-Foods	48.4	50.9
Light Industry Goods	13.4	13.5

Source: Calculated by the author based on the data from the State Committee on Statistics of Uzbekistan.

Table 3.2.3. Industrial Production of Major Types of Consumer Goods *
(in % to Corresponding Period)

	03/I-II	04/I-II
Finished Cotton Fabrics	102.6	85.2
Silk Fabrics	78.1	93.9
Carpets and Carpet goods	182.7	148.9
Hosiery	183.7	101.4
Knitwear Goods	105.3	84.8
Footwear	102.6	76.1
Milk and Dairy Products	100.0	167.8
Cheese, including brynza	88.8	87.9
Canned Goods	101.8	125.2
Granulated Sugar	108.2	93.8
Flour	44.3	211.3
Bread and Baked Goods	49.4	84.7
Pasta	60.2	105.0
Vegetable Oil	102.9	86.7
Grape Wine	83.7	64.0
Vodka and Liquors	93.6	109.1
Non-Alcoholic Beverages	33.4	10.8
Filterless and Regular Cigarettes	91.6	91.2

Source: State Committee on Statistics of Uzbekistan.

* data for 2003-2004 given for large-scale enterprises.

In the 1st half of 2004 the domestic market was significantly saturated with locally made consumer goods, the growth of which was observed in all regions of the Republic. Particularly high growth was indicated in Andijan (36.4 %), Kashkadarya (24.7%) and Surkhandarya (24.1%) provinces and in the Republic of Karakalpakstan (22.8%) (Table 3.2.4). The acceleration of consumer goods production output in the regions resulted from the considerable intensification of the activity of medium businesses.

In the 1st half of 2004 the territorial structure of production of consumer goods remained virtually unchanged in comparison with the corresponding period of the previous year. A trend remains towards a high share of production in such regions as Andijan, Tashkent and Fergana provinces and Tashkent City. The share of Kashkadarya, Samarkand and Khorezm provinces decreased (Table 3.2.5).

The production of foodstuffs grew in all regions except Tashkent City, which reached only 98.0% of the previous year's production as a result of a reduction in the volume of production output of large-scale fat-and-oil-producing enterprises located in the City, due to their reconstruction (Annex 3.2.1).

Table 3.2.4. Consumer Goods Production in the Regions of the Republic of Uzbekistan (in % to Corresponding Period)

	03/I-II	04/I-II
Republic of Uzbekistan	104.0	114.1
Republic of Karakalpakstan	105.9	122.8
Andijan Province	104.3	136.4
Bukhara Province	106.8	107.6
Jizzakh Province	115.7	117.8
Kashkadarya Province	105.8	124.7
Navoi Province	114.6	106.4
Namangan Province	112.3	116.1
Samarkand Province	104.0	102.0
Surkhandarya Province	105.0	124.1
Sirdarya Province	107.7	115.3
Tashkent Province	108.6	111.1
Fergana Province	95.5	122.4
Khorezm Province	115.4	102.5
Tashkent City	102.9	101.5

Source: State Committee on Statistics of Uzbekistan

The main share of goods of light industry extended to the regions traditionally oriented towards the output of finished cotton and silk fabrics, knitwear, ready-made garments, carpets and carpet goods and footwear, such as Bukhara, Fergana, Andijan and Tashkent provinces and Tashkent City. The decrease in the value of light industry production output of the enterprises of the chemical complex in Navoi City led to the total decrease in the pace of production of non-foods in Navoi province (Annex 3.2.1).

The main exported consumer goods in the 1st half of 2004 were cars, finished cotton and silk fabrics, knitwear, hosiery, ready-made garments, canned fruits and juices and grape wine. Such products as sugar, flour, canned meat and milk, tea, vegetable oil and medicine were imported into the Republic.

Consumer goods production output in the Republic grew in comparison with the corresponding period of the previous year. Growth was recorded in the production of foodstuffs and non-foods, including those of light industry, stimulated by the intensification of the activity of small businesses.

The growth of consumer goods production was ensured in all regions and resulted in the saturation of the home market with domestic production.

Some reduction in the value of production of finished cotton and silk fabrics, knitwear goods and vegetable cotton-seed oil by large-scale industrial enterprises resulted from the technical reequipment and reconstruction of enterprises of these segments.

Table 3.2.5. Territorial Structure of Consumer Goods Production (%)

	03/I-II	04/I-II
Republic of Uzbekistan	100	100
Republic of Karakalpakstan	2.0	1.9
Andijan Province	17.2	19.9
Bukhara Province	9.1	9.3
Jizzakh Province	2.5	2.5
Kashkadarya Province	4.9	4.2
Navoi Province	2.1	2.1
Namangan Province	4.5	4.9
Samarkand Province	9.7	8.7
Surkhandarya Province	2.3	2.8
Sirdarya Province	1.8	1.8
Tashkent Province	11.8	11.4
Fergana Province	9.1	10.0
Khorezm Province	3.3	2.8
Tashkent City	19.5	17.6

Source: State Committee on Statistics of Uzbekistan

3.3. Agrarian Sector

In the 1st half of the year positive shifts were observed in the agrarian sector, facilitated by resolutions adopted by the Government aimed at the intensification of market reforms and the priority development of farms as well as due to favorable weather conditions.

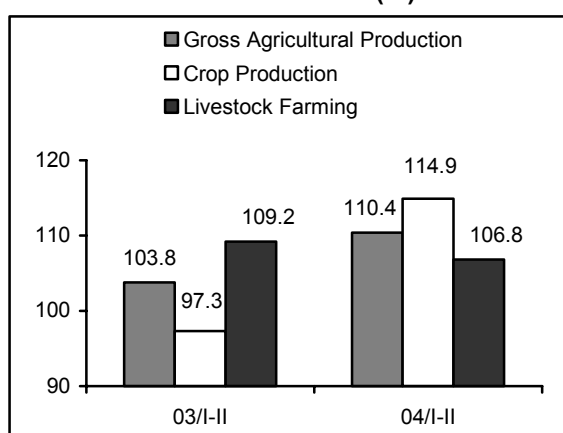
Based on the overall results of the 1st half of 2004 the share of gross agricultural output in the GDP amounted to 14.5% (in the corresponding period of 2003 – 16.0%) with a growth rate of 10.4% (3.8%). A significant rise in the growth rate from 97.3% to 114.9% was reported in crop production output while the growth rate of production output in livestock farming decreased from 109.9% to 106.1% (Table 3.3.1, Graph 3.3.1).

Table 3.3.1. Main Indicators of Development of Agriculture (%)

Indicators	03/I-II	04/I-II
Share of Gross Production of Agriculture in the GDP	16.0	14.5
Growth Rates of Production Output of Agriculture	103.8	110.4
- Crop Production	97.3	114.9
- Livestock Farming	109.9	106.1
Structure of Production by Form of Ownership		
- State-Owned	0.8	0.6
- Non-State-Owned	99.2	99.4
Share of Investments in Agriculture in Total Volume of Investments	4.1	3.0

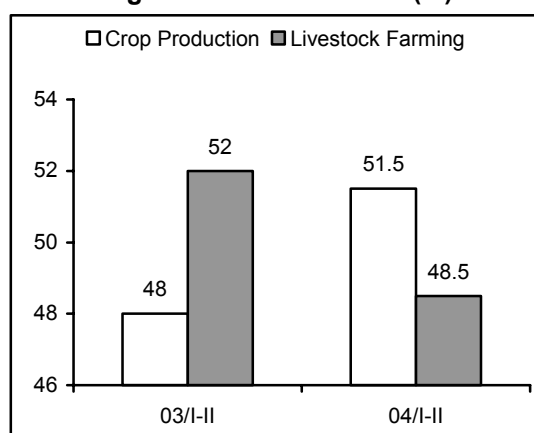
Source: State Committee on Statistics of Uzbekistan

Graph 3.3.1. Growth Rates of Gross Agricultural Production (%)

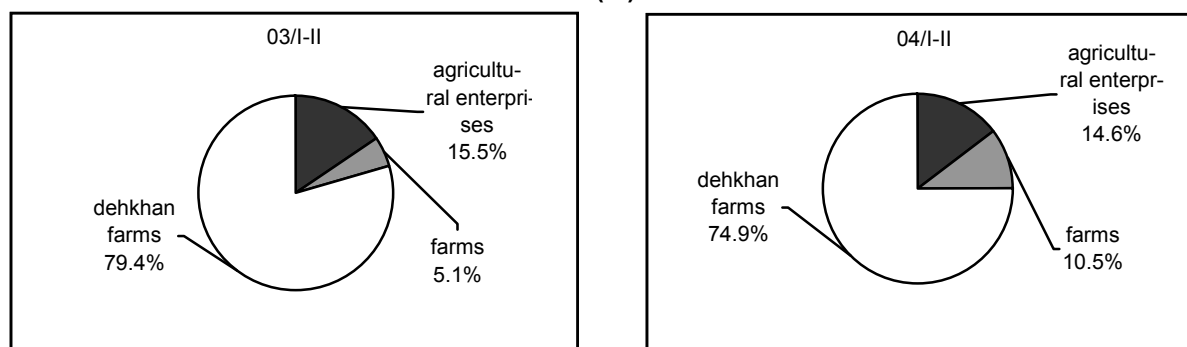


Source: State Committee on Statistics of Uzbekistan

Graph 3.3.2. Structure of Growth Rates of Agricultural Production (%)



Significant shifts took place in the structure of forms of economic management in the country. The share of farming in gross production output grew more than two times due to its priority development (Graph 3.3.3).

Graph 3.3.3. Distribution of Gross Agricultural Production by Form of Economic Management (%)


Source: State Committee on Statistics of Uzbekistan

A decrease of 129.6 thous. hectares in the areas under cereal crop, from 1790.9 thous. hectares in the 1st half of 2003 to 1661.3 thous. hectares in the 1st half of 2004 did not impact on the volume of production (Table 3.3.2).

Table 3.3.2. Areas Under Crop (Thous. hectares)

	03/I-II	04/I-II	03/I-II in % to 02/I-II	04/I-II in % to 03/I-II
Total sown	3790.1	3679.8	107.0	97.1
Cereals	1790.9	1661.3	116.8	92.8
Ear	1619.1	1547.3	114.6	95.6
Wheat	1507.6	1469.5	117.5	97.5
Corn for Grain	34.7	34.8	98.9	100.3
Industrial Crops	1445.0	1514.0	98.8	104.8
Cotton Plants	1393.0	1455.7	98.0	104.5
Potatoes, Melons and Gourds	237.7	224.5	110.0	94.4
Potatoes	49.2	51.8	100.6	105.3
Vegetables	145.6	137.0	114.2	94.1
Melons and Gourds	41.3	34.2	110.7	82.8
Fodder Crops	316.5	280.0	96.2	88.5

Source: State Committee on Statistics of Uzbekistan

Cereals gathered in the 1st half of 2004 amounted to 3,894 thous. tons as opposed to 2,565.8 thous. tons in the 1st half of 2003 (growth of 151.8%). Wheat accounted for the greatest share of cereals, achieving the highest growth, of 154 %. Wheat production grew from 2,493.4 thous. to 3839.6 thous. tons (Table 3.3.3).

This was facilitated above all by the enlargement of farms and the increase in the purchasing price (from 61 thous. UZS to 75.1 thous. UZS for each ton of the third class wheat) and an addition to the base purchasing price, from 80 to 200%, as well as the use of their own tractors, combines and attached implements while conducting agrotechnical work.

Steady growth was achieved in the main types of agricultural production. Production of potatoes increased by 14.2% (in 2003 – 7.1%), vegetables by 11.7% (10.3%), melons and gourds by 30.5% (87.7%), fruits by 12% (5%), grapes by 64.9% (62.2%), meat by 6.3% (9.4%), milk by 5.9% (10.5%), eggs by 7.9% (20.3%) and silk cocoons by 4.3% (80.8%). (Table 3.3.3).

Table 3.3.3. Main Indicators of Development of Agricultural Production

Product	Unit.	03/I-II	04/I-II	04/I-II in % to 03/I-II
Grain	Thous. tons	2565.8	3894.0	151.0
Potatoes	Thous. tons	404.3	461.9	114.2
Vegetables	Thous. tons	640.4	715.1	111.7
Fruits and Berries	Thous. tons	186	208.2	112.0
Grapes	Thous. tons	4.2	6.9	164.9
Food-grade Melons and Gourds	Thous. tons	19.2	25	130.5
Meat (Live Weight)	Thous. tons	436.4	464	106.3
Milk	Thous. tons	1834.4	1942.5	105.9
Eggs	Mill. pieces	750.8	810.3	107.9

Source: State Committee on Statistics of Uzbekistan

The production of livestock in all forms of economic management increased. There was a significant growth in the livestock count for pigs (109.9%) and poultry (107%) (Table 3.3.4).

Table 3.3.4. Livestock and Poultry Population in all Categories of Farms (Thous. Heads)

Product	03/I-II	04/I-II	04/I-II in % to 03/I-II
Cattle	5852.8	6203.1	106.0
Cows	2549.9	2708.8	106.2
Pigs	73.6	80.9	109.9
Sheep and Goats	10615.8	11181.9	105.3
Poultry	17584.1	18822.6	107.0
Horses	147.3	149.4	101.4

Source: State Committee on Statistics of Uzbekistan

In an effort to support rural commodity producers, 183 mini-banks, 236 stations selling combustive-lubricating materials, 206 stations selling mineral fertilizers, 275 alternative TTFs, 235 associations of water consumers and 74 networks for stocking and selling agricultural goods were newly founded.

A significant growth in the number of farms from 84.6 to 100.1 units was a distinctive feature of the period under review. The area of land assigned to them amounted to 2770.0 thous. hectares, with an average of 27.7 hectares per farmer. The number of employed amounted to 712.6 thous. people with a respective growth of 23.1%. The growth rate of production output of farms amounted to 213.2% as opposed to 160.0% in the analogous period of 2003, and correspondingly, their share in the total volume of agricultural production grew from 5.1% in 2003 to 10.5% in 2004. The production of all main types of crops on farms increased (Table 3.3.5., 3.3.6).

Table 3.3.5. Main Indicators of Activity of Farms

	Unit	03/I-II	04/I-II	04/I-II in % to 03/I-II
Number of farms	units	84562	100116	118.4
Area of land assigned to them	Thous. hectares	2029.8	2770	136.5
Number of employees at farms	Thous. persons	576.9	713.6	123.1
Share of farms in gross production of agriculture	%	5.1	10.5	X
– Crop Production	%	4.1	9.5	X
– Livestock Farming	%	1.0	1.0	X
Growth rates of production output of farms	%	160.0	213.2	X
– Crop Production	%	175.7	235.8	X
– Livestock Farming	%	115.9	120.4	X
Assigned to each farmer	hectares	24.7	27.7	112.1

Source: State Committee on Statistics of Uzbekistan

Table 3.3.6. Agricultural Production Output of Farms

Product	Unit	03/I-II	04/I-II	03/I-II in % to 02/I-II	04/I-II in % to 03/I-II
Wheat	Thous. tons	609.3	1621	66.4	2.7times
Potatoes	Thous. tons	3.9	9	109.1	2.3 times
Vegetables	Thous. tons	13.1	26.6	115.2	2.0 times
Melons and Gourds	Thous. tons	0.2	1.7	37	11.6 times
Fresh Fruits	Thous. tons	6.8	19.2	101.9	2.8 times
Grapes	Thous. tons	-	0.2	-	-
Livestock and Poultry	Thous. tons	7	7.9	131.8	112.9
Milk	Thous. tons	35.6	37.4	111.8	105.1
Eggs	Mill. pieces	23.5	30.2	105.2	128.9

Source: State Committee on Statistics of Uzbekistan

The persisting tendency towards a decrease in the share of shirkat farms in total volume of agricultural production, land under crops and in production of main agricultural products was connected with the reformation and restructuring of unprofitable shirkat farms. The share of shirkat farms in total production decreased from 15.5% to 14.6% (Table 3.3.6 and 3.3.7).

Table 3.3.7. Main Indicators of Activity of Agricultural Enterprises (%)

	03/I-II	04/I-II
Share of shirkats in gross production of agriculture	15.5	14.6
– Crop Production	11.7	11.4
– Livestock Farming	3.8	3.2
Growth rates of production output of shirkats	81.6	98.0
– Crop Production	76.8	99.4
– Livestock Farming	98.1	93.8

Source: State Committee on Statistics of Uzbekistan

Table 3.3.8. Agricultural Production Output of Agricultural Enterprises

Product	Unit	03/I-II	04/I-II	03/I-II in % to 02/I-II	04/I-II in % to 03/I-II
Wheat	Thous. tons	1209	1538.8	54.4	127.3
Potatoes	Thous. tons	1	2.4	33.4	2.4 times
Vegetables	Thous. tons	22.3	21.8	95.2	98
Melons and Gourds	Thous. tons	0.1	0.4	25.5	4.6 times
Fresh Fruits	Thous. tons	12.6	12.5	56.9	100.9
Grapes	Thous. tons	-	0.5	-	-
Livestock and poultry	Thous. tons	19.6	18.2	88.2	92.9
Milk	Thous. tons	45.4	32.9	81.3	72.3
Eggs	Mill. pieces	339.7	350.1	129.3	103

Source: State Committee on Statistics of Uzbekistan

Certain shifts occurred in the development of dekhkan farms. There was an increase in the number of dekhkan farms: 23.8 thous. out of a total 4,480.8 thous. units were registered as legal entities, which was 9.3 thous. units greater than in the 1st half of 2003. Dekhkan farms accounted for 432.8 hectares of land (421.2 thous. hectares in 2003), with a share of 74.9% (79.4% in 2003) in gross production output of agriculture. The share of dekhkan farms in production of main types of products remained high. Significant growth rates were achieved in all major types of production (Tables 3.3.9 and 3.3.10).

Table 3.3.9 Main Indicators of Activity of Dekhkan Farms

	Unit	03/I-II	04/I-II	04/I-II in % to 03/I-II
Number of Dekhkan Farms	Thous. units	4384.1	4480.8	102.2
Of which registered as legal entities	Units	23816	33156	139.2
Area of land assigned to them*	Thous. hectares	421.2	432.8	101.8
Number of employed	Thous persons	1208.9	1230.3	101.8
Share of dekhkan farms in gross production of agriculture	%	79.4	74.9	X
- Crop Production	%	32.4	30.7	X
- Livestock Farming	%	47.0	44.2	X
Growth rates of production output of dekhkan farms	%	111.4	106.2	X
- Crop Production	%	112.3	105.3	X
- Livestock Farming	%	110.8	106.8	X

Source: State Committee on Statistics of Uzbekistan

* area under crop

Table 3.3.10. Agricultural Production Output of Dekhkan Farms

Product	Unit	03/I-II	04/I-II	03/I-II in % to 02/I-II	04/I-II in % to 03/I-II
Wheat	Thous. tons	675.1	679.8	108	100.7
Potatoes	Thous. tons	399.4	450.4	107.7	112.8
Vegetables	Thous. tons	605	666.7	110.8	110.2
Melons and Gourds	Thous. tons	18.9	22.9	89.6	121.2
Fresh Fruits	Thous. tons	166.6	176.5	112.3	105.8
Grapes	Thous. tons	4.2	6.2	66.2	146.9
Livestock and Poultry	Thous. tons	409.8	437.9	110.2	106.9
Milk	Thous. tons	1753.4	1872.2	111.4	106.8
Eggs	Mill. Pieces	387.6	430	114.5	110.9

Source: State Committee on Statistics of Uzbekistan

The intensification of market reforms in the agrarian sector, the increase of stability of agricultural production and the priority development of farms in many respects depends on the strengthening of material and technical resources of agricultural commodity producers, the improvement of mutual settlements and the establishment of a full-fledged system of market infrastructure in the country for the storage, purchasing, processing and sale of agricultural products.

3.4. Investments

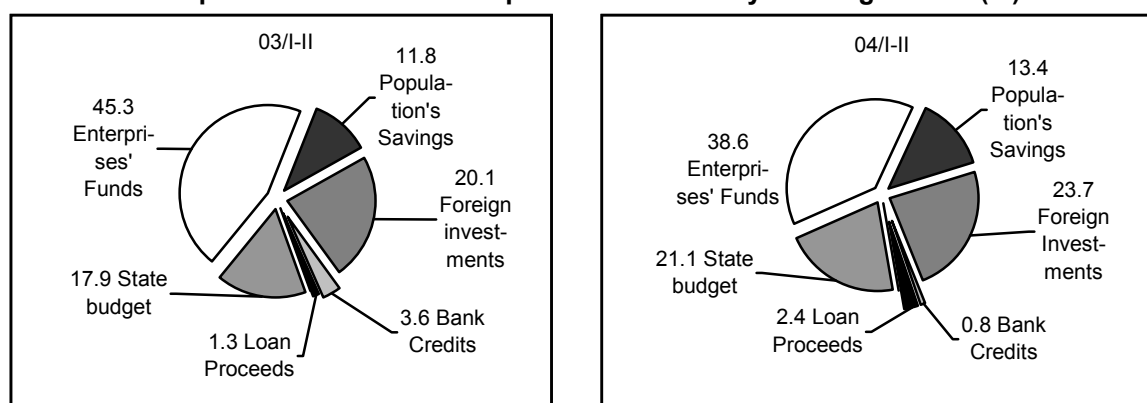
In the 1st half of 2004, in comparison with the 1st half of 2003, the volume of investments into fixed capital from all sources increased by 2.2%, reaching 912.0 bn. UZS. A positive growth trend of investment activity was observed.

The structure of the placement of investment by the type of ownership has changed. An increase in the volume of capital was reported in the state sector. The share of state sector investments in the total volume increased by 9.9 points and amounted to 45.6%. This was connected with the intensification of the fulfillment of national programs.

Growth rates in the economy affected the formation of the structure of investments by funding source. Foreign investments made up 23.7 % of the total volume, 9.5% of which were direct foreign investments, which was 4 points higher than for the corresponding period of the previous year. Decreasing investment risks and the growth of attractiveness of potential investments facilitated the increase in the volume of direct investment.

The main funding source of investments into fixed capital in the 1st half of 2004 remained enterprises' own funds, but their share in the total volume of capital investments decreased by 6.7 points in comparison with the level of the previous year, making up 38.6% (Graph 3.4.1).

Graph 3.4.1. Structure of Capital Investments by Funding Source (%)



Source: State Committee on Statistics of Uzbekistan

There was an increase of budget funds directed at the establishment and reproduction of basic assets in the 1st half of 2004. The share of budget funds in the total volume of investments grew to 21.1%, which was 3.2 points higher than for the corresponding period of the previous year.

Economic growth and the decrease in inflation stimulated the growth of real profit, which impacted on the growth of investments from the population's savings. Their share in the total volume of investments grew by 1.6 points and made up 13.4%. 12.4 % of the total volume of the population's savings was directed at the establishment of private enterprises.

There was a decrease in the funds into fixed capital, attracted by the credits of commercial banks. Their share in the total volume of investments decreased to 0.8%, which was 2.8 points lower than for the 1st half of 2003 (Graph 3.4.1).

The activity of off-budget funds intensified during the analyzed period. The share of investments financed by off-budget funds increased by 2.1 points, making up 2.2% of the total volume of investments.

The bulk of investments, as in previous periods, was directed at the development of basic sectors of the economy (industry, transport and communications), but on a whole the share of investments aimed at the production sphere decreased by 1.4 points, making up 58.1% (Table 3.4.1).

Table 3.4.1. Structure of Investments into Fixed Capital by Sector of Economy (%)

	03/I-II	04/I-II
Total	100	100
For Production Purposes	59.5	58.1
Industry	29.9	24.3
Agriculture	4.1	3.0
Construction	0.5	0.3
Transport and Communications	12.5	19.8
Trade and Public Catering	5.1	1.3
Other Areas	7.4	9.4
For non-production Purposes	40.5	41.9

Source: State Committee on Statistics of Uzbekistan

The development of the transport sector, communication complex and information and communication technologies has been traced to the growth of volume of investments in the 1st half of 2004. The share of investments into these complexes increased by 4.3 points and amounted to 19.8% of the total volume of investments. The significant increase of investments into this sphere of the economy is connected with the growth of basic assets directed at the development of enterprises of the transport complex and the increase of direct foreign investments into information and communication technologies.

Industrial development remains the main sphere of investment activity. The share of investments directed at this sector of the economy amounted to 24.3% of the total volume of investments, which was 5.6 percentage points lower than the level of the previous year. The share of investments directed at industry decreased due to the reduction of capital investments into the fuel and machine-building complexes.

The share of investments into basic capital of the agricultural sector decreased by 1.1 points and amounted to 3.0% of the total structure of capital investments (Table 3.4.1). The intensification of financing in the social sphere was a result of foreign investment. Its share in the total volume increased from 20.2% in the 1st half of 2004 to 21.3% in the 1st half of 2003 (Table 3.4.2).

The share of foreign investment in the total volume of foreign capital directed at the development of the sectors of transport and communications increased to 33% i.e. by 16.5 points.

The share of investment of foreign capital in industry and agriculture decreased to 37.5% and 0.1% respectively.

The structure of capital investments aimed at the development of industrial sectors changed during the 1st half of 2004. Their share in the export-oriented sectors decreased, as in the fuel industry from 26.8% to 18.1%, and in the metallurgical and machine-building complexes from 21.8% to 13% and from 3.1% to 2.4% respectively. The decrease of investments into these sectors was connected with the reduction in the receipt of private and foreign capital.

The share of investments in light industry and the chemical and petrochemical industry significantly increased, by 4.7 points and 7.2 points respectively, making up 21.7% and 16.9% of the total volume of capital directed at the development of industry. The share of investments in the food industry increased to 4.8% (3.5% in the first half of 2003), in the electric power industry to 11.9% (10.4%) and to 2.6% (1.6%) in the construction materials industry (Table 3.4.3).

Table 3.4.4. Structure of Foreign Investments into Fixed Capital by Sector of Industry (%)

	03/I-II	04/I-II
Industry	100	100
Electric Power Industry	11.2	6.8
Fuel Industry	22.9	2.2
Metallurgy	6.5	0.0
Machine-Building	2.2	0.5
Light Industry	40.9	56.2
Food Industry	3.5	3.3
Chemical and Petrochemical Industry	11.6	24.7
Construction Materials	0.1	2.2
Other Sectors	1.1	4.1

Source: State Committee on Statistics of Uzbekistan

Negative changes occurred in the technological structure of investments into fixed capital. The share of investments directed at construction and assembly works accounted for 53.8%, which was 5.2 points greater than the corresponding period of the previous year, testifying to an increase in the volume of new construction and a decrease in the role of technical reequipment in the investment process.

Table 3.4.2. Structure of Foreign Investment into Fixed Capital by Sector of Economy (%)

	03/I-II	04/I-II
Total:	100	100
For Production Purposes	79.8	78.7
Industry	58.2	37.5
Agriculture	5.1	0.1
Construction	0.1	0.0
Transport and Communications	13.5	33.0
Trade and Public Catering	0.4	0.0
Other Areas	2.5	8.1
For non-production purposes	20.2	21.3

Source: State Committee on Statistics of Uzbekistan

Table 3.4.3. Structure of Investments into Fixed Capital by Sector of Industry (%)

	03/I-II	04/I-II
Industry	100	100
Electric Power Industry	10.4	11.9
Fuel Industry	26.8	18.1
Metallurgy	21.8	13.0
Machine-Building	3.1	2.4
Light	17.0	21.7
Food	3.5	4.8
Chemical and Petrochemical	9.7	16.9
Construction Materials	1.4	2.6
Other Sectors	6.3	8.6

Source: State Committee on Statistics of Uzbekistan

Foreign investments into the sectors of raw materials decreased in the 1st half of 2004. Their share in the total volume of investments into industrial development decreased as follows: in the electric power industry by 4.4 points, in the fuel industry by 20.7 points and in the metallurgical complex by 6.5 points, resulting in shares of 6.8%, 2.2% and 0.0% respectively. The share of foreign investments in the sector of the machine-building complex declined from 2.2% to 0.5% and in food industry from 3.5% to 3.3%. There was a significant growth of 5.3 points in the share of foreign investments in light industry, reaching 56.2%, as well as in the chemical and petrochemical industry, reaching 24.7% of the total volume (Table 3.4.4).

Annex 3.1.1. Structure of Industrial Production Output (In % of Total Volume)

Period	Industry	Including									
		Electric Power Industry	Fuel Industry	Ferrous Metallurgy	Non-Ferrous Metallurgy	Chemical Industry	Machine-Building	Construction Materials Industry	Light Industry	Foodstuffs Industry	Other Sectors*
1995	100.0	14.8	13.7	1.3	10.2	5.4	8.8	6.6	19.9	9.3	10.0
1996	100.0	14.6	16.3	1.5	8.4	5.3	8.2	7.2	20.5	7.6	10.4
1997	100.0	11.6	16.4	1.2	9.2	4.2	7.6	6.0	21.4	10.4	12.0
1998	100.0	9.9	14.9	1.1	9.8	5.0	12.8	5.6	17.9	12.3	10.7
1999	100.0	10.2	13.3	1.0	8.9	5.2	11.7	5.5	17.3	13.6	13.3
2000	100.0	8.5	15.3	1.3	10.2	6.0	9.9	5.4	19.1	13.3	11.0
2001	100.0	8.1	13.2	1.4	10.9	6.0	11.2	5.2	20.0	12.6	11.4
2002	100.0	7.7	13.4	1.5	13.3	5.9	10.3	4.6	19.5	14.3	9.5
2003	100.0	8.7	12.4	1.8	14.9	5.6	12.1	4.5	20.0	12.4	7.6
03/I	100.0	8.7	11.2	1.6	14.8	5.9	12.4	3.5	23.3	12.4	6.2
03/I-II	100.0	8.6	11.8	1.9	15.0	6.1	13.0	4.1	20.3	12.9	6.3
04/I	100.0	10.4	12.5	2.0	14.3	5.1	11.1	3.5	24.8	9.8	6.5
04/I-II	100.0	10.2	12.9	2.3	15.6	5.6	12.4	4.0	20.7	9.7	6.6

* including the timber and woodworking industry

Source: State Committee on Statistics of Uzbekistan.

Annex 3.1.2. Index of Industrial Production Output (% to Previous Year)

Period	Industry	Including:									
		Electric Power Industry	Fuel Industry	Ferrous Metallurgy	Non-Ferrous Metallurgy	Chemical Industry	Machine-Building	Construction Materials Industry	Light Industry	Foodstuffs Industry	
1995	100.1	100.4	99.8	88.9	100.3	111.3	118.9	87.3	97.8	98.4	
1996	102.6	95.5	100.5	130.7	105.2	107.6	100.7	103.1	105.4	102.0	
1997	104.1	98.1	104.3	83.5	104.6	99.4	102.2	95.0	102.6	121.0	
1998	103.6	97.2	106.4	96.7	102.3	125.9	103.3	98.2	97.9	109.4	
1999	106.1	99.7	100.9	101.4	100.7	110.0	103.1	101.5	106.7	109.4	
2000	105.9	101.1	99.7	118.7	102.5	115.8	89.7	104.3	117.0	108.5	
2001	107.6	95.8	96.4	110.6	101.8	106.8	124.8	105.9	112.4	109.4	
2002	108.3	101.5	102.4	104.3	105.9	113.8	108.8	102.2	109.0	119.2	
2003	106.2	101.8	100.6	109.1	99.0	105.2	130.8	104.3	106.2	106.8	
03/I	104.0	100.6	97.5	104.4	101.1	102.6	108.0	101.8	109.3	103.5	
03/I-II	105.5	100.9	97.9	111.5	100.2	104.9	119.2	99.7	110.5	104.8	
04/I	108.8	103.0	109.1	119.1	100.7	96.1	135.3	115.0	105.4	102.1	
04/I-II	109.6	102.2	108.5	115.2	105.7	100.1	132	113.5	104.7	101.2	

Source: State Committee on Statistics of Uzbekistan

Annex 3.2.1. Consumer Goods Production in the Regions of the Republic Of Uzbekistan, 1st Half of 2004

	Production (in % to previous period)					Territorial Structure of Production					Commodity Composition of Production* (%)				
	Con-sumer Goods, Total	Food-stuffs	Wine, Vodka and Beer	Non-Foods	Light Industry Goods	Con-sumer Goods, Total	Food-stuffs	Wine, Vodka and Beer	Non-Foods	Light Industry Goods	Con-sumer Goods, Total	Food-stuffs	Wine, Vodka and Beer	Non-Foods	Light Industry Goods
Republic of Uzbekistan	114.1	112.8	104.5	117.3	105.5	100	100	100	100	100	100	42.4	6.7	50.9	13.5
Republic of Karakalpakstan	122.8	121.4	127.7	123.9	112.6	1.9	3.0	4.0	0.8	2.2	100	66.0	13.8	20.2	15.6
Andijan Province	136.4	104.9	109.4	141.2	102.4	19.9	4.4	3.0	35.1	12.6	100	9.3	1.0	98.7	8.6
Bukhara Province	107.6	105.2	132.5	107.7	103.5	9.3	7.7	5.5	11.1	21.9	100	35.1	4.0	60.9	32.0
Jizzakh Province	117.8	117.8	43.3	128.2	181.8	2.5	5.5	0.1	0.4	0.6	100	92.1	0.3	7.6	3.3
Kashkadarya Province	124.7	124.7	134.4	122.7	112.8	4.2	8.2	2.0	1.1	3.1	100	83.1	3.2	13.6	10.1
Navoi Province	106.4	172.0	92.6	83.7	43.9	2.1	2.1	0.7	2.3	2.4	100	41.1	2.4	56.5	15.2
Namangan Province	116.1	122.7	94.3	107.5	110.1	4.9	7.5	3.4	2.9	8.1	100	65.0	4.7	30.3	22.5
Samarkand Province	102.0	102.0	87.9	104.3	115.4	8.7	9.6	8.2	8.0	4.5	100	46.5	6.7	46.8	7.0
Surkhandarya Province	124.1	151.5	84.3	60.3	75.7	2.8	5.2	4.3	0.5	0.5	100	80.5	10.4	9.1	2.5
Sirdarya Province	115.3	113.5	98.2	143.6	185.6	1.8	3.1	3.1	0.6	1.5	100	72.0	11.7	16.3	11.4
Tashkent Province	111.1	125.7	108.7	100.1	106.1	11.4	10.9	36.8	8.6	11.0	100	40.3	21.6	38.1	13.0
Fergana Province	122.4	125.0	72.3	124.5	168.1	10.0	7.1	3.8	13.2	13.8	100	30.2	2.6	67.3	18.6
Khorezm Province	102.5	100.5	128.6	99.0	101.7	2.8	3.1	4.9	2.3	6.5	100	47.1	11.7	41.1	30.9
Tashkent City	101.5	98.0	106.6	105.9	85.5	17.6	22.7	19.6	13.1	11.2	100	54.7	7.5	37.9	8.6

Source: State Committee on Statistics of Uzbekistan

* Calculated by the author based on the data of the State Committee on Statistics of Uzbekistan

Annex 3.2.2. Tracking Changes in Consumer Goods Production in the Regions (in % to Previous Period)

	1998	1999	2000	2001	2002	2003	03/I	03/I-II	04/I	04/I-II
Republic of Uzbekistan	107.2	109.3	106.2	107.6	111.8	108.4	102.3	104.0	114.9	114.1
Republic of Karakalpakstan	105.6	107.5	105.9	113.5	104.3	104.7	103.6	105.9	119.0	122.8
Andijan Province	104.3	113.0	92.6	123.7	97.8	120.3	96.0	104.3	133.3	136.4
Bukhara Province	137.5	108.9	105.9	107.4	103.3	106.0	103.3	106.8	107.8	107.6
Jizzakh Province	102.2	136.2	123.6	119.3	159.3	129.0	101.2	115.7	113.0	117.8
Kashkadarya Province	116.8	112.6	113.1	112.7	108.5	108.8	113.2	105.8	127.0	124.7
Navoi Province	112.2	102.1	115.5	99.98	114.5	105.3	125.0	114.6	107.3	106.4
Namangan Province	109.5	114.2	124.3	111.8	118.1	114.0	107.7	112.3	124.7	116.1
Samarkand Province	138.2	141.5	92.4	102.6	102.5	106.8	104.8	104.0	100.3	102.0
Surkhandarya Province	117.8	102.0	111.9	100.9	114.8	106.2	88.7	105.0	129.5	124.1
Sirdarya Province	106.1	125.6	110.1	120.2	103.0	104.2	100.6	107.7	108.0	115.3
Tashkent Province	112.4	109.5	112.5	114.1	106.6	107.1	104.7	108.6	106.6	111.1
Fergana Province	107.3	110.1	111.3	98.1	106.4	101.6	96.7	95.5	113.2	122.4
Khorezm Province	120.3	97.8	107.8	94.0	95.0	114.5	115.9	115.4	96.6	102.5
Tashkent City	98.7	92.0	111.3	101.3	120.2	102.7	100.8	102.9	115.7	101.5

Source: State Committee on Statistics of Uzbekistan

Annex 3.2.3. Tracking Changes in the Production of Major Types of Consumer Goods by Industrial Enterprises (in % to Previous Period)

	1998	1999	2000	2001	2002	2003*	03/I	03/I-II	04/I	04/I-II
Finished Cotton Fabrics	73.0	98.9	107.8	111.9	106.9	97.8	100.8	102.6	86.2	85.2
Silk Fabrics	34.7	90.9	102.0	98.3	97.4	100.3	62.4	78.1	104.6	93.9
Carpets and Carpet	121.3	146.4	71.4	104.8	108.3	2.8 times	173.4	182.7	103.6	148.9
Hosiery	34.3	86.2	119.9	63.4	77.0	188.4	140.3	183.7	104.3	101.4
Knitwear Goods	102.0	99.7	97.6	85.7	82.4	100.6	115.2	105.3	91.3	84.8
Footwear	95.9	74.3	111.3	149.1	109.5	99.9	101.4	102.6	68.0	76.1
Milk and Dairy Products	76.0	128.3	91.2	102.5	115.9	107.6	111.3	100.0	220.0	167.8
Cheese including Brynza	97.4	109.5	89.7	87.2	74.3	78.4	78.0	88.8	100.0	87.9
Canned Goods	109.9	104.1	103.8	97.1	101.3	121.9	89.0	101.8	114.2	125.2
Granulated Sugar	X	200.5	48.6	282.7	755.7	114.2	106.2	108.2	149.8	93.8
Flour, total	91.4	108.7	94.0	103.4	87.1	73.7	39.6	44.3	230.0	211.3
Bread and Baked Goods	86.5	156.6	106.3	100.4	99.5	55.2	50.3	49.4	75.4	84.7
Pasta	112.1	122.9	107.7	110.7	81.0	60.4	63.2	60.2	123.3	105.0
Vegetable Oil	101.3	81.3	108.0	96.3	93.8	97.8	100.9	102.9	86.4	86.7
Grape Wine	81.3	99.7	89.3	118.8	116.6	73.4	99.2	83.7	74.6	64.0
Vodka and Liquors	111.7	115.9	99.1	92.5	92.5	96.6	91.4	93.6	99.2	109.1
Non-alcoholic Beverages	98.2	642.3	107.5	77.8	93.1	25.3	58.1	33.4	5.5	10.8
Cigarettes: Filterless and Regular	87.3	140.7	72.8	89.8	101.0	92.5	91.0	91.6	85.0	91.2

Source: State Committee on Statistics of Uzbekistan.

* Indicators for 2003-2004 given for large-scale enterprises.

Annex 3.3.1. Main Indicators of Development of Agricultural Production

	Unit	1995	1996	1997	1998	1999	2000	2001	2002	2003	03/ I	03/I-II	04/ I	04/I-II
Raw Cotton	Thous. tons	3934	3350	3646	3206	3600	3002	3265	3122.4	2822.5	-	-	-	
Grains	Thous. tons	3115	1562	3776	4148	4331	3929	4072	5792.6	6262.3	-	2565.8	-	3894.0
Potatoes	Thous. tons	440	514	692	691	658	731.1	744	777.2	827.8	-	404.3	-	461.9
Vegetables	Thous. tons	2713	2497	2384	2404	2680	2644	2778	2935.6	3299.2	-	640.4	-	715.1
Fruits and Berries	Thous. tons	602	605	548	544	489	791	801	842.9	758.7	-	186	-	208.2
Grapes	Thous. tons	621	478	512	336	344	624.2	573	516.4	401.4	-	4.2	-	6.9
Melons and Gourds	Thous. tons	472	470	376	461	518	451.4	466	479.1	583.3	-	19.2	-	25
Meat (Live Weight)	Thous. tons	853	854	801	807	822	842	854	865	935.5	191.8	436.4	204.7	464
Milk	Thous. tons	3665	3390	3806	3498	3543	3633	3665	3721.3	4030.3	707.3	1834.4	752.7	1942.2
Eggs	Mill. pieces	1232	1057	1075	1165	1240	1254	1288	1368.9	1611.4	305.2	750.8	346.5	810.3

Source: State Committee on Statistics of Uzbekistan

Annex 3.4.1. Tracking Changes in Investments into Fixed Capital in Current Prices

	Investments into fixed capital, bn. UZS	Growth to corresponding period of previous year, %
1995	88.7	2
1996	176.6	7
1997	276.6	17
1998	396.4	15
1999	537.4	2
2000	744.5	1
2001	1320.9	3.7
2002	1442.4	3.8
2003	1867.4	4.5
03/I	284.1	0.3
03/I-II	741.7	2.6
04/I	346.8	-0.4
04/I-II	912.0	2.2

Source: State Committee on Statistics of Uzbekistan.

Annex 3.4.2. Structure of Distribution of Investment into Fixed Capital by Form of Ownership (%)

	1995	1996	1997	1998	1999	2000	2001	2002	2003	04/I	04/I-II
Investments into Fixed Capital	100	100	100	100	100	100	100	100	100	100	100
State Property	55.1	69.9	67.6	61.1	63.2	63.8	47.0	40.9	40.4	44.5	45.6
Non-State Property	44.9	30.1	32.4	38.9	36.8	36.2	53.0	59.1	59.6	55.5	54.4

Source: State Committee of Uzbekistan

Annex 3.4.3. Structure of Investment into Fixed Capital by Source of Funding (%)

	1995	1996	1997	1998	1999	2000	2001	2002	2003	04/I	04/I-II
Total	100	100	100	100	100	100	100	100	100	100	100
State Budget	22.9	24.0	25.3	22.8	28.3	29.2	21.5	25.0	17.7	21.2	21.1
Funds of Enterprises	43.6	43.2	40.3	31.5	26.6	27.1	31.0	40.0	41.8	36.7	38.6
Population's Savings	9.9	8.7	8.9	18.1	13.6	12.0	10.3	12.0	11.1	10.4	13.4
Foreign Inv. Guaranteed by State	14.0	16.1	17.5	13.3	19.0	19.8	23.2	15.7	19.2	19.2	14.2
Direct Foreign Investment	-	-	-	6.4	3.7	3.4	4.8	4.7	7.1	11.4	9.5
Centralized Banking Credits	9.6	7.3	7.8	6.0	6.0	5.2	5.9	0.1	0.0	0.0	0.0
Credits from Commercial Banks	-	-	-	1.2	1.9	1.7	2.2	1.5	1.9	0.6	0.8
Investments from Non-Budgetary Funds	-	-	-	0.4	0.7	1.2	0.5	0.3	0.4	0.5	2.2
Other Areas	-	0.7	0.2	0.3	0.2	0.4	0.6	0.7	0.8	0.1	0.2

Source: State Committee on Statistics of Uzbekistan

Annex 3.4.4. Structure of Investments into Fixed Capital by Sector of Economy (%)

	1995	1996	1997	1998	1999	2000	2001	2002	2003	04/I	04/I-II
Total	100	100	100	100	100	100	100	100	100	100	100
For Production Purposes	68.1	67.7	64.5	58.9	57.5	57.5	63.1	57.1	65.1	65.0	58.1
Industry	45.1	37.9	31.7	28.8	32.6	29.7	38.9	32.4	28.4	28.1	24.3
Agriculture	8.4	5.9	6.7	6.0	8.2	5.7	5.5	5.8	4.4	4.2	3.0
Construction	0.5	0.7	0.6	0.4	0.3	0.5	0.6	0.4	0.4	0.2	0.3
Transport and Communications	7.5	17.7	21.0	19.6	13.0	16.7	14.0	10.0	21.7	23.6	19.8
Trade and Public Catering	5.7	4.7	2.9	3.3	3.1	4.3	1.5	2.6	3.4	1.6	1.3
Other Areas	0.9	0.8	1.6	0.8	0.3	0.6	2.6	5.9	6.8	7.3	9.4
For non-production purposes	31.9	32.3	35.5	41.1	42.5	42.5	36.9	42.9	34.9	35.0	41.9

Source: State Committee on Statistics of Uzbekistan

Annex 3.4.5. Structure of Investments into Fixed Capital by Sector of Industry (%)

	1995	1996	1997	1998	1999	2000	2001	2002	2003	04/I	04/I-II
Industry-Total	100	100	100	100	100	100	100	100	100	100	100
Electric Power Industry	7.0	10.1	9.3	10.1	7.5	5.3	3.8	6.4	9.4	11.5	11.9
Fuel Industry	15.5	36.1	33.1	29.3	22.2	20.2	32.2	29.0	21.2	13.7	18.1
Metallurgy	13.9	11.7	12.9	10.2	10.1	9.0	11.4	14.5	22.2	10.6	13.0
Machine-Building	44.0	7.6	7.9	10.2	8.8	13.8	14.6	10.9	3.7	2.1	2.4
Light Industry	7.1	13.8	6.9	15.1	6.9	7.9	15.9	14.1	21.3	28.1	4.7
Food Industry	3.9	10.1	16.0	11.9	7.5	8.4	5.8	6.0	3.8	3.0	4.8
Chemical & Petrochemical	2.0	4.7	8.0	7.2	31.8	26.7	9.9	11.1	9.2	24.7	16.9
Construction Materials	1.5	1.5	1.4	2.7	1.6	0.9	1.2	1.2	1.6	2.1	2.6
Other Sectors	5.1	4.4	4.5	3.3	3.6	7.8	5.2	6.8	7.6	4.2	8.6

Source: State Committee on Statistics of Uzbekistan

Annex 3.4.6. Technological Structure of Investments into Fixed Capital (%)

	1995	1996	1997	1998	1999	2000	2001	2002	2003	04/I	04/I-II
Total	100	100	100	100	100	100	100	100	100	100	100
Construction and Assembly Works	55.0	61.0	58.0	62.0	43.0	61.0	48.2	53.1	46.5	50.4	53.8
Machines, Equipment, Sundries	35.0	29.0	32.0	30.0	48.0	25.0	39.5	35.1	41.5	37.9	32.4
Other Expenses	10.0	10.0	10.0	8.0	10.0	14.0	12.3	11.8	12.0	11.7	13.8

Source: State Committee on Statistics of Uzbekistan

4. Foreign trade

4.1. Trade Balance, Export and Import

In the first half of 2004 foreign trade turnover increased by 24.5% in comparison with the corresponding period of 2003, amounting to 4.1 bn. USD (Table 4.1.1.). At the same time, 58.3% of the total volume of foreign trade turnover consisted of export operations and 41.7% of import operations. Exports grew at higher rates than imports did. As opposed to the first half of 2003, exports increased by 25.2%, while imports grew by 23.5%, including by 19.6% and 13.9%, respectively, in the second quarter. Unlike the previous periods, quarterly indicators of export and import operations stabilized. As in the first quarter, exports in the second quarter also reached 1.2 bn. USD, while imports accounted for 0.9 bn. USD.

Table 4.1.1. Main Indicators of Foreign Economic Activity of Uzbekistan (mill. USD)

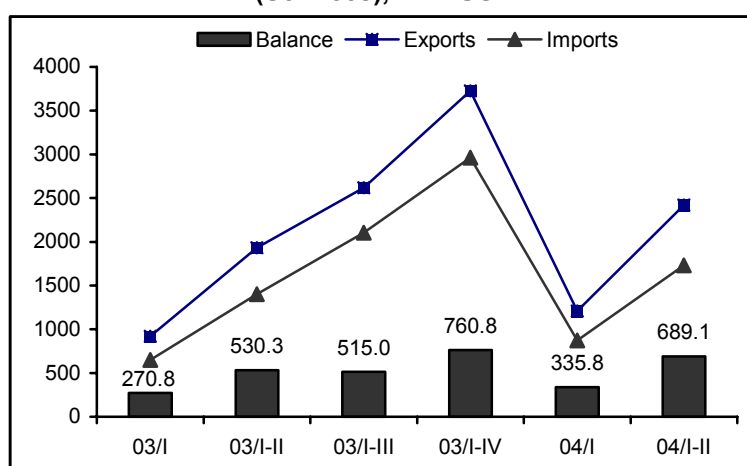
Indicator	03/I-II	04/I-II	Including		Change in volume, %	
			03/II*	04/II*	04/I-II to 03/I-II	04/II* to 03/II*
Foreign trade turnover	3333.9	4150.7	1764.1	2066.5	124.5	117.1
CIS countries	981.0	1331.3	531.6	721.3	135.7	135.7
Non-CIS countries	2352.9	2819.4	1232.5	1345.2	119.8	109.1
Exports	1932.1	2419.9	1011.8	1209.9	125.2	119.6
CIS countries	447.9	694.3	250.0	369.6	155.0	147.8
Non-CIS countries	1484.2	1725.6	761.8	840.3	116.3	110.3
Import	1401.8	1730.8	752.3	856.6	123.5	113.9
CIS countries	533.1	637.0	281.6	351.7	119.5	124.9
Non-CIS countries	868.7	1093.8	470.7	504.9	125.9	107.3
Trade balance	530.3	689.1	259.5	353.3	X	X
CIS countries	-85.2	57.3	-31.6	17.9	X	X
Non-CIS countries	615.5	631.8	291.1	335.4	X	X
Structure of foreign trade turnover, %	100.0	100.0	100.0	100.0	X	X
CIS countries	29.4	32.1	30.1	34.9	X	X
Non-CIS countries	70.6	67.9	69.9	65.1	X	X

Source: State Committee on Statistics of Uzbekistan

* the author's calculations based on the data from the State Committee on Statistics of Uzbekistan

During the period under review, the active trade balance increased 158.8 mill. USD in comparison with the first half of 2003, and amounted to 689.1 mill. USD (Table 4.1.1., Annex 4.1.1., Graph 4.1.1.). In the second quarter, according to calculations, the positive balance equaled 353.3 mill. USD. The trend towards the formation of an active balance of trade turnover with CIS countries, which was observed in the first quarter for the first time in the last three years, was characteristic of the second quarter. The positive balance of trade turnover with CIS countries in the first half of 2004 amounted to 57.3 mill. USD. The active trade balance with non-CIS countries equaled 631.8 mill. USD, or more than 90% of its total volume (Table 4.1.1.).

Graph 4.1.1. Ratio of Exports and Imports of Goods (Services), mill. USD



Source: State Committee on Statistics of Uzbekistan

Certain changes took place in the structure of exports. An increase in the volume of exports, compared to the first half of 2003, was observed in practically all commodity groups. Thus, exports of chemical products increased by 2.1 times, and foodstuffs – by 2.2 times. As a result, the share of chemical products in exports accounted for 4.3% (an increase of 1.8 percentage points over the first half of 2003), and foodstuffs – 3.8% (1.6 percentage points greater) (Table 4.1.2., Annex 4.1.2). The volume of exports of products of non-organic chemistry, fertilizers, perfumery-cosmetic products, plastics, grains, and fruits and vegetables grew in the first half of 2004.

Table 4.1.2. Dynamics of Changes in Volume and Structure of Exports (%)

Commodity groups	Share in total volume of exports, %				Change in volume, %	
	03/I-II	04/I-II	including		04/I-II to 03/I-II	04/II to 03/II
			03/II*	04/II*		
Cotton fiber	20.6	22.3	13.5	19.1	135.4	169.4
Foodstuffs	2.2	3.8	2.1	3.3	220.8	185.2
Chemical products, plastics, and plastic goods	2.5	4.3	2.4	4.5	215.4	221.8
Energy carriers	8.0	10.7	9.3	13.4	167.7	172.3
Non-ferrous and ferrous metals	5.6	7.9	6.0	8.8	176.1	174.8
Machinery and equipment	6.1	6.7	6.8	5.1	138.1	90.2
Services	13.1	11.1	12.8	10.9	105.7	101.9
Other	41.9	33.2	47.1	34.9	99.3	88.8
Total	100.0	100.0	100.0	100.0	125.2	119.6

Source: State Committee on Statistics of Uzbekistan

* the author's calculations based on the data from the State Committee on Statistics of Uzbekistan

Exports of machinery and equipment, in comparison with the first half of 2003, increased by 38.1%, as did their share in the total volume of exports accordingly – by 0.6 percentage points, amounting to 6.7%.

The volume of exports of services increased by 5.7% as opposed to the first half of 2003, including by 1.9% in the second quarter of 2004.

The share of export of cotton fiber increased in comparison to the corresponding period of 2003 by 1.7 percentage points and amounted to 22.3%, while its export volume increased by 35.4%. The increase occurred mainly in the second quarter, when exports of cotton fiber, in comparison with the corresponding period of 2003, increased by 69.4%.

Exports of energy carriers, as opposed to the first half of 2003, increased by 67.7%; and non-ferrous and ferrous metals – by 76.1%. As a result, the share of energy carriers in exports increased by 2.7 percentage points and reached 10.7% and the share of non-ferrous and ferrous metals – by 2.3 percentage points, accounting for 7.9%.

Certain changes were observed in the commodity structure of imports as well. Imports grew in all commodity groups, except for foodstuffs (Table 4.1.3., Annex 4.1.3.). It is worth noting that imports of products that are not produced in Uzbekistan, but are needed for the production cycle of enterprises, have been increasing.

Table 4.1.3. Dynamics of Changes in Volume and Structure of Imports (%)

Commodity groups	Share in total volume of imports (%)				Change in volume (%)	
	03/I-II	04/I-II	including		04/I-II to 03/I-II	04/II to 03/II
			03/II*	04/II*		
Foodstuffs	11.5	8.0	10.7	7.0	86.6	74.0
Chemical products, plastics and plastic goods	12.1	13.1	12.3	14.8	134.4	136.8
Energy carriers	1.5	2.3	2.4	2.5	187.9	121.2
Non-ferrous and ferrous metals	7.9	8.4	8.2	9.3	131.3	128.8
Machinery and equipment	44.6	45.6	43.4	40.9	126.1	107.2
Services	10.0	11.6	9.8	13.6	143.0	157.6
Others	12.4	11.0	13.2	11.9	108.7	103.6
Total	100.0	100.0	100.0	100.0	123.5	113.9

Source: State Committee on Statistics of Uzbekistan

* the author's calculations based on the data from the State Committee on Statistics of Uzbekistan

In comparison to the first half of 2003, the volume of imports of machinery and equipment increased by 26.1%, mainly due to an increase in the supply of electrical equipment and means of transportation. As a result, this leading commodity group's share in imports increased by 1.0 percentage point, accounting for 45.6% of total imports.

The import of chemical products increased by 34.4%, energy carriers – by 87.9%, non-ferrous and ferrous metals – by 31.3%, and services – by 43.0%. Their share in the total volume of imports was 13.1%; 2.3%; 8.4%; and 11.6% respectively. An increase in imports of such goods as pharmaceutical products, fertilizers, perfumery and cosmetic products, plastics, oil and oil products, and transportation services was observed. In comparison to the first half of 2003, imports of foodstuffs decreased by 13.4%, while their share in the total volume of imports decreased by 3.5 percentage points, equalling 8.0%. The largest decrease, by 26%, was

observed in the second quarter. As in the first quarter, in general, decreases continued to occur in imports of grains, flour and flour products, oil seeds and fruits.

Trade with CIS countries continues to improve. Thus, in the first half of 2004, trade turnover with CIS countries equaled 1.3 bn. USD and increased in comparison with the corresponding period of the previous year by 1.4 times. During the period under review trade turnover with foreign countries amounted to 2.8 bn. USD, increasing by 1.2 times. Accordingly, the share of trade turnover with partners from CIS increased from 29.4% in the first half of 2003 to 32.1% in the first half of 2004. At the same time, the share of trade turnover with foreign countries decreased from 70.6% to 67.9% (Table 4.1.1.).

In comparison with the first half of 2003, exports to CIS increased by 1.55 times, as opposed to an increase in exports to foreign countries of 1.16 times. At the same time, the share of exports to CIS increased from 23.2% to 28.7%, while the share of exports to foreign countries decreased from 76.8% down to 71.3% (Tables 4.1.1. and 4.1.4.). This trend continued over the first and second quarters of 2004. The export of such goods as foodstuffs, chemical products, machinery and equipment, and non-ferrous metals to CIS increased by more than two times during the period under review.

In the second quarter of 2004, in comparison with the corresponding period of the previous year, imports from CIS increased by 1.25 times, as opposed to an increase in imports from foreign countries of 1.07 times. However, in general, during the first half of 2004 the trend continued towards decreasing growth rates for imports from CIS (by 1.19 times compared with the first half of 2003) in comparison with the growth rates for imports from foreign countries (by 1.26 times). Accordingly, the share of imports from CIS decreased from 38.0% to 36.8%, while share of imports from foreign countries increased from 62.0% to 63.2 % (Tables 4.1.1. and 4.1.4.). In the structure of imports from CIS, the import of foodstuffs and machinery and equipment decreased, while the import of energy carriers increased significantly. In the structure of imports from foreign countries, imports of ferrous and non-ferrous metals decreased, while imports of energy carriers and machinery and equipment increased.

Table 4.1.4. Geographical Structure of Exports and Imports (%)

Countries	Share in total volume, %							
	Of Exports				Of Imports			
	03/I-II	04/I-II	including		03/I-II	04/I-II	Including	
			03/II*	04/II*			03/II*	04/II*
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
CIS countries	23.2	28.7	24.7	30.5	38.0	36.8	37.4	41.1
Kazakhstan	2.0	3.1	1.9	3.6	6.4	6.1	7.0	7.0
Russia	8.1	12.1	9.4	13.2	24.0	22.9	23.4	24.9
Tajikistan	3.5	3.2	3.0	2.7	0.7	1.2	0.8	0.9
Ukraine	5.8	1.3	7.0	1.4	4.3	4.1	2.5	5.3
Other countries	3.8	9.0	3.4	9.6	2.6	2.5	3.7	3.0
Foreign countries	76.8	71.3	75.3	69.5	62.0	63.2	62.6	58.9
Afghanistan	2.0	2.2	2.2	2.4		0.1		
Belgium	1.4	1.8	1.0	1.4	0.7	0.6	0.5	0.5
Great Britain	7.5	8.7	2.4	10.7	2.5	1.7	2.6	1.9
Germany	0.9	1.0	0.8	0.8	10.4	6.2	7.4	6.1
India	3.5	2.5	3.2	0.4	0.5	0.7	0.5	0.8
Iran	6.2	6.4	5.6	6.1	0.8	1.1	0.9	0.9
Italy	1.5	1.2	1.3	1.1	1.8	1.4	1.7	1.6
China	1.3	2.2	1.1	2.3	5.9	8.7	5.4	8.5
South Korea	1.7	1.4	1.8	1.1	6.9	9.0	7.5	9.7
Latvia	2.6	2.5	1.7	2.0	0.7	0.4	0.9	0.5
Netherlands	0.3	0.4	0.3	0.7	0.9	0.7	1.1	0.7
USA	2.7	2.9	3.0	3.4	8.7	10.4	10.0	6.5
Turkey	2.6	5.0	2.3	4.6	5.0	5.3	5.6	4.6
France	0.6	0.7	0.7	10.2	1.5	1.1	1.3	1.1
Switzerland	6.6	5.3	6.7	3.2	0.6	0.3	0.5	0.4
Japan	0.3	0.3	0.2	0.3	1.6	1.6	2.4	1.7
Other countries	35.1	26.8	41.0	18.8	13.5	13.9	14.3	13.4

Source: State Committee on Statistics of Uzbekistan

* the author's calculations based on the data from the State Committee on Statistics of Uzbekistan

Leading trade partners for Uzbekistan's exports included Russia – 12.1% of total exports (186.9% to the level of the first half of 2003), Great Britain – 8.7% (145.1%), Iran – 6.4% (129.1%), Switzerland – 5.3%

(100.8%), Turkey – 5.0% (240.8%), India – 4.6% (157.8%), Tajikistan – 3.2% (113.7%), Kazakhstan – 3.1% (196.0%), USA – 2.9% (134.7%) and Latvia – 2.5% (122.1%) (Table 4.1.4., Annex 4.1.4.). A significant decrease in exports to Ukraine was observed (27.3% to the level of the first half of 2003).

The main share of imports (62.5%) was delivered from six countries: Russia, whose share in total imports was 22.9% (117.9% to the level of the first half of 2003), USA – 10.4% (147.7%), South Korea – 9.0% (161.4%), China – 8.7% (180.9%), Germany – 6.2% (74.3%), and Turkey – 5.3% (131.2%) (Table 4.1.4., Annex 4.1.5.). In the second quarter an increase of imports from Ukraine by 2.4 times, in comparison with the corresponding period of the previous year, was observed.

The greatest positive balance of trade turnover was achieved with Iran, Switzerland, and Great Britain; while the greatest negative balance occurred with the USA, South Korea, Russia, and Germany.

In general, the tendency of foreign trade's development in the first half of the current year was positive. In the structure of exports, the role of finished goods has been gaining importance. Indicators of foreign trade with CIS countries have improved. The tendency towards an increasing positive trade balance, including with CIS countries, has been strengthening.

4.2. Enterprises with Foreign Investments

In the first half of 2004 enterprises with foreign investments (EFIs) produced goods and services in the amount of 794.6 bn. USD (Table 4.2.1.). In the structural composition, increases in production volumes were observed in machinery building, metal refining, light industry, foodstuffs production, non-ferrous metallurgy, chemical and petrochemical, and medical branches of industry, as well as in services and agricultural production.

The growth of foreign trade turnover in the first half of 2004, including the second quarter, in comparison with the corresponding period of 2003, amounted to 34.2% and 35.8% respectively. During the period under review, the share of EFIs in foreign trade turnover of the republic increased by 1.6 and 3.3 percentage points respectively.

Table 4.2.1. Main Foreign Trade Indicators of Enterprises with Foreign Investments

	unit	03/I–II	04/I–II	03/II*	04/II*	04/I–II in % to 03/ I–II	04/II in % to 03/II
Volume of industrial output (in current prices)	Bn. UZS.	654.06	794.6	x	X	x	x
Foreign trade turnover	Mill. USD.	666.9	894.9	358.4	486.7	134.2	135.8
Exports	Mill. USD.	268.8	375.6	145.3	211.3	139.7	145.4
Imports	Mill. USD.	398.1	519.3	213.1	275.4	130.4	129.2
Share of EFIs' exports in the volume of production of goods, works and services	%	39.8	47.3	x	x	x	x
Share of EFIs in the total volume of foreign trade turnover of the Republic	%	20	21.6	20.3	23.6	x	x
Share of EFIs' exports in the total volume of exports of the Republic	%	13.9	15.5	14.4	17.5	x	x
Share of EFIs' imports in the total volume of imports of the Republic	%	28.4	30.0	28.3	32.2	x	x

Source: State Committee on Statistics of Uzbekistan

* the author's calculations based on the data from the State Committee on Statistics of Uzbekistan

In the first half of 2004, exports of EFIs throughout the whole Republic amounted to 375.6 mill. USD, or 15.5% of the gross exports of the Republic, and 139.7% of the level of the corresponding period of 2003. At the same time, the share of exports in the total volume of production of goods, work, and services increased by 7.5 percentage points.

The characteristic tendency of the second quarter of the current year was the accelerated rate of growth of EFIs' exports (145.4%) and the relatively high growth of the share of exports of EFIs in the gross exports of Uzbekistan (by 3.1 percentage points) against the levels achieved in the second quarter of 2003.

In the first half of 2004, in the commodity structure of exports of EFIs (without taking into account the "other" category), the greatest share was gained by machinery and equipment (24.6%), followed by foodstuffs (4.5%), services (3.6%), and energy carriers (3.0%). Such goods as cars, mini-buses, electrical appliances, vegetable products, and products of oil refining were included in the list of EFIs' exports, as were transporta-

tion services and others. The share of cotton fiber declined by 0.7 percentage point. At the same time, in the second quarter of the current year, the share of cotton fiber surpassed the level of the corresponding period of 2003, thanks to increased prices for this product in world markets.

In the territorial structure of EFIs' exports, the list of leading exporting regions remained the same and included Navoi, Andijan, Fergana, and Tashkent provinces and the city of Tashkent (Table 4.2.3.). Their share accounted for 80% of the total exports of EFIs, their main products including products of machinery building, gold mining and light industry, as well as energy carriers.

EFIs from the Republic of Karakalpakstan, Jizzakh, Surkhandarya, Sirdarya, and Khorezm provinces produced an insignificant share of exports. The share of each of the above-mentioned regions accounted for less than 1% of total exports from the country's EFIs.

The share of exports of enterprises with foreign investments in the total volume of exports of each region significantly increased in such provinces as Andijan (by 26.3 percentage points), Namangan (7.7), Samarkand (7.3) and Fergana (12.7).

In the first half of 2004 imports of products, work and services of EFIs throughout the Republic amounted to 519.3 mill. USD, or 30% of the total imports of the Republic, and 275.4 mill. USD and 32.2%, respectively, in the second quarter of 2004. The growth in the volume of imports during the period under review amounted to 30.4% and 29.2% respectively.

In the commodity composition of imports of enterprises with foreign investments, machinery and equipment, foodstuffs, and chemical products predominated (Table 4.2.4.). In the first half of 2004 the tendency towards a declining share for imports of foodstuffs, metal-lurgy products, energy carriers, and services continued. In the second quarter of the current year, the tendency remained towards a declining share of imports in all commodity groups (except the products of machinery building and services) with regard to the corresponding period of 2003.

Table 4.2.2. Commodity Composition of Exports of Enterprises with Foreign Investments (%)

	03/I-II	04/ I-II	03/II*	04/II*
Total	100	100	100	100
Cotton-fiber	3.4	2.7	2.9	3.7
Foodstuffs	4.1	4.5	3.5	3.5
Chemical products	1.9	2.6	2.1	2.3
Energy carriers	2.9	3.0	3.7	3.4
Ferrous and non-ferrous metals	0.4	1.1	0.6	0.7
Machinery and equipment	16.9	24.6	21.9	26.0
Services	3.6	3.6	3.9	3.4
Other	66.7	58.1	61.4	57.1

Source: State Committee on Statistics of Uzbekistan

* the author's calculations based on the data from the State Committee on Statistics of Uzbekistan.

Table 4.2.3. Territorial Structure of Exports of Enterprises with Foreign Investments (%)

	Share of EFIs in the total volume of exports of the region, %		Share of the region in the total exports of EFIs of the Republic, %	
	03/I-II	04/I-II	03/I-II	04/I-II
Total	13.9	15.5	100	100
R. Karakalpakstan	2.8	0.4	0.1	0
Andijan	50.6	76.9	16.0	23.3
Bukhara	11.3	6.1	2.7	2.1
Jizzakh	0.5	0.3	0.0	0.0
Kashkadarya	9	6.4	2.5	1.9
Navoi	64.2	57.6	31.7	30.4
Namangan	22.1	29.8	2.7	2.3
Samarkand	13.4	20.7	2.2	2.7
Surkhandarya	1.9	0.8	0.3	0.2
Sirdarya	11.9	2.0	0.9	0.3
Tashkent	21.2	17.0	16.2	12.7
Fergana	43.6	56.3	13.5	10.9
Khorezm	10.9	4.7	0.6	0.4
City of Tashkent	5.4	6.8	10.7	12.7

Source: State Committee on Statistics of Uzbekistan
Uzbekistan

In the second quarter of the current year, the tendency remained towards a declining share of imports in all commodity groups (except the products of machinery building and services) with regard to the corresponding period of 2003.

Table 4.2.4. Commodity Structure of Imports of Enterprises with Foreign Investments (%)

	03/I-II	04/I-II	03/II*	04/II*
Total	100	100	100	100
Foodstuffs	15.9	13.6	17.3	11.9
Chemical products	11.9	13.8	13.3	12.4
Energy carriers	0.5	0.4	0.5	0.4
Ferrous and non-ferrous metals	5.6	4.6	6.2	5.4
Machinery and equipment	54.9	57.4	49.3	57.9
Services	2.5	1.3	3.4	4.0
Other	8.9	8.9	10.2	8.1

Source: State Committee on Statistics of Uzbekistan

* the author's calculations based on the data from the State Committee on Statistics of Uzbekistan

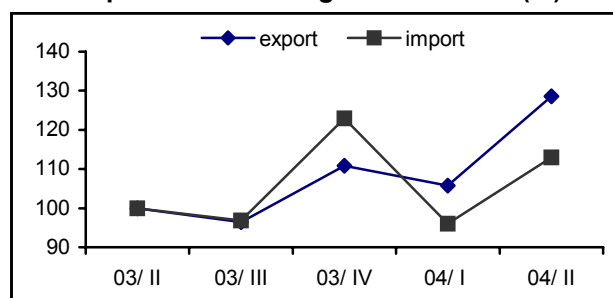
Despite the fact that by the end of the period under review, imports of EFIs prevailed over exports of EFIs, imports experienced a relatively slower growth rate (in comparison to the first half of 2003) than did exports (Graph 4.2.1).

In the export-import operations of enterprises with foreign investments, imports continued to surpass exports, i.e. the negative trade balance remained (-143.7 mill. USD). However, at the same time, a positive trade balance was achieved in the trade turnover of enterprises with foreign capital with countries of the CIS (Table 4.2.5). During the period under review, the share of foreign trade turnover of EFIs with CIS countries increased from 16.9 % to 23.7%, and in exports, from 26% to 34.4%.

One of the reasons for the continuing negative foreign trade turnover of EFIs was the predominance of imports of raw materials and components after the abolishment of limits for convertibility in current international operations. In addition, the majority of products of enterprises with foreign capital was aimed at export, not the domestic market. At the same time, the measures taken towards strengthening the national currency (UZS) contributed to the reduction of the negative trade balance down to -64.4 mill. USD in the second quarter of the current year (the balance of the first quarter was equal to -79.54 mill. USD).

A review of operations of enterprises with foreign investments for the first half of 2004, including the second quarter, indicated positive tendencies of growth in volumes of production, work, and services as well as an increase in volume of exports. During the same period, the most significant investment projects, such as JV "Surkhantex", JV "Yadem textile", JV "Emtex", JV "Balikchi" and JV "Iskovuttex," were implemented. Trade conditions have improved: the ratio of exports to imports increased to 0.72 from 0.68 in the first half of 2003.

Graph 4.2.1. Dynamics of Exports/Imports of Enterprises with Foreign Investments (%)



Source: the author's calculations based on the data from the State Committee on Statistics of Uzbekistan

Table 4.2.5. Foreign Trade Turnover of Enterprises with Foreign Investments with CIS and Other Foreign Countries

	Volume, mill. USD		Share in total volume, %	
	03/I-II	04/I-II	03/I-II	04/I-II
Foreign trade turnover	667.0	894.8	100	100
Countries of CIS	112.7	212.0	16.9	23.7
Other foreign countries	554.3	682.8	83.1	76.3
Exports	268.8	375.6	100	100
Countries of CIS	70.0	129.2	26.0	34.4
Other foreign countries	198.8	246.4	74.0	65.6
Imports	398.1	519.3	100	100
Countries of CIS	42.7	82.8	10.7	16.0
Other foreign countries	355.4	436.4	89.3	84.0
Trade balance	-129.3	-143.7	x	x
Countries of CIS	27.3	46.3	x	x
Other foreign countries	-156.6	-190.0	x	x

Source: State Committee on Statistics of Uzbekistan

Annex 4.1.1. Trade balance (mill. USD)

Period	Exports	Imports	Trade balance
1995	3719.9	2892.7	827.2
1996	4590.2	4721.1	-130.9
1997	4387.5	4523.0	-135.5
1998	3528.2	3288.7	239.5
1999	3235.8	3110.7	125.1
2000	3264.7	2947.4	317.3
2001	3170.4	3136.9	33.5
2002	2988.4	2712.0	276.4
2003	3725.0	2964.2	760.8
03/I	920.3	649.5	270.8
03/II*	1011.8	752.3	259.5
04/I	1210.0	874.2	335.8
04/II*	1209.9	856.6	353.3

Source: Economic Trends, quarterly issue Uzbekistan. Tacis. July-September, 2001; State Committee on Statistics of Uzbekistan.

* the author's calculations based on the data from the State Committee on Statistics of Uzbekistan.

Annex 4.1.2. Commodity Composition of Exports (%)

Period	Cotton fiber	Foodstuffs	Chemical products, plastics and plastic goods	Energy carriers	Ferrous and non-ferrous metals	Machinery and equipment	Services	Other goods	Total (%)	Total (mill. USD)
1995	48.4	1.7	2.5	11.7	4.7	2.0	7.7	21.3	100.0	3719.9
1996	38.1	4.5	2.4	6.0	3.5	2.8	8.3	34.4	100.0	4590.2
1997	36.0	3.7	1.7	12.0	4.6	6.3	27.4	8.3	100.0	4387.5
1998	38.6	3.2	1.5	7.9	5.1	4.2	30.8	8.7	100.0	3528.2
1999	27.3	6.4	3.1	11.5	4.3	3.2	34.7	9.5	100.0	3235.8
2000	27.5	5.4	2.9	10.3	6.6	3.4	13.7	30.2	100.0	3264.7
2001	22.0	3.9	2.7	10.2	7.0	3.9	14.6	35.7	100.0	3170.4
2002	22.4	3.5	3.0	8.1	6.4	3.9	15.9	36.8	100.0	2988.4
2003	19.8	2.7	3.1	9.8	6.4	5.9	14.4	37.9	100.0	3725.0
03/I	28.5	2.2	2.6	6.6	5.1	5.4	13.5	36.1	100.0	920.3
03/II*	13.5	2.1	2.4	9.3	6.0	6.8	12.8	47.1	100.0	1011.8
04/I	25.5	4.3	4.1	8.0	7.0	8.4	11.3	31.4	100.0	1210.0
04/II*	9.1	3.3	4.5	13.4	8.8	5.1	10.9	34.9	100.0	1209.9

Source: Economic Trends, quarterly issue Uzbekistan. Tacis. July-September, 2001; State Committee on Statistics of Uzbekistan.

* the author's calculations based on the data from the State Committee on Statistics of Uzbekistan.

Annex 4.1.3. Commodity Composition of Imports (%)

Period	Cotton fiber	Foodstuffs	Chemical products, plastics and plastic goods	Energy carriers	Ferrous and non-ferrous metals	Machinery and equipment	Services	Other goods	Total (%)
1995	18.2	9.3	1.9	5.7	47.9	5.0	12.0	100.0	2892.7
1996	29.5	12.5	1.1	6.7	35.8	0.2	14.2	100.0	4721.1
1997	19.3	12.5	0.6	7.5	45.9	7.5	6.7	100.0	4523.0
1998	15.6	12.4	0.5	9.2	47.2	5.0	10.1	100.0	3288.7
1999	13.1	11.7	2.1	7.9	44.8	8.7	11.7	100.0	3110.7
2000	12.3	13.6	3.8	8.6	35.4	8.5	17.8	100.0	2947.4
2001	10.8	12.7	1.9	10.9	41.2	10.3	12.2	100.0	3136.9
2002	12.5	15.1	1.3	8.0	41.4	10.6	11.1	100.0	2712.0
2003	9.9	12.8	2.7	7.9	44.4	10.2	12.1	100.0	2964.2
03/I	12.3	11.8	0.6	7.5	46.0	10.2	11.6	100.0	649.5
03/II*	10.7	12.3	2.4	8.2	43.4	9.8	13.2	100.0	752.3
04/I	9.1	11.5	2.1	7.5	50.2	9.6	10.0	100.0	874.2
04/II*	7.0	14.8	2.5	9.3	40.9	13.6	11.9	100.0	856.6

Source: Economic Trends, quarterly issue Uzbekistan. Tacis. July-September, 2001; State Committee on Statistics of Uzbekistan.

* the author's calculations based on the data from the State Committee on Statistics of Uzbekistan.

Annex 4.1.4. Geographical Structure of Exports (%)

Period	Total (mill. USD)	Total (%)	CIS countries	Kazakhstan	Russia	Ukraine	Other countries	Foreign countries	Belgium	Great Britain	Iran	South Korea	Netherlands	USA	Turkey	Switzerland	Other countries
1995	3719.9	100.0	34.5	6.4	15.7	1.2	11.2	65.5	0.0	6.4	0.0	3.9	4.2	0.3	2.9	11.4	36.4
1996	4590.2	100.0	22.9	2.6	11.6	0.8	7.9	77.1	1.5	8.0	0.5	5.8	2.9	6.2	1.0	7.2	44.0
1997	4387.5	100.0	34.4	4.5	19.1	4.6	6.2	65.6	2.0	5.8	0.3	7.4	3.1	0.9	0.5	10.0	35.6
1998	3528.2	100.0	26.0	3.5	14.9	0.9	6.7	74.0	4.2	10.0	0.9	7.3	1.7	1.8	1.3	10.3	36.5
1999	3235.8	100.0	30.4	4.6	13.4	3.8	8.6	69.6	2.5	9.6	1.2	3.8	3.0	1.4	2.0	9.5	36.6
2000	3264.7	100.0	35.9	3.1	16.7	4.7	11.4	64.1	1.1	7.2	2.2	3.3	2.6	1.6	3.0	8.3	34.8
2001	3170.4	100.0	34.4	3.7	15.8	4.7	10.2	65.6	1.5	6.3	2.6	4.2	2.4	2.6	2.6	5.6	37.9
2002	2988.4	100.0	27.6	2.7	10.6	5.4	8.9	72.4	2.4	7.7	5.8	2.2	1.5	2.6	3.4	6.3	40.5
2003	3725.0	100.0	26.0	2.7	12.3	3.9	7.1	74.0	1.9	7.5	7.4	1.5	0.4	2.9	3.5	5.4	43.5
03/I	920.3	100.0	21.5	2.1	6.7	4.5	8.2	78.5	1.9	13.2	6.9	1.5	0.4	2.4	2.9	6.4	42.9
03/II*	1011.8	100.0	24.7	1.9	9.4	7.0	6.4	75.3	1.0	2.4	5.6	1.8	0.3	3.0	2.3	6.7	52.2
04/I	1210.0	100.0	26.8	2.6	11.1	1.2	11.9	73.2	2.2	6.7	6.7	1.6	0.2	2.4	5.5	7.4	40.5
04/II*	1209.9	100.0	30.5	3.6	13.2	1.4	12.3	69.5	1.4	10.7	6.1	1.1	0.7	3.4	4.6	3.2	38.3

Source: Economic Trends, quarterly issue Uzbekistan. Tacis. July-September, 2001; State Committee on Statistics of Uzbekistan.

* the author's calculations based on the data from the State Committee on Statistics of Uzbekistan.

Annex 4.1.5. Geographical Structure of Imports (%)

Period	Total (mill. USD)	Total (%)	CIS countries	Kazakhstan	Russia	Ukraine	Other countries	Foreign countries	Great Britain	Germany	China	South Korea	USA	Turkey	France	Japan	Other countries
1995	2892.7	100.0	43.5	7.5	24.9	2.1	9.0	56.5	1.0	13.0	0.8	15.1	1.1	3.1	0.5	1.5	20.4
1996	4721.1	100.0	32.1	4.7	21.0	3.5	2.9	67.9	2.2	12.3	0.7	6.9	9.2	7.6	1.2	1.2	26.6
1997	4523.0	100.0	28.0	4.3	17.1	2.7	3.9	72.0	2.0	9.8	1.8	19.2	7.5	6.6	2.8	0.7	21.6
1998	3288.7	100.0	27.8	4.9	16.0	4.5	2.4	72.2	4.0	8.3	1.5	11.4	9.1	6.0	4.7	2.8	24.4
1999	3110.7	100.0	26.0	4.1	13.9	4.2	3.8	74.0	3.0	10.7	2.0	13.0	7.6	4.8	2.3	5.3	25.3
2000	2947.4	100.0	38.2	7.3	15.8	6.1	9.0	61.8	2.0	8.7	2.5	9.8	8.7	3.3	2.9	1.9	22.0
2001	3136.9	100.0	37.2	6.2	19.2	7.1	4.7	62.8	2.5	7.8	2.9	11.1	6.4	3.4	4.0	4.2	20.5
2002	2712.0	100.0	36.9	6.7	22.0	4.5	3.7	63.1	2.7	7.8	4.2	9.6	12.1	3.2	2.1	0.7	20.7
2003	2964.2	100.0	38.3	6.6	23.3	4.6	3.8	61.7	2.6	9.8	5.5	7.9	7.7	4.8	1.6	2.0	19.7
03/I	649.5	100.0	38.7	5.8	24.7	6.4	1.8	61.3	2.4	13.8	6.4	6.2	7.2	4.2	1.8	0.7	18.6
03/II*	752.3	100.0	37.4	7.0	23.4	2.5	4.5	62.6	2.6	7.4	5.4	7.5	10.0	5.6	1.3	2.4	20.4
04/I	874.2	100.0	32.6	5.3	20.9	2.8	3.6	67.4	1.6	6.4	8.8	8.4	14.3	6.0	1.1	1.6	19.2
04/II*	856.6	100.0	41.1	7.0	24.9	5.3	3.9	58.9	1.9	6.1	8.5	9.7	6.5	4.6	1.1	1.7	18.8

Source: Economic Trends, quarterly issue Uzbekistan. Tacis. July-September, 2001; State Committee on Statistics of Uzbekistan.

* the author's calculations based on the data from the State Committee on Statistics of Uzbekistan.

Annex 4.2.1. Commodity Composition of EFIs' Exports (%)

	Total, mill. USD.	Total %	Cotton- fiber	Foodstuffs	Chemical prod- ucts	Energy carriers	Ferrous and non-ferrous metals	Machinery and equipment	Services	Other
1998	342.9	100	0	2.2	2.7	0.1	0.3	34.1	4.7	55.9
1999	371.5	100	0	8.3	1.4	3.3	0.3	17.8	5.1	63.8
2000	451.6	100	4.8	7.4	1.5	3.7	0.3	16.0	3.9	62.4
2001	416.9	100	2.4	4.4	2.6	4.7	0.2	21.1	4.4	60.2
2002	442.9	100	1.0	4.1	2.1	2.9	0.5	16.5	3.8	69.1
2003	564.4	100	3.3	4.2	2.3	3.4	0.7	19.4	4.4	62.3
03/I*	123.5	100	4.0	4.8	1.6	2.1	0.2	11.0	3.3	73.0
03/II*	145.3	100	2.9	3.5	2.1	3.7	0.6	21.9	3.9	61.4
04/I*	164.3	100	1.4	5.7	3.0	2.5	1.5	22.7	3.8	59.4
04/II*	211.3	100	3.7	3.5	2.3	3.4	0.7	26.0	3.4	57.1

Source: State Committee on Statistics of Uzbekistan

* the author's calculations based on the data from the State Committee on Statistics of Uzbekistan

Annex 4.2.2. Commodity Composition of EFIs' Imports (%)

	Total, mill. USD.	Total %	Cotton- fiber	Foodstuffs	Chemical prod- ucts	Energy carriers	Ferrous and non-ferrous metals	Machinery and equipment	Services
1998	1116.8	100	13.6	13.8	0.4	4.6	57.4	1.3	8.9
1999	1027.8	100	11.9	12.4	0.4	5.4	57.9	4.0	8.1
2000	760.5	100	12.9	20.5	0.8	5.1	47.4	1.1	12.2
2001	937.2	100	8.8	13.3	0.6	5.9	62.5	1.0	7.9
2002	704.8	100	15.0	13.2	0.6	4.4	57.5	1.1	8.2
2003	858.4	100	15.1	12.4	0.4	5.4	55.4	2.7	8.5
03/I*	185.0	100	14.2	10.3	0.4	5.0	61.3	1.4	7.4
03/II*	213.1	100	17.3	13.3	0.5	6.1	49.3	3.4	10.2
04/I*	243.9	100	16.2	12.0	0.4	5.0	56.2	4.2	6.0
04/II*	275.4	100	11.3	15.8	0.8	7.0	53.3	4.7	7.1

Source: State Committee on Statistics of Uzbekistan

* the author's calculations based on the data from the State Committee on Statistics of Uzbekistan

Annex 4.2.3. Territorial Structure of EFI Exports (%)

	Total. mill. USD	Total %	R. Karakalpakstan	Andijan	Bukhara	Jizzakh	Kashkadarya	Navoi	Namangan	Samarkand	Surkhandarya	Sirdarya	Tashkent	Fergana	Khorezm	City of Tashkent
1997	399.6	100		33.4	0.3	0.0	0.0	38.5	0.1	0.8	0.0	0.0	9.2	2.6	0.4	14.7
1998	342.9	100	0.0	22.9	0.0		0.1	31.7	0.6	1.7	0.0	0.4	14.5	7.0	5.2	16.0
1999	371.5	100	0.0	9.8	0.1	0.0	0.2	40.8	2.2	2.4	0.0	0.0	10.1	9.1	4.5	20.6
2000	451.6	100	0.0	13.3	0.3	0.1	0.0	31.9	4.2	2.8	0.0	5.1	14.0	7.2	0.2	21.0
2001	416.9	100	0.0	18.6	0.1	0.3	0.0	29.0	2.0	2.2	0.0	1.0	18.7	7.4	0.2	20.5
2002	442.9	100	0.2	14.0	0.4	0.1	1.6	35.9	2.2	1.8	0.1	0.8	17.4	11.0	0.4	14.1
2003	564.4	100	0.1	18.4	2.8	0.2	2.3	28.2	2.9	2.4	0.3	0.8	15.8	12.7	0.7	12.4
03/I*	123.5	100	0.1	10.3	3.4	0.0	2.6	34.4	2.3	1.6	0.2	0.9	19.3	14.0	0.7	10.2
03/II*	145.3	100	0.0	20.9	2.1	0.0	2.5	29.4	2.9	2.6	0.4	0.9	13.5	13.2	0.6	11.0
04/I*	164.3	100	0.0	21.8	1.3	0.0	2.1	26.8	3.1	3.8	0.1	0.3	13.1	13.4	0.6	13.4
04/II*	211.3	100	0.0	24.5	2.7	0.0	1.7	33.3	1.7	1.9	0.2	0.2	12.3	9.0	0.2	12.1

Source: State Committee on Statistics of Uzbekistan

* the author's calculations based on the data from the State Committee on Statistics of Uzbekistan

Annex 4.2.4. Territorial Structure of EFI Imports (%)

	Total. mill. USD	Total %	R. Karakalpakstan	Andijan	Bukhara	Jizzakh	Kashkadarya	Navoi	Namangan	Samarkand	Surkhandarya	Sirdarya	Tashkent	Fergana	Khorezm	City of Tashkent
1997	1777.9	100	0.0	38.6	0.3	0.0	0.4	2.1	1.5	2.1	0.1	0.1	2.5	3.2	3.4	45.6
1998	1116.8	100	0.1	23.8	0.4		0.5	3.7	4.4	3.2	0.3	0.2	6.1	3.3	3.0	51.1
1999	1027.8	100	0.6	33.0	0.1	0.0	0.1	3.9	2.1	3.6	0.5	0.2	6.2	0.7	0.4	48.6
2000	760.5	100	0.3	28.3	1.0	1.1	0.3	4.6	1.6	4.3	0.3	0.2	8.4	1.4	0.1	48.0
2001	937.2	100	0.2	25.3	1.0	3.3	5.1	6.5	2.2	2.1	0.0	0.9	10.3	9.8	1.0	32.2
2002	704.8	100	0.4	27.1	2.1	3.8	0.7	4.1	2.1	3.9	0.1	0.3	5.9	5.7	3.8	39.8
2003	858.4	100	1.1	28.2	0.8	0.2	0.8	5.3	1.8	3.8	1.0	0.1	3.8	4.1	0.3	48.6
03/I*	185.0	100	2.6	38.7	0.3	0.0	0.1	4.3	1.4	1.8	0.1	0.1	2.9	6.5	0.2	40.9
03/II*	213.1	100	0.9	21.9	1.7	0.0	0.1	4.9	1.4	4.7	0.2	0.2	2.5	3.9	0.2	57.3
04/I*	243.9	100	0.2	25.3	0.6	0.0	0.3	5.4	4.4	3.0	0.3	0.1	4.3	2.0	0.7	53.2
04/II*	275.4	100	0.5	26.9	0.8	0.4	0.6	8.9	1.7	3.3	0.8	1.6	4.7	1.5	0.8	48.2

Source: State Committee on Statistics of Uzbekistan

* the author's calculations based on the data from the State Committee on Statistics of Uzbekistan

5. Living Standards and the Labor Market

5.1. Incomes and Expenditures of the Population

The nominal monetary income of the population for the 1st half of 2004 increased by 17% in comparison to the 1st half of 2003, and disposable income per capita – by 15%. The growth in income of the population was attributable mainly to the increase in wages – by 22.2%, and the increase in income from sales of agricultural products (12.2%), and from entrepreneurial activities (16.2%). The growth of the latter is largely due to the provision of financial support for small and medium enterprises (credits provided to this category of clients almost doubled during the period under observation).

The share of wages in total monetary incomes increased from 24.7% to 25.9%, while income from sales of agricultural products and entrepreneurial and other income accounted for 30.6% and 29.7%, respectively (Table 5.1.1.).

Regional wage differentiation narrowed from 1:3.7 in the 1st half of 2003 to 1:3.3 in the 1st half of 2004. Provinces with an average monthly wage higher than the national average included such provinces as Navoi, Tashkent and the city of Tashkent. In the provinces of Andijan, Jizzakh, Namangan, Samarkand and Khorezm, wages were only 60-70% of the national average.

Purchasing power increased along with a rise in savings. The share of consumption expenditures in disposable income dropped from 81.3% in the 1st half of 2003 to 78.4% in the same period of the current year. The savings rate rose accordingly (Table 5.1.2). Newly introduced types of deposits with increased interest rates (higher than the level of inflation) promoted the increase in individual bank deposits.

Table 5.1.1. Structure of Monetary Income of the Population (%)

Indicators	In percentage to the total volume		In percentage to the corresponding period of the previous year	
	03/I-II	04/I-II	03/I-II	04/I-II
Monetary income, total	100	100	126.0	117.0
Wages	24.7	25.9	128.1	122.2
Pensions, benefits, and stipends	13.1	13.6	125.5	120.4
Income from sales of agricultural products	31.9	30.6	133.3	112.2
Income from entrepreneurial activities and other income	29.9	29.6	117.6	116.2

Source: State Committee on Statistics of Uzbekistan

Table 5.1.2. Structure of Monetary Expenses of the Population (in % to Monetary Income)

Periods	Monetary income of population	Of which monetary expenses				Cash remainder
		Consumption expenses	Compulsory payments and mandatory contributions	Bank deposits, purchase of securities and hard currency	Other expenses	
03/I-II	100	81.3	7.3	4.5	0.0	6.9
04/I-II	100	78.4	7.9	14.3	0.0	-0.6

Source: State Committee on Statistics of Uzbekistan

In the structure of consumption expenses of the population, the share of foodstuffs decreased from 63.4% to 60.4%, while the share of expenses for non-foodstuffs increased from 21.0% to 22.0% as did paid services from 14.8% to 16.0%. The reason for the increase in the population's expenses for paid services is the increasing share of expenses for housing and communal services, from 4.6% to 6.2%, and transportation services, from 5.2% to 5.7% (Table 5.1.3.). These changes were caused mainly by a reduction of government subsidies for those services, and increases in tariffs for heating and hot water supply.

Table 5.1.3. Structure of Consumption Expenses (in % to consumption expenses)

Years	Consumption expenses of population	Including expenses for:								
		Foodstuffs	Non-foodstuffs	Services	Of which:					Other
					Housing and communal services	Transportation	Consumer services	Education	Health care	
2002	100	63.7	22.7	13.0	4.3	4.7	1.9	0.2	0.5	0.6
2003	100	61.6	23.1	14.6	4.8	5.2	2.3	0.4	0.6	0.7
03/I-II	100	63.4	21.0	14.8	4.6	5.2	2.5	0.7	0.6	0.8
04/I-II	100	61.3	22.0	16.0	6.2	5.7	1.7	0.8	0.4	0.7

Source: according to data from research on budgets of households. State Committee on Statistics of Uzbekistan

On the whole, during the first half of 2004, an increase in real income of the population was observed, along with positive shifts in the structure of expenditures of the population.

5.2. Domestic Trade and Services

In the first half 2004, growth in monetary incomes, reduced inflation and a greater supply of quality consumer goods, along with a more developed market system, contributed to a rise in retail turnover of 4.2% (0.3% in the corresponding period of 2003) and in paid services – of 13.5% (4.4%). The volume of retail trade was equivalent to UZS 2199.5 bn., paid services to UZS 549.0 bn. (Table 5.2.1.).

Table 5.2.1. Retail Trade Turnover and Paid Services

Period	Retail Trade Turnover		Paid Services	
	Bill. UZS	Growth rate against corresponding period of the previous year, %	Bill. UZS	Growth rate against corresponding period of the previous year, %
03/I-II	2021.9	100.3	425.1	104.4
04/I-II	2199.5	104.2	549.0	113.5

Source: State Committee on Statistics of Uzbekistan

The trend towards a more rapid growth rate of services relative to sales of goods has continued. As a result, the share of services in the volume of total sales rose from 17.4% (in the first quarter of 2003) to 20.0% in the period under observation (Table 5.2.2.)

Table 5.2.2. Volume of Sales of Goods and Services to Population

Period	Volume of sales of goods and services		Including			
			Sales of goods		Sales of services	
	Bill. UZS	%	Bill. UZS	%	Bill. UZS	%
03/I-II	2447.0	100	2021.9	82.6	425.1	17.4
04/I-II	2748.5	100	2199.5	80.0	549.0	20.0

Source: State Committee on Statistics of Uzbekistan

As in the past, the volume of retail trade turnover in the first half of 2004 arose mainly (56%) in Andijan, Fergana, Tashkent provinces and the city of Tashkent. This results from the level of socio-economic development of those regions, in particular the level of average per capita monetary income and consumer prices (Table 5.2.3.).

Table 5.2.3. Income, CPI, Retail Trade Turnover and Paid Services by Region (in % to all-republican level)

Regions	Monetary income per capita		Consumer Price Index		Retail trade turnover per capita		Paid services per capita	
	03/I-II	04/I-II	03/I-II	04/I-II	03/I-II	04/I-II	03/I-II	04/I-II
R. Karakalpakstan	57.1	56.1	99.8	101.6	48.7	48.6	37.3	41.0
Andijan	108.0	100.4	99.2	102.5	129.5	117.3	66.3	80.2
Bukhara	97.5	92.9	98.7	100.9	87.8	88.2	85.5	93.4
Jizzakh	65.9	64.1	97.2	101.2	59.2	60.0	47.6	52.4
Kashkadarya	76.2	76.1	100.1	102.6	74.3	75.1	42.8	40.1
Navoi	137.3	152.2	99.4	99.3	82.3	90.0	77.7	84.4
Namangan	71.4	64.1	99.1	99.3	77.2	74.7	50.0	50.9
Samarkand	70.0	67.1	98.0	99.8	71.0	70.6	57.8	59.0
Surkhandarya	72.0	72.8	99.9	98.5	72.8	74.1	45.8	45.8
Sirdarya	67.8	69.8	103.5	99.8	57.8	58.8	39.8	40.6
Tashkent	110.8	106.6	102.3	99.0	109.0	116.9	64.5	67.0
Fergana	100.4	95.7	100.2	99.9	114.7	109.9	54.8	58.5
Khorezm	63.9	65.9	100.0	101.2	62.0	59.6	59.0	66.0
Taskhent city	262.6	291.0	100.9	99.3	258.6	269.9	447.6	438.7
R. Uzbekistan	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Source: State Committee on Statistics of Uzbekistan

In the structure of trade turnover, the ratio of foodstuffs to non-foodstuffs began to shift in the direction of an increase in non-foodstuffs, from 62.0%/38.0% to 58.8%/41.2%. In 5 provinces (vs. 8 provinces in the first half of 2003) more than 60% of the volume of sales of consumer goods was made up of foodstuffs, which was due to a gradual decrease of differences among consumer markets in the regions (Table 5.2.4.).

Table 5.2.4. Structure of Retail Trade Turnover Per Capita

Regions	Retail trade turnover per capita, UZS thous.		In percent to total volume			
			Foodstuffs		Non-foodstuffs	
	03/I-II	04/I-II	03/I-II	04/I-II	03/I-II	04/I-II
R. Karakalpakstan	38.5	41.3	23.7	23.5	14.8	17.8
Andijan	102.3	99.7	53.2	55.8	49.1	43.9
Bukhara	69.4	75.0	44.3	46.0	25.1	29.0
Jizzakh	46.8	51.0	26.0	26.9	20.8	24.1
Kashkadarya	58.7	63.8	41.3	39.6	17.4	24.2
Navoi	65.0	76.5	41.4	40.4	23.6	36.1
Namangan	61.0	63.5	28.6	31.9	32.4	31.6
Samarkand	56.1	60.0	37.2	37.3	18.9	22.7
Surkhandarya	57.5	63.0	33.6	33.1	23.9	29.9
Sirdarya	45.7	50.0	25.9	29.8	19.8	20.2
Tashkent	86.1	99.4	57.9	55.7	28.2	43.7
Fergana	90.6	93.4	54.6	52.3	36.0	41.1
Khorezm	49.0	50.7	33.5	31.9	15.5	18.8
Taskhent city	204.3	229.4	136.2	149.8	68.1	79.6
R. Uzbekistan	79.0	85.0	49.0	50.0	30.0	35.0

Source: State Committee on Statistics of Uzbekistan

In the structure of retail trade turnover, in comparison to the same period of the previous year, sales of foodstuffs decreased from 62.0% to 58.8%, while sales of non-foodstuffs increased, particularly that of fabrics, medicines, cars, and construction materials (Table 5.2.5.).

Table 5.2.5. Commodity Structure of Retail Trade Turnover (in % to total volume)

Indicators	2003/I-II	2004/I-II
Total goods sold	100	100
Foodstuffs	62.0	58.8
Bread	3.1	4.6
Meat and meat products	15.2	15.0
Milk and dairy	1.3	1.4
Vegetables and water melons, melons and gourds	7.1	-
Fruits and berries	5.0	-
Alcohol drinks	3.7	3.9
Non-foodstuffs	38.0	41.2
Fabrics	1.3	1.6
Clothing and underwear	2.0	1.7
Footwear	2.4	2.1
Medicines	1.1	1.2
Cars	3.7	4.0
Construction materials	0.9	1.2
Furniture	0.1	-

Source: State Committee on Statistics of Uzbekistan

Public services paid for by the population rose by 13.5% in the first half of 2004. The share of the various types of such services in total revenue accrued from them is shown in Table 5.2.6 below. As can be seen, public transport was the main revenue earner (36.4%), followed by housing and communal services (20.2%), transportation, and complex and consumer services (14%). In the structure of paid services, the share of complex and consumer services increased (from 13.4% in the 1st half of 2003 to 14% in the 1st half of 2004), as did housing and communal services (from 18.0% to 20.2%), and communication services (from 10.2% to 10.8%). Shares of housing and communal services increased mainly due to an increase in the shares of the supply of electricity (from 5.1% to 6.5%) and gas (from 4.8% to 6.4%) (Table 5.2.6.).

In the period under review the interregional differentiation in average per capita consumption of services declined from 1:11.9, in the first half of 2003, to 1:10.9. In some regions, a comparatively high level of income and wages as well as the expansion of the network of enterprises providing paid services facilitated the growth in average per capita consumption of services. In 8 provinces (against 5 in the first half of 2003) the physical volume of paid services grew at higher rates than the republican average. This was achieved mainly due to the formation of a system for the development of a regional network for rendering services, as a result of which the structure of services in the regions began to enjoy more stable dynamics (Table 5.2.7.).

Social infrastructure. In the first half of 2004, 3353.8 thous. sq. m. of houses were built, and 1688.0 km of gas-supply and 991.2 km. of water-supply pipelines were set. The program of rural medical points (RMP) was continued but not completed during the review period; nor was the program of introduction of colleges and schools.

Table 5.2. 6. Structure of Paid Services Rendered to Population (in % to total volume)

	03/I-II	04/I-II
Total services rendered	100	100
Consumer services	13.4	14.0
Public transportation	39.3	36.4
Communication services	10.2	10.8
Housing and communal services	18.0	20.2
Supply of electricity	5.1	6.5
Water-supply	1.0	1.0
Gas-supply	4.8	6.4
Central heating	1.1	1.2
Hot- water-supply	1.3	1.5
Sewage	0.3	0.3
Sanitary cleaning	0.3	0.1
Cultural and tourism services	1.4	1.0
Physical culture and sports	0.3	0.3
Health care	1.9	1.8
Sanitary and health resorts	0.7	0.6
Services of education system, training of population	6.5	5.6
Legal and banking	1.6	1.6
Other	6.7	7.7

Source: State Committee on Statistics of Uzbekistan

Table 5.2.7. Regional Composition of Retail Trade Turnover and Paid Services

Regions	Retail trade turnover, UZS bn.			Paid services, UZS bn.		
	03/I-II	04/I-II	Growth rate in relation to previous year, in comparable prices, %	03/I-II	04/I-II	Growth rate in relation to previous year, in comparable prices, %
R. Karakalpakstan	59.9	64.6	100.7	9.6	13.5	115.4
Andijan	234.6	231.6	93.7	25.2	39.5	125.9
Bukhara	102.8	112.3	101.4	21.1	29.7	122.2
Jizzakh	48.1	53.0	101.2	8.1	11.5	124.6
Kashkadarya	135.5	149.9	100.4	16.3	20.0	104.9
Navoi	52.2	61.9	111.2	10.3	14.5	116.7
Namangan	123.6	130.6	101.1	16.9	22.1	116.1
Samarkand	157.4	170.7	104.3	27.0	35.6	116.0
Surkhandarya	106.2	118.1	105.5	14.0	18.1	112.0
Sirdarya	30.6	33.7	101.8	4.4	5.8	106.5
Tashkent	209.3	243.5	111.9	25.9	34.8	112.8
Fergana	252.4	263.5	101.6	25.4	35.0	118.6
Khorezm	68.6	71.8	101.5	13.7	19.8	123.1
Taskhent city	440.7	494.3	110.1	160.2	200.4	103.3
R. Uzbekistan	2021.9	2199.5	104.2	425.1	549.0	113.5

Source: State Committee on Statistics of Uzbekistan

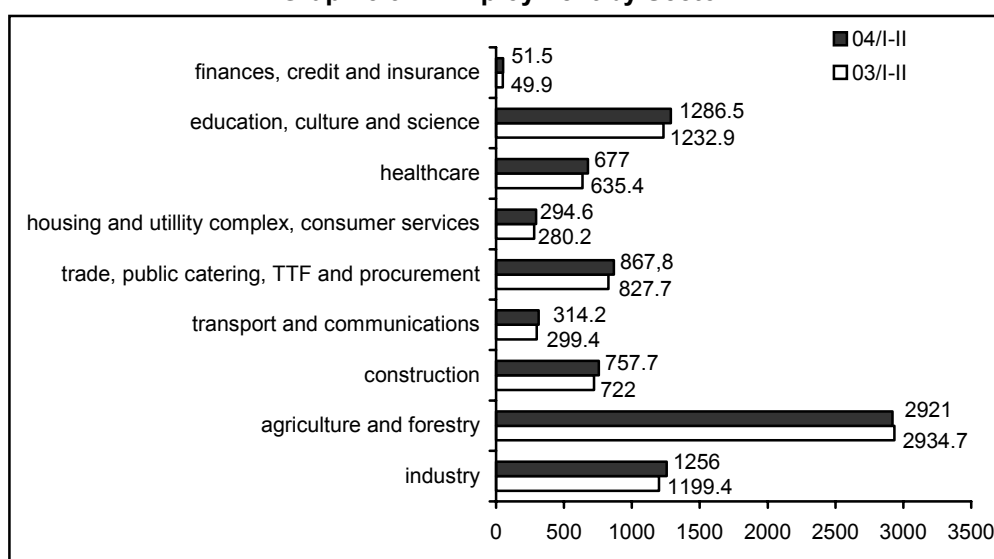
Thus, growth of real income of the population was facilitated by the dynamic development of practically all key sectors of the economy, the implementation of the program of privatization and development of small entrepreneurship, solid monetary-fiscal policy and the limitation of inflation processes. In the composition of population income, there is a trend towards a rising share for wages. In the composition of population expenditure, the share of family expenditures on consumption is declining, while savings in the form of bank deposits and purchase of securities and foreign currency are on the increase. A decrease in prices of foodstuffs has allowed consumers to spend more on non-foodstuffs and services, which promotes the activation of the domestic consumer market and the development of services. In conditions of the demands of an increasingly solvent population and the commercialization of educational and medical services, their shares in the structure of market (paid) services will gradually increase.

5.3. Employment and Labor Market

Population. The demographic trends which have been evolving over previous years continued during the first half of 2004. The birth rate continued to decline. In the first half of 2004, 254,000 people were born, 3,500 less than in the same period of 2003. The observed decline occurred mainly in rural areas. During the observation period, 66,800 people died. 43.7% of all deaths occurred in urban areas and 56.3% in rural areas. The birth and death rates together resulted in a net population growth of 187,200, which – if applied to the full year – would be equivalent to a growth rate of about 1.5%. In terms of migration, the balance between immigration and emigration was negative, with 44,700 more people leaving than entering the country. Compared to the same period of 2003, the migratory outflow decreased by 1,200 people. Overall, combining demographic and migratory factors, during the first half of 2004, Uzbekistan's population increased by 142,500. By July 1, 2004, the total population equaled 25.85 mill. Urban areas accounted for 36.4% and rural areas for 63.6% of the population, which reflects a minor increase in the urban population. In general, the demographic situation can be considered as stable.

Employment. The various initiatives and measures adopted to reform the economy have had a positive impact on employment. During the first half of 2004, 263,000 new work places were created, which is a 10.6% increase over the same period of the previous year. New jobs were created mainly in the private sector. The results of reorganization of ineffective shirkats and the introduction of preferential credit schemes for farms, which began in 2003, have shown tangible results, particularly with respect to dekhkan farms. In the first half of 2004, dekhkan farms provided 92,000 new jobs, thus accounting for 35.0% of all new employment. The rise in employment generated by dekhkan farms could not, however, offset the decline in overall agricultural employment (see Graph 5.3.1.) Growth in employment was also regionally imbalanced. During the observation period, new work places, relative to the previous year, fell in the provinces of Khorezm (by 34%), Surkhandarya (by 12%), and Samarkand (by 7%).

Graph 5.3.1. Employment by Sector



Source: State Committee on Statistics of Uzbekistan

Overall, employment increased by 322,100 (3.5%) and as of 1 July 2004 amounted to about 9.7 million employed persons. Employment grew in almost all sectors, with the notable exception of agriculture, where employment dropped marginally (by 0.5%). However, agriculture is still the main source of employment, accounting for about 30% of total employment.

In the industrial sector, 56,600 new work places were created during the first half of 2004. This reflects the ongoing process of structural change in the economy. The industrial sector now accounts for almost 13% of total employment and is thus on a par with the education, science and culture sectors. The fastest growing industries within the industrial sector included wood processing, cellulous-paper production (by 20.6% in comparison with the first half of 2003), the printing industry (by 9.9%) and the food industry (by 8.9%).

Among the branches of the real sector, the following are maintaining high rates of growth in employment: construction (increased by 35.7 thous. people, or by 4.9% in comparison to the 1st half of 2003), and the category of trade, public catering, sales and procurement (increased by 40.1 thous. people, or by 4.8% in comparison to the 1st half of 2003).

In the agrarian sector, employment declined, corresponding with the strategic course of reforming the economy and with current structural shifts in development. In comparison to the 1st quarter of 2003, employment in the agrarian sector decreased by 13.7 thous. people (0.5%).

In non-material production, the highest growth rates were provided by the following: healthcare, physical education and social security (6.5%), transportation and communication in the service of the population (6.4%), the housing and utility complex and non-production sectors of consumer services (5.1%).

The first half of 2004 saw a continuation of the rising trend in non-governmental employment. As of 1 July 2004, the government's share in total employment was 22.8% and recorded a decline of 0.4 percentage point over the previous year. The majority of the employed population was engaged in various non-governmental structures.

Current labor market. The conducting of active policy in the labor market promotes market reforms in the sphere of employment, facilitates the real implementation of principles of liberal supply/demand of the work force, and maintains intensification in the processes of freeing and re-allocating workers employed in the economy. Nevertheless, balancing the supply and demand of the work force remains an issue. There are sector-specific and territorial problems in creating employment.

In the first half of 2004, the number of people contacting job placement centers in search of employment fell only marginally (by 1.5%) below the level of the previous year (Table 5.3.1.). However, in Jizzakh and Samarkand provinces this indicator dropped more significantly, by 17.2% and 11.5%, respectively. In contrast, more people than in the previous year registered at job placement centers in the city of Tashkent (up by 21.1%), in Navoi province (up by 20.3%), and in Khorezm province (up by 12.5%). On average, about 75% of registered jobseekers are residents of rural areas. In the Fergana Valley, this indicator is in the range of 80-86%.

The recorded growth in employment is a result of effective cooperation between the main actors in the labor market, and was achieved with the help of job placement centers. During the period under observation, an average 74.8% of all job seekers were successfully placed, which compares to 72.1% in 2003. Andjian (79.0%), Surkhandarya (86.7%) and Samarkand (87.4%) significantly exceed the national average. In addition, job placements in rural areas were more successful than

Table 5.3.1. Labor Market Indicators

Year	Registered job seekers	Successful job placements	Ratio of placements to registered	Number of unemployed by the end of the period
1995	246191	153526	62.4	25388
1996	275358	178755	64.9	27514
1997	298829	197439	66.1	28797
1998	313824	207924	66.2	33281
1999	387880	246427	63.5	39118
2000	421377	280601	66.6	35408
2001	462753	318068	68.7	37491
2002	448175	322154	71.9	34835
2003	430484	317424	73.7	32208
03/I	108295	77132	71.2	39163
03/I-II	231606	167051	72.1	42491
04/I	104775	76249	72.8	36600
04/I-II	228113	170511	74.8	41264

Source: Based on data collected from job placement centers

in urban areas (Table 5.3.2). The tendency towards an increase in the level of job placement has become steadier in the last few years, which indicates not only more effective work of rural job placement centers, but also the fact that employment is becoming a serious issue in rural areas.

Table 5.3.2. Employment in Urban and Rural Areas

year	Registered as jobseekers		Employed		Level of employment, in %	
	Urban	Rural	Urban	Rural	Urban	Rural
2002	133602	314573	92257	229897	69.1	73.1
2003	114135	316349	79205	238219	69.4	75.3
03/I	31577	76718	21269	55863	67.4	72.8
03/I-II	64917	166689	44015	123031	67.8	73.8
04/I	27444	77331	18899	57350	68.9	74.2
04/I-II	59057	169056	41774	128737	70.7	76.1

Source: calculated on the data from job placement centers

Young people, particularly in the age bracket between 16 and 29, appear to suffer most from the lack of employment opportunities. In the first half of 2004 the number of graduates from secondary schools, vocational colleges, academic lyceums, and universities increased by 600 people in comparison with the corresponding period of 2003. During the period under observation, their share in the number of registered jobseekers increased from 46.3% to 47.3%. As before, a significant share of job seekers consisted of unskilled laborers (36.6%), mostly in the rural workforce (80.1% of the total number).

As a result of the established correlation of supply-demand of work force in the current labor market, the number of unemployed decreased from 42.5 thous. people in the first half of 2003 to 41.3 thous. people in the first half of 2004. Substantial growth in unemployment was recorded by Tashkent city (by 56%), followed by Navoi province (32.6%), and Khorezm province (45.0%). In absolute terms, Khorezm province had 8.4 thous. people officially registered as unemployed. This was equivalent to 17.2% of the total number of registered unemployed persons. The Republic of Karakalpakstan, with 5.2 thous. unemployed persons (10.8%), ranks second in the regional distribution of unemployment.

The number of people receiving professional training in relevant infrastructure, has been decreasing from quarter to quarter, which is a negative trend in the current labor market. In addition to the challenge noted above, structural deficiencies of the labor market need to be rectified. These deficiencies are reflected in the number of reported job vacancies in relation to the number of job seekers and a declining trend in the number of persons opting for skill upgrading and training. In the first half of 2004 only 21,600 people received such training as compared to 36,200 in 2003. At the same time, relative growth in the number of free job places (declared vacancies) by 680 units per 1000 unemployed was observed, testifying to a lack of effective interaction among the labor market's participants. This problem is most pronounced in the city of Tashkent as well as in the provinces of Surkhandarya, Tashkent, and Bukhara.

The trends observed in the first half of 2004 reconfirm the urgency of addressing the unemployment problem among young people. Young people represent the majority of registered job seekers as well as registered recipients of unemployment compensation. Furthermore, the qualitative aspects of developing the labor market and the advancement of a competitive environment in the system of employment are taking on special urgency.

Annex 5.2.1. Volume of Goods and Services Provided to the Population

Years	Volume of goods and services sold		Including			
			Goods sold		Services rendered	
	UZS bn.	%	UZS bn.	%	UZS bn.	%
1995	119.2	100	104.2	87.4	15.0	12.6
1996	270.4	100	236.4	87.4	34.0	12.6
1997	564.2	100	493.9	87.5	70.3	12.5
1998	823.9	100	709.3	86.1	114.6	13.9
1999	1338.2	100	1148.8	85.8	189.4	14.2
2000	2094.8	100	1789.4	85.4	305.4	14.6
2001	3169.2	100	2697.0	85.1	472.2	14.9
2002	4481.6	100	3772.3	84.2	709.3	15.8
2003	5259.9	100	4325.1	82.2	934.8	17.8
03/I-II	2447.0	100	2021.9	82.6	425.1	17.4
04/I-II	2748.5	100	2199.5	80.0	549.0	20.0

Source: State Committee on Statistics of Uzbekistan

Annex 5.2.2. Retail Turnover and Paid Services

Years	Retail turnover		Paid services	
	In actual prices, UZS bn.	Growth rate in relation to previous year, in comparable prices, %	In current prices, UZS bn.	Growth rate in relation to previous year, in comparable prices, %
1995	104.2	92.2	15.0	73.0
1996	236.4	121.0	34.0	109.9
1997	493.9	112.7	70.3	121.3
1998	709.3	114.0	114.6	109.5
1999	1148.8	110.5	189.4	112.6
2000	1789.4	107.8	305.4	114.0
2001	2697.0	109.5	472.2	114.4
2002	3772.3	101.7	709.3	108.3
2003	4325.1	105.1	934.8	107.9
03/I-II	2021.9	100.3	425.1	104.4
04/I-II	2199.5	104.2	549.0	113.5

Source: State Committee on Statistics of Uzbekistan

Annex 5.3.1. Dynamics in the Population of the Republic of Uzbekistan (by the beginning of the year)

Year	Total population		Urban		Rural	
	Number	Growth, %	Number	Growth, %	Number	Growth, %
1995	22461.6		8670.9		13790.7	
1996	22906.5	2.0	8768.1	1.1	14138.4	2.5
1997	23348.6	1.9	8878.4	1.3	14470.2	2.3
1998	23772.3	1.8	8993.2	1.3	14779.1	2.1
1999	24135.6	1.5	9086.5	1.0	15049.1	1.8
2000	24487.7	1.5	9165.5	0.9	15322.2	1.8
2001	24813.1	1.3	9225.3	0.7	15587.8	1.7
2002	25115.8	1.2	9286.9	0.7	15828.9	1.5
2003	25427.9	1.2	9340.7	0.6	16087.2	1.6
2004	25707.4	1.1	9381.3	0.4	16326.1	1.5
04/I (by 1.04.04)	25777.2		9397.2		16380.0	
04/I-II (by 1.07.04)	25849.8		9404.4		16445.4	

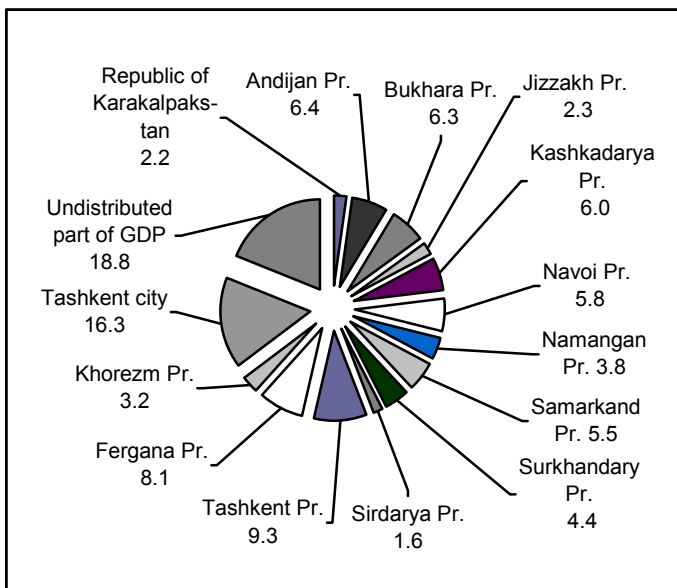
Source: State Committee on Statistics of Uzbekistan

6. Socio-Economic Development in the Regions

In the 1st half year of 2004, in comparison with the corresponding period of the previous year, the Republic of Karakalpakstan, the 12 provinces and Tashkent City had stable growth rates in practically all macroeconomic indicators.

As to the gross regional product (GRP), which is the most important generalized indicator of socio-economic development, all the regions experienced high growth rates, especially Sirdarya (112.3%), Jizzakh (109.7%), Tashkent (107.8%), Samarkand (107.2%) and Namangan (105.9%) provinces and the Republic of Karakalpakstan. It is worth noting that such high growth rates were achieved mainly due to the development of the real sector of the economy. Growth of GRP lower than the average republican level was observed in Andijan (102.8%), Bukhara (104.2%), Kashkadarya (104.5%) and Fergana (102.3%) provinces and Tashkent City (104.4%) (Annex 6.1.).

Graph 6.1. The Share of Regions in the GDP of the Republic of Uzbekistan Based on the Overall Results from the 1st half of 2004 (%)



Source: State Committee on Statistics of Uzbekistan

The breakdown of the regions by GRP production (on a per capita basis) shows that in the 1st half year of 2004, in comparison with the corresponding period of 2003, the following changes took place:

The first group, with a high index, remained unchanged in the first half of 2004, consisting of the same regions as before: Tashkent City and Navoi and Bukhara Provinces. All provinces of the second group remained the same, but changed places due to the decrease in the index in Khorezm and Jizzakh Provinces, and the increase in Surkhandarya and Sirdarya Provinces. Samarkand and Namangan Provinces, which had been in the second group, shifted to the low group owing to the decrease in their indices. The Republic of Karakalpakstan kept the lowest position in the lowest group (Table 6.1).

In the area of industrial manufacturing all regions achieved high growth rates, especially Andijan Province (127.2%), the Republic of Karakalpakstan (125.2%), Jizzakh (120.9%), Samarkand (111.2%), Kashkadarya (110.8%) and Surkhandarya (110.1%) Provinces and Tashkent City (110.1%) (Annex 6.1). It is worth noting that the high growth rate in Andijan Province was achieved mainly due to the growth in volume of Uz DAE-WOO Auto's automobile production.

The index of the level of development of industry (per capita) decreased in 9 regions and rose in the Republic of Karakalpakstan (from 0.159 to 0.184), in Andijan (from 0.953 to 0.988), Kashkadarya (from 0.893 to 1.048), Surkhandarya (from 0.295 to 0.297), and Tashkent (from 1.530 to 1.690) Provinces (Annex 6.2).

High growth rates in the area of production of consumer goods (CG) were achieved in all the regions, especially in Andijan (136.4%), Kashkadarya (124.7%), Surkhandarya (124.1%), Fergana (122.4%) and Jizzakh (117.8%) Provinces and in the Republic of Karakalpakstan (122.8%) (Annex 6.1).

In the territorial structure of GRP, Tashkent City (16.3%), Tashkent (9.3%), Andijan (6.4%), Bukhara (6.3%) and Kashkadarya (6.0%) Provinces account for the largest share. As compared with the corresponding period of the previous year, the share of GRP rose in Navoi (from 5.6% to 5.8%) and Tashkent (from 9.0% to 9.3%) Provinces. The share remained unchanged in Andijan, Bukhara, Surkhandarya and Sirdarya Provinces, and decreased in other provinces, especially in Samarkand (from 6.2% to 5.5%) and Fergana (8.6% to 8.1%) Provinces and Tashkent City (from 17.0% to 16.3%) (Graph 6.1).

The GRP index of per capita production within the indicated period decreased in 10 regions, and increased in 5: Andijan, Bukhara, Navoi, Sirdarya and Tashkent Provinces. A high index of 1.976 was observed in Tashkent City (Annex 6.2).

The breakdown of the regions by GRP production (on a per capita basis) shows that in the 1st half year of 2004, in comparison with the corresponding period of 2003, the following changes took place:

Table 6.1. Breakdown of Regions by Production of Per Capita GRP

03/I-II	Index	04/I-II	Index
I. High level	Over 1.000	I. High level	Over 1.000
Tashkent City	2.021	Tashkent City	1.976
Navoi Province	1.766	Navoi Province	1.860
Bukhara Province	1.091	Bukhara Province	1.092
II. Medium Level	From 0.500 to 1.000	II. Medium Level	From 0.500 to 1.000
Tashkent Province	0.951	Tashkent Province	0.989
Fergana Province	0.793	Fergana Province	0.744
Andijan Province	0.717	Andijan Province	0.707
Kashkadarya Province	0.688	Kashkadarya Province	0.656
Khorezm Province	0.653	Sirdarya Province	0.626
Jizzakh Province	0.632	Surkhandarya Province	0.606
Surkhandarya Province	0.616	Khorezm Province	0.586
Sirdarya Province	0.604	Jizzakh Province	0.568
Samarkand Province	0.564	III. Low Level	to 0.500
Namangan Province	0.505	Samarkand Province	0.494
III. Low Level	to 0.500	Namangan Province	0.471
Republic of Karakalpakstan	0.397	Republic of Karakalpakstan	0.364

Source: Calculated by the author based on the data of the State Committee on Statistics of Uzbekistan

The per capita index in the production of CG increased in 8 regions, and decreased in the Republic of Karakalpakstan, in Kashkadarya, Samarkand, Tashkent and Khorezm Provinces and Tashkent City. This means that half of the regions still lag behind the republican level. High indices were observed in Tashkent City (2.128) and Bukhara Province (1.604) (Annex 6.2).

In the area of investments, high growth rates were observed in Bukhara (186.8%), Surkhandarya (156.1%) and Tashkent (123.1%) Provinces and in the Republic of Karakalpakstan (150.5%).

The volume of investments into fixed capital decreased in Andijan (65.6%), Kashkadarya (77.1%) and Fergana (73.4%) Provinces and Tashkent City (95.7%) (Annex 6.1), as a result of poor management in conducting tenders and delays in conducting competitive sales of centralized financed construction projects, as well as delayed lending by commercial banks for construction projects.

In terms of per capita investments into fixed capital, indices increased in the Republic of Karakalpakstan (from 0.879 to 1.451), and in Bukhara (from 0.588 to 1.185), Jizzakh (0.491 to 0.527), Namangan (from 0.436 to 0.504), Samarkand (from 0.612 to 0.640), Surkhandarya (from 0.447 to 0.736), Sirdarya (from 0.821 to 0.849) and Tashkent (from 0.862 to 1.118) Provinces. In other regions a decrease in indices took place (Annex 6.2).

In agricultural production output all the regions had high growth rates, especially the Republic of Karakalpakstan (124.0%), Sirdarya (129.4%), Jizzakh (121.1%), Namangan (113.6%), Tashkent (116.9%), Khorezm (113.2%), Bukhara (112.8%) and Samarkand (111.8%) Provinces (Annex 6.1).

In terms of per capita agricultural production, indices grew in 8 regions, especially in Andijan (from 1.534 to 1.632), Navoi (from 1.295 to 1.491), Namangan (from 0.756 to 0.767), Surkhandarya (from 1.238 to 1.388), Sirdarya (from 1.340 to 1.519), Tashkent (from 1.133 to 1.168) and Fergana (from 0.948 to 0.968) Provinces.

In 9 regions indices of agricultural output were considerably higher than the republican level, and testify to positive trends in the development of agriculture, leading to growth in the volume of agricultural production and a qualitative revival of this important sector. At the same time, in a number of regions, emphasis is not sufficiently focused on the rational and effective use of farmland, especially irrigated lands (Annex 6.2).

As to retail turnover, all the provinces, excepting Andijan (93.7%) secured growth rates, especially Tashkent (111.9 %), and Navoi (111.2%) Provinces and Tashkent City (110.1%).

Andijan Province did not achieve growth in this indicator because of poor administration in the trade sector and ineffective activity of mercantile businesses (Annex 6.1).

The index of retail turnover in per capita terms grew in the 1st half year of 2004 in comparison with the corresponding period of the previous year in the Republic of Karakalpakstan (from 0.0475 to 0.485), Jizzakh (from

0.584 to 0.601), Kashkadarya (from 0.743 to 0.748), Navoi (from 0.835 to 0.901), Surkhandarya (from 0.736 to 0.742), Sirdarya (from 0.575 to 0.591) and Tashkent (from 1.089 to 1.172) Provinces (Annex 6.2).

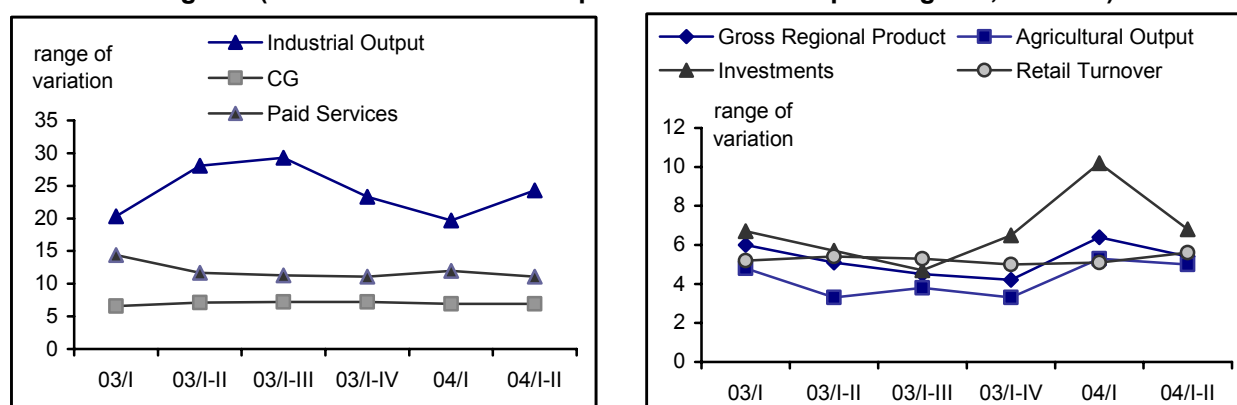
As to the volume of paid services, virtually all the provinces achieved high growth rates, especially Andijan (125.9%), Jizzakh (124.6%), Khorezm (123.1%), Bukhara (122.2%), Fergana (118.6%), Navoi (116.7%), Namangan (116.1%) and Samarkand (116.0%) Provinces (Annex 6.1).

The per capita index of the volume of paid services grew in the Republic of Karakalpakstan (from 0.372 to 0.406), and in Andijan (from 0.677 to 0.800), Bukhara (0.866 to 0.934), Jizzakh (from 0.476 to 0.522), Navoi (from 0.786 to 0.845), Samarkand (from 0.579 to 0.589), Tashkent (from 0.658 to 0.671), Sirdarya (from 0.396 to 0.407), Fergana (from 0.549 to 0.585) and Khorezm (0.597 to 0.657) Provinces. A decrease in indices occurred in Kashkadarya and Surkhandarya Provinces and Tashkent City. The highest index (4.412) was in Tashkent City (Annex 6.2).

Within the analyzed period, interregional differentiation decreased in the areas of industrial production (from 28.1 to 24.3 times), in production of consumer goods (from 7.1 to 6.9 times) and paid services (from 11.7 to 11.1 times).

At the same time an increase in interregional differentiation occurred in GRP (from 5.1 to 5.4 times), agricultural production (from 3.3 to 5 times), investments (from 5.7 to 6.8 times) and retail turnover (from 5.4 to 5.6 times) (Annex 6.2 and Graph 6.2).

Graph 6.2. Tracking Changes in the Level of Differentiation of Socio-Economic Development of the Regions (Ratio of the Most Developed to Least Developed Regions, in times)



Source: State Committee on Statistics of Uzbekistan

The remaining high level of differentiation of the regions in the most important indicators of the real sector of the economy (especially in industrial output and paid services) and the low indices in some of the regions are explained mainly by the objective differences in their natural and economic potential, as well as by the poor application of economic mechanisms for the territorial regulation of the economy.

On the whole, the dynamics and tendencies of the main indicators of socio-economic development in the regions show that, in the 1st half of 2004, the main objectives in reforming the economy have been successfully realized, for example in such least developed regions as the Republic of Karakalpakstan, Jizzakh, Kashkadarya, Surkhandarya, Namangan and Sirdarya Provinces.

The leveling-off of the socio-economic development of the regions is connected first of all with effective administrative reform conducted in the regions, improvement of their attractiveness in terms of investments and enhancement of interbudgetary relations based on the distribution of powers between the state and local authorities, as well as the decentralization of the administration.

**Annex 6.1. Tracking Changes in Main Indicators of Socio-Economic Development of the Regions
(growth rates in % to the previous period in comparable prices)**
Gross Regional Product (GRP)

Regions	1998	1999	2000	2001	2002	2003	03/I	03/I-II	04/I	04/I-II
Republic of Karakalpakstan	98.3	106.9	89.7	98.3	101.6	110.1	94.0	98.9	103.5	107.0
Andijan Province	106.0	104.2	102.8	108.9	103.4	102.8	100.5	102.3	106.1	102.8
Bukhara Province	110.2	106.2	104.2	103.5	102.7	101.4	102.4	104.4	100.0	104.2
Jizzakh Province	107.5	111.7	104.2	106.5	109.5	107.5	102.2	104.2	105.1	109.7
Kashkadarya Province	105.9	103.7	99.0	105.0	110.1	105.4	103.5	102.9	103.2	104.5
Navoi Province	100.8	107.6	103.2	101.4	104.8	103.9	101.0	101.2	102.5	105.1
Namangan Province	100.4	103.4	108.0	104.5	103.7	102.1	103.6	101.6	103.2	105.9
Samarkand Province	107.6	107.4	104.6	103.5	107.6	106.9	100.2	106.5	104.2	107.2
Surkhandarya Province	109.7	100.1	105.5	108.0	104.0	105.3	100.3	103.7	103.6	105.4
Sirdarya Province	106.1	104.4	102.6	102.9	98.3	102.5	95.1	94.6	102.8	112.3
Tashkent Province	104.9	101.4	110.9	104.2	103.1	102.5	100.1	100.9	104.1	107.8
Fergana Province	97.4	101.7	106.1	99.5	105.1	100.5	100.1	100.0	102.1	102.3
Khorezm Province	105.8	104.5	94.8	103.0	102.9	103.8	99.4	102.8	102.5	105.0
Tashkent City	95.6	98.7	104.5	104.3	102.6	104.4	99.2	102.8	105.5	104.4
Republic of Uzbekistan	104.4	104.4	103.8	104.2	104.2	104.4	102.2	103.8	104.8	106.2

Source: State Committee on Statistics of Uzbekistan

Annex 6.1 continued

Industrial Production

Regions	1998	1999	2000	2001	2002	2003	03/I	03/I-II	04/I	04/I-II
Republic of Karakalpakstan	106.3	105.0	111.2	95.9	94.9	100.3	89.0	85.4	117.7	125.2
Andijan Province	111.0	113.7	90.0	128.1	105.5	118.6	101.0	108.4	126.9	127.2
Bukhara Province	135.3	114.2	103.9	107.7	103.3	102.5	105.7	110.6	108.4	106.6
Jizzakh Province	125.0	110.4	122.7	119.9	130.3	114.1	106.8	115.6	114.3	120.9
Kashkadarya Province	103.7	102.3	101.9	104.4	112.1	114.4	120.1	122.5	111.4	110.8
Navoi Province	101.9	109.7	102.2	100.6	106.5	99.4	102.7	100.4	101.4	107.0
Namangan Province	107.1	115.1	126.1	118.2	112.5	113.0	107.7	112.8	109.0	106.0
Samarkand Province	117.1	130.7	97.3	105.7	106.7	111.1	107.8	115.9	115.0	111.2
Surkhandarya Province	106.9	108.3	107.9	104.1	113.1	104.6	101.5	117.0	106.4	110.1
Sirdarya Province	102.8	109.5	106.7	101.3	122.4	100.1	101.2	100.1	103.2	109.8
Tashkent Province	105.6	100.2	108.8	109.1	108.3	102.6	101.0	101.4	107.2	108.2
Fergana Province	104.1	104.8	108.5	101.4	108.7	102.4	102.4	100.3	103.6	103.7
Khorezm Province	118.3	100.1	103.5	100.3	103.9	98.9	100.2	94.4	100.1	100.2
Tashkent City	104.1	103.4	113.2	110.5	111.7	112.5	105.4	106.9	115.2	110.1
Republic of Uzbekistan	105.8	106.1	105.9	107.6	108.3	106.2	104.0	105.5	108.8	109.6

Source: State Committee on Statistics of Uzbekistan

Annex 6.1 continued

Consumer Goods Production

Regions	1998	1999	2000	2001	2002	2003	03/I	03/I-II	04/I	04/I-II
Republic of Karakalpakstan	105.6	107.5	105.9	113.5	104.3	104.7	103.1	105.9	119.0	122.8
Andijan Province	104.3	113.0	92.6	123.7	97.8	120.3	96.0	104.3	133.3	136.4
Bukhara Province	137.5	108.9	105.9	107.4	103.3	106.0	103.3	106.9	107.8	107.6
Jizzakh Province	102.2	136.2	123.6	119.3	159.3	129.0	101.2	115.7	113.0	117.8
Kashkadarya Province	116.8	112.6	113.1	112.7	108.5	108.8	113.2	105.8	127.0	124.7
Navoi Province	112.2	102.1	115.5	99.98	114.5	105.3	125.0	114.6	107.3	106.4
Namangan Province	109.5	114.2	124.3	111.8	118.1	114.0	107.7	112.3	124.7	116.1
Samarkand Province	138.2	141.5	92.4	102.6	102.5	106.8	104.8	104.0	100.3	102.0
Surkhandarya Province	117.8	120.0	111.9	100.9	114.8	106.2	88.7	105.0	129.5	124.1
Sirdarya Province	106.1	125.6	110.1	120.2	103.0	104.2	100.6	107.7	108.0	115.3
Tashkent Province	112.4	109.5	112.5	114.1	106.6	107.1	104.7	108.6	106.6	111.1
Fergana Province	107.3	110.1	111.3	98.1	106.4	101.6	96.7	95.5	113.2	122.4
Khorezm Province	120.3	97.8	107.8	94.0	95.0	114.5	115.9	115.4	96.6	102.5
Tashkent City	98.7	92.0	111.3	101.3	120.2	102.7	100.8	102.9	115.7	101.5
Republic of Uzbekistan	107.2	109.3	106.2	107.6	108.4	108.4	102.3	104.0	114.9	114.4

Source: State Committee on Statistics of Uzbekistan

Annex 6.1 continued

Agricultural Production

Regions	1998	1999	2000	2001	2002	2003	03/I	03/I-II	04/I	04/I-II
Republic of Karakalpakstan	65.6	118.4	65.6	90.5	101.2	129.8	97.6	110.5	109.1	124.0
Andijan Province	110.2	107.3	110.2	107.1	102.1	100.2	101.0	100.3	106.9	100.8
Bukhara Province	106.3	109.3	106.3	102.0	102.6	106.2	102.3	109.6	104.5	112.8
Jizzakh Province	100.1	116.8	100.1	106.9	113.8	112.0	103.4	104.3	108.9	121.1
Kashkadarya Province	89.4	103.9	89.4	106.9	119.9	106.2	103.4	100.6	107.7	106.1
Navoi Province	105.0	109.4	105.0	107.2	106.7	109.3	102.0	106.4	108.8	109.4
Namangan Province	111.5	103.2	111.5	101.4	101.5	102.9	101.8	97.1	104.0	113.6
Samarkand Province	104.8	107.2	104.8	103.9	112.4	110.0	104.2	108.4	107.6	111.8
Surkhandarya Province	106.7	97.4	106.7	110.5	102.8	106.4	106.6	102.5	106.0	106.2
Sirdarya Province	101.9	107.5	101.9	105.8	98.9	105.2	101.6	95.2	107.1	129.4
Tashkent Province	114.9	100.5	114.9	103.7	102.8	102.7	105.3	103.0	106.7	116.9
Fergana Province	113.5	104.1	113.5	100.4	105.7	100.6	103.4	114.1	106.4	104.1
Khorezm Province	82.8	108.9	82.8	103.6	106.8	110.5	101.3	100.7	106.3	113.2
Tashkent City										
Republic of Uzbekistan	104.0	105.9	103.1	104.2	106.1	105.9	103.3	103.8	106.7	110.4

Source: State Committee on Statistics of Uzbekistan

Annex 6.1 continued

Investments

Regions	1998	1999	2000	2001	2002	2003	03/I	03/I-II	04/I	04/I-II
Republic of Karakalpakstan	137.0	102.0	83.0	106.0	114.0	118.0	112.0	119.0	2.3 times	150.5
Andijan Province	119.8	102.0	101.0	118.0	105.0	106.9	100.2	104.0	100.1	65.6
Bukhara Province	65.5	98.0	108.0	119.0	103.0	100.6	69.0	86.0	2.1 times	186.8
Jizzakh Province	100.3	105.0	111.0	78.0	112.0	83.5	81.0	80.0	92.6	101.8
Kashkadarya Province	114.5	120.0	93.0	130.0	94.0	111.7	128.0	114.0	56.5	77.1
Navoi Province	81.8	107.0	116.0	107.0	98.0	109.6	122.0	110.0	66.1	101.3
Namangan Province	75.4	100.4	103.0	96.0	100.1	101.7	100.2	100.2	107.2	108.9
Samarkand Province	118.8	100.6	104.0	107.0	99.8	107.9	115.0	107.0	104.8	108.5
Surkhandarya Province	118.0	103.0	102.0	116.0	101.0	104.0	101.0	102.0	2.3 times	156.1
Sirdarya Province	102.0	109.0	100.2	101.0	84.0	105.5	114.0	106.0	45.5	103.7
Tashkent Province	120.1	95.0	106.0	112.0	102.0	108.3	98.0	108.0	147.2	123.1
Fergana Province	134.2	108.4	107.0	109.0	108.0	95.9	101.0	95.0	31.2	73.4
Khorezm Province	105.0	104.0	102.0	96.0	103.0	91.6	81.0	87.0	97.4	101.0
Tashkent City	107.8	102.0	92.0	106.0	81.0	106.8	87.0	108.0	130.3	95.7
Republic of Uzbekistan	115.0	102.0	101.0	104.0	103.6	104.5	100.3	102.6	99.6	101.8

Source: State Committee on Statistics of Uzbekistan

Annex 6.1 continued

Retail Turnover

Regions	1998	1999	2000	2001	2002	2003	03/I	03/I-II	04/I	04/I-II
Republic of Karakalpakstan	92.1	115.9	103.6	117.9	102.6	107.9	90.2	96.0	103.5	100.7
Andijan Province	122.4	108.7	106.4	109.3	107.3	100.0	110.8	103.8	102.0	93.7
Bukhara Province	105.6	112.8	110.3	114.7	107.1	101.1	107.7	103.1	100.2	101.4
Jizzakh Province	102.7	101.4	111.0	125.8	116.2	101.8	117.6	104.8	103.3	101.2
Kashkadarya Province	118.9	100.3	109.9	116.5	105.5	108.3	111.9	109.1	100.1	100.4
Navoi Province	104.0	111.5	105.4	113.3	105.0	104.3	97.2	102.2	109.1	111.2
Namangan Province	102.3	108.5	110.8	118.8	103.9	100.9	108.8	102.4	105.6	101.1
Samarkand Province	105.5	105.9	113.6	106.6	100.1	108.8	99.6	105.4	104.8	104.3
Surkhandarya Province	130.4	114.0	121.4	113.7	113.3	109.5	106.3	111.0	105.1	105.5
Sirdarya Province	100.4	102.1	105.8	102.1	95.4	100.3	85.1	85.3	101.1	101.8
Tashkent Province	121.5	110.2	123.3	115.9	101.1	108.6	99.2	111.0	110.9	111.9
Fergana Province	115.1	112.1	103.2	103.5	106.2	100.0	97.7	97.3	100.8	101.6
Khorezm Province	122.7	115.5	111.8	107.9	101.1	96.0	97.9	96.6	104.5	101.5
Tashkent City	109.7	107.6	100.2	104.7	90.1	110.2	88.7	93.4	109.2	110.1
Republic of Uzbekistan	114.0	110.5	107.6	109.6	101.1	105.1	99.8	100.3	105.1	104.2

Source: State Committee on Statistics of Uzbekistan

Annex 6.1 continued

Paid Services

Regions	1998	1999	2000	2001	2002	2003	03/I	03/I-II	04/I	04/I-II
Republic of Karakalpakstan	97.0	110.4	114.2	105.1	112.4	111.3	117.0	114.4	120.4	115.4
Andijan Province	124.3	128.2	138.9	113.3	109.3	120.1	107.6	109.1	113.6	125.9
Bukhara Province	123.4	116.1	112.6	108.4	117.0	109.3	118.1	119.9	120.3	122.2
Jizzakh Province	133.5	121.5	110.4	116.2	114.2	114.1	108.8	110.1	116.4	124.6
Kashkadarya Province	111.2	120.4	137.2	114.6	121.9	108.2	108.1	109.0	105.6	104.9
Navoi Province	140.8	103.0	116.8	118.7	108.9	118.8	112.4	116.9	123.6	116.7
Namangan Province	110.2	110.8	137.0	115.5	110.8	122.6	115.4	117.2	118.6	116.1
Samarkand Province	104.1	110.9	118.1	121.8	104.0	124.5	118.1	117.5	119.0	116.0
Surkhandarya Province	171.1	129.6	109.6	114.2	114.3	112.6	114.7	116.9	113.4	112.0
Sirdarya Province	108.3	108.5	104.8	125.8	109.6	103.1	103.5	100.5	116.3	106.5
Tashkent Province	103.6	112.8	111.5	100.2	109.2	105.5	105.7	106.8	107.8	112.8
Fergana Province	115.8	121.4	115.5	113.5	110.5	112.4	107.2	112.0	119.1	118.6
Khorezm Province	115.1	121.7	107.9	106.4	102.0	107.0	100.7	108.7	127.0	123.1
Tashkent City	108.1	110.2	113.5	117.4	112.8	105.3	103.2	104.1	105.5	103.3
Republic of Uzbekistan	109.5	112.6	115.7	114.7	108.6	107.9	102.0	104.4	112.5	113.5

Source: State Committee on Statistics of Uzbekistan

Annex 6.2. Level of Differentiation of Socio-Economic Development of the Regions (based on per capita index)
Gross Regional Product

Regions	1998	1999	2000	2001	2002	2003	03/I	03/I-II	04/I	04/I-II
Republic of Karakalpakstan	0.531	0.617	0.456	0.413	0.392	0.400	0.360	0.397	0.352	0.364
Andijan Province	0.797	0.852	0.911	0.935	0.834	0.764	0.618	0.717	0.585	0.707
Bukhara Province	0.956	1.180	1.109	1.155	1.101	1.053	1.047	1.091	0.974	1.092
Jizzakh Province	0.613	0.686	0.742	0.669	0.666	0.702	0.561	0.632	0.563	0.568
Kashkadarya Province	0.797	0.749	0.722	0.724	0.780	0.782	0.635	0.688	0.666	0.656
Navoi Province	1.086	1.208	1.039	1.267	1.490	1.685	1.687	1.766	1.753	1.860
Namangan Province	0.548	0.599	0.667	0.637	0.599	0.543	0.486	0.505	0.434	0.471
Samarkand Province	0.678	0.753	0.709	0.679	0.693	0.669	0.525	0.564	0.457	0.494
Surkhandarya Province	0.662	0.674	0.716	0.727	0.760	0.734	0.520	0.616	0.473	0.606
Sirdarya Province	0.800	0.950	0.807	0.822	0.776	0.754	0.567	0.604	0.525	0.626
Tashkent Province	0.926	0.969	1.040	1.017	1.032	1.041	0.990	0.951	1.012	0.989
Fergana Province	0.863	0.950	0.941	0.866	0.843	0.785	0.773	0.793	0.738	0.744
Khorezm Province	0.870	0.960	0.832	0.717	0.720	0.681	0.682	0.653	0.595	0.586
Tashkent City	1.580	1.702	1.563	1.665	1.671	1.682	2.164	2.021	2.257	1.976
Republic of Uzbekistan	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000
Range of Variation (times)	3.0	2.8	3.4	4.1	4.3	4.2	6.0	5.1	6.4	5.4
Without taking Tashkent City into account	2.1	2.0	2.4	3.1	3.8	4.2	4.7	4.4	5.0	5.1

Source: Calculated by the author based on the data of the State Committee on Statistics of Uzbekistan

Annex 6.2 continued

Industrial Production

Regions	1998	1999	2000	2001	2002	2003	03/I	03/I-II	04/I	04/I-II
Republic of Karakalpakstan	0.372	0.339	0.279	0.247	0.201	0.193	0.184	0.159	0.207	0.184
Andijan Province	1.105	1.108	0.909	1.071	0.979	0.960	0.912	0.953	0.939	0.988
Bukhara Province	1.035	1.026	1.100	1.096	1.133	0.996	1.173	1.086	1.083	0.985
Jizzakh Province	0.287	0.239	0.278	0.360	0.380	0.418	0.436	0.398	0.440	0.389
Kashkadarya Province	0.925	0.838	0.931	0.953	0.917	0.967	0.912	0.893	1.055	1.048
Navoi Province	2.850	2.964	3.144	3.318	4.046	4.490	3.737	4.463	4.086	4.461
Namangan Province	0.390	0.422	0.466	0.450	0.396	0.377	0.382	0.353	0.375	0.331
Samarkand Province	0.392	0.604	0.515	0.459	0.398	0.351	0.352	0.341	0.315	0.305
Surkhandarya Province	0.355	0.367	0.323	0.302	0.283	0.286	0.304	0.295	0.294	0.297
Sirdarya Province	0.442	0.511	0.460	0.541	0.427	0.429	0.560	0.418	0.533	0.396
Tashkent Province	1.222	1.200	1.368	1.487	1.569	1.537	1.502	1.530	1.604	1.690
Fergana Province	1.197	1.063	1.169	1.024	1.072	0.944	1.038	0.970	0.928	0.898
Khorezm Province	0.690	0.608	0.507	0.467	0.414	0.363	0.454	0.351	0.369	0.297
Tashkent City	1.749	1.629	1.700	1.744	1.729	1.823	1.874	1.918	1.568	1.604
Republic of Uzbekistan	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000
Range of Variation (times)	9.9	12.4	11.3	13.4	20.1	23.3	20.3	28.1	19.7	24.3

Source: Calculated by the author based on the data of the State Committee on Statistics of Uzbekistan

Annex 6.2 continued

Production of Consumer Goods (CG)

Regions	1998	1999	2000	2001	2002	2003	03/I	03/I-II	04/I	04/I-II
Republic of Karakalpakstan	0.515	0.531	0.425	0.400	0.341	0.332	0.340	0.329	0.344	0.321
Andijan Province	1.916	1.628	1.354	1.616	1.677	1.847	1.754	1.918	1.998	2.215
Bukhara Province	1.209	1.253	1.501	1.589	1.550	1.458	1.614	1.587	1.639	1.604
Jizzakh Province	0.203	0.245	0.266	0.385	0.573	0.655	0.547	0.624	0.618	0.628
Kashkadarya Province	0.628	0.565	0.616	0.656	0.560	0.615	0.575	0.548	0.507	0.458
Navoi Province	0.665	0.728	0.616	0.619	0.640	0.712	0.653	0.666	0.721	0.677
Namangan Province	0.551	0.617	0.665	0.579	0.571	0.561	0.553	0.558	0.609	0.611
Samarkand Province	0.844	1.342	1.226	1.072	1.016	0.884	0.927	0.881	0.789	0.793
Surkhandarya Province	0.401	0.461	0.433	0.377	0.364	0.356	0.296	0.324	0.365	0.382
Sirdarya Province	0.539	0.762	0.700	0.700	0.659	0.669	0.832	0.684	0.723	0.697
Tashkent Province	1.012	0.959	1.071	1.164	1.184	1.252	1.195	1.239	1.206	1.212
Fergana Province	1.012	1.007	1.076	1.009	0.934	0.844	0.871	0.845	0.824	0.916
Khorezm Province	1.048	0.922	0.787	0.543	0.551	0.544	0.737	0.613	0.568	0.515
Tashkent City	2.168	1.922	2.093	2.004	2.360	2.396	2.262	2.310	2.367	2.128
Republic of Uzbekistan	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000
Range of Variation (times)	10.7	7.8	8.2	5.3	6.9	7.2	6.6	7.1	6.9	6.9
Without taking Tashkent City into account	9.4	6.6	5.6	4.3	4.9	5.6	5.9	5.9	5.8	6.9

Source: Calculated by the author based on the data of the State Committee on Statistics of Uzbekistan

Annex 6.2 continued

Agricultural Production

Regions	1998	1999	2000	2001	2002	2003	03/I	03/I-II	04/I	04/I-II
Republic of Karakalpakstan	0.557	0.530	0.425	0.354	0.360	0.435	0.345	0.470	0.361	0.329
Andijan Province	1.035	1.157	1.170	1.119	1.150	1.051	0.818	1.114	0.845	1.342
Bukhara Province	1.146	1.379	1.340	1.375	1.321	1.376	1.345	1.534	1.242	1.632
Jizzakh Province	1.084	1.254	1.331	1.211	1.329	1.425	1.254	1.366	1.504	1.165
Kashkadarya Province	0.876	0.921	0.831	0.851	0.980	1.006	0.703	1.029	0.560	0.796
Navoi Province	1.128	1.099	1.238	1.144	1.149	1.218	1.400	1.295	1.222	1.491
Namangan Province	0.783	0.840	1.019	0.996	1.042	0.970	0.794	0.756	0.565	0.767
Samarkand Province	0.995	1.064	1.037	1.081	1.110	1.154	1.315	1.125	1.225	1.075
Surkhandarya Province	1.243	1.105	1.187	1.353	1.311	1.279	1.157	1.375	1.204	1.388
Sirdarya Province	1.190	1.426	1.397	1.501	1.373	1.393	1.303	1.340	1.286	1.519
Tashkent Province	1.265	1.218	1.511	1.539	1.268	1.255	1.666	1.133	1.916	1.168
Fergana Province	0.800	0.947	0.977	1.024	0.995	0.931	0.939	0.948	1.058	0.968
Khorezm Province	1.376	1.603	1.144	1.025	1.072	1.098	1.636	1.217	1.529	1.150
Tashkent City										
Republic of Uzbekistan	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000
Range of Variation (times)	2.5	3	3.6	4.2	3.8	3.3	4.8	3.3	5.3	5.0

Source: Calculated by the author based on the data of the State Committee on Statistics of Uzbekistan

Annex 6.2 continued

Investment

Regions	1998	1999	2000	2001	2002	2003	03/I	03/I-II	04/I	04/I-II
Republic of Karakalpakstan	1.065	1.028	0.819	0.648	0.832	1.119	0.803	0.879	1.878	1.451
Andijan Province	0.753	0.604	0.552	0.505	0.439	0.641	0.384	0.456	0.382	0.352
Bukhara Province	0.869	0.792	0.705	0.627	1.063	0.701	0.473	0.588	1.144	1.185
Jizzakh Province	0.457	0.526	0.577	1.112	1.155	0.583	0.428	0.491	0.410	0.527
Kashkadarya Province	1.045	1.299	1.897	1.931	1.608	1.760	2.482	1.962	1.374	1.497
Navoi Province	1.267	0.695	2.014	2.535	2.125	2.213	2.598	1.780	1.707	1.779
Namangan Province	0.732	0.526	0.701	0.501	0.476	0.471	0.437	0.436	0.457	0.504
Samarkand Province	0.690	0.550	0.523	0.453	0.404	0.531	0.518	0.612	0.537	0.640
Surkhandarya Province	0.451	0.468	0.470	0.509	0.451	0.600	0.375	0.447	0.854	0.736
Sirdarya Province	0.823	0.884	0.772	0.754	0.713	0.592	1.152	0.821	0.511	0.849
Tashkent Province	0.902	0.618	0.747	0.762	0.899	0.872	0.803	0.862	1.235	1.118
Fergana Province	0.830	0.676	0.587	0.796	0.931	0.480	0.893	0.807	0.275	0.499
Khorezm Province	0.856	0.648	0.630	0.695	0.855	0.437	0.562	0.560	0.525	0.511
Tashkent City	2.784	2.715	2.730	2.272	2.131	2.864	2.089	2.498	2.800	2.382
Republic of Uzbekistan	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000
Range of Variation (times)	6.1	5.8	5.8	5.6	5.3	6.5	6.9	5.7	10.2	6.8
Without taking Tashkent City into account	2.8	2.8	4.3	5.6	5.3	5.1	6.9	4.5	6.8	5.1

Source: Calculated by the author based on the data of the State Committee on Statistics of Uzbekistan

Annex 6.2 continued

Retail Turnover

Regions	1998	1999	2000	2001	2002	2003	03/I	03/I-II	04/I	04/I-II
Republic of Karakalpakstan	0.456	0.514	0.470	0.485	0.491	0.505	0.471	0.475	0.489	0.485
Andijan Province	1.180	1.146	1.272	1.314	1.356	1.284	1.389	1.435	1.349	1.171
Bukhara Province	0.718	0.765	0.756	0.841	0.902	0.855	0.934	1.008	0.886	0.882
Jizzakh Province	0.449	0.407	0.420	0.530	0.630	0.602	0.600	0.584	0.623	0.601
Kashkadarya Province	0.728	0.655	0.662	0.697	0.715	0.755	0.728	0.743	0.735	0.748
Navoi Province	0.813	0.803	0.728	0.770	0.808	0.800	0.810	0.835	0.841	0.901
Namangan Province	0.735	0.672	0.691	0.747	0.805	0.773	0.808	0.777	0.801	0.746
Samarkand Province	0.820	0.841	0.791	0.709	0.707	0.744	0.734	0.722	0.717	0.705
Surkhandarya Province	0.466	0.538	0.588	0.594	0.665	0.700	0.729	0.736	0.711	0.742
Sirdarya Province	0.786	0.727	0.691	0.665	0.639	0.609	0.581	0.575	0.576	0.591
Tashkent Province	0.881	0.902	1.033	1.041	1.038	1.112	1.042	1.089	1.107	1.172
Fergana Province	1.204	1.293	1.219	1.145	1.232	1.153	1.172	1.141	1.141	1.100
Khorezm Province	0.670	0.697	0.662	0.685	0.668	0.610	0.626	0.616	0.606	0.594
Tashkent City	2.996	2.910	2.854	2.789	2.452	2.550	2.431	2.557	2.516	2.718
Republic of Uzbekistan	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000
Range of Variation (times)	6.7	7.1	6.8	5.7	5.0	5.0	5.2	5.4	5.1	5.6
Without taking Tashkent City into account	2.7	3.2	3.0	2.7	2.8	2.5	2.9	3.0	2.8	2.4

Source: Calculated by the author based on the data of the State Committee on Statistics of Uzbekistan

Annex 6.2 continued

Paid Services

Regions	1998	1999	2000	2001	2002	2003	03/I	03/I-II	04/I	04/I-II
Republic of Karakalpakstan	0.437	0.474	0.410	0.340	0.358	0.380	0.310	0.372	0.379	0.406
Andijan Province	0.729	0.820	0.870	0.856	0.771	0.813	0.554	0.677	0.590	0.800
Bukhara Province	0.937	0.948	0.927	0.856	0.878	0.883	0.865	0.866	0.928	0.934
Jizzakh Province	0.500	0.500	0.455	0.441	0.448	0.481	0.486	0.476	0.502	0.522
Kashkadarya Province	0.500	0.525	0.463	0.420	0.423	0.462	0.432	0.427	0.410	0.400
Navoi Province	0.917	0.837	0.707	0.718	0.663	0.755	0.770	0.786	0.933	0.845
Namangan Province	0.542	0.474	0.500	0.479	0.448	0.506	0.513	0.506	0.542	0.506
Samarkand Province	0.729	0.666	0.626	0.612	0.606	0.687	0.591	0.579	0.620	0.589
Surkhandarya Province	0.458	0.487	0.480	0.441	0.444	0.457	0.486	0.469	0.475	0.455
Sirdarya Province	0.437	0.397	0.366	0.361	0.366	0.382	0.405	0.396	0.459	0.407
Tashkent Province	0.812	0.782	0.732	0.670	0.616	0.631	0.608	0.658	0.652	0.671
Fergana Province	0.604	0.602	0.610	0.553	0.556	0.586	0.554	0.549	0.600	0.585
Khorezm Province	0.792	0.833	0.707	0.596	0.581	0.602	0.621	0.597	0.696	0.657
Tashkent City	2.875	3.320	3.455	3.761	4.090	4.201	4.473	4.354	4.548	4.415
Republic of Uzbekistan	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000
Range of Variation (times)	6.6	8.4	8.4	11.1	11.4	11.1	14.4	11.7	12.0	11.1
Without taking Tashkent City into account	2.1	2.4	2.5	2.5	2.5	2.3	2.8	2.3	2.5	2.3

Source: Calculated by the author based on the data of the State Committee on Statistics of Uzbekistan

ANALYTICAL PART

1. The Conditions and Directions of the Development of the Denationalization and Privatization Process in the Republic of Uzbekistan

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Forming a multistructural economy with a predominance of private property is one of the priority objectives of reform in Uzbekistan. In the framework of solving this problem the process of denationalization and privatization of state property is being carried out in the Republic. For this, a legal basis has been created which reflects the particularities and conditions of the denationalization and privatization of state property, determined by Uzbekistan's own model of transition to a market economy. As a result of denationalization and privatization, non-state (private) enterprises of different types are being established, including some with foreign capital. Individuals and groups, as well as legal entities, may be the owners of such enterprises. The government provides them with favorable conditions for their entrepreneurial activity. One of the necessary conditions of denationalization and privatization is the abolishment of the state monopoly of property and the creation of a stimulating competitive environment.

Within the period of 1992-2003, 81.5 thous. state enterprises had been denationalized and privatized as legal entities. More than half (66.2%) of all enterprises were privatized in 1992-1993, during the period known as "small privatization." By now, nearly all enterprises of the trade, consumer services, light and food industry, construction industry and a number of other sectors of the national economy have been privatized. The process of privatization of large-scale enterprises in basic sectors of industry is continuing, by individual projects.

Differences in the level of socio-economic development of certain regions of the Republic have determined an unevenness in the process of denationalization and privatization. In the total number of privatized enterprises of the Republic, the share of Fergana province was 12.6%, Samarkand – 10.7% and Tashkent City – 11.0%. Since 1994, Tashkent City, with its concentration of a large number of enterprises of industry and the social sphere, has maintained its leading position in the process of privatization. In 2002 and 2003 the share of Tashkent City was 40% of the total number of privatized enterprises.

In the first stages of denationalization and privatization, state enterprises were reorganized mainly into joint-stock companies (JSC), companies with limited liability (LLC) and partly into other types of private enterprises. Most of the newly established JSCs maintained government shares held in authorized funds. Only beginning from 2000 did the number of enterprises sold into private property develop a tendency towards growth. This is explained primarily by the orientation of privatization processes towards strengthening the role of the private sector in the economy of the Republic. In 2003 private enterprises accounted for 64.4% of the total number of denationalized and privatized enterprises, an increase of 36.9 points over 2000, helping to secure the expansion of the private sector of economy.

Stockholding, as foreign practice demonstrates, is a popular and effective way to privatize state enterprises and has been applied to the consumer market and to large-scale enterprises of the basic sectors of industry. In these cases, stockholding is the most profitable method. A mass change into stockholding in the Republic took place in 1994-1995 and was practically completed by 1996. Within this period about 4 thousand large-scale and medium-scale enterprises were privatized through stockholding. About 1200 of the total joint-stock companies established at the beginning of the privatization period are operating at present.

A decrease in the number of established JSCs resulted from the restructuring of authorized funds of joint stock companies in line with the Presidential Decree of 24.01.2003 "On Measures for the Further Increase of the Role and Importance of the Private Sector in the Economy of Uzbekistan." In accordance with this decree, joint-stock companies with authorized funds less than an amount equivalent to 50 thous. USD were transformed, by the decision of the meeting of stockholders, into other types, mainly into public companies and private enterprises. Some of them were liquidated as a result of bankruptcy. The proprietors of the enterprises changed into JSCs are their shareholders: the members of labor collectives, external investors, including foreigners, and the government. At the same time, shares of most JSCs meant for free sale to foreign investors are still undistributed. One of the reasons is their investment unattractiveness. The government holds a significant portion of the shares of such large-scale companies as SJSC "Uzbekenergo", NHC "Uzbekneftegas", SJSRC "Uzbekiston Temir Yollari", SJSC "TAPOiCh" and some others, which are of strategic importance for the national economy.

Table 1.1 Dynamics of Privatization of State Enterprises in the Republic of Uzbekistan (units)

Year	Total privatized	Non-government enterprises established on their basis	including					
			Joint-stock companies		Private enterprises		Other types of enterprises	
			number	%	number	%	number	%
1992 - 93	53902	28846	-	-	-	-	-	-
1994	9744	9744	2898	29.7	4892	50.2	1954	20.1
1995	8537	8537	1026	12.0	6036	70.7	1475	17.3
1996	1915	1915	1257	65.6	420	21.9	238	12.4
1997	1231	899	456	50.7	260	28.9	183	20.4
1998	451	266	110	41.4	103	38.7	53	19.9
1999	448	373	141	37.8	156	41.8	76	20.4
2000	374	372	152	40.9	103	27.7	117	31.5
2001	1449	1238	227	18.3	827	66.8	184	14.9
2002	1912	1800	223	12.4	1252	69.6	325	18.1
2003	1519	1452	75	5.2	981	67.6	396	27.3
Total	81482	55442	6565	x	15030	x	5001	x

Source: State Property Committee of Uzbekistan

Since 2000 a program for the wide-scale individual privatization of large basic sectors of the national economy by attracting foreign investors has been carried out. In 2002 alone, shares and objects in the amount of 30 mill. USD were sold to foreign investors, exceeding the indicator for 2001 by 2.5 times. In spite of legislative, financial and economic conditions created for attracting foreign investors into the process of denationalization and privatization in the Republic, the amount of investments attracted is too small to satisfy the technological and social needs of most enterprises. This has stipulated the necessity of changing the approach to this problem. The Presidential Decrees and Governmental Resolutions implemented in 2003, and targeted at the liberalization of the conditions of denationalization and privatization, improvement of the mechanism of privatization on the whole, as well as the development of market infrastructure have had a stimulating influence on the intensification of the process of attracting foreign investments into the privatization of government property.

As a result of such an approach, the share of foreign investors and foreign investments on the stock market of Uzbekistan has significantly increased. First of all, such investments have been distributed among mining, food, textile, petrochemical and cotton-processing sectors and telecommunications. In 2003 foreign investors accounted for the largest share (70.2%) of purchased shares of privatized enterprises on the primary stock market, exceeding this indicator for 2002 by 42.7 points. The volume of transactions with foreign investors grew by more than 7 times. The number of enterprises whose assets were sold to foreign investors increased 1.8 times over the same period. Among them were such enterprises as JSC "Juktrans", JSC "Kokand superphosphate plant", JSC "Toshmarg", Public Company "Khorezm Automobile association" and others. Compared to 2002 the amount of fulfilled investment obligations of foreign investors increased. The influx of foreign investments allowed for the modernization and reconstruction of industry, opening up the production of new competitive types of goods, raising wages of workers of enterprises and improving the financial and socio-economic standing of privatized enterprises. In such a way, the use of effective equipment delivered by the foreign investor to the JSC "Furkat Tumani Ishonch" made possible a sharp increase in the production of high-quality finished cotton fabrics, with the share intended for export amounting to 80%.

Payments received from the privatization of objects of state-ownership has become one source of replenishing the state and local budgets. Pecuniary gains from privatization have allowed a number of financial, social, and ecological problems to be solved. On the whole, within the period 1992-2003 proceeds from all sources of privatization amounted to 169.4 bn. UZS. The main sources of proceeds were the free sale of shares of privatizing enterprises through the stock market and sales of property, which amounted to 95% of all proceeds. The bulk of proceeds (54.7%) was achieved by the privatization of the enterprises of Tashkent City and Tashkent Province. The implementation of radical institutional reforms in the basic sectors of the economy, the attraction of foreign investments, and the adoption of a more developed mechanism for the sale of government property (shares, enterprises, stakes in authorized funds and property) had a stimulating effect on the pace and volume of proceeds from denationalization and privatization of state property. In 2003, as compared to 2002, the total amount of proceeds from denationalization and privatization increased 1.3 times. On the whole, the dynamics of proceeds within the whole period had a positive tendency, i.e. increased 28.8 times in 2003 compared to 1992-1993.

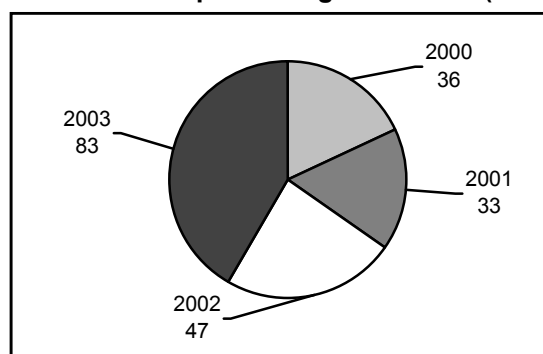
The privatization of land takes on a special significance, determined by the particularity of this factor of production, its being of vital importance for the life of mankind as well as part of the national wealth. Foreign practice has not elaborated the general approach to the methodology of evaluating and selling land lots. There are two basic directions of this issue: selling land lots for individual housing construction (IHC) and selling land lots on which privatized state property is located.

The latter has a particular significance from the point of view of increasing the investment attractiveness of selling an object located on such a lot. The sale of land lots in the republic began in 1995. In practice, the lot itself is not sold, but rather the "right of user". From 1995-2003 the heritable life tenure of 55.5 thous. land lots, intended for individual housing construction, were sold, with funds received from them amounting to 25.4 bn. UZS.

The implementation of government decrees and the formation of a corresponding legislative basis has allowed the significant intensification of the process of sale of land lots: more than 30 thous. land lots intended for IHC were sold in the amount of 1.8 bn. UZS. By quantity of sold land lots, such provinces as Namangan (15.8%) and Samarkand (10.5%) are in the lead. By volume of funds received from sales of land lots, Tashkent province (6.2%) and Tashkent City (5.0%) are in the leading position, which is explained chiefly by the high price of land lots in those areas.

Proceeds from privatization of objects of state-ownership mainly distributed into two directions: to the state and local budgets (40%) and for the implementation of measures in line with certain Governmental Resolutions (45.3%), including those directed at the development of privatized enterprises.

Graph 1.1 Dynamics of Sales of Enterprises of State Ownership to Foreign Investors (units)



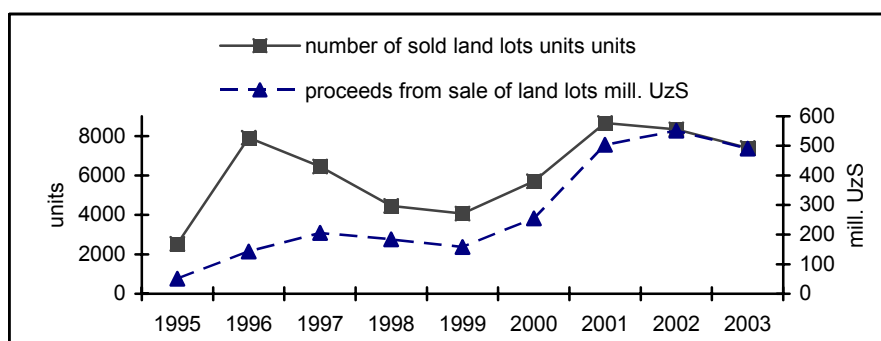
The diagram made on the basis of the data of State Property Committee of Uzbekistan.

Table 1.2 Structure of Volume of Sold Shares of Privatized Enterprises by Group of Investors (in %)

Group of Investors	2000	2001	2002	2003
Individuals	7.6	2.4	5.2	2.6
Legal Entities-Residents of the Republic of Uzbekistan	72.9	58.9	67.2	27.2
Foreign Investors	19.5	38.7	27.5	70.2
Total	100	100	100	100

Source: data of State Property Committee of Uzbekistan.

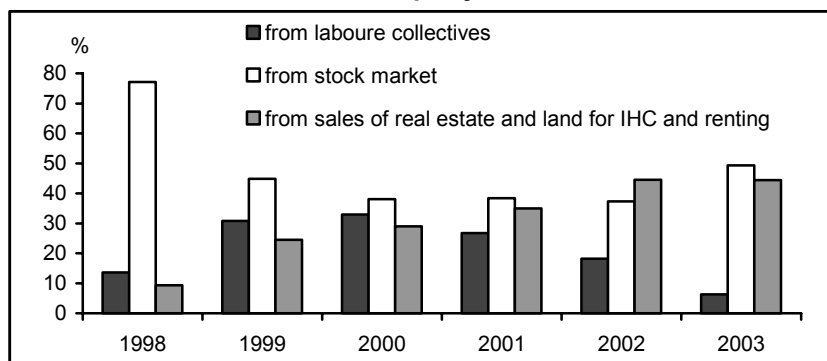
Graph 1.2 Dynamics of Proceeds from Sale of Land Lots for Heritable Life Tenure



The graph made on the basis of the data of State Property Committee of Uzbekistan.

On the whole, the process of privatization remains predominantly of a fiscal nature. However the modern development of the economy presupposes an investment-and-restructuring nature for the denationalization and privatization of objects of state-ownership, targeted at the invigoration of enterprises and the reanimation and intensification of production output.

The complexity of the adaptation of privatized enterprises to new financial and economic conditions in the republic stipulate the necessity of government support.

Graph 1.3 Structure of Proceeds from Privatization of State-Owned Property

The diagram made on the basis of the data of State Property Committee of Uzbekistan.

Post-privatization support takes on special significance for large-scale enterprises of strategic importance. As studies have demonstrated, integrated mechanisms for government support of privatized enterprises have not yet been formed, which is explained by a number of problems, primarily in legislative and financial spheres, and by the lack of development in the infrastructure of the secondary stock market. A certain negative influence on the processes of post-privatization support has been the imperfections

of the tax system of the Republic of Uzbekistan. In particular, such imperfections include: the system of taxation of shareholders' profit and the system of credits regarding privatization of objects of state ownership, current restrictions in licensing the types of activity of investment brokers on the stock market, the lack of development of the institution of professional institutional intermediaries and others. Important tools to support privatized enterprises are restructuring, financial invigoration taking into account the sectoral specificity of enterprises, and also the development of the corporative management of joint-stock companies.

Conclusions and Proposals

Denationalization and privatization of objects of state-ownership, carried out in recent years, has provided for the elimination of the monopoly of state ownership in the economy and the development of private ownership. Widespread structural reforms and demonopolization of the basic sectors of the economy have been put into practice, as a result of which a multistructure economy with the predominance of the private sector in all spheres has been formed, with the share of the private sector extending to three-fourths of the gross domestic product, including 74% in industry, and 99% in agricultural output. The enterprises of the non-state sector include 77% of the total number of employed. The number of entrepreneurs and owners of property grows continuously. No more than 10% of all operating enterprises are engaged in the state sector of the economy.

Concurrently to the process of denationalization and privatization, the process of the formation and development of market infrastructure has been continuing, as manifested by: the development of stock and commodity markets, the real estate market, and the establishment of privatization and investment funds, insurance companies and assessment companies and a trust management institute. The system of corporate management is being improved. The positive dynamics of the main parameters of the privatization process reflect the tendency towards an increase in the class of private owners in the country, widening the scale of involvement of financial resources in the process of conducting deep institutional reforms in the national economy. At present more than 1.3 mill. individuals are shareholders, 4.2 mill. persons are the owners of dekhkan farms, 86.6 thous. persons are farmers and more than 235 persons are owners of private enterprises.

With all the positive results of the process of denationalization and privatization there have been certain mistakes and faults which led to the formality of this process. These resulted from the following reasons: the unjustified accelerated process of reform of practically all enterprises into joint-stock companies; the low level of corporate management; the imperfect mechanism of the trust management institution and state plenipotentiaries; the large share of the government in the authorized funds of enterprises, which dampened their attraction for foreign investors; the imperfect mechanism of the valuation and sale of state-owned property; the imperfections of the tax system; the lack of development of stock market infrastructure, primarily of the secondary market, and a number of others. As a result of the above-mentioned, the denationalization and privatization of state enterprises did not lead in most cases to the planned efficiency of enterprises and as a result, in a number of sectors, the competitive position of enterprises on the domestic and world markets could not be maintained.

With a view towards eliminating these mistakes and faults, in 2003 Presidential Decrees and a number of Resolutions of the Government were implemented, as well as other acts, targeted at the improvement of the entire mechanism of the denationalization and privatization process and at the development of the market infrastructure.

At the same time, in order to accelerate the process of assigning property to a real property owner and transfer from formal to real privatization, the following are necessary:

- carrying out wide-ranging marketing research aimed at defining the potential demand for state-owned shares and completing the distribution of shares of earlier privatized enterprises, taking into account the real demand of the market;
- a varied approach to the privatization of objects of state ownership, depending on their liquidity;
- realization of measures aimed at increasing the investment attractiveness of privatized enterprises;
- privatization of government assets by attracting investors willing to fulfill the obligations of investment provisions for the industrial, technological and social development of privatized enterprises, competitive production output and the development of new work places;
- providing strategic investors in some cases with a controlling packet of shares according to their proposed conditions for investment and plans for enterprise development;
- improvement of current laws on denationalization and privatization, regulation, coordination and legislative provisions for the effective development of the market of corporate securities and real estate, taking into consideration previous experience and variable conditions and international law;
- achieving transparency in the process of denationalization and privatization as well as an openness in information.

Tax policy regarding foreign investments presumes harmonization of laws in the taxation system in both the country of "residence" and in the country of "investment," in order to avoid the negative impact of multiple taxation of foreign investments on both production output and consumers. With a view to preventing this, it is possible to use the principle of residence and principle of source. It is advisable for the stimulation of the attraction of foreign investments to apply rates of accelerated amortization; to deduct from the assessment basis a share of the profit in an amount equal to a certain share of new investment into the fixed capital for particular kinds of activity; to provide individual schedules of taxation for several enterprises on a progressive scale; to provide preferential tax credits. As for entire property complexes of monopolist enterprises or those involved in the most important basic complexes, it is advisable to apply the method of sale of state property through "sales with restricted participation," which allow unfair competitors to be excluded. Regarding the most important objects, it is necessary to put into practice the special right of "golden share" which provides its owner with the possibility of influencing the decision-making process in particular cases, regardless of who owns the controlling packet of shares.

In the framework of the development of stock market infrastructure, including secondary, the expansion of types of institutional investors operating on the market is expedient. In particular, the establishment of investment funds on an equal footing by enterprises, corporations, banks, state financial institutions, insurance companies and individuals can attract credit and finance resources on a large scale into the denationalization and privatization process. It is possible to establish venture firms on the basis of concerns and associations, banks and financial institutes, including state-owned, and scientific subdivisions to provide investment and innovation support for legal entities and individuals, who have invested their resources into privatized enterprises. With a view to achieving the convertibility of accounts payable of privatized enterprises into shares, it is advisable to conduct additional offerings of the shares of given enterprises, and to adopt new tools of stock market-options and futures. In order to solve this problem, it is worthwhile extending the licensed activity of certain investment brokers, as well as further improving the taxation of joint stock companies. One of the directions for further development of the mechanism of state property privatization is the use of financial leasing while privatizing enterprises as property complexes with a purchase option. In this context it is essential to elaborate the corresponding method of computation of leasing payments taking into account taxation according to the sectoral and property particularities of the privatized objects.

2. Problems of Regulating Foreign Economic Activity on the Path to WTO Accession

Farhod Jurahanov, CEEP

In the course of conducting liberalization of foreign economic activity, Uzbekistan started the process of accession to the WTO. The request for Uzbekistan's accession to the WTO as a full member was sent in December 1994. Based on the request, the WTO established a Working Party on Uzbekistan's accession to the organization. After a few years, in September 1998, Uzbekistan presented a Memorandum on its foreign trade regime.

At the same time, the process towards Uzbekistan's accession to the WTO was being accelerated within the Republic. Thus, in December 1998 the Government issued a resolution¹ approving the composition of the Interdepartmental Committee on work with the WTO. The Committee consists of representatives of the Agency for Foreign Economic Relations, the Ministry of Economy, the Ministry of Finance, State Tax Committee and other ministries and departments. According to the resolution the Agency for Foreign Economic Relations was made responsible for executing the functions of the Secretariat of Interdepartmental Committee on working with the WTO. The Interdepartmental Committee has since then held several meetings.

The first session of the Working Party on Uzbekistan's accession to the WTO was held on 17 July 2002 in Geneva. The meeting focused on the article-by-article study of Uzbekistan's Memorandum on its foreign trade regime.

From that time on, Uzbekistan has been providing answers to members of the WTO on various issues. Questions raised have included price regulation, the regime of access to foreign currency, regulation of access of goods and services to Uzbekistan's market, customs taxes and methods of levying taxes, and many others.

In 2003, based on recommendations of the Secretariat of the Interdepartmental Committee on working with the WTO, working groups were set up in the ministries and other governmental bodies and institutions to work on the following directions:

- preparing information on the implementation of sanitary and phytosanitary measures and technical barriers to trade;
- preparing information on domestic support and export subsidies in agriculture;
- preparing information on political measures affecting trade in services;
- preparing information in the framework of the WTO Agreement on trade aspects of intellectual property rights;
- preparing proposals on tariff concessions on goods and liabilities in services;
- introducing changes in national legislation in accordance with WTO agreements;
- conducting studies on the assessment of the consequences of Uzbekistan's accession to the WTO in various sectors of the economy.

The current phase of the process of Uzbekistan's accession to the WTO addresses a wide complex of organizational, legal, technical and other questions connected with the preparation for subsequent meetings of the Working Party.

On 29 of June, 2004 the second session of the working group on Uzbekistan's accession to the WTO began its work in Geneva, Switzerland. For the negotiations, a group of 12 specialists was chosen, representing different key ministries and departments, including the Cabinet of Ministers of the Republic of Uzbekistan, the Ministry of the Economy, the State Customs Committee, the Ministry of Finance, AFER and others.

Recent Changes in the Trade Policy of the Country, in particular, Problems with Bringing Trade Measures into Compliance with WTO Requirements

1. Regulating the Import of Goods

The first aspect of regulating the foreign trade regime is regulating the import of goods. Regulating the import of goods in Uzbekistan envisages the application of various instruments such as import tariffs and duties, quotes and licensing, domestic taxation of imports, administrative and technical barriers and others. Obvi-

¹ Resolution of the Cabinet of Ministers of Uzbekistan No. 520 dated 14.12.1998

ously, the main instrument is customs duties on imports. Since January 1 2004, new tariffs of customs duties on imports have been in place in the territory of Uzbekistan.

Currently, in the territory of the Republic of Uzbekistan, customs tariffs on imports are based on the Harmonized System of description and coding of goods, with changes and amendments adopted into the HS on January 1 2002, of the World Trade Organization. The government applies three types of customs tariffs rates: 1) ad valorem rate, calculated as a percentage of the customs value of goods; 2) specific rate, calculated at a fixed amount per unit of taxable goods; 3) combined rates that combine both above-mentioned types. Generally, rates of customs duties on imports are grouped into four levels: 0%, 5%, 10% and 30% of the customs value of goods according to ad valorem rates. On goods which are subject to protection of national manufacturers (in cases of low import prices or inelastic demand) specific duties are applied. However, in practice, only ad valorem and combined (alcohol and non-alcohol beverages, cigarettes, and cars) rates are applied.

Approved rates of customs duties are the rates under the most-favored-nation status (MFN). The Republic of Uzbekistan provides MFN treatment to 40 countries of the world, in accordance with inter-governmental agreements on trade and economic cooperation. With regard to goods originating from countries, which do not enjoy MFN status, or whose origin is not identified, rates of customs duties on imports are double. Here, it is necessary to note that the share of such countries in the total imports of Uzbekistan is equal to only 7%.

Analysis of foreign trade tariffs shows that regardless of seemingly high rates, the arithmetic average and weighted average quantities are relatively low. This in turn indicates the weakness of the position of the country in bilateral negotiations on market access terms. It is necessary to study the expediency of applying protective duties for socially essential and strategically important goods of industrial production.

Table 2.1. Rates of Customs Duties (1995-2004)

	July 1995	March 1996	October 1996	November 1997	February 1998	March 2001	July 2002	January 2004
Arithmetic average rate of customs tariffs	18	16	21	29	28	10,3	15,3	14,6
Maximal level of tariffs (excluding rates on cars)	50	40	30	30	30	30	30	30
Maximal level of tariffs (including rates on cars)	100	100	100	100	100	100	30	30

The next important aspect is the application of various methods of levying customs payments on the imports of individuals and legal entities, and the difference in their values.

Legal entities must pay the following customs duties on imports of goods: customs duties, excise taxes, VAT and dues for customs clearance. For individuals, a unified customs payment was introduced on June 1, 2002, replacing customs duties, value added tax, and customs clearance dues, at 40% for food (excluding wheat flour) and 70% for non-food goods.

Although the WTO agreements do not directly regulate the issue of applying different methods of levying customs payments on imported goods, this might be mentioned by member countries in the context of applying a common tariff for all categories of participants in foreign economic relations, as the WTO does not divide importers into legal entities and individuals. Moreover, the size of customs payments has to be reasonable and must not exceed the level of rates, determined on the basis of Tariff Concessions.

The next instrument of regulating imports is the use of quotas and bans on imports. Presently, Uzbekistan does not practice quotas. However, there are bans on imports of some goods that in general, do not contradict the WTO agreements.

The exception is the ban on import and transit of ethyl spirits. Uzbekistan applied this measure in order to protect the health of people. In later stages of negotiations it would be reasonable to replace the ban with technical requirements on the quality of spirit and to implement its certification at import to comply with the standards, established by Uzbekistan.

Another instrument of regulating imports is their taxation. Taxation of imports includes indirect taxes such as VAT and excise tax. It is known that indirect taxes are imposed on consumers, and in the imperfect state of competition in the domestic market, this particular tax might become nothing but a factor in price increases, and thus, even worsen the disproportion between domestic and external prices.

According to the requirements of the WTO, imposing tax on value added must comply with the principle of the national regime. According to active tax legislation, the importation of some goods, in particular, technological equipment, is exempt from VAT under some conditions, but the same types of goods of domestic production are subject to VAT. The present measure is encouraged by WTO member countries, especially those who produce such goods. In this case, the Republic of Uzbekistan provides favorable conditions for importers of technological equipment and thus for producers of various goods, manufactured with such equipment.

According to Tax legislation there are certain discrepancies in imposing excise taxes on the import of some goods. Currently, the work is being undertaken on the gradual unification of rates of excise taxes on imported and domestically produced goods.

According to GATT of 1994, goods, originating in the territory of a signatory country and being imported into the territory of another signatory country, should not be levied, directly or indirectly, with internal taxes and duties which exceed, directly or indirectly, the taxes and duties applied on the same kind of goods of domestic production.

At the same time, regulating imports through the imposition of excise taxes on imports is a measure to protect domestic producers and supplement the state budget. Excise tax, collected from imports, but not from domestic production, is more effective in protecting domestic producers.

Table 2.2. Rates of Excise Taxes on Imported and Domestically Produced Goods

Type of goods	Rate of excise tax on goods imported into the country, in percentage of customs value or in USD per unit of measure	Rate of excise tax on goods produced in the Republic, in percentage of sale prices that include excise taxes, or in USD per unit of measure
Wine products	70%, but no less than USD 7.00 per liter.	30%
Cigarettes	50%, but not less than USD 7.00 per 1000 pieces	32-45%
Carpets and other textile floor covering	90%	5%
Video and audio appliances	45%	5%
Furniture	10%	5%

Additional customs duties. There are certain discrepancies in imposing additional customs dues on imports as well. For example, an additional 20 per cent is imposed on imported non-food products that originate in third countries and are re-exported for commercial purposes into the territory of the Republic of Uzbekistan from the territory of neighboring countries by legal entities or individuals. Here, we should note that goods produced in the territories of neighboring countries are not subject to this duty. However, if goods produced in the territory of third countries is re-exported, taking advantage of the favorable customs tariff regime, then it is reasonable to take additional measures in order to ensure fair competition and protection of domestic producers. We should note that this measure shall be brought into compliance with WTO regulations.

At customs clearance, the duty for customs clearance is collected at the rate of 0.2% of customs value of goods. The present measure must be brought into compliance with Article VIII of GATT, which envisages that duties shall correspond to services provided.

Like any country in a period of growth, Uzbekistan is also facing the issue of protecting the domestic market, and domestic producers, from imports that are produced using methods prohibited in international practice (dumping and subsidies) as well as from increased imports of consumer products of poor quality. Such imports limit the market opportunities of products of national producers, and consequently, the further development (sustaining project capacity, modernization, procurement of new technologies) and improvement of their competitiveness, especially those in small and medium entrepreneurship, and hinder the emergence of new sectors of production.

Safeguards might be characterized as temporary measures, designed to stop an import in order to provide opportunities for a certain industry of national production to adjust to increasing competition from foreign suppliers. Thus, the main features of safeguards in the world trade system are as follows: (1) they are temporary; (2) they are aimed at limiting imports; (3) the purpose of their application is to provide conditions for the protection of a certain industry and its adjustment to competition.

In pursuance of these goals the Republic of Uzbekistan issued a Law "On Safeguards, Anti-dumping and Compensation Duties," which was adopted at Session XIII of the Parliament.

In order to regulate imports, WTO agreements also discuss administrative and technical barriers. Measures such as the registration of import contracts and procedures for customs clearance of imports might be considered as administrative barriers to the imports of a country.

Technical barriers to trade are one of the important aspects of regulating imports. The WTO Agreement on Technical Barriers to Trade is aimed at ensuring that technical norms, standards, procedures of testing and certification do not create additional obstacles to trade. In order to avoid the arbitrary order of adoption and application of technical norms and standards, the Agreement requires countries to apply such measures on the basis of MFN status with regards to imports from all countries. Standards and technical norms shall meet the criteria of the national regime of standards, i.e. measures applied to imported goods shall not be less favorable than those applied to goods produced in the domestic market.

In Uzbekistan, technical standards and related legal aspects are regulated by the Law "On Standardization" adopted in 1993. The Law was amended in 2000. Important principles of the WTO regarding technical regulations are included in the Law. However, there is no requirement for national technical regulations to be in line with international standards in a relevant area, nor is there any requirement that standards should use criteria that are based on quantitative indicators (characteristics of products) rather than descriptive criteria.

The Law envisages the application of international standards and even the standards of other countries in the case of agreements with those countries. Moreover, the Law states that goods being imported shall comply with Uzbek technical regulations only in such general interests as health and security. This in turn means that standards in Uzbekistan consist of both obligatory and other elements, and imported products need not necessarily meet the latter. However, at the same time, the list of issues that belong to the general interests in Uzbekistan significantly exceeds the list which is accepted at WTO, and includes aspects of compatibility and unity of methods. Thus, according to the Law, governmental bodies are responsible for ensuring compliance with existing technology, though, in other countries this responsibility is passed onto the private sector and market forces in general. The wide volume of obligatory requirements is a reason for the fact that, at the current time, 80% of standards are considered obligatory standards.

In the framework of above-mentioned provisions of the WTO, the requirement on providing imported goods with a certificate of compliance with the national standards of the Republic might be considered as a technical barrier to trade. There is a list of goods that are subject to obligatory certification, the number of which equals approximately 454 products and product positions. This group of goods also includes such products as meat and meat products, dairy goods, vegetables, fruits, fuels, chemical and mineral fertilizers and products, etc. National standards are violated on some positions of consumer products, since identical goods of national production are not subject to obligatory certification. Other than those goods which have implications for the health of human beings and conditions of plants and the environment, the list includes such goods as furniture, glass and ceramic goods, goods made of ferrous metals, and photography and cinematography appliances and instruments, which hardly count as goods imposing a danger to human health.

Moreover, procedures of obligatory certification are definitely not divided according to level of risk, as is done, for example, in the EU. The list of products that are subject to obligatory certification includes 100% of consumer products. At accession to the WTO, Uzbekistan will have to bring its regime of certification of national products into line with the regime of their importation. Considering the large share of goods to be certified in the total volume of imports (around 62%), it would be reasonable to optimize the list of goods to be certified as well as the procedures of certification, taking into account international experience in the sphere of certification.

2. Regulation of Exports of Goods

Regarding the regulation of exports, a weak point for the country at negotiations could be bans on exports from Uzbekistan² as well as tax, customs and other privileges for exports of goods of national production. In the context of WTO, member states might consider those measures as practices of unjustified limitation and distortion of foreign trade.

According to Article 11 of GATT 1994, the use of bans and quantity limitations on exports is prohibited, excluding cases where such bans are applied temporarily in order to ease the existing scarcity of consumer products and other goods that are important for the exporting country.

² Presently, export of the following goods is prohibited in Uzbekistan: (1) wheat; (2) bread and bakery products; (3) flour and cereal; (4) cattle and birds; (5) meat and meat products; (6) sugar; (7) antiques; (8) vegetable oil; (9) raw leather; (10) scrap-iron and waste of non-ferrous metals; (11) cocoons of silkworms, raw silk (untwisted), silk wastes.

The bans on exports of foodstuffs were applied in 1994. According to the requirements of the WTO, bans can be applied on a temporary basis in order to address a scarcity of foodstuffs. Member-countries of the WTO have already referred to the provisions of GATT and requested that Uzbekistan cancel such bans or provide sound arguments that those goods, whose export is prohibited, have significant value for the economy of the country.

Nevertheless, in recent years, the number of goods prohibited from export has been decreasing. Particularly, in 2002, the following products were removed from the list: powdered milk, tea, raw tea, and ethyl spirits. In other words, the number of such goods has been gradually reduced, to 11 at the current time, and in the process of economic reforms objective preconditions have been created for their further reduction.

In the process of Uzbekistan's accession to the WTO, the most vulnerable aspect of the regulation of exports is the existence of tax exemptions and other privileges. The WTO Agreement on subsidies and compensation measures envisages a solid basis for subsidies on non-agricultural goods. Measures of support in the form of subsidies are considered as additional financial advantages provided for economic entities, thus creating an unfair trade environment. The agreement examines direct government payments to exporters and producers of export goods, unclaimed state revenues in the form of tax exemptions, customs or other privileges, measures of price-based support and other measures aimed at supporting exporters or producers of export goods. Those measures are considered as unfair trade practices and are strictly regulated by the WTO provisions.

In the process of negotiations, WTO member-countries will require Uzbekistan to cease subsidies related to export activities as well as those prohibited in the context of the Agreement on subsidies and compensation measures. This issue should be carefully analyzed.

Another trend towards regulating exports is a measure for the preliminary registration of certain categories of export contracts. According to active legislation, a list of goods, whose export is subject to preliminary registration at the Agency for Foreign Economic Relations of the Republic of Uzbekistan has been established.

In addition to items not debated by WTO member-countries, the list also includes such goods as rolled ferrous metals, scrap-iron and its waste, crude oil and natural gas, cotton fiber and lint, which in the context of provisions of Articles XX and XXI of GATT are not considered as goods bearing strategic or other special importance. Apparently, improving the system of customs valuation of export goods will create preconditions for the abolition of the system of preliminary registration of such contracts.

One of the specific features typical for Uzbekistan in the aspect of regulating exports is the requirement for the obligatory sale of income in foreign currency. After Uzbekistan's adoption of obligations in the framework of Article VIII of the Articles of IMF Agreements on conducting import-export operations on current accounts of the balance of payments, Uzbekistan does not practice multiple exchange rates. If in the past, the requirement for the obligatory sale of income in foreign currency was one of the main factors holding back the development of exports, after the unification of exchange rates this requirement ceased to be a factor limiting exports. Nevertheless, the present measure does not comply with the principles of the WTO and this issue will be constantly raised in the process of negotiations.

3. Regulating the Trade in Services

In the legislation of Uzbekistan, there are certain limits on the import of services, for example, the requirement that professional and specific services, such as provided by lawyers, auditors, doctors and the like, be conducted by citizens of the Republic of Uzbekistan.

The list of measures, which enable a country to limit access of services into the domestic market after accession to the WTO, is comprehensive, i.e. normative documents that establish other limitations not included in the list of GATS are not to be included in the list of obligations. In contrast to this, limitations according to national standards do not have an exhaustive character: all domestic measures, by which a country has right to discriminate against foreign providers of services in favor of domestic providers, shall be included in the list of its obligations. Article XVI of GATS includes such exhaustive measures:

- Restriction on quantity of service providers
- Restrictions on number of transactions for the provision of services or on total amount of capital
- Restrictions on number or volume of provision of services
- Restrictions on number of hired individuals
- Measures on legal form of an enterprise, limitation on participation of foreign capital

Analysis of the normative legal base of the Republic of Uzbekistan, which regulates the operations of economic entities of the republic in the sphere of provision of services, including those classified by the WTO, shows that, in general, in all sectors of Uzbekistan there are no limitations on:

- Quantity of providers of services;
- Total value of operations of services or on total volume of production of services;
- Total number of individuals, who can be hired in a certain sector of services.

However, almost all types of imported services are subject to licensing, the conditions of which may have the effect of distorting trade. For example, in Uzbekistan, it is permitted to establish banks with a participation of capital of foreign banks (with participation of foreign investors equal to no less than 30% of the total amount of the founding capital), and branches of banks, whose founding capital is fully paid by non-resident banks that possess solid financial conditions and irreproachable business reputations. Preference is given to non-resident banks with a rating for short term obligations of no less than A (or A+) according to IBCA, FITCHI (Moody's or Standard and Poor). The founding capital of a non-resident bank willing to establish its branch or participate in the capital of a bank, should be no less than 30 mill. USD. According to the regulation on procedures of registration and licensing banks, the minimal volume of founding capital of a branch founded by a non-resident bank, and a bank with participation of foreign capital is set at an amount equivalent to 5 million USD. Undoubtedly, as a result of such limitations, stable and steady banks, for example, those of neighboring countries, have no opportunities to access the Uzbek market.

In general, access to the market of services in the republic is quite liberal and complies with the provisions of the WTO; MFN status is provided to all countries; and in general, the principles of transparency are adhered to. In particular, the republic does not impose such limitations as the application of quantitative quotas on imports of foreign services, limitations on the establishment of branches of foreign companies in the domestic market, limitations on transfer of producers of services and limitations on transfer of consumers of services.

At the same time, the extended definition of international trade in accordance with GATS, covering trans-border transference of production factors and consumers of services, means that GATS has a wider sphere of regulating and affecting the internal trade regimes of WTO members. For example, the obligation on national standards according to GATS, relates not only to standards regarding a service (product), but also to the company or individual, consuming or providing the service. In connection with this, domestic norms of legislation, relating to standards for foreign investment and the employment of a foreign work force in the sphere of providing services, directly relate to the obligations according to GATS. For example, according to the current legislation of the republic in the sphere of insurance, foreign insurance companies have access to domestic market of the republic and may act as founders (participants) of legal entities – professional participants of the insurance market. However, at the same time, the Law of the Republic of Uzbekistan “On Insurance Activities” sets certain limits according to the national standards for foreign insurance companies, regarding access to the domestic insurance market. In particular, such companies may act as providers of re-insurance only, and may insure the civil liability of owners of means of transportation and other self-propelled machines and mechanisms, leaving the territory of Uzbekistan. And agreements on provision of such insurance must be conducted via insurance providers and insurance agents that are residents of the Republic of Uzbekistan. Since foreign companies work in the sphere of providing re-insurance only, there is a requirement for a charter fund, and the minimal size of the charter fund must be in an amount equal to no less than 2 mill. USD.

In the process of accession, the absence of an integral and systemized system of regulating the market of services, including operation of providers of services and state regulation of their services, might become a problem. This directly arises from one of the key principles of GATS, which is transparency. In spite of the fact that recently issues of legal regulations have been transferred to the jurisdiction of law-making acts and State decisions, it is necessary for this system to be systematized.

The existence of effective legislation in the sphere of services plays an essential role in the accession of any country to the WTO, since, unlike the trade in goods, in services, normative legal acts determine conditions for foreign providers' access to the domestic market.

In the case of Uzbekistan, the main task in this regard might be the insertion of the idea of the international provision of services into legislation, since the definition of export/import, contained in the founding legislative acts of Uzbekistan (the Law “On Foreign Economic Activity”, the Customs Code) does not consider the specifics of the trans-border provision of services.

4. Other Aspects of Foreign Trade

Regime of Protection of Intellectual Property

The agreement on intellectual property, related to trade (TRIPS), requires adherence to the rules and norms of the Paris Convention on the Protection of Industrial Property, the Bern Convention on the Protection of Literature and Works of Art, the Rome Convention on the Protection of the Rights of Performers, Producers of Phonograms and Broadcasting Organizations, and the Agreement on Intellectual Property by Integral Schemes.

In this regard, the basic requirement of the WTO in this sphere is the fulfillment of the main requirements of above-mentioned conventions and agreements, the cornerstone of which is the obligation of countries to provide the national regime of standards to foreign owners of the rights to intellectual property. TRIPS provides protection to quite a wide spectrum of the rights of rights-holders. In accordance with this, the rights of owners of intellectual property that are subject to protection as well as their exclusive property rights shall be extended and clarified in the legislation of Uzbekistan.

Transportation and Transit

According to Article V of GATT, a country, through whose territory goods are transferred as transit, shall ensure free transit. Here, duties and collections for transit shall be reasonable and correspond to provided services or transportation in order to cover administrative expenses. In addition, transit goods shall not be kept for a long time without justified reason. In the light of that requirement of the WTO, Uzbekistan shall ensure non-discriminative access to transit of goods to other WTO member-countries.

Tariff policy, related to the transit of means of transportation of other countries through the territory of Uzbekistan, shall be brought into line with WTO requirements. Presently, various amounts of tolls are applied in the country for the transit of automobiles of other countries, moving through the territory of the republic. For example, a truck which belongs to the Republic of Turkmenistan and moves through the territory of the republic in transit is subject to a fee of USD 100 on average, depending on the carrying capacity of the vehicle, whereas, an identical truck from Kazakhstan – USD 300, and a truck from the Republic of Tajikistan – USD 90 (on transit to third countries, other than CIS). At the time of accession to the WTO, the practice of multiple transit collections from vehicles of WTO member-countries shall be abolished, in order to comply with the principles of MFN.

3. Investment Incentives in the Context of Accession to the World Trade Organization.

Damir Muzaffarov
CER

Extract

The investment policy of the government usually includes a wide variety of different tools, among which incentives stand as one of several factors influencing investment decisions. This policy should provide all categories of entrepreneurs with equal rights, excluding any artificial created discrimination in the business environment. Sound, thought-out, carefully reasoned, transparent governmental policy, targeted at accelerated and stable economic growth is the most effective preference for foreign investors. Undoubtedly, such a policy is urgent in order for rapid accession into the WTO and receipt of the subsequent benefits.

Investment Incentives: Theory and Foreign Practice

Ideally, an economic policy which would exclude discrimination between businesses and sectors of the economy should be in place before entering into the World Trade Organization (WTO). However, in countries with transitional economies, it is not unusual for measures targeted at the protection of domestic and foreign manufacturers to contain restrictions which are contrary to the requirements of the WTO and lead to reductions of the benefits from free trade. In such cases, manufacturers can avail themselves of different kinds of investment incentives.

The provision of incentives for both private and foreign investors is deemed to be an important tool of a general investment regime. Investment incentives are a particular economic benefit, established by the recipient country for businesses. By using these means, the government tries not only to compensate the expenses of manufacturers but also to support the development of priority sectors of the economy (for example, light industry, machine-building, etc.), adjust imbalances in the market system, impact on the nature of investments, intensify positive spillovers (such as the conducting of scientific research, the transfer of technologies and others), and, thereby, to cover the lag between private and public benefits. On the other hand, according to the rules of the WTO, the regime given to foreign investors should not be less favorable than to domestic investors. This means that all the participants of the economic sphere should be provided with equal privileges.

There are three main types of investment incentives: "fiscal incentives", "financial incentives" and "other incentives", all of which are targeted at a common purpose: increasing the volume of investments by increasing the profitability of enterprises, in particular, those with foreign shares (Table 3.1).

Table 3.1. Main Incentives for Foreign Investors

Types of Incentives		
Fiscal	Financial	Other
Targets of Incentives: increase in profit, capital investments and productivity of enterprises.		
Incentives composition:		
Reduction of the profit tax rate; exemption from import duties; granting tax credits, considerable decrease or full exemption from the profit tax; reduction of payments to the social funds of the receiving country, etc.	Partial or full compensation of business expenses of foreign investors, especially connected to national manpower training ; Insurance against some kinds of risks (connected, for example, with instability of the exchange rate); grant of full or partial governmental guarantees on debts of the private sector; share-holding in authorized funds; granting export credits, etc.	Provision of foreign investors with information on home market and conduction of market studies and legal advice, renting of land, buildings and other production resources at reduced prices; provision of government contractual works, guaranteed unimpeded convertibility, repatriation of profit and capital, guaranteed stability of investment provisions, etc.

Source: [UNCTAD. Incentives and Foreign Direct Investment - United Nations, Geneva, 1996; author].

Provision of incentives depends on the type of activity of the investors. For example, for foreign investors, who use national resources, the most effective would be fiscal incentives, which lower the costs of labor-intensive kinds of production activity, rather than market protectionism. But, for investors oriented at the home market of the receiving country, realization of the policy of protectionism would be preferable to the provision of fiscal privileges. Packages of financial and fiscal incentives may stimulate foreign investors oriented towards the expansion of exports.

The provision of incentives also depends on the level of socio-economic development of the country. It is typical for developed countries to use financial incentives, which are not flexible and demand a long time to obtain results. Developing countries, on the contrary, owing to the deficit in their own resources, prefer to use fiscal kinds of privileges for the provision of financial incentives.

Research conducted by the UN demonstrated that in 1990 fiscal stimulation was the most popular tool in attracting DFIDFI by all groups of countries, mainly as a result of the liberalization of foreign investment policy from the middle of the 1980s. Along with the aforementioned, recently in developing countries also the incentives of the "other" group gained in significance. The most advantageous incentives were provided for investors in free trade zones, entrepreneurial zones and scientific parks.

At the same time, a sufficiently large amount of research testifies that foreign investors favor certain countries for such natural and continual factors as capacity of market, stable macroeconomic growth, transaction expenses, costs of manpower training and others, rather than on the basis of variable stimuli and privileges.

Malaysia's experience shows that incentives are not the major factor inducing foreign investors to realize DFIDFI into the country. The inflow of DFIDFI into Indonesia in the 1980s appreciably increased after the abolishment of the tax recess. The study of thirty TNC, participating in 74 projects in four sectors of industry – motor-car, electronic, food and petrochemical – demonstrated that the provision of incentives for foreign investors has a very low elasticity. They provide only a slight increase in the attractiveness of given sectors, which easily attracted DFIDFI before the stimulation as well.¹

Ineffectively provided incentives curtail the potential state revenues received from enterprises' activity. Quite often enterprises, aiming to receive tax concessions, may adapt, sometimes illegally, their economic characteristics to the requirements of such incentives. This often leads to distortions in the economic activity of enterprises, the discrimination of one enterprise over other. Such policy makes it impossible to increase economic efficiency in the sector these incentives are provided for, leads to the growth of the tax burden in the country, strengthens distortions of tax and customs administration, and reduces the business activity of enterprises. Owing to tax concessions, the effective rate of the profit tax for some enterprises becomes less than generally established, which leads to losses for the state budget and an increase in the total tax burden.

What are Ineffective Investment Incentives?

- Low efficiency of investment law.
- Complication of the system of collection of tax and other payments.
- Ineffective layouts of production, distribution and redistribution of national income.
- Significant price distortions.
- Increase of the tax burden, because the government is forced to increase collections at the expense of non-favored taxpayers (or to keep taxation of other enterprises at a rather high level).
- Decrease of motivation of non-favored investors and manufacturers in business activity.
- Discrimination against national manufacturers with respect to foreign, as well as against medium-scale enterprises with respect to small-scale, which prompts the former to avoid taxes, and leads to potential increases in the extent of the "shadow" economy.
- Reinforcement of "favoritism" and bureaucracy when distributing privileges.

Investment Incentives: the Practice of Uzbekistan

The investment policy of Uzbekistan considers incentives as one of the most important tools in attracting private and foreign investors. Within the initial years of independence, investment incentives served as a life-belt, allowing investors to decrease risks and to compensate for force majeure losses. At the same time, detailed analysis of the Uzbekistan² tax system in 2001, conducted by the Center for Economic Research (CER), revealed 19 unprofitable tax remissions, which brought no direct economic benefits, discriminating against national entrepreneurs with respect to foreign businessmen, as well as with respect to each other, depriving the country of considerable amounts of tax proceeds.

Within the past two years many regulations in investment policy have been revised. The majority of incentives discussed in the CER's report were abolished. For example, earlier, newly established enterprises with foreign investments, which produced export-oriented products and import substitutes, had exemptions from the profit tax for two years from the production start date. However, this was only the case when the share of foreign capital in the authorized fund of the enterprise amounted to not less than 50%. In reality it was un-

¹ Guisinger S. E. Host Country Policies to Attract and Control Foreign Investment // Investing in Development: New Role for Private Capital? - Overseas Development Council, Washington, D.C., 1986, pp. 157-172.

² See «Transaction Expenses of Taxation», Center for Economic Research. Report 2001/08, Tashkent, 2001.

clear what was included in the “export-oriented” and “import substitutes” groups of products. Such privilege also “scared away” those large-scale foreign partners whose share of capital amounted to less than 50%. For example, if the share of national capital in an authorized fund amounted to 4 mill. USD (40%), and of foreign capital - to 6 mill. USD (60%), then such an enterprise got preference. In the case when the share of national capital in an authorized fund amounted to a sum equivalent to 10 mill. USD (60%), and the foreign only to 8 mill. USD (no more than 45%), then, even if in the second case there was greater foreign investment attracted (i.e. 8 mill. USD versus 6 mill. USD), the enterprise couldn't get the preference.

Furthermore, the preference impelled the Uzbek part to reduce its share of investment, contradicting the long-term objective, i.e. the attraction of foreign capital and raising of national capital.

Earlier in Uzbekistan such financial privileges as the provision of free governmental guarantees in foreign investments were operating. Such practice was tantamount to the provision of insurance free of charge, and in case of an “insured incident” the government would have to bear huge losses from such investments. Consequently, demanding payment for such a guarantee was reasonable. Now such guarantee is provided only for a given price.³ This measure will scare away “shallow” foreign investors.

However, in spite of these changes, the investment policy of Uzbekistan continues to provide privileges, which may not always have a positive economic effect on a national scale. In particular, instead of the maintenance of sectors of the economy as a whole, only individual enterprises and individual types of products are supported, resulting, in our opinion, in the increase in transaction costs of taxation for “non-favored” competitors.

Thus, article 31.16 of the tax law exempts from profit (income) tax for seven years from the moment of their registration those manufacturing enterprises with foreign investment, which realize capital investments into projects included in the investment program of the Republic of Uzbekistan. Obviously, this preference is aimed at the attraction of foreign investors, because it is unlikely for small and medium enterprises with foreign capital to be involved in the investment program. Domestic entrepreneurs are also not provided with such preference. Thus, according to the rules of the WTO, this discriminates against national manufacturers and other enterprises with foreign investments compared to the “lucky ones”. Furthermore, the large-scale investors have primordial advantages over the enterprises of SME as a result of receiving more accurate and complete expert information on the potential of the Uzbekistan market, having branched marketing networks, capital resources and others. This preference is especially undesirable for the activity of those foreign investors who produce import substitutes.

As investors export received profit to the country of origin, their immunity from taxation means considerable losses for the budget of the receiving country. This intensifies the tax burden of domestic manufacturers, discriminating against them again with respect to foreign investors. At the same time there is no guarantee that the investor will not leave the market in seven years or will not return in the guise of another enterprise.

Let's take another example. In Uzbekistan, foreign investors have the category preference “others”, which guarantees them the preservation of the previous regime for the next ten years, in the case that laws worsen the investment environment which was in place at the time they started operating in Uzbekistan as investors.⁴ Obviously, such a “grandfather's clause”⁵, as it is called in CIS countries, discriminates against domestic entrepreneurs, who must immediately adapt their production activity to all newly implemented legislative acts without regard to changed investment conditions.

Judging from an interview with foreign investors, the given preference is not realized, which comes as no surprise. The investment climate involves a wide range of measures. A change of the situation in one sector may arouse changes in another. In all outcomes there are groups of winners, losers and those who were outside of influences. Only detailed economic analysis of each particular case makes it possible to appreciate the effect of reforms. However, thus far a transparent methodology for determining the meaning of “improvement” and “worsening” of the business environment has not yet been worked out. The implemented measures may guarantee economic growth, from the point of view of the government and consequently, improve the investment environment for the middle-term and long-term period. From the point of view of investors such “novelty” may increase current outlays and even decrease deferred income, and consequently, worsen the current investment climate. Obviously, such a situation is fraught with contradictions and may even scare away long-term investors.

³ Resolution of the Cabinet of Ministers № 7, of 8 January 2004.

⁴ Law on Foreign Investments of the Republic of Uzbekistan from 1998 with amendments, Article 3.

⁵ Voznesenskaya, M. «Inostrannye investitsii: Rossiya i Mirovoy Opyt», Moskva, 2001.

An indicative situation has formed in the energy sector of the country, where serious reforms have been ongoing for the past year. In particular, measures targeted at the adjustment of payments for electricity have been implemented. All consumers, except for households, should prepay for electricity and heating delivered by SJSC "Uzbekenergo" in the amount of 30% of the monthly volume of consumption. From the attitude of government, this would reduce the burden of accounts receivable and payable in the sector of energy,⁶ strengthen the financial stability of the sector, and improve the quality of service for the economy, and, as a consequence, the growth in capital investments. The economy will profit.

However, such measures bring difficulties for newly established enterprises, which are planning to pay for their energy either after earning their first profit from operations or after the actual use of such energy. Such prepayment may induce the need for borrowing from credit institutions, increasing the financial burden (in the form of loan interest) and leading to growth in expenses. Furthermore, final payment should be made not later than within a 60 days' fixed period. At the same time, the legal status of this period is not indicated, so it includes calendar days as well as workdays. In the latter case, the required period exceeds "ordinary" 60 days. The law also would be interpreted as if a payment for energy should be provided after the expiration of 60 days after the receipt of financial profit, the end of the calendar or fiscal year.

As to electric meters, they should be read monthly. But for all that, newly established enterprises cannot know beforehand the actual volume of planned monthly consumption. On the other hand, a number of natural monopolies have permission to pay for energy with a significant "delay".⁷ Such a measure brings accounting difficulties and administrative abuses at the local level. In case of a "foul" the energy is cut off and charges for disconnection and reconnection are at the consumer's own expense.

Similar provisions are set in the sector of gas supply. As a result, foreign investors complain of high-handed disconnection of the energy supply.⁸

According to the "grandfather's clause", if those investors who came to the market earlier consider the new law to be deteriorating "their" investment climate, they have the right to pay for energy according to the previous scheme. This strengthens the competitive advantage of foreign investors over national manufacturers, who are not included in this proviso. Otherwise, the rights of foreign investors will be breached, and they can issue a challenge in court.

Even in the case of "victory" such situations increase the transaction expenses of business activity and reduce the investment attractiveness of Uzbekistan. The case of "defeat" undermines the trust of foreign businessman to the receiving country, which defaulted on its obligations. As the experience of the CIS demonstrates, a "grandfather's clause" only complicates the process of lawmaking and administration. It is no wonder that in Russia this "privilege" was abolished as early as 2001, though its validity period was only 3 years.

Such investment preference as exemption from VAT, which should be only a consumption tax from house-keeping, is also inexpedient. On the one hand, exemption from VAT reduces administrative expenses for tax collection (for example, in the area of financial operations), and also reduce expenses in sectors, which produce larger added value for sale to the final consumer (agriculture). On the other hand, exemption from VAT leads to price distortions, in particular in the production chain and in the economy as a whole. The maximal economic benefit from using VAT will be obtained in the case of minimal concessions in this tax.⁹ It comes as no surprise, that most businessmen consider VAT as a production tax, and consequently, such "exemption" can be interpreted as an "encouragement" of business activity.

A sectoral analysis shows that investment incentives on the profit (income) tax, predominantly provided advantages for industrial and construction enterprises at the expense of other sectors, for example, in the sphere of services (trade, credits, insurance, consulting, managerial training, computer instruction, allocation, vehicles of communication etc.) without which the economy as a whole would be unable to function effectively.

In order to optimize the system of provision of investment incentives, reduction of the tax burden and improvement of the investment environment, it is necessary to implement clear and accurate criteria and principles as a basis for endowing enterprises with privileges. Also one needs to evaluate all the earlier provided incentives with respect to their effectiveness and profitability, to create a unified base of incentives under the Ministry of Finance, and to exclude all ineffective, insignificant, unclear and inaccurately stated investment incentives. It is expedient to revise incentives which guarantee "stability" of legislation for foreign businessman.

⁶ Resolution of the Ministry of the Republic of Uzbekistan № 341 of 05.08.2003.

⁷ Report of The World Bank. "Energy Industry: Problems, Analysis and Reforming Program."

⁸ «Uzbekistan News», № 27, 9 July 2004.

⁹ See «Transaction Expenses of Taxation», Center for Economic Research. Report 2001/08, Tashkent, 2001.

Special emphasis should be placed on the abolishment of discriminatory investment incentives for some categories of enterprises, as, for example, for those involved in the state investment program and others. At the same time it is necessary to implement clear and accurate criteria for estimating the impact of reforms on the business activity of some enterprises with foreign shares. Enterprises engaged in export-import operations ought to be supported not only through exemption from profit (income) tax, but by reducing different kinds of transaction expenses, by endowing them with the freedom to use their own profit, including foreign exchange, by granting export and tax credits, as well as by adopting the widespread practice of accelerated amortization and others. At the same time, it is necessary to improve tax administration, widen the assessment basis, reduce the tax burden¹⁰ and optimize the system of public expenses.

It is impossible to forget that investment incentives may not necessarily have a well-defined positive impact on foreign investors. Furthermore, too lavish incentives could deprive the receiving country of a key source of proceeds from attracting DFIDFI, and even imply its weakness, thereby having a negative effect. The recipient country shouldn't be guided by the principle "the more incentives provided for foreign investors, the better for attracting DFIDFI", but use this tool for achieving general objectives for the socio-economic development of the country. The provision of incentives may be of decisive importance, other things being equal, allowing one country to gain more advantages over other.

It is necessary to take into consideration that the appearance of foreign investors on the market of a receiving country results in a gap between private and public interest. Consequently, it is essential to create such a system of stimulation of DFIDFI, that the profit received by the foreign investors will satisfy the socio-economic needs of the receiving country.

XXX

The investment policy of the government usually includes a wide variety of different tools, among which incentives stand as one of several factors influencing investment decisions. This policy should provide all categories of entrepreneurs with equal rights, excluding any artificial created discrimination in the business environment. Sound, thought-out, carefully reasoned, transparent governmental policy, targeted at accelerated and stable economic growth is the most effective preference for foreign investors. Undoubtedly, such a policy is urgent in order for rapid accession into the WTO and receipt of the subsequent benefits.
incentives

¹⁰ "Tax Burden" from the point of view of enterprise consists of the sum of *all* compulsory payments to the budget, not of a particular tax.

4. Liberalization and Growth: the Lessons of Development of Transitional Economy Countries

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CEEP

The economic growth that started taking shape in the second half of the 90s in most of the CIS countries was made possible largely owing to the market reforms, implemented there from the beginning of the transition period. Which part does liberalization of the economy play in this process, and what are the mechanisms of its effect on growth?

There are a great number of studies, the results of which testify to the fact that low rates of liberalization of the economy, insufficient progress in the area of institutional transformations, a low level of private property guarantees, an orientation toward import substitution, and price and rate distortions are the main reasons for low and unstable rates of economic development.¹

World experience also shows that progress in the elimination of price and rate distortions, monopolistic dictates, inequality of opportunities, etc. can be achieved solely by means of the development of competition, strengthening of the private sector and institutional foundations of the market, and acceleration of the liberalization of the economy.

The assessment of the achieved level of liberalization of the economy requires the use of appropriate evaluations, developed by international financial organizations and specialized consulting foundations. Among them the most famous and authoritative are the index of economic freedom, evaluated by analysts of the Heritage Foundation and the Wall Street Journal for all the countries of the world, as well as the index of liberalization, whose essence is close to the former, and which is determined by the EBRD. Its value varies within the range of 1 to 5, a higher level of liberalization corresponding to a lower value of this index and vice-versa.

As appears from assessments of this index,² the level of liberalization achieved by Uzbekistan does not yet meet the requirements and prerequisites for ensuring steady economic growth. The relatively high value of this indicator, which means a lower degree of liberalization of the national economy of Uzbekistan compared to, for example, Russia or Kazakhstan (a 0.6 – 0.8 point difference), or to the Baltic states (a 2 – 2.5 points difference), can be explained, in the opinion of the index's authors, by the following circumstances.³ Reforms and liberalization of Uzbekistan's economy have a minimal effect on trade policy, monetary policy, banks and finance. For them the local index had a value of 5.0. With reference to trade policy this was explained by sizeable trade barriers and restrictions. In particular, it was pointed out that, in accordance with the IMF's assessments, tariffs amounted to 29% in 2001 (ratio of import payments to the value of imports). Also such restrictions are indicated as the necessity of obtaining a certificate of the origin of imported goods, obtaining licenses, and restriction of access to currency resources.

With reference to the banking sphere, the high share of the state in the assets of commercial banks, the prevalence of non-payment practices, the high level of concentration of banking capital, and the insignificant number of private banks, whose capital is much lower than for the rest of the banks, were pointed out. A rank equal to 4.0 was given to state regulations, reforms and measures for attracting foreign investments and to institutional changes in the sphere of regulation of income and prices and of ensuring private property rights. The best grade – 2.9 – was assigned to the reforms of taxation policy, which is explained by the reduction of tax rates and of the tax burden on the economy as a whole. It should be emphasized that these are assessments for 2001.

But if one traces developments in the level of the liberalization of the economy during the last 5 years (see Graph 4.1), it should be noted that Uzbekistan's position here has somewhat improved, as compared to such CIS countries as Russia and Belarus.

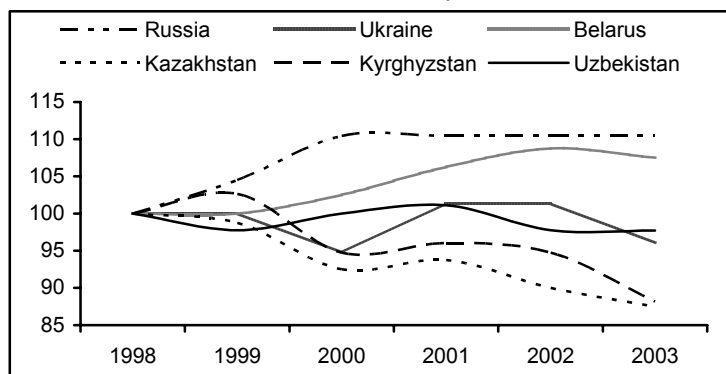
Measures for the liberalization of the foreign exchange market and economy as a whole, implemented in 2002 – 2003, have played a significant part here. A major result of reforms in the area of currency regulation was the transition to free convertibility of the soum for current operations in 2003.

¹ G. A. Cornia and V. Popov. "Transition and Institutions: The Experience of Late Reformers". , Eds., Oxford University Press, 2001

² Its values for a larger number of states can be found at the site www.heritage.org

³ More detailed argumentation is presented at www.heritage.org

Graph 4.1. Progress in the Sphere of Liberalization of the Economy of Uzbekistan and a Number of CIS Countries (Percentage of Change in the Index of Economic Freedom, 1998 = 100%)



Source: Authors' Calculations

Note: Reduction of the index indicates growth of economic freedom.

At the same time, the question arises whether these improvements are sufficient for the acceleration of economic development, and which measures for the intensification of liberalization processes it is necessary to take first of all.

In order to supply a full answer to this question, we have performed inter-country correlations by "liberalization - growth" criteria, the results of which are presented in Graph 4.2. To be more precise, changes of this index within the last 6 years (from 1998 to 2003) were linked to the growth of GDP in those CIS countries which were major trade partners of Uzbekistan for that period.

As evident from the results obtained, available statistics do not permit the unambiguous claim that there is a direct interrelation between the level of economic freedom and growth. For instance, during the period from 1998 to 2003, the increase in economic freedom in Kazakhstan and Kyrgyzstan was about the same (112 – 113%), yet the growth rate of GDP in Kazakhstan for that period was considerably higher (153%) than in Kyrgyzstan (123%).

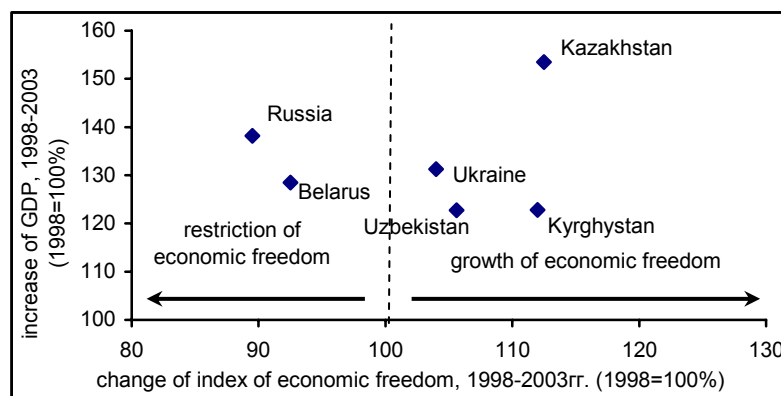
However, this does not mean that such interrelation is totally nonexistent.

The obtained result only confirms the conclusions of a large number of studies of economic growth problems in countries with transitional economies,⁴ in accordance with which, besides the rate of reforms, the quality of macroeconomic policy conducted, the effectiveness of functioning of state institutions, as well as a number of other factors have a profound effect on growth.

Summarizing the experience of world development has allowed the mechanism of the effect of liberalization on growth to be specified. The positive influence of liberalization on economic growth results from the fact that, in this connection, excessive barriers in the path of movement of goods, capital, finances and labor are eliminated; and the economy becomes more sensitive to the effects produced on it by market regulators and production factors. In the long run, this leads to the more effective distribution and application of growth factors.

This becomes most apparent from the example of the indicator of energy intensity of GDP. Analysis of the dynamics of energy intensity of GDP for 11 CIS countries and the Baltic states has shown that there is a statistically significant interrelation between the index of liberalization on the one hand, and energy intensity of GDP on the other hand. Those countries that have achieved the greatest success on the path towards market transformation (Estonia, Lithuania, Latvia, and Kyrgyzstan) secured a noticeable reduction in the energy intensity of GDP (by 0.36 – 0.4 kg.n.e./USD for 1990-2001; see Graph 4.3). On the other hand, in countries with low rates of reforms (Turkmenistan, Tajikistan) energy intensity of production for this period significantly increased (by 1.2 and 0.3 kg n.e./USD. respectively).

Graph 4.2. Interrelation Between the Level of Liberalization and Growth



⁴ See materials of the International Research Consortium GDN for the Project for Explanation of Economic Growth Mechanisms in the CIS Countries at www.eerc.ru.

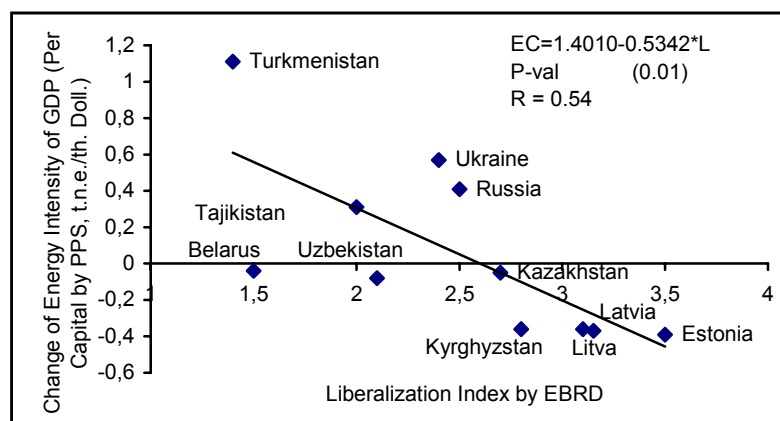
Apparently, a major role here was played by price liberalization and, above all, by the rate of convergence of the levels of domestic and world prices for gas. Countries that do not have any reserves of oil and gas deposits (the Baltic States, Kyrgyzstan), and have been forced to import energy carriers at world prices (or those close to them) from the very beginning of the transition period, have managed to reconstruct the structure of their economies and to achieve a considerable reduction in the energy intensity of GDP (see Graph 4.4).

If one were to assess the situation that has formed in the transitional economy of Uzbekistan from these positions, one would draw the conclusion that it is necessary to take additional measures for the intensification of processes of liberalization and structural transformations in the national economy. Distortions in the system of prices (first of all for major raw material resources), rates, and inequality in income distribution of the employed and of the tax burden among industry branches and among individual enterprises within the same branch are yet to be overcome.⁵ Significant deviations of domestic price proportions from world ones create additional barriers in the path of the state's entry into the world economic community.

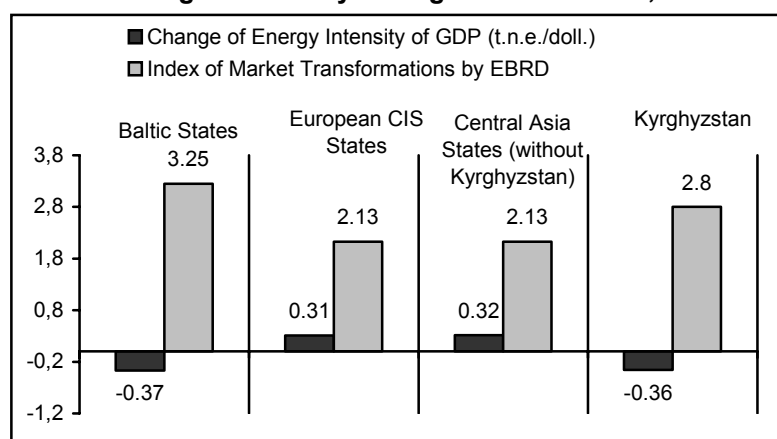
Prices of energy carriers for the population remain considerably lower than the world level (for gasoline and electric power they amount to 25-50% of the world average level, and for gas – 10-15%). As a result, incentives disappear for the economical and rational use of limited reserves of hydrocarbon raw materials; and the scale of their extraction is increasing, which worsens the structure of the economy as a whole. Prices for the basic range of agrarian sector products are also considerably lower than the world level (cotton – by 45-50%, grain – 40%, vegetables and fruits – from 30% to 50%). On the other hand, prices for fertilizers, agricultural machinery, and means of protection of plants from pests have almost reached and, in some cases, exceeded the world level, which has become one of the main reasons for the reduction in the scale and application of modern agro-technologies, the reduction in the cotton crop yield, and the unprofitability of most agricultural enterprises. Substantial disproportions have formed in the level of prices of major types of consumer products, when compared to the average income of the population. These disproportions create serious difficulties in increasing the effectiveness and rate of economic development and achieving steady growth. Overcoming them should become a priority in the choice of ways and directions of the intensification of the liberalization process in the near future.

At the same time, the process of further liberalization of the economy should be of a weighted, stage-by-stage and selective nature. Every step should be substantiated, calculated, linked with other directions of economic reform, and assessed from the point of view of world experience and possible consequences. The main criterion to adhere to at this point is as follows: the general positive effect from the implementation of each step in the direction of economic liberalization should exceed the costs expected in this regard.

Graph 4.3. Interrelation between Change of Energy Intensity of GDP (Per Capita by PPP, t.n.e./thous. USD 1990-2001) and the Level of Market Transformation of CIS Countries



Graph 4.4. Regional Aspects of the Interrelation of Market Transformations and of the Change in Energy Intensity of GDP by Groups of CIS Countries (Average by Groups of Countries, Without Taking the Country's Weight into Account, 1990-2001)



Note: Baltic states – Estonia, Latvia, Lithuania; countries of the European part of the CIS – Russia, Ukraine, Belarus; Central Asian countries – Uzbekistan, Kazakhstan, Turkmenistan, Tajikistan; information source - EBRD, Transition Report.

⁵ Appropriate examples can be found in the article by O. Namazov et al "Tax Burden of Enterprises". The Economy of Uzbekistan. Analytical Review. January - September, 2003. CEEP. Tashkent, 2004.