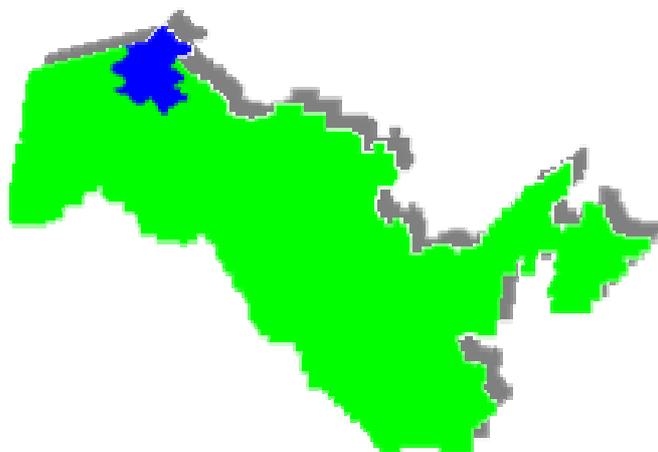


UZBEKISTAN ECONOMY

Statistical and Analytical Review
for the year 2004



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List of Abbreviations

AFER	Agency for Foreign Economic Relations
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
EBRD	European Bank for Reconstruction and Development
EFI	Enterprises with Foreign Investment
ERP	Effective Rate of Protection
FDI	Foreign Direct Investment
GDP	Gross Domestic Product
JSC	Joint Stock Company
JV	Joint Venture
IFC	International Financial Corporation
IMF	International Monetary Fund
MER	Multiple Exchange Rate
mill.	Million
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
RF	Russian Federation
RREE	Republican Real Estate Exchange
RSE	Republican Stock 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
thous.	Thousand
OTC	Over-the-counter
VAT	Value Additional Tax
URCE	Uzbek Republican Currency Exchange
USD	US Dollar
UZS	Uzbek Soum
UZSE	Uzbekistan Stock Exchange
yoy	Year-on-year

Introduction

The Uzbekistan Economy Review series has been written by the Center for Effective Economic Policy with the support of USAID and EuropeAID. The review contains an analysis of the main trends in the economic development of Uzbekistan in 2004.

Macroeconomic policy. In 2004 the growth of real GDP reached the level of 7.7% for the first time during the entire period of reforms. The high rate of economic growth has been secured through the dynamic development of the primary branches of the economy, an increase in investment intensity and considerable growth of exports. As a result of the tight monetary policy conducted, macroeconomic and financial stability has prevailed. The annual consumer price index has been very low for several years and it registered at the level of 3.7%. The budget deficit did not exceed 0.4 % of GDP.

Institutional and market transformations. The year 2004 has been the most effective in terms of privatization of state-owned enterprises. 1,228 enterprises and facilities were transformed into a non-state form of ownership. The assets of state-owned enterprises were sold for UZS 78.4 billion (an increase of 39.9%). USD 24.3 million (an increase of 49.8%) was received from foreign investors as a result of the sale of privatized property. The contribution of small businesses to economic growth increased. The share of small business in GDP grew to 35.6%.

Structural-investment policy. A high pace of growth in the real sector was achieved in 2004. Industrial output increased by 9.4%, agricultural production by 10.1%, investments into fixed assets by 5.2%, and production of consumer goods by 13.4%. Further deepening of institutional, structural and administrative reforms facilitated the high pace of development.

Foreign trade. As a result of the step-by-step liberalization of foreign trade, a high pace of growth in foreign trade (an increase of 29.6%), exports (30.3%) and imports (28.7%) was secured for the first time. Favorable prices on international markets for the main export items also contributed to this growth. There was also a favorable dynamics in the operation of enterprises with foreign investments. Foreign trade volume of enterprises with foreign investments increased by 37.1%, including an increase in exports of 39.1% and imports of 35.8%.

Welfare of population and labor market. High rate of economic growth, low rate of inflation and strengthening of targeted social protection provided for an increase in the nominal income of the population by 17.6%. Completion of construction of social facilities has allowed an increase in the adequate provision of the population with housing, centralized water supply and natural gas. There was considerable improvement in the demographic situation due to an increase in the birth rate and a reduction in mortality. Employment grew by 3.4%. There were more than 480,000 new jobs created in 2004.

Socio-economic development in the regions. All provinces achieved positive results on important macroeconomic indicators in 2004. The gap in interregional differentiation of GRP decreased from 4.2 to 4.0, in industrial output from 23 to 21.4, in the provision of paid services from 11.1 to 10.6, and in retail trade turnover from 5.0 to 5.6.

The Uzbekistan Economy review also contains analytical articles discussing structural shifts and priorities in developing industry, consumption of energy resources, financial standing of enterprises, assessment of investment attractiveness, and the forms and methods of state involvement in the economy.

The informational database for the bulletin is made up of data from the State Statistics Committee, the Ministry of the Economy, the Central Bank, the Ministry of Finance and the State Committee on Managing State Property. Information is also obtained from local and foreign publications. Authors also use their own estimations and graphical illustrations.

Main Economic Events

January

In the Resolution of the Cabinet of Ministers of the Republic of Uzbekistan dated Dec 25, 2003 "On Parameters of the State Budget of the Republic of Uzbekistan for the year 2004" the main changes in the tax policy of Uzbekistan for 2004 were indicated. The resolution 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.

Starting from January 1, 2004, in line with the Resolution of the Cabinet of Ministers of the Republic of Uzbekistan dated January 7, 2004 "On Measures for Further Improvement of Customs and Tariffs Regulation", 5%-10% custom duties were introduced for some types of foodstuffs (fish, soybeans, vegetable oil, animal oil and butter, meat, meat products), 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 Uzbekistan adopted the Resolution "On additional measures for the implementation of the Program for localization of finished goods and production of components based on local raw materials for the period 2004-2005", aimed at implementation of the priority areas of the government's structural policy, creating a modern technological foundation and upgrading production. The Resolution provides a number of privileges for the 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 (AFER) and the Chamber of Commodity Producers and Entrepreneurs of Uzbekistan took place on January 22, 2004. The Indian side was represented by textile, pharmaceutical and medical companies, as well as companies producing 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 areas 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.

In an effort to strengthen accord in society, to support the socially-vulnerable population and to coordinate the activity of state and public organizations, the Resolution of the Cabinet of Ministers dated 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 socially vulnerable members of society; b) implementation of measures to increase the strength of families; c) bringing up youths in the spirit of national traditions and in line with modern requirements; d) ensuring stable social accord.

February

The Resolution of the Cabinet of Ministers dated February 26, 2004 "On introducing amendments and declaring invalid 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 Uzbekistan "On further introduction of market mechanisms of sale of highly liquid types of products, raw materials and finished goods", was adopted. The implementing market mechanism provides the enterprises equal right of access to resources which had been delivered before only by administrative distribution.

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 areas for the intensification of economic reforms for 2004. The report contained deep analysis of the country's development in 2003 and primary areas 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 the Russian Federation 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 operation 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 national currency of the Republic of Uzbekistan" was adopted by the Cabinet of Ministers. It sets out that starting 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 is allowed with permissions obtained from the Central Bank of Uzbekistan.

The Cabinet of Ministers of Uzbekistan 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 conducted in Uzbekistan, as well as the strategy of privatization processes, the intensification of stock market activity and efforts to attract foreign investors to purchase privatized objects.

An Uzbek delegation headed by the deputy Prime Minister of the Republic of Uzbekistan 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 by 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 ensure abiding by legislation, adopted for conducting agricultural reform" was passed on March 11, 2004. This document declares that ensuring lawfulness and protection of businesses' rights in the agrarian sector as the main task of law-enforcement agencies.

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 ar-

rived in Uzbekistan with the purpose of establishing lasting business contacts with the businessmen 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, particularly, in the sphere of information and telecommunications. Seminar was arranged by 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 noted that the indicators of bilateral trade and economic cooperation remain insufficient, particularly, 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 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 Uzbekistan 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 dated 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 Uzbekistan accession into the WTO" was conducted on March 15-19 at the Agency for Foreign Economic Relations of Uzbekistan. Such issues as the rules of the WTO on regional trade agreements, the experience of new members and countries in the process of accession 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

At the Republican Trade and Exhibition Center "Uzexpotcentre" 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 on "Standard ISO 9000: the Tool for Effective Competition in the Modern-Day International Markets" 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 AFER of Uzbekistan.

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

The Asian Development Bank (ADB) awarded a grant in the amount of USD 1.4 mill. for three projects designed at supporting the acceleration of economic reforms in Uzbekistan. The first project, in the amount of USD 400,000 is designed at supporting reforms in the grain-growing sector. The second project, in the amount of USD 500,000 is designed at developing an integrated cadastral system for land resources management. The third project – in the same amount – is designed at supporting implementation of legal and institutional reforms in the water resources sector.

Within the framework of the "Europe-Air" Project, medical equipment worth EURO 105,000 was delivered to the Kashkadarya Region. The project is aimed at improving clinical and diagnostic operation of 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 Resolution "On Measures for Further Development of the State System 'Mother and Child Screening'", which provides for 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 addressing 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).

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.

The Cabinet of Ministers adopted the Resolution №.209 "On Measures for the Acceleration of Sale of a Number of State-Owned Objects at Zero Redemption Value," which approved a list of 302 state-owned objects offered for sale on a competitive basis at a zero redemption value with investment obligations.

At the "Uzjilsberbank" an official ceremony was held, during which a loan agreement for the amount of USD 5 mill. was signed under which the EBRD will open a credit line for funding small business projects.

The leasing company "Business Leasing" was opened. Its primary operation is aimed at supporting 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).

A Resolution of the Cabinet of Ministers of the Republic of Uzbekistan dated May 4 2004 approved the Provision "On the Procedure for Financing by Commercial Banks of the Contracts of Construction Companies Building Objects on Turnkey Basis out the proceeds of Centralized Sources of Funding".

The Decree of the President of the Republic of Uzbekistan dated May 21, 2004 "On the State Nation-Wide Program for the Development of School Education for the years 2004 - 2009" created an off-budget fund for school education, the primary tasks of which are as follows: the accumulation of funds earmarked from the central budget or by sponsors for financing the construction of new schools included in the Program of Development of Basic 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.

June

On June 25, the Cabinet of Ministers of the Republic of Uzbekistan adopted the Resolution "On Organizing Activities for Monitoring the Effective Management of the State-Owned Shares of Joint-Stock Associations and Companies," which approved the composition of the Commission for Monitoring the Effectiveness of Management 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" set out a number of amendments to the Law of the Republic of Uzbekistan dated May 25, 2000 «On the Guarantees of Freedom of Entrepreneurial Activity.»

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 with regards to development of the SOC and expansion of multilateral cooperation, as well as a number of international and regional issues.

July

For the purpose of the further improving material incentives for school teachers, above all elementary school teachers, on July 2, 2004 the Cabinet of Ministers of the Republic of Uzbekistan adopted the Resolution "On Additional Measures for Stimulating School Teachers", in accordance with which, effective from September 1, 2004 the following remunerations were raised: a) the allowance for elementary school teachers: from 5 up to 20 per cent above the tariff rate based on the Standard tariff scale for remuneration of labor; b) additional payments to secondary school teachers for class instruction: from 50 up to 100 per cent of the minimum wage; c) additional payments to secondary school teachers for correcting their pupils' written work: on average from 30 up to 50 per cent above the minimum wage.

On July 6, at the Oksaroy Residence, President Islam Karimov met with Vladimir Rushaylo, the Chairperson of the CIS Executive Committee, who was on a business trip of the CIS countries. The guest pointed out the importance of the implementation of Uzbekistan's initiatives regarding the development of the CIS. The issues of the creation of a free trade zone, and of the effectiveness of operation of the CIS' structures are vital. The participants exchanged their opinions with regards to the preparation for the September CIS summit in Astana.

Decree No. UP-3453 of the President of the Republic of Uzbekistan dated July 7, 2004 created the Chamber of Commerce and Industry of Uzbekistan – in an effort to ensure favorable conditions for the further development of private entrepreneurship, improvement of business environment, promotion of the establishment of business connections between the Republic's entrepreneurs and their foreign partners, the active promotion of domestic goods and services on foreign markets, and extensive attraction of foreign investments into Uzbekistan.

For the purpose of the further formation of favorable conditions for entrepreneurial activities, and of the simplification and removal of bureaucratic barriers hindering the process of certification of imported products, the Cabinet of Ministers approved the Resolution on the procedure of certification of products.

On July 16, a session of the Cabinet of Ministers of the Republic of Uzbekistan was conducted, dedicated to the overall results of socio-economic development in the Republic in the first half of 2004, and to the fulfillment of priority tasks, set forth by President Islam Karimov in his report given at the meeting of the Cabinet of Ministers on February 7 of the current year.

The center for the automatic identification of products "EAN Uzbekistan" became a member of the system of the world registry "GEPIR". Thanks to that, manufacturers in Uzbekistan will gain access to information on over 600,000 enterprises of the members of the EAN-ISS – an international organization that coordinates bar-coding efforts – and will be able to provide them with data on their own products. For example, with the help of "GEPIR" one can quickly detect counterfeit products and protect consumer rights.

A grant agreement in the amount of USD 503,000 concluded between the Uzbek Agency for communications and information (UzASI) and the US Agency for Trade and Development (USTDA), is aimed at facilitat-

tating the implementation of electronic technologies in public administration. Its objective is to draw up a plan of introduction of electronic government (E-Government), in particular, a pilot project for electronic taxation in Uzbekistan. The agreement is supposed to be implemented within a year and a half.

At the international business center, a seminar was conducted on the subject of the participation of Uzbekistan's enterprises in the economic reconstruction of Afghanistan. The seminar's participants – over 30 firms and companies – acquainted themselves with programs and projects of the World Bank and the Asian Development Bank dealing with the reconstruction of Afghanistan's economy; as well as with the terms of tender biddings, a procedure for participation in tenders, and business opportunities in this country.

At the State Center for certification and testing of agricultural machinery and technologies (in the town of Gul'bakhor of the Tashkent Province) a demonstrational exhibition of machines of the Russian public corporation "AgromashHolding" was held. Volgograd tractors of a new generation, "VT" series with horse-power of 130 and 150; the grain combine "Yenisey-1200 NM", as well as state-of-the-art diesel engines, made at the Altay motor factory, were exhibited. This was organized by "AgromashHolding" jointly with the Ministry of Agriculture and Water Industry of Uzbekistan.

The first line of the railway "Toshkurgan - Boysun - Kumkurgan" was put into operation. The railway will have a positive effect on the efficient utilization of the region's natural and economic potential. The first two stations of the road – Toshguzar and Dekhkanabad – have been completed.

August

In accordance with the Decree of the President of the Republic of Uzbekistan "On Raising Wages, Pensions, Stipends and Social Benefits, Effective from August 1, 2004", in an effort to continue the improvement of the population's living standards and to strengthen the social protection of the Republic's citizens, the salaries of employees of state budget institutions and organizations, all kinds of pensions and social benefits, the stipends of students of institutions of higher learning, and those of specialized secondary and vocational schools were increased by 1.3 times.

Effective from August 1, 2004, as the basis of the Standard tariff scale the zero grade tariff rate was accepted – in the amount of the established minimum wage of UZS 6,530 per month; and new tariff coefficients were approved (up to 9,019 for grade 22).

In an effort to develop trading activities, the Resolution of the Cabinet of Ministers of the Republic of Uzbekistan "On Measures for the Adjustment of Registration and Engaging in Trading Activities of Legal Entities and Individuals", introduced effective from August 1, 2004 a procedure whereby legal entities engaged in wholesale trading activities must have a statutory fund in the amount of at least 4,600 times the minimum wage, of which an amount of at least 1,530 times the minimum wage should consist of cash assets.

In order to organize the operation of the markets, to introduce modern-day methods of trade, and to create optimal conditions for entrepreneurs and consumers, on August 12, 2004 the Resolution of the Cabinet of Ministers of the Republic of Uzbekistan was adopted "On Measures for the Adjustment of Registration of Individuals Importing Goods Intended for Commercial Activity." The Resolution provides for an individual entrepreneur, without forming a legal entity, with the right to carry out import operations on the country's territory, to be registered not only in territorial khokimiyats, but also in the state tax committee as an individual entrepreneur, and at the AFER and customs committee – as a participant of foreign economic relations.

Resolution # 104, 40, 7 of August 23, 2004 of the Ministry of Finance, the Ministry of Economy, and of the State Committee of the Republic of Uzbekistan for Demonopolization and Development of Competition was adopted "On the Adoption of the Regulation on the Procedure for the Formation and Application of Maximum Agreed Prices or of a Maximum Level of Profitability and Tariffs for Goods (Labor, Services) Produced by Economic Entities Included in the State Registry of Associations (Enterprises)/Monopolists of the Republic of Uzbekistan" (registered by the Ministry of Justice of the Republic of Uzbekistan on September 29, 2004, Registration Number 1415).

On August 24 at the Tashkent Trade and Exhibition Center "Uzexpotcentre" the trade-fair exhibition "Made in Uzbekistan" was held. At the exhibition, over 200 industrial enterprises displayed their products. The exhibition's special feature was the demonstration of new products developed within the framework of the implementation of the localization program. The exposition included a wide range of products of the chemical, electrical, car-making, agricultural machine-building, and light industry.

In the Yakkabog District of the Kashkadarya Province, the Uzbek-German joint venture “Yakkabog-Teks”, founded by “Yakkabog Tukimachilik” and the German company “Teksproekt”, was put into operation. The export potential of “Yakkabog-Teks” amounts to almost USD 5 mill. More than 350 young people are employed by the enterprise.

The Center for Coordination and Control of Operation of the Securities Market performed the state registration of corporate bonds of the Uzbek-American joint venture “COSCOM.” in the amount of UZS 600 mill.

September

In accordance with the Resolution of the Cabinet of Ministers of the Republic of Uzbekistan “On Conducting the Experiment for Additional Incentives for Teachers, and for the Transition to a Sectoral Scale for the Remuneration of the Labor of Public Education Employees,” starting on September 1, 2004 an experiment is conducted in connection with establishing special monthly bonuses to the tariff rate: a) for secondary schools teachers for their professionalism and concrete contribution to the educational process – at the rate of up to 25 per cent; b) for secondary schools teachers for their educational and extracurricular activities – at the rate of up to 15 per cent; c) for methodologists of methodological offices for their personal contribution to the developing of instructional and methodological materials used in the educational process, and for the introduction of new pedagogical technologies – at the rate of up to 25 percent.

For the purpose of the organization of activities of individuals, the Resolution dated September 2, 2004 was adopted by the Cabinet of Ministers “On the Approval of the Regulation on the Procedure for state registration of individual entrepreneurs without creating a legal entity, who import goods intended for commercial activity, and for issuing record cards of import operations entities”.

In an effort to improve training of highly qualified specialists and to strengthen the human resources potential in the area of agricultural and water economy, the Cabinet of Ministers of the Republic of Uzbekistan adopted the Resolution dated September 3, 2004 “On the Improvement of the System of Training Highly Qualified Staff for the Republic’s Agricultural and Water Economy”. It provides for making changes in the classifier of baccalaureate education and master’s degree specialties in the branches of the agricultural and water economy and providing recommendations on the management and faculty of agricultural institutions of higher learning; the creation of specialized scientific research centers at (university) departments; as well as an increase in the number of village youth at agricultural institutions of higher learning, mainly with graduates of rural schools.

President of the Czech Republic Vaclav Klaus arrived in Uzbekistan on September 12 at the invitation of President Islam Karimov. In the course of the visit, the present condition and prospects of cooperation of both countries were discussed. Bilateral agreements aimed at the intensification of cooperation of Uzbekistan and the Czech Republic in various areas were signed.

The Resolution dated September 24, 2004 of the Cabinet of Ministers of the Republic of Uzbekistan was passed: “On Introducing Amendments to the Program of Localization of Production of Finished Products, and Component Parts and Materials on the Basis of Local Raw Materials, for the Period of 2004 – 2005”.

A scheduled 5th congress of the Chamber of Manufacturers and Entrepreneurs of Uzbekistan, and a constituent conference of the Chamber of Commerce and Industry of Uzbekistan were conducted in Tashkent. These two events were linked by the Presidential Decree “On the Creation of the Chamber of Commerce and Industry of Uzbekistan”. At the constituent conference that took place the next day after the congress a decision was taken on the creation of the Chamber of Commerce and Industry of Uzbekistan on the basis of the national, territorial, district and municipal chambers of manufacturers and entrepreneurs. In order to solve the tasks the Chamber is entrusted with, it is creating territorial departments in the Republic of Karakalpakstan, in the Provinces and in Tashkent City. The Chamber’s charter was adopted; its governing bodies were elected; and the heads of the Provinces’ subdivisions were appointed.

October

The national exhibition “Teraz Polska Uzbekistan-2004” took place in the Uzexpo center with the participation of 60 companies and firms from Poland. Various types of industrial products were widely presented at the exhibition.

At the seventh meeting of the intergovernment commission on economic cooperation between Russia and Uzbekistan held in Moscow, issues of interaction in the fuel and energy complex, aircraft industry and other areas were discussed. The Bilateral Protocol and Agreement on Loans provided by the National Bank of

Uzbekistan in the amount of USD60 million for funding investment projects and facilitating export from Uzbekistan to Russia was signed, as well as a Sharing Agreement for the development of the Kandym Group deposits.

The first international construction exhibition "ExpoConstruction-2004" took place in the Intercontinental Hotel. More than 30 leading international producers presented their products, development and services there. The national construction industry was represented by the Uzstroyaterialy group of enterprises.

In the Ministry of Agriculture and Water Management a contract worth USD2.3 million was signed with the Japanese company Tomen Corporation for the delivery of 19 combines by Sampo Rosenlev, Finland. The combines are intended for Karakalpakstan and Khorezm Province.

November

An expanded session of the Oliy Majlis Committee for Budget, Banking and Financial Matters was held. The issue of Tashkent depositories' compliance with the Law on Activities of Depositories at the Stock Market was discussed. At present there is a Central Depository of Securities and more than 30 depositories in the country, 13 of them located in Tashkent City. They operate deposit accounts of about 518 thousand depositors. More than 16 thousand deposit accounts belong to legal entities and about 510 thousand to individuals. At the session attention was drawn to the inappropriate maintenance of deposit accounts, shortcomings in electronic communication with the Central Depository and weak internal control.

President Islam Karimov received in his Oksaroy residence the Asian Development Bank President Tadao Chino. Cooperation between Uzbekistan and the ADB is developing on a multilateral basis. The Bank leadership assumed the initiative on coordinating the activity of other financial institutions and strengthening regional economic cooperation in Central Asia. For his great input into the development of cooperation between Uzbekistan and the ADB as well as with other international financial institutions, and his active assistance in implementing the economic reform program and strengthening regional cooperation, ADB President Tadao Chino was awarded the Order Buyuk Khizmatchi Uchun by decree of the President of Uzbekistan. At the meeting President Islam Karimov presented this honorable award to his guests. Chino expressed his gratitude and stated that he would try his utmost to further develop mutual cooperation. Issues of expansion of relations between Uzbekistan and the ADB were discussed at the meeting.

The exhibition of modern technologies, equipment and finished products Expo – Italy – 2004 took place. Its goal was to familiarize local entrepreneurs and establish a foundation for more intensive cooperation.

In order to undertake an in-depth analysis of the reform progress in agriculture, and to implement the program of transforming loss-making, inefficient shirkats into farms, as well as developing proposals for ongoing economic reforms in the agricultural sector and accelerated development of farms for the period from 2005 to 2007, the Cabinet of Ministers passed a Resolution On Establishing a Special Committee for the Preparation of Proposals for the Accelerated Development of Farms in 2005-2007.

A Grant Agreement was signed at the Cabinet of Ministers for USD 2.8 million provided by the World Bank, Swiss Government and UNICEF foundation. This grant is targeted at supporting the program of developing medical culture in families, improving the health condition of women, and encouraging the birth and upbringing of a healthy generation. Grant proceeds will be used for the procurement of laboratory and technological equipment for enriching flour with iron at the 34 largest mills of the country, as well as the delivery of pre-mixes over three years. (A similar project for the amount of USD1.2 mill. has been in effect by the ADB since 2002 at 14 mills). Project implementation will allow anemia among women of fertile age and children to be considerably decreased and will help strengthen the health of the total population.

A delegation of Perm Oblast (Russia) representatives met entrepreneurs from Tashkent and Samarkand, representatives of the Customs Committee and banks, and visited a number of ministries and agencies, and the Russian Embassy. The guests emphasized the high level of organization of all events. During the visit 4 agreements on cooperation and 4 protocols of intentions were signed, as well as agreements on opening representations of some Perm enterprises in Uzbekistan.

11 November 2004. A resolution was passed by the Ministry of Finance, State Tax Committee and State Committee on Statistics On Amending the Procedure on Accounting of Income and Operations with Goods for Individual Entrepreneurs Engaged in Trade, which envisaged a number of provisions on ensuring the legitimacy of import-export transactions and accounting of income of individual entrepreneurs not considered legal entities. Specifically, entrepreneurs are obliged to have documents confirming the payment of single customs payment and fixed tax, certificates of compliance (for goods subject to mandatory certification), and

annually submit to the State Tax Inspection at their jurisdiction a report on the movement of imported goods intended for commercial operations.

In line with a Resolution by AFER, Ministry of Finance and STC of 11 November 2004 the list of countries with which Agreements on Trade and Economic Cooperation granting most favored nation treatment are signed was amended to include Malta, Cyprus and Slovenia.

At the annual international conference of the Liverpool Cotton Association with participation of representatives from major cotton and textile companies from the EU, the USA, Japan, China, Turkey, India, Brazil and other countries, the Embassy of Uzbekistan in the UK presented a report on the development of light industry in Uzbekistan and investment opportunities. The President of the Liverpool Cotton Association E. MacDonald emphasized the leading position of Uzbekistan in the production and export of cotton, whose quality indicators, including strength, length and color have improved in recent years. In the near future, issues of the organization of an international cotton conference in Uzbekistan in May 2005 will be discussed.

A resolution by the Cabinet of Ministers was passed On a Program of Publishing Textbooks and Instruction Manuals for general education schools for 2005-2009.

A business seminar organized by the Chamber of Commerce and Industry of Uzbekistan and the Agency for Foreign Economic Relations was held in the International Business Center with participation of a delegation headed by Mr. Christian Monce, President of MEDEF International (France). The major goal of this organization is assistance to French businessmen in establishing mutually beneficial cooperation with foreign entrepreneurs. Representatives of about 20 companies from France came to Tashkent. They familiarized themselves with efforts on the development of economy, financial sector, information technologies and private entrepreneurship in Uzbekistan and met with representatives of business circles, ministries and agencies of the country. A press conference on the results of the visit was held in the French Embassy in Uzbekistan.

President Islam Karimov on 24th November received the President of the open joint stock oil company 'Lukoil' Vagit Alekperov. At this time the agreement signed on 16th June this year on production division between the Government of the Republic of Uzbekistan and a consortium of investors consisting of the OJSC 'Lukoil' and national holding company 'Uzbekneftegaz' – envisaging investments into the oil and gas sector of Uzbekistan and amounting to one billion USD – became effective and began to be implemented.

On 29th November a seminar was held in Tashkent entitled 'Quality – base of competitiveness of an enterprise' devoted to the International Day of Quality. It was pointed out at the seminar that the government of the republic pays proper attention to production in line with international standards ISO 9001 and implementation of the quality management system. 35 enterprises have already had certificates of conformance to standards OSI 9001. Among them there are 'UzDAEWOOAuto', 'UzCAsE Mash', 'SamKochAvto', 'UzBAT', 'Deutsche Kabel' AG Tashkent, 'Green World', 'Oqsaroy Tuqimachi LTD', 'Khobas Tapo' and others. At the seminar, managers of enterprises were given recommendations on the production of high quality products and rendering services which meet international standards.

In order to deepen further the structural transformations in the economy of the republic, the investment activity of enterprises and the large scale attraction of foreign investments, and to achieve sustainable and dynamic development of the economy, the Cabinet of Ministers of the republic of Uzbekistan approved the resolution of 30th November 'On an investment program of the republic of Uzbekistan for 2005' which defines major parameters of capital investments and lists investment projects planned for implementation.

Facilities were set into operation at five joint enterprises of light industry – JE 'Surkhantex', JE 'Yadem textile', JE 'Emtex', JE 'Baliqchi', JE 'Isqovuttex'; objects produced included: automobile windshields at JSC 'Avtooina', glass ampoules at JE 'Farm Glass', and woolen jacquard carpets and floor coverings at JE 'Khiva Carpet'; construction of a combined bridge passage via the Amu-Darya river was completed; a gas pipeline was put into operation – a pipe-bend to district center Qizil Qal'a, 18.5 km long; and a railroad bed from Kelles city to Samarkand city 105 km long was reconstructed.

As a result of the implementation of the Program of Localization of Production, the following products were developed: hydraulic actuators for tractors and agricultural machines, and connecting-rods and crankshafts for diesel engines at enterprises of HC 'Uzselkhoz mashholdong'; black lead and lead-containing materials at OJSC 'Almalik GMK'; crankshafts at OJSC 'Motorniy zavod'; and large stamped parts of motor cars for JE 'UzDAEWOOAuto' at the enterprises of LC 'Electromash' and PF 'Meridian'.

December

At the sixteenth session of Oliy Majlis of the Republic of Uzbekistan the Law 'On a Chamber of Commerce and Industry of the Republic of Uzbekistan' was passed.

On 1st-2nd December in Germany a forum was held entitled 'Days of the Uzbekistan Economy in Baden-Wurttemberg', where a delegation from Uzbekistan participated. The participants of the business forum were given information on Uzbekistan's economic potential, and also on favorable conditions in the area of developing joint enterprises generated for the activity of foreign investors.

The resolution of Oliy Majlis of the Republic of Uzbekistan of 3 December 2004 made effective the Law of the Republic of Uzbekistan 'On a Chamber of Commerce and Industry'. The present Law is aimed at the efficient functioning of the Chamber in order to form favorable conditions for developing entrepreneurship, improving the business environment in the republic, representing and protecting the rights and legitimate interests of entrepreneurs, and facilitating the establishment of their relations with foreign partners.

In December the opening of the joint Uzbek-Chinese enterprise 'Elektron xisoblagich' that produces electronic electric power meters was held. Its founders are units of SJSC 'Uzbekenergo' –DC 'Uzenergosotish', OJSC 'Toshkent shahar elektr tarmoglari korxonasi' and the Chinese company 'Hangzhou zhongya technology Co.LTD'. Uzbek and Chinese experts have developed also a project of an automated system of commercial registration of electric power and an automated system of dispatcher management - ASCRE/ASDM under which a pilot project is already being implemented.

In December 2004, the Cabinet of Ministers of the Republic of Uzbekistan approved regional programs for attracting foreign investments for 2005-2006, envisaging the expansion of the sale to foreign investors of state and unplaced stocks of shares and also enterprises as a whole, with the condition of their accepting investment commitments directed at restructuring the enterprises and creating new jobs.

On 24th December 2004 the Ministry of Justice registered a joint resolution of the State Tax Committee, the Ministry of Finance and the State Property Committee 'On approval of regulations on the procedure of defining and writing off amounts of bad debts from previous years on payments to the budget and off-budgetary funds, including fines and penalties accrued on low-profitable, loss-making, economically insolvent state enterprises sold to investors at zero redemption value'. This Regulation is aimed at accelerating the transfer of low-profitable, loss-making, economically insolvent enterprises to efficient owners.

In order to improve the organization of cotton seed-growing and providing cotton-growing farms with quality seeds, the Resolution of the Cabinet of Ministers of Uzbekistan 'On measures to improve the organization of cotton seed-growing' was approved.

In order to regulate relations in the area of accumulative pension provision for the citizens of the republic, on 2nd December 2004 Oliy Majlis passed the Law 'On accumulative pension provision for citizens', where the main rights of citizens and state guarantees on accumulative pension provision were defined. In line with this law, when registering for the accumulative pension system, the People's Bank opens individual accumulative accounts for citizens with a permanent personal account set for life. The employer makes monthly compulsory accumulative pension contributions against a corresponding reduction of the amount of personal income tax accrued in line with the law.

A conference devoted to the start of a second stage of Civil Initiatives Supporting Program (CASP) was held in the International Business Center arranged by the US Agency for International Development (USAID). Heads of regions of the republic, representatives of small businesses and private entrepreneurship, and international organizations participated at the conference. The purpose of the conference was to exchange experience on protecting civil interests and initiating working groups that would conduct advocacy campaigns at a national level on issues of the economy, education, ecology and health care.

In line with an Order by the President Islam Karimov, in order to develop and implement a set of measures aimed at forming a healthy life style in society, strengthening the health of nation, popularizing mass physical training and sport, and establishing conditions for raising physically healthy and spiritually rich generation, a republican commission was established on the development and implementation of the State program 'The year of health'.

ANALYSIS OF STATISTICS

1. Macroeconomic policy

1.1. Economic growth

Implemented measures towards maintaining macroeconomic stability, improving the role and significance of the private sector, deepening structural reforms in construction, agriculture and other branches of the economy, as well as creating favorable conditions for producers to access material and technical resources and optimize fiscal charges, contributed to achieving high growth rates of GDP. The factors that played an important role in further growth of economy included the convertibility of the national currency, which stimulated development of export-oriented production, the deepening of reforms in the agrarian sector that had an impact on increasing the volume of agricultural production, as well as stable operations in other sectors of the economy.

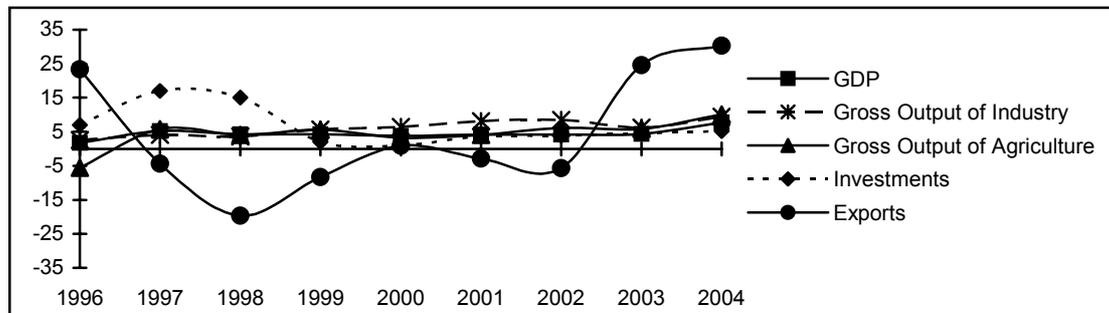
In 2004 nominal GDP equaled UZS 12,189.5 bn. Real GDP growth (from 4.4% to 7.7%, which is 1.8 times higher than in 2003) was achieved because of the dynamic development in primary branches of the economy (from 4.0% to 7.2%), the increase of investments into capital assets (from 4.5% to 5.2%), the growth of exports (from 24.6 to 30.3%) and to some extent, because of the maintenance of domestic social stability and the improvement of foreign economic conjuncture (Table 1.1.1., Graph 1.1.1).

Table 1.1.1. Growth and Production Structure of GDP

	2000	2001	2002	2003	2004
GDP (produced)	103.8	104.2	104.0	104.4	107.7
Output of basic branches of economy (industry, agriculture, construction, transport, and communications)	102.9	103.3	104.7	104.0	107.2
Industrial production	105.9	107.6	108.3	106.2	109.4
Investments into capital assets	100.9	104.0	103.8	104.5	105.2
Inflation (December to the December of the previous year)	128.2	126.6	121.6	103.8	103.7
Level of unemployment (end of period, in %)	0.4	0.4	0.4	0.3	0.4

Source: State Committee of Uzbekistan on Statistics.

Graph 1.1.1. Dynamics of main Indicators of Economic Growth (in % to previous year)



Source: State Committee of Uzbekistan on Statistics

Table 1.1.2. Gross Domestic Product in CIS countries (in % to level of 1991)

	2000	2001	2002	2003	2004
Uzbekistan	98.6	103.7	106.8	111.4	120.0
Azerbaijan	59.3	65.1	72.0	80.1	88.3
Armenia	76.8	84.2	95.3	108.2	119.1
Belarus	89.7	94.0	98.7	105.4	117.0
Georgia	47.5	49.8	52.5	58.4	63.3
Kazakhstan	78.0	88.5	97.2	106.2	116.2
Kyrgyzstan	72.2	76.1	76.1	81.2	87.0
Moldova	42.0	45.0	48.0	51.0	54.7
Russia	70.8	74.4	77.9	83.6	89.5
Tajikistan	41.0	45.0	49.0	54.0	59.7
Ukraine	47.4	51.7	54.4	59.5	66.6
CIS average	68.0	73.0	77.0	82.0	88.6

Source: CIS Statistics Committee and author's calculations

The increase in the GDP growth rate was also facilitated by the tendency of maintaining macroeconomic stability: a low level of inflation (3.7%) and budget deficit (-0.4%), and moderate devaluation of the national currency (not more than 8%).

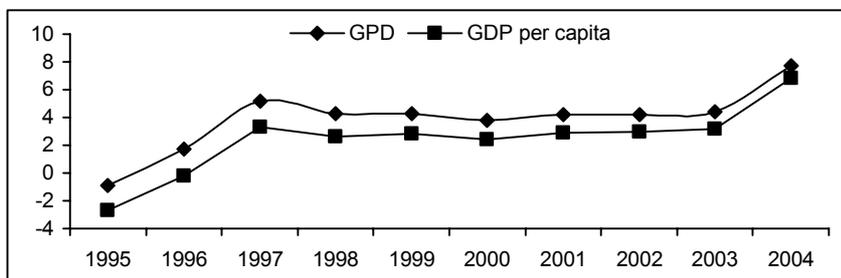
In the ranking by growth of GDP in comparison to the level of 1991, Uzbekistan still holds the leading position among other CIS countries, outstripping the average score of CIS countries by 31.4% (Table 1.1.2.).

In 2004 the real GDP of Uzbekistan increased by 42.2%, in comparison to the level of 1995. Growth of GDP per capita increased from 3.2% up to 6.7%, which is 2.0 times higher than in 2003. This increase was provided by the more rapid growth of

real GDP (7.7%) than the growth of population (1.1%). In 1995-2003 the average levels of these indicators were equal to 3.4%, 1.9%, and 1.4% respectively.

The acceleration of the growth of GDP per capita in 2004 took place as a result of implemented measures on improvement of branches of the real sector and the stable demographic situation.

Graph 1.1.2. Growth of GDP and GDP per capita (in % to previous year)

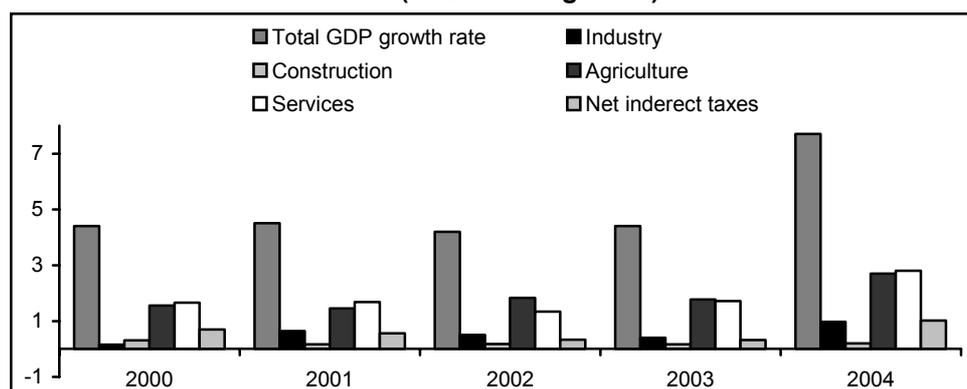


Source: the author's calculations based on data from the State Committee of Uzbekistan on Statistics.

to 5.4%, agriculture – 10.1%, construction – 3.6%, and services – 4.4% (including transports and communications – 9.3%, trade and public catering – 13.3%, other sectors, including the branch of non-production services – 3.8%). (Graph 1.1.3).

Thanks to implemented measures on stimulating the production of goods and services (tax rates on income of legal entities decreased from 20% in 2003 down to 18% in 2004), on increasing investments into capital assets (from 4.5% to 5.2%) and because of the early harvest of cotton and high rates of picking cotton in 2004, the growth of real value added in the manufacturing sector, in comparison to 2003, amounted

Graph 1.1.3. Contribution of individual sectors of economy to a growth rate of GDP (in% of GDP growth)



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

Of the 7.7% (against 4.4% in 2003) growth of GDP, industry accounted for 0.9% (0.4%), agriculture – 2.9% (1.8%), construction – 0.2% (0.2%), services – 2.7% (1.7%), (including transport and communications – 0.9% (0.3%), trade and public catering – 1.2% (0.7%), other branches and services – 0.8 (0.7%), and net taxes – 1.02 (0.3%) (Graph 1.1.3.).

Industry's contribution to GDP growth increased by 2.3 times, agriculture – by 1.4 times, and services – 2.3 times, which to some extent was determined by the increase of efficiency of those sectors of the economy and the effectiveness of structural reforms being implemented. In agriculture, the leading role was provided by farms. In industry, about 130 large industrial, communicational and infrastructure related objects were built and launched with own resources as well as attracted funds.

In the production structure of GDP positive growth was observed in the share of industrial production, from 15.8% to 17.1%, to some extent because of increase in labor productivity in industry as a result of the modernization of the technical and technological bases of industrial production, and improvements in the economic situation in the main trading partner countries of Uzbekistan from the CIS and further abroad. This, to some extent, was facilitated by the growth in industrial production – by 9.4%, which, in general, was provided by the significant growth of products of machinery building – by 34.5%, construction materials – 8.2%, light industry – 5.2%, and the fuel industry – 5.8% (Table 1.1.3).

The growth of production in those branches of industry was in part facilitated by the increase in the demand for automobiles and other products of machinery building in foreign markets, and the increase in demand for construction materials and consumer products in the domestic market as well as the reconstruction and launch of production units for the production of spinning and textile products, and the increase in production of diesel fuel, gas and coal.

Table 1.1.3. 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
2000	3255.6	103.8	14.2	30.1	6.0	37.2	12.5
2001	4925.3	104.2	14.2	30.2	5.8	28.2	11.9
2002	7450.2	104.2	14.5	30.1	4.9	37.9	12.6
2003	9837.8	104.4	15.8	28.6	4.5	37.4	13.7
2004	12189.5	107.7	17.1	26.8	4.5	37.6	14.0
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
03/I-III	6649.2	104.0	15.0	25.7	4.7	39.8	14.8
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
04/I-III	8316.0	108.9	16.3	24.9	4.6	39.4	14.8

Source: State Committee of Uzbekistan on Statistics

In the structure of using GDP there was an increase in capital assets from 21.0% to 22.1% and sources of material turnover assets (from -0.3% to 1.8%), which resulted in growth of gross accumulations (from 20.7% to 23.9%) (Table 1.1.4). This, to some extent, was facilitated by the acceleration of growth investments into capital assets. Annual average rates of investments for the period of 2000 to 2004 amounted to 3.7%.

Table 1.1.4. Structure of Using GDP (%)

Period	Expenses for final consumption total, %		Gross accumulations, %		Net exports, %
	Private	State	Gross domestic investments into capital assets*	Changes in inventories and others	
2000	61.9	18.7	24.0	-4.4	-0.2
2001	61.5	18.5	27.9	-6.8	-1.1
2002	60.2	18.0	22.1	1.0	0.6
2003	55.6	17.5	22.1	-0.9	6.2
2004	51.7	17.1	22.1	1.8	7.3
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
03/I-III	54.7	17.8	24.1	-2.3	5.7
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
04/I-III	49.6	17.7	24.2	0.1	8.4

Source: State Committee of Uzbekistan on Statistics

* including net purchasing values

The increase of material resources and of investments into capital assets indicates a willingness of businesses and the government to develop industrial production by forming favorable conditions for export-oriented products of enterprises, and expectations of growth in the domestic demand for industrial goods and the increase of the real income of the population.

The increase in the gross accumulation and growth of net exports affected the decrease of the share of expenditures on final consumption from 73.1% down to 68.8%. In general, this took place because of the decrease of the share of expenditures on final consumption of households (from 55.6% down to 51.7%) and the decrease of expenditures on government administration (from 17.5% to 17.1%) as a result of the termination and reorganization of about 20 bodies of state administration, and phasing out of about 40 thousand managerial positions.

In 2004, the demand for export goods intensified. This resulted mainly from the improved competitiveness in world markets of goods produced in Uzbekistan, the growth of the world economy and the consumption of the population in developed countries, and the favorable conjuncture in international markets, which allowed branches of industry oriented to foreign demand to increase their growth rates. Thanks to the stable and organized work of export-oriented branches of the real sector and implemented measures for the liberalization of foreign trade, exports increased by 30.3% (mainly due to the increase of exports of chemical products by two times, energy carriers – 1.6 times, products of machinery building industry – 1.6 times, foodstuffs – 1.8 times, and non-ferrous and ferrous metals – 1.7 times). This facilitated the growth in the share of net exports in GDP (from 6.2% to 7.3%).

In the case of a sustained macroeconomic climate and foreign demand for Uzbek exports, a more active inflow of investments, and increased activity of business, in 2005 GDP growth might reach 7.0% - 8.0%.

In 2005, the following will be the priorities of macroeconomic policy:

- the further application of tight monetary policy aimed at further reducing the level of inflation;
- the improvement of the taxation of businesses;
- the increase in efficiency of the banking and financial system of the country in providing financial resources to priority directions in the development of the economy and businesses;
- the maintenance of the exchange rate at a level which will secure the growth of exports of national products on a large scale, and imports of equipment, technologies and other investment goods that are necessary for modernization of the economy.

1.2. Fiscal Policy

As a result of implemented measures towards strengthening the financial discipline of economic entities in terms of timely payments of taxes and other obligatory dues, the projections on the tax revenues to the state budget for 103.3% were fulfilled.

The trend of a reduction in tax revenues as % of GDP has remained as a result of reduced tax rates. Revenues of the state budget in relation to GDP were 22.5%, which was 1.7 percentage points less than in 2003 (Table 1.2.1.). The reduction of the tax rate on income of legal entities (from 20% in 2003 to 18% in 2004) and on income of individuals (from 32% in 2003 to 30% in 2004) resulted in a reduced share of direct taxes to GDP (from 6.4% to 6.0%). The shift of enterprises to a simplified system of taxation resulted in a reduced share of indirect taxes to GDP (from 14.0% to 13.8%). As a result of the raised property tax rates (from 3.0% in 2003 to 3.5% in 2004), inflows from resource payments and property taxes increased (from 2.3% to 2.6%).

Improvements in the system of management of the Republican Road Fund and the enlargement of the taxable base facilitated the inflow of revenues at 111.2% of the projected level for the Republican Road Fund, and 101.3% for the pension fund.

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

Indicators	2000	2001	2002	2003	2004*	03/I	03/I-II	03/I-III	04/I	04/I-II	04/I-III
Revenues	28.5	26.0	25.2	24.2	22.5	28.3	31.0	26.4	30.2	28.2	24.9
Direct taxes	7.5	7.4	6.8	6.4	6.0	8.2	7.9	7.0	7.4	7.0	6.3
Indirect taxes	16.0	13.5	13.8	14.0	13.8	15.9	18.2	15.1	18.3	16.6	14.5
Resource payments and property tax	2.8	2.4	1.9	2.3	2.6	2.3	2.6	2.5	2.9	3.0	2.7
Social infrastructure development tax	0.3	0.3	0.5	0.4	0.4	0.6	0.5	0.5	0.5	0.5	0.4
Other revenues	1.9	2.4	2.2	1.1	0.9	1.3	1.8	1.3	1.1	1.1	1.0

Source: Ministry of Finance of the Republic of Uzbekistan.

*- projected figures

In the structure of direct taxes the biggest share belonged to the tax on individual income. The share of this tax in 2004 decreased by 0.5% and accounted for 46.2%, which was a result of the reduction of tax rates on individual income. At the same time, the share of single tax from micro-firms and small enterprises decreased (from 14.1% to 10.2%), which was caused by the shift of enterprises in the spheres of trade and public catering to taxation on gross income (Table 1.2.2.).

Table 1.2.2. Structure of Direct Taxes (% to total)

Indicators	2000	2001	2002	2003	2004*	03/I	03/I-II	03/I-III	04/I	04/I-II	04/I-III
Direct taxes	100.0	100.0	100.0	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	29.9	32.9	32.0	33.4	28.0	28.4	29.5
Tax on gross income of trading and public catering companies	-	-	-	-	8.5	-	-	-	8.6	8.7	8.7
Single tax from micro-firms and small enterprises that use simplified system of taxation (SST)	-	7.8	13.1	14.1	10.2	17.1	17.1	15.8	10.6	10.2	10.3
Individual income tax	44.5	44.9	45.6	46.7	46.2	45.2	45.8	45.6	47.8	47.5	46.3
Fixed tax on income of entrepreneurs engaged in entrepreneurship	6.1	7.6	6.9	5.1	5.2	4.8	5.1	5.2	5.0	5.2	5.2

Source: Ministry of Finance of the Republic of Uzbekistan.

*- projected figures

An analysis of the structure of indirect taxes shows that during the period under review the share of value added tax increased (from 39.6% to 42.5%) as a result of the decrease in the share of excise taxes (from 53.1% to 48.2%) (Table 1.2.3.).

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

Indicators	2000	2001	2002	2003	2004*	03/I	03/I-II	03/I-III	04/I	04/I-II	04/I- III
Indirect taxes	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100
Value added tax	47.3	48.8	43.9	39.6	42.5	45.1	37.6	37.4	37.4	39.4	39.6
Excise tax	48.4	46.3	48.3	51.3	48.2	43.8	53.1	53.7	53.7	51.5	51.6
Customs tariffs	2.0	2.7	2.9	3.0	3.6	3.5	3.1	3.5	3.5	3.4	3.4
Single customs fee from individuals	2.3	2.2	2.4	3.3	2.5	4.3	3.4	2.8	2.8	3.0	2.5
Individual tax on consumption of gasoline, diesel, and natural gas for transportation	-	-	2.5	2.8	3.2	3.3	2.8	2.6	2.6	2.7	2.9

Source: Ministry of Finance of the Republic of Uzbekistan.

*- projected figures

Expenditures of the state budget in relation to GDP decreased from 24.6% to 22.9%, i.e. by 1.7 percentage points (Table 1.2.4.). This took place mainly because of the remaining tendency of decreasing expenditures in centralized investment financing (from 3.3% to 2.7%) and other expenses (from 6.4% to 5.6%). The increase in the share of expenditures for the economy (from 3.0% to 3.1%) occurred, to some extent, due to rising prices for electrical power.

Table 1.2.4. Structure of Expenditures of State Budget (% to GDP)

Indicators	2000	2001	2002	2003	2004*	03/I	03/I-II	03/I-III	04/I	04/I-II	04/I- III
Expenditures	29.5	27.0	25.8	24.6	22.9	27.4	28.6	25.5	26.2	26.6	23.3
Social sphere	10.4	10.2	9.8	9.3	9.1	10.3	10.3	9.4	9.2	10.5	9.3
Social protection	2.3	2.1	2.0	2.1	1.8	2.5	2.5	2.1	2.2	2.1	1.8
Expenditures for economy	3.0	2.3	2.3	3.0	3.1	2.7	3.0	2.9	3.4	3.4	3.2
Expenditures for financing centralized investments	6.0	5.0	4.7	3.3	2.7	3.2	4.0	3.7	4.0	3.6	2.8
Maintenance of state power bodies, management and court bodies	0.6	0.6	0.5	0.5	0.6	0.6	0.6	0.5	0.5	0.6	0.6
Other expenditures	7.2	6.8	6.5	6.4	5.6	8.0	8.1	6.9	6.9	6.4	5.6

Source: Ministry of Finance of the Republic of Uzbekistan.

*- projected figures

Table 1.2.5. The Level of State Budget Fulfillment (% to GDP)

Indicators	2000	2001	2002	2003	2004	03/I	03/I-II	03/I-III	04/I	04/I-II	04/I-III
Deficit (-).	-1.0	-1.0	-0.8	-0.4	-0.4	0.9	2.4	0.9	4.0	1.6	1.5
Surplus (+).											

Source: Ministry of Finance of the Republic of Uzbekistan.

In 2004 the State Budget was implemented with an insignificant deficit of -0.4% to GDP (Table 1.2.5.).

The project of the State Budget of the Republic of Uzbekistan for the year 2005 was adopted in the Sixteenth session of the Oliy Majlis of the second convening. The project identifies the main priorities of the taxation policy. The main idea of those priorities leads to the further decrease of the tax burden on the economy, the simplification of taxation procedures, the improvement of the system of tax administration, the abolition of unreasonable and ineffective tax privileges as well as the increase in the economic interest of tax payers in the timely and complete fulfillment of their obligation to pay taxes. The following are anticipated starting January 1, 2005:

- a decrease of the tax rate on income of legal entities by 3 percentage points (from 18% down to 15%);
- a decrease of the tax rate on individual income from 13% to 12% in the first group (up to 5 minimal wages), from 21% to 20% in the second group (from 5 to 10 minimal wages), from 30% to 29% - in the third group (above 10 minimal wages) with targeted usage of freed funds in especially opened deposit accounts of employees;
- a decrease of the rate of single social payment from the fund of salaries from 33% to 31%;
- a decrease of the single tax for micro-firms and small enterprises that use the simplified system of taxation from 13% to 12%.

1.3. Monetary policy

Monetary policy. The basic purpose of monetary policy in 2004 was the maintenance of a stably low rate of inflation and a steady exchange rate of UZS. The given purposes were coordinated with general economic policy, aimed at strengthening macroeconomic stability and stimulating economic growth. Adhering to its basic functions, the CBU also has continued its policy directed at the further liberalization of the market of bank services. As tools of monetary policy, CBU has activated operations with securities in the open market, operations in the internal currency market, the discount rate and obligatory reserve requirements to commercial banks.

Operations in the open market. In order to regulate short-term liquidity in the money market, the CBU carried out operations in the open market. For 2004 the total amount of operations for the attraction of free money resources of commercial banks into deposits, and the release of securities has equaled more than UZS 100 bn.

Currency interventions. In 2004, operations on the purchase and sale of foreign currency were carried out through the OTC market. As a result of currency liberalization and the introduction of convertibility of national currency, the volumes of operations carried out in the internal currency market have increased significantly. At the same time, the expansion of foreign trade operations, in particular, the growth of exports, allowed a positive balance in foreign trade to be achieved (USD 1,037 bn.) and gold-currency reserves of the CBU to be increased (by more than 30%).

The rate of refinancing. In 2004 the CBU carried out a flexible policy of interest rate. During the year the rate of refinancing was reduced two times. The first reduction was in July from 20% down to 18% and the second reduction took place in December, 2004 - from 18% down to 16% per annum. The reduction of CBU's discount rate was caused, first of all, by the need of the bank system for additional resources, and the low rate of inflation. After the reduction of CBU's rate of refinancing a reduction in the interest rates of commercial banks (Table 1.3.1.) was observed as well.

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
2004	18.8	21.2	11.3	34.5
03/I	34.5	30.9	19.2	38.5
03/II	34.5	31.4	19.5	38.3
03/III	20.0	30.9	11.6	36.9
03/IV	20.0	28.1	9.1	35
04/I	20.0	19.8	13.0	33.9
04/II	20.0	20.6	11.9	32.2
04/III	18.0	19.6	10.5	33.9
04/IV	16.0	21.2	11.6	31.8

Source: Central Bank of the Republic of Uzbekistan.

The obligatory reserve requirements. The obligatory reserve requirements were formed by commercial banks' monthly deposits of their obligations in accounts of obligatory reserves in CBU. During 2004 the rate of reservation remained constant - at a rate of 20%¹.

Results of monetary policy. The implementation of a complex of measures in the sphere of monetary policy has allowed the CBU to ensure the stability of the national currency. According to the results of 2004 the index of consumer prices equaled 3.7%, and the decrease of the exchange rate of UZS in relation to the US dollar equaled 8%.

The low level of rates of inflation and reduction of the refinancing rate of CBU and interest rates of commercial banks promoted growth in the volume of lending of the real sector of the economy. During the period under review, the weighted average interest rate under short-term bank credits (with a term of less than 1 year) in national currency decreased by 6.9 percentage points and amounted to 21.2% by the end of the year. The weighted average interest rate on checking accounts for current deposits of legal entities in na-

¹ The present rate of required depositing with the CBU is equal to 20% for legal entities in UZS. No interest is charged on the required deposits with the CBU. Obligatory reserve requirements are not applied for obligations of commercial banks in foreign currency, deposits of individuals, and funds, attracted through issuing deposit certificates and saving certificates.

tional currency increased by 2.5 percentage points since the beginning of the year, and reached 11.6% (Table 1.3.1.) Such a tendency indicates the strengthening of competition in market deposits and the decrease of the percentage margin of banks.

Banking system development. As of January 1, 2005 the banking system of Uzbekistan was represented by CBU and 32 commercial banks with 805 branches throughout the Republic. The structure of commercial banks consisted of 11 private banks, 5 with participation of the foreign capital, 3 state banks and 13 with combined forms of ownership. The number of mini-banks on January 1, 2005 had reached 1,122, which is 327 units more than in 2003.

The government and CBU accepted a number of significant measures directed at the gradual transition to target funding of expenses of farms for the production of cotton and grain to be purchased for state needs.

In 2004 commercial lending of farmers' expenditures was carried out in eight regions of the Republic. Starting with the harvest of 2005 other regions will be included in this system. In addition to this, a mechanism is being developed of lending by commercial banks to farms under a pledge of the future crop and the use the right to rent the ground area as collateral. It is necessary to note that the new mechanism of providing deposit guarantees for credits should help farmers get a greater access to loans.

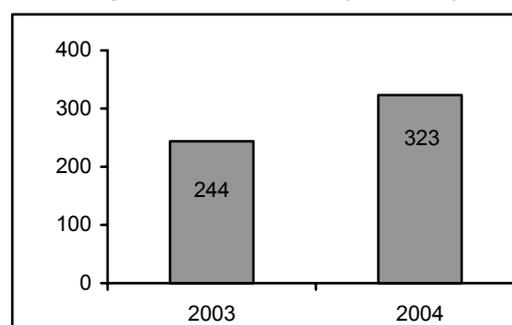
In order to form a database of credit histories of borrowers, the CBU adopted a regulation on procedures of forming a database of the National Institute of Credit Information (NICI) and granting credit information to an Inter-bank Credit Bureau (ICB) and commercial banks. The uniform register of credit information is formed on the basis of data provided by commercial banks on credit, leasing, and factoring contracts, information on mortgages and guarantees (guarantees, and insurance policies), as well as information received from state statistical bodies, non-governmental organizations and businesses. The effective functioning of the system of accounting information on credit histories of borrowers will promote increased quality of bank supervision and decreased credit risks.

Credit operations of commercial banks. During the period under review, positive trends were observed in the basic parameters of bank activities. For example, as of January 1, 2005, the total sum of assets of commercial banks equaled UZS 5.4 trillion, which was mainly caused by the growth of credit investments of banks. In 2004 assets grew by 22.2%, which to a large extent was explained by the growth of credit investments of banks. During the period under review the total amount of the remainders of credit investments increased by UZS. 751 bn. or by 13.4% (while in 2003 it was 12.0%), including by UZS 320.4 bn. in national currency or 22.3% (25.0% in 2003).

In 2004 loans for the total amount of UZS 353.9 bn. were extended to small businesses. 81% of the loans provided to small businesses, individual entrepreneurs, and farmers were long-term loans. As a result of using bank loans, small businesses created 81.2 thousand new jobs.

Liabilities side of commercial banks' operations. During 2004 the sum of money attracted from individuals into deposit accounts, in the national currency, increased by 32% and reached UZS 323 bn. (Graph 1.3.1.). The growth of deposits in the national currency is brought about by the reduction of the inflation rate and the existence of more favorable conditions and options for storage of money in banks.

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



Source: Central Bank of the Republic of Uzbekistan

With the goal of reducing outside-of-bank circulation of cash, stimulating the development of a system of non-cash payments on the basis of plastic cards, and increasing their use in retail trade, the Cabinet of Ministers of the Republic of Uzbekistan adopted the Decree «About Measures for the Further Development of the System of Payments on the Basis of Plastic Cards» on September 24, 2004. It is projected that by the end of 2007, 3 mill. plastic cards will be introduced into circulation and about 10 thousand terminals will be established to conduct operations with plastic cards.

The capital of commercial banks. According to the results of 2004, the cumulative capital of banks, by expert estimation, increased by 4.17% and in January 1, 2005, amounted to UZS 824 bn. This was brought about by measures aimed at increasing the level of capitalization of banks and attracting new shareholders, including individual shareholders, to the charter funds of banks. In particular, on February 26, 2004, the Cabinet of Ministers of the Republic of Uzbekistan adopted a Decree, which envisages increasing the maximal share of one shareholder or groups of connected shareholders in the charter fund of a bank from 7% to 25%.

Tight monetary policy is expected to be continued in 2005, which is aimed at maintaining a low rate of inflation, further reducing the CBU's discount rate, continuing to improve the tools of monetary policy, in particular, expanding the flexibility in management of the requirements on obligatory reserves, increasing capitalization of commercial banks, reducing outside-of-bank circulation of money, and increasing the population's and businesses' trust in banks.

1.4. Foreign exchange policy

The CBU adheres to a regime of a floating exchange rate and manages the exchange rate with a view to evening out seasonal fluctuations and maintaining the volume of gold and foreign currency reserves. In currency policy in 2004, important attention was given to maintaining the stability of the exchange rate and duly performing the obligations for the maintenance of the current convertibility of UZS.

During the year the monetary policy of the CBU promoted the stability of the exchange rate of the national currency. In the fourth quarter of 2004, the nominal exchange rate of UZS in relation to USD decreased by 1.73% in comparison to the previous quarter, and by 8.026% in comparison to the previous period. During 2004 the exchange rate of cash foreign currency decreased by 6.8 % (Table 1.4.1.).

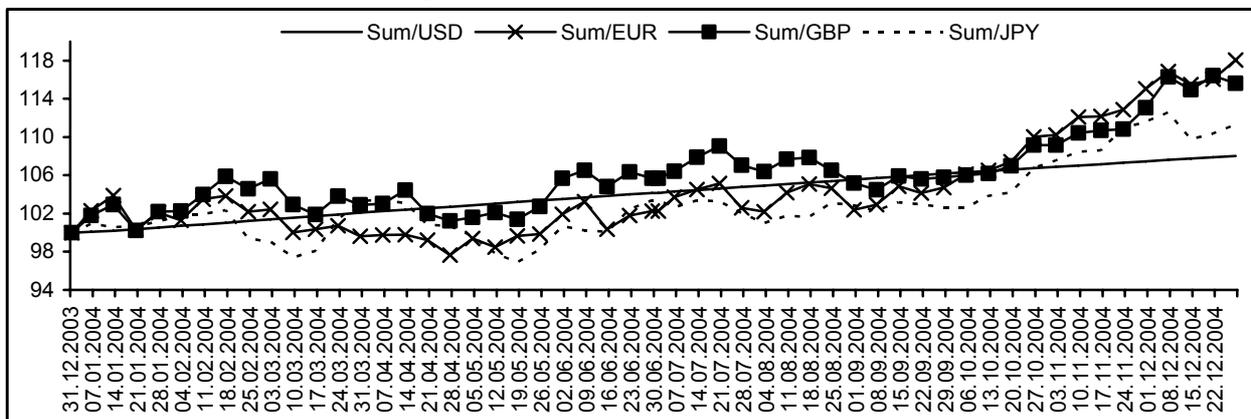
Table 1.4.1. Exchange Rate of UZS against USD (average indicators for the period of 2000-2004)

Period	Exchange rate of CBU (UZS/\$)	Change compared with previous period (in %)	Exchange rate of exchange offices (UZS/\$)	Change compared with 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	979.39	26.0	995.1	-9.0
2004	1058.0	8.026	1062.5	6.8
03/I	965.3	7.7	1014.7	-3.1
03/II	970.0	0.5	1005.0	-1.0
03/III	974.1	0.4	979.7	-2.5
03/IV	979.39	0.54	995.1	1.6
04/I	989.1	1.0	993.8	1.0
04/II	1010.1	2.1	1012.8	2.0
04/III	1040.0	2.96	1042.5	6.4
04/IV	1058.0	1.73	1062.5	1.9

Source: Central Bank of the Republic of Uzbekistan

In 2004 the exchange rate of the national currency to USD was devalued by gradual rates without sharp fluctuations, while the dynamics of the UZS rate to other reserve currencies was characterized by higher volatility (see Graph 1.4.1). This is explained by the fact that the rate of UZS is bound to USD and the Central bank adjusts the exchange rate in view of smoothing seasonal fluctuations and maintaining a sufficient volume of gold and currency reserves. The volatility of the rate in relation to the Euro, pound sterling and yen depends on the conjuncture of the world financial markets. 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.

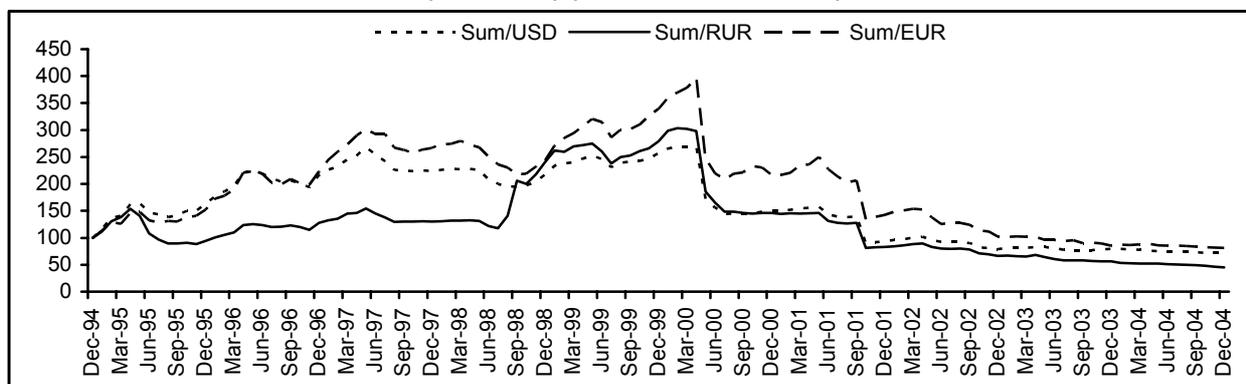
Graph 1.4.1. Index of Nominal Exchange Rate of UZS against USD (Som/USD), Euro (Som/EUR), pound sterling (Som/GBP), and Japanese Yen (Som/JPY).



Source: Central Bank of the Republic of Uzbekistan, and the author's calculations.

The real exchange rates. According to the results of 2004 there was a decrease in the real exchange rate of the national currency. Thus, in relation to the US dollar the exchange rate decreased by 9.6%, against the Euro – by 4.8%, and against the Russian ruble – by 19.6% in comparison with the similar indicators of the previous year (Graph 1.4.2.). This is explained by the relatively moderate devaluation of the nominal exchange rate of UZS at the same time as a rapid decrease of the index of consumer prices. The gradual decrease of the real exchange rate of the national currency in relation to currencies of major foreign trade partners contributes to the maintenance of price competitiveness of local products in foreign markets.

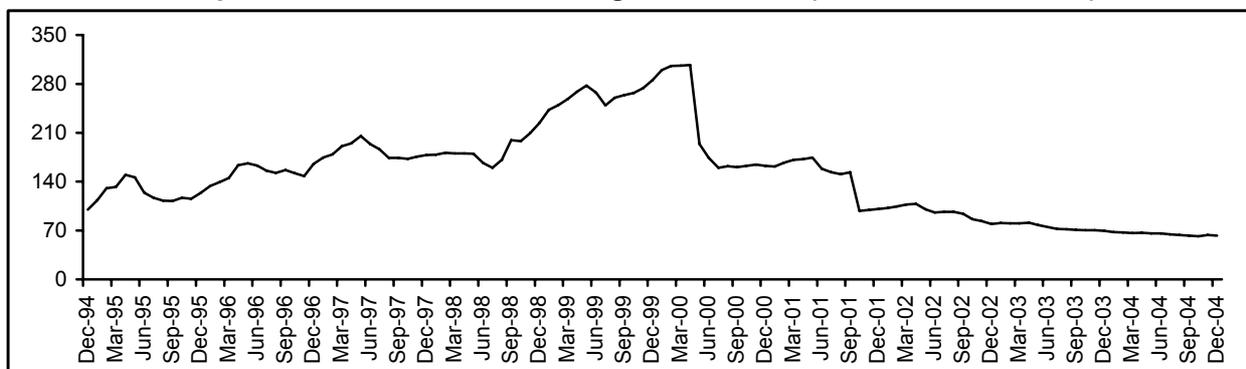
Graph 1.4.2. Real Exchange Rate of UZS against USD (UZS/USD), EURO and Russian Ruble (UZS/RUR) (December 1994=100)



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

The real effective exchange rate. The recent dynamics of the real effective exchange rate of UZS has had a gradual tendency to decrease (Graph 1.4.3). During the period of 2000-2002, sharp falls were observed in the dynamics of the real effective exchange rate of UZS. Since 2003 the given rate has considerably stabilized. In 2004, the decrease of the real effective exchange rate equaled 9.9%. The stabilization of the real exchange rate of the national currency was promoted by the tight monetary policy of the CBU and the decrease in the index of consumer prices.

Graph 1.4.3. Real Effective Exchange Rate of UZS (December, 1994 =100)



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

In 2005 the foreign exchange policy of the CBU will be directed to the maintenance of a stable exchange rate of the national currency in relation to the US dollar. Based on the dynamics of the exchange rate in 2004 and on macroeconomic indicators of the development of the national and global economy, the decrease of the exchange rate of UZS in relation to the US dollar can be expected at the level of 8%-10%.

1.5. Prices and Inflation

In 2004, as a result of the tight monetary policy conducted by the CBU, the total increase of prices in the consumer sector amounted to 3.7%, which is lower than the level of 2003 by 0.1%. The slowing of growth of tariffs for paid services (from 26.7% to 22.1%) and in prices for non-foodstuffs (from 8.5% to 5.3%) affected the overall level of inflation. The trend in decline of prices for foodstuffs remained (-1.2%) (Tables 1.5.1 and 1.5.2, and Graph 1.5.1).

**Table 1.5.1. Major Indicators of Inflation in the Republic of Uzbekistan for 2000-2004
(increase of prices in % to corresponding period of previous year)**

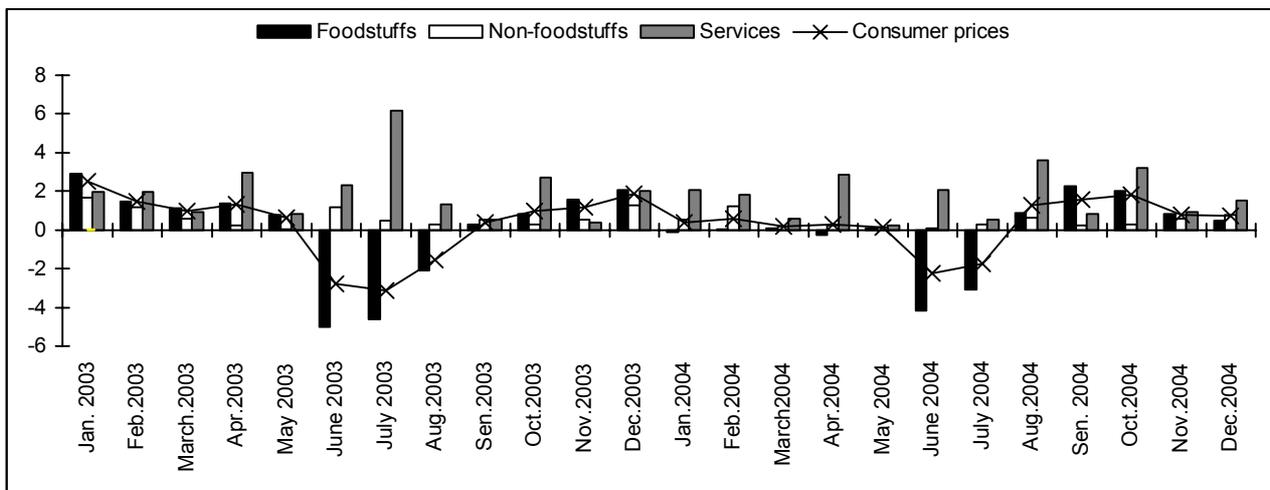
Years	Consumer price index (CPI) consolidated	Foodstuffs	Non-foodstuffs	Services
2000	24.9	18.9	36.6	47.1
2001	27.4	27.9	21.1	36.9
2002	27.6	28.0	19.3	41.3
2003	10.3	5.4	13.9	30.9
2004	1.6	-4.7	6.3	23.6
03/I	19.7	17.3	17.5	38.2
03/II	12.4	8.5	15.6	30.1
03/III	6.1	-1.0	14.1	30.2
03/IV	3.9	-2.2	8.9	26.8
04/I	0.7	-6.4	7.2	26.6
04/II	-1.3	-9.1	6.6	25.6
04/III	2.6	-2.6	5.8	20.4
04/IV	4.6	0.1	5.6	22.3

Source: State Committee of Uzbekistan on Statistics

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

	Average monthly level		To December of the previous year	
	2003	2004	2003	2004
CPI	0.3	0.3	3.8	3.7
Foodstuffs	-0.2	-0.1	-2.2	-1.2
Non-foodstuffs	0.7	0.4	8.5	5.3
Services	2.0	1.7	26.7	22.1

Source: State Committee of Uzbekistan on Statistics

Graph 1.5.1. Monthly Level of Inflation for 2003-2004 (increase in prices in %)


Source: State Committee of Uzbekistan on Statistics

During the year, seasonal fluctuations had a strong impact on changes in prices, particularly for fruits and vegetables. Usually, prices for fruits and vegetables reach the maximal level in winter and spring, and go down to the minimal level in summer and fall. Thus, if 1 kg of potatoes reached its maximal level in January of 2004, which was 182 soums, then in July it decreased down to 101 soums, while the maximal prices for 1 kg of onions, 155 soums, was observed in May, and minimal price, 78 soums, in July. In the consumption basket of the Republic of Uzbekistan, which is used for calculations of CPI, fruits and vegetables account for more than 10%. Taking into account that prices fall significantly in summer and fall, the population makes significant purchases in that period in order to store and consume goods throughout the year. This fact has a significant impact on the decline of prices in that period.

In the regional context, the consolidated CPI increased slightly in Samarkand (5.22%), Khorezm (5.13%), Surkhandarya (4.80%), Fergana (4.57%) and Andijan (4.07%) Provinces. In all other provinces the growth of consumer prices did not exceed 4% (Table 1.5.3.).

In general, the range of the increase of consumer prices in the provinces of the republic fluctuated between 2.18% and 5.22%.

Structural analysis of the growth of prices and rates, and evaluation of the impact of these factors on the total level of inflation, shows that in 2004, in comparison with 2003, prices increased by 10.3%. The increase was conditioned by the monetary factor (40.9%), inflation of expenses (35.1%), and other non-monetary factors.

During 2004, supply driven inflation was higher than demand driven inflation: wholesale prices of manufacturers of industrial products increased in monthly average terms by 2.1%, while consumer prices increased by 0.3%.

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

Province	Increase in prices	Monthly average
R. Uzbekistan	3.65	0.30
Jizzakh	2.18	0.18
Sirdarya	2.37	0.20
Navoi	2.37	0.20
Namangan	2.68	0.22
Tashkent	2.85	0.24
Republic of Karakalpakstan	3.17	0.26
City of Tashkent	3.17	0.26
Bukhara	3.96	0.32
Andijan	4.07	0.33
Kashkadarya	4.47	0.37
Fergana	4.57	0.37
Surkhandarya	4.80	0.39
Khorezm	5.13	0.42
Samarkand	5.22	0.43

Source: State Statistics Committee of Uzbekistan.

Factor analysis of the sources of increase in wholesale prices of manufacturers of industrial products indicated that, in 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 (43.3%), and the increase in wages (25.2%) (Table 1.5.4).

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 51.3%, electrical power supply – 61.3%, gas – by 51.2%, and water supply – 33.2%.

In 2004 the devaluation of the OTC foreign exchange rate equaled 8.0%, which affected the increase of prices at producers of manufacturers of industrial products by 1.5%.

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

	Impact on the CPI (%)	in % to Total
All factors	26.5	100.0
Centralized rise in tariffs for energy carriers	11.47	43.3
OTC foreign exchange rate	1.52	5.8
Wages	6.68	25.2
Transportation expenses	0.81	3.1
Other factors	6.02	22.7

Source: Ministry of Economy of the Republic of Uzbekistan

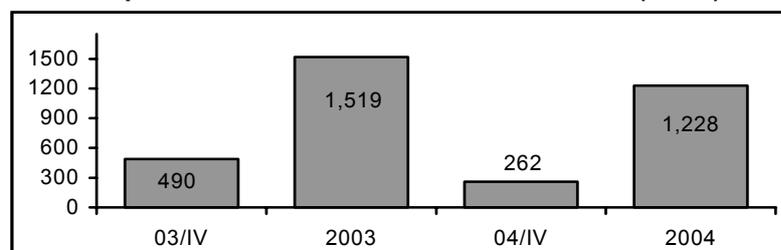
In general, the low inflation level was achieved as a consequence of the implementation of measures in the banking and financial sphere, and the low deficit in the State budget (-0.4% to GDP).

2. Institutional and Market Reforms

2.1. Denationalization and Privatization, Property Types

Institutional reforms in 2004 were implemented in line with the Program of Privatization for the years 2003 and 2004. The number of enterprises and facilities of industrial and social infrastructure (hereinafter: units) amounted to 1,228, including 262 in the 4th quarter (Graph 2.1.1. and Annex 2.1.1), making up, in comparison with the corresponding periods of the previous year, 80.8% and 53.5% respectively.

Graph 2.1.1. Number of Privatized Facilities (Units)



Source: State Property Committee of Uzbekistan

There was a natural decline in the pace of transformation of state-owned enterprises and other units into other property types over the last two years (Annex 2.1.1.). Since the conclusion of mass privatization in 2003, the number of state-owned enterprises transformed into other property types has been annually decreasing.

In 2004, in the context of sectors, most privatized units were from the chemical & petrochemical industry (119), the Ministry of Public Education (100), the Ministry of Agriculture and Water Industry (94), the Ministry of Health (66) and from "Uzpakhtasanoat" association (51); while in the territorial context, most units were located in Tashkent city (211), and Fergana (128), Surkhandarya (118) and Tashkent (103) provinces.

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

Periods	Number of Founded Enterprises	Including		
		Joint-stock companies	Limited liability companies	Private enterprises
03/IV	477	32	265	180
2003	1452	75	269	1108
04/IV	262	8	26	228
2004	1228	28	162	1038

Source: State Property Committee of Uzbekistan

Twenty-eight joint-stock companies, 162 limited liability companies and 1,038 private enterprises based on the property of the state-owned enterprises and units were founded in 2004 (Table 2.1.1). A significant reduction in the number of newly established joint ventures (2.7 times) and limited liability companies (1.7 times) in comparison with the previous year resulted

mainly from a predominance of small enterprises and units being sold to individuals.

The process which began in 2003 of the wide-ranging sale into private ownership of state-owned and unplaced shares of joint-stock companies and shares in the statutory funds of the limited liability companies, as well as of the bulk of property of enterprises and units, including those earlier transformed into companies with 100 percent state assets, continued. The following were sold over 2 years: blocks of shares from 1418 joint-stock companies, including 446 in 2004; shares in the statutory funds of 494 limited liability companies, including 365 in 2004; and the entire properties of 1,657 enterprises and units, including 1,003 in 2004. As a result, almost none of the republican business associations established on the basis of former sectoral Ministries ("Uzgshtsutsanoat", "Pisheprom", "Uzeltekhsanoat" and others) have state shares in their statutory funds now, while the number of such enterprises in other companies, such as "Uzbekyengilsanoat" state joint stock company and "Uzdonmahsulot" joint-stock company, considerably decreased.

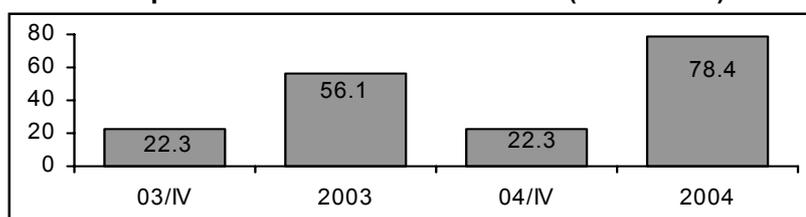
In pursuance of fulfillment of corresponding government decrees, new flexible mechanisms for selling state-owned assets were widely implemented in 2004. Thus, thanks to the step-by-step decrease in initial prices, the blocks of shares of 290 joint-stock companies worth UZS 9.9 bn. were sold, exceeding by UZS 2.3 bn. their nominal value, and also 486 units of real estate were sold in the amount of UZS 3.6 bn.

A number of 280 unprofitable, insolvent and bankrupt enterprises have been handed over on a competitive basis to private ownership at a zero repurchasing price under terms in which their new owners accept the investment obligations directed at the improvement of financial standing of the given enterprises. The total sum of accepted obligations to be fulfilled within 2004-2008 amounted to UZS 99.8 bn.

Proceeds from the sales of different state assets on the special accounts of the State Property Committee of Uzbekistan in 2004 (in UZS) amounted to UZS 78.4 bn. including UZS 22.3 bn. in the 4th quarter (Graph 2.1.2). The growth rate, in comparison with the corresponding periods of the previous year amounted to 39.9% and 0% respectively.

The largest volume of funds on the stock market proceeded from the sales of shares of privatized enterprises – worth UZS 47.9 bn. or 61.1% of the total value of proceeds from the privatization in 2004. Other portions of such proceeds were from the sales of entire enterprises and other state property units (31.3%) to private investors, as well as from sales to members of labor collectives of shares in the statutory funds of such enterprises (7.6%) at their nominal price.

Graph 2.1.2. Privatization Proceeds (Bn. Soums)



Source: State Property Committee of Uzbekistan

Hard currency proceeds from the sales of privatized property to foreign investors amounted to USD 24.3 mill. in 2004, making up 103% of the planned value, which was 49.8% greater than in 2003. In purchasing the state assets of 17 enterprises, those foreign investors accepted the obligation, in addition to purchasing payments, to invest the sum of USD 24.7 mill. and UZS 4.1 bn. in the development of these enterprises.

Proceeds from state property privatization, in accordance with the effective procedure of their use, are directed every month to the national budget and local budgets for the re-equipment and modernization of privatized enterprises with state shares in statutory funds themselves. Furthermore, some portion of funds, according to the specific governmental decrees, are directed at projects for the social-economic development of the country.

The total amount of distributed funds in 2004 was UZS 77.0 bn. and was greater than the previous year by 44.2%. Of these funds, 39.7% were directed to the national budget and 19.9% to local budgets, exceeding similar indicators of 2003 by 7.7 and 11.8 percentage points respectively (Table 2.1.2).

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

Lines of Proceeds Distribution	03/IV	2003	04/IV	2004
State Budget	30.0	32.0	17.8	39.7
Local Budgets	6.2	8.1	12.6	19.9
Business Fund	4.1	4.9	-	-
Enterprises under Privatization	7.6	8.1	2.4	3.3
Distributed on the basis of specific governmental decrees	52.1	46.9	67.2	37.1
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.

Privatized enterprises received 3.3% of the total value of distributed funds, i.e. 4.8 percentage points or UZS 1.8 bn. less than in the previous year. The decrease in the share of those enterprises in the privatization proceeds resulted from the significant decrease in the number of enterprises with a state share in their statutory funds in 2004. According to the law, those business units which have completely passed into private hands do not have the right to receive privatization proceeds themselves.

In line with some special governmental decrees, financing of different projects amounted to UZS 28.6 bn., which was 18.2% greater than in the previous year. The given amount made up 37.1% of the total volume of distributed funds, which was 9.8 percentage points lower than in the previous year (Table 2.1.2). That was a result of the forward growth in privatization proceeds in 2004 as a whole, in comparison with a decrease in the share of funds distributed according to special governmental decrees, with the exception of the 4th quarter of 2004. Funds distributed according to special governmental decrees amounted to UZS 16.6 bn., which was 38.3% greater than in the three previous quarters.

The foregoing allows the conclusion to be drawn, that targets have been achieved with regard to privatization of enterprises, aimed at the wide-ranging reduction of state shares in the statutory funds of enterprises, the increase of their investment attractiveness and the widening involvement of foreign investors in the privatization process.

The governmental project for the Program of Denationalization and Privatization for the years 2005 and 2006, aimed at the further intensification of privatization processes and the advanced role of the private sector, has been submitted for consideration to the Cabinet of Ministers.

2.2. Market Infrastructure

By January 1, 2005 the following registrations were in the State Registry of Securities:

- 13,558 issues with a total issuance volume of UZS 3,111.5 bn., including 545 issues in the amount of UZS 729.1 bn. in 2004;
- 88 issues of corporate bonds in the amount of UZS 51.2 bn., including 40 issues in the amount of UZS 28.0 bn. in 2004.

Shares and corporate bonds to the total amount of UZS 146.3 bn. were sold on the securities market in 2004, including UZS 37.7 bn. worth in the 4th quarter. The growth rates in comparison with the corresponding periods of the previous year amounted to 56.8% and 30.3% respectively.

Proceeds from the shares sold amounted to 80% of the total turnover of the securities market. Shares to the total amount of UZS 115.0 bn. were sold within 2004, including UZS 27.4 bn. worth in the 4th quarter. The growth rates in comparison with the corresponding periods of the previous year were 54.0% and 10.1% respectively.

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

Period of Time	Primary Market		Secondary Market		Total	
	Sum	in % to the total	Sum	in % to the total	Sum	in % to the total
03/IV	17.66	70.8	7.27	29.2	24.93	100
2003	53.9	72.2	20.8	27.8	74.7	100
04/IV	13.23	48.2	14.21	51.8	27.44	100
2004	62.08	54.0	52.95	46.0	115.03	100

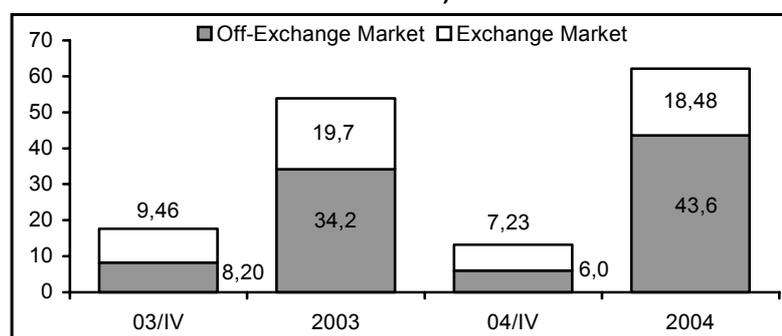
Source: Center for Coordination and Control of Operation of the Securities Market at the State Property Committee of Uzbekistan.

There was growth in the volume of sales on both the primary and the secondary securities markets (Table 2.2.1 and Annex 2.2.2.). Primary market turnover grew by 15.2%, in comparison with the previous year, and made up UZS 62.1 bn., including UZS 13.2 bn. in the 4th quarter. On the whole within the year, the tendency remained towards the prior sale of shares of privatized enterprises on the off-exchange market by means of conducting direct negotiations with investors and tender biddings (Graph 2.2.1). Preferences in such sales are given to those of investors who are, in addition to purchasing shares, ready to assume additional obligations to invest in production development.

Within 2004, shares worth UZS 18.5 bn. (29.8%) were sold on the primary stock-exchange market, while on the off-exchange market – UZS 43.6 bn. (70.2%), including those in the 4th quarter worth UZS 7.2 bn. (54.6%) and UZS 6.0 bn. (45.4%) respectively.

The highest share in the total volume of purchase-and-sale transactions on the primary market pertained to the privatized enterprises of the associations “Uztekhsanoat” (31.1%) and “Uzkurilishmateriallari” (13.6%); the state joint-stock company “Uzbekenergo” (6.7%); “Uzbeksavdo” (5.7%), Uzbekengilsanoat” (5.6%) and “Uzdonmahsulot” (3.4%) joint-stock companies.

Graph 2.2.1. Sale of Shares on the Primary Stock market (Bn. Soums)



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

The tendency continued towards heightened interest of foreign investors in the primary stock market of Uzbekistan. They purchased 64% of the shares of the “Uzkabel” joint-stock company and 25% of the shares of the “Okhangarontsement” joint-stock company, which was privatized through individual projects with the at-

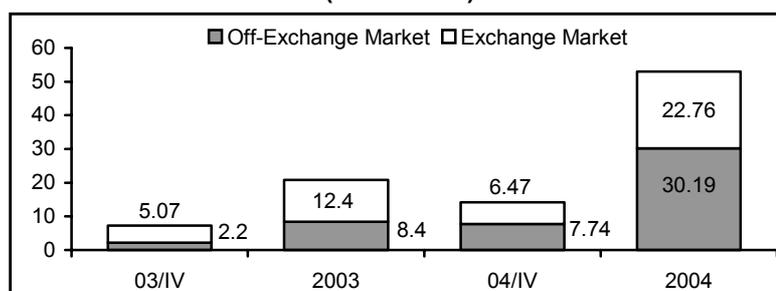
traction of foreign finance consultants. Also the control and blocking shareholdings of a number of other enterprises (“Asaka-textil”, “Oltinkul” and others) to the total amount of more than USD 25.0 bn. – almost the same amount as in the previous year – were sold to foreign investors. However, their share in the total volume of purchase-and-sale transactions on the primary securities market decreased in 2004 by 21.5 percentage points, to 48.7%.

The offering for sale of state-owned shareholdings of many investment-attractive enterprises, the application of new flexible selling mechanisms and the improvement of legal assistance for proprietors: these factors all led to the growth of interest of some categories of local investors in purchasing the shares of privatized enterprises. The share of individuals in the total value of purchasing-and-selling transactions of initially placed shares of privatized enterprises grew in 2004 in comparison with the previous year from 2.6% to 22.8%, while the share of related enterprises rose from 6.0% to 13.7%. At the same time, portions of the following units in the total volume of transactions on the primary sale of shares remained at the level of the previous year or decreased: small business enterprises (7.9%), commercial banks (0.6%), investment funds (0.9%) and investment intermediaries (5.5%).

The transition of state-owned shares and unplaced blocks of shares of many joint stock companies into private proprietorship within the last two years contributed to the increase in the volume of transactions on the secondary securities market. Shares worth UZS 53.0 bn. were sold in 2004, including worth UZS 14.2 bn. in the 4th quarter (Table 2.2.1.). The growth rate of sales volumes in comparison with the corresponding periods of the previous year was 2.5 and 2.0 times respectively.

Altogether 1,589 purchase-and-sale transactions were registered on the secondary securities market, including 665 transactions in the exchange segment of the given market, or 1.3 times less than in the previous year, while on the off-exchange market 926 transactions were registered, or 1.5 times more than in the previous year. At the same time, there was an increase in the absolute volume of shares sold on both the exchange segment and the off-exchange segment of the secondary securities market (Graph 2.2.2). However, the growth rates differed: 1.8 times on the exchange market and 3.6 times on the off-exchange market.

Graph 2.2.2. Sale of Shares on the Secondary Stock Market (bn. soums)



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

Due to the rapid growth of the volume of sales on the off-exchange market, its share in the total turnover of the secondary securities market increased from 40.0% in 2003 to 57.0% in 2004. This resulted from the growth in sales of shares held by members of labor collectives of privatized enterprises as well as of the shares of minor shareholders. It is not advantageous to put up for sale small packets of shares.

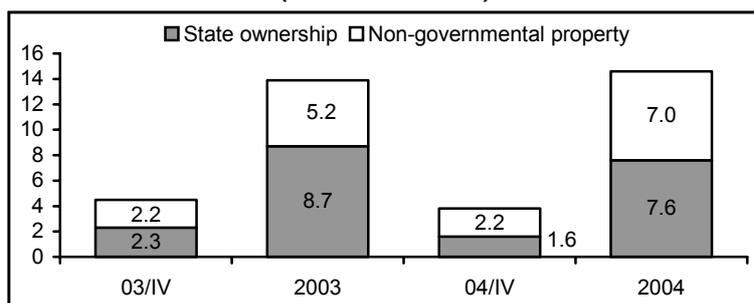
The largest ratio in the total volume of transactions of the secondary securities market extended to the shares of commercial banks (25.2%), enterprises of “Uzdonmahsulot” joint stock company (15.6%) and “Uzbekyengilsanoat” state joint-stock company (10.4%). In the territorial context, the largest volumes of secondary selling transactions were accounted for by joint stock companies located in Tashkent city (58.7%), Andijan (11.7%) and Tashkent Provinces (8.0%).

There is widening circulation of corporate bonds issued by a number of investment-attractive joint-stock companies (“Almalik Mining and Smelting Enterprise” - worth UZS 3.0 bn., “Amantau Goldfeeds” – worth UZS 5 bn. and others). Their issue, in contrast to the secondary issue of shares, allows additional investments to be attracted without reducing the share of shareholders.

Corporate bonds purchase-and-sale transactions worth UZS 13.3 bn. were concluded in 2004, including UZS 153.5 mill. on the primary exchange market, and UZS 31.1 bn. on the off-exchange market. The growth rate of the total volume of transactions was 68.3% in comparison with 2003.

At the Republican Real Estate Exchange and its branches (henceforth: RREE), besides regular electronic exchange biddings (three times a week) 608 auction biddings and 11 tender biddings were conducted in 2004. The shares of exchange sales and off-exchange sales in the total amount of facilities sold were 48.3% and 51.7% respectively.

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



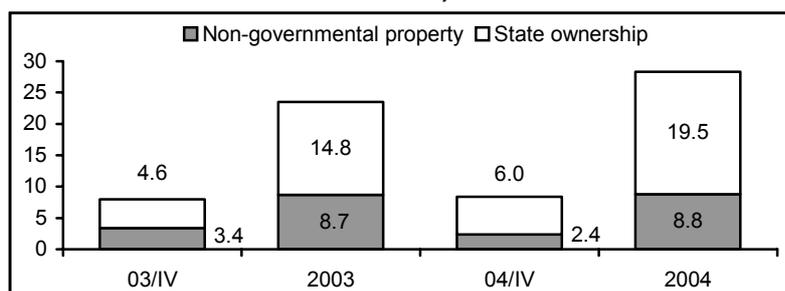
State: Republican Real Estate Exchange

14.6 thous. real estate objects worth UZS 28.3 bn. were sold in 2004, including 3.8 thous. worth UZS 8.4 bn. in the 4th quarter (Graphs 2.2.3, Graph 2.2.4. and Annex 2.2.2). The growth rates in comparison with the previous year were: 5.0% by the number of property units sold and 20.5% by the volume of proceeds, respectively. Rapid growth of sales proceeds in comparison with the quantity of sold units resulted from the increase in the structure of sold property, especially the large-scale high-priced enterprises

sold in the 4th quarter. The average sale price per unit was UZS 1.9 mill. in 2004, including UZS 2.2 mill. in the 4th quarter, exceeding given indicators for the corresponding periods of the previous year by 11.8% and 22.2% respectively.

Shares of state-owned and non-governmental facilities in the total volume of real estate sold through RREE were as following: in quantitative terms 52.1% and 47.9%; in value terms, 31.1% and 68.9% respectively. At the same time, the tendency was observed towards an increase in the sales of private property of legal entities and individuals. Seven thousand units offered for sale by individuals were sold in 2004, which was 34.6% greater than the previous year. Sales proceeds made up UZS 19.5 bn., growing by 31.8%. These data testify to the increasing contribution of the RREE to the development of private enterprise.

Graph 2.2.4. Proceeds from Sale of Real Estate Facilities (Bn. Soums)



Source : Republican Real Estate Exchange

There has been a continuous tendency towards a prevalence of land plots or, rather, the right to heritable life tenure, in the total amount of real estate sold through the RREE (Annex 2.2.2). A total of 6,296 units were sold for the right of heritable life tenure, of which 6,101 were intended for individual housing construction, and 195 units for dekhkan farms (Annex 2.2.2).

The total value of land plots whose rights to heritable tenure were sold to private persons decreased by 1,095 units. (14.8%), due to the reduced distribution of such land plots by the local authorities. However, proceeds increased by UZS 128 mill. (26.1%). This is a consequence of the growth of average sale price of that right from UZS 66.3 thous. in 2003 to UZS 98.2 thous. in 2004, exceeding 1.7 times the average starting auction price per plot. As a result, in 2004 the ratio of land plots in the quantitative structure of real estate sold through the RREE decreased by 10.0 percentage points in comparison with the previous year, but increased by 0.1 percentage points in terms of proceeds.

The total value of land plots whose rights to heritable tenure were sold

Almost half of the value turnover of the RREE consists of the proceeds from the sales of residential and non-residential premises and other property. 3416 units. worth UZS 13928 mill. were sold, including 560 production areas and office blocks worth UZS 5752 mill., as well as 345 objects of social infrastructure worth UZS 2441 mill. The share of given units made up 23.4% of the total volume of property sold through the RREE and 49.2% of the total amount of proceeds (Table 2.2.2), which was less than the indicators of the previous year by 0.7 percentage points and 17.3 percentage points respectively.

The contribution of the RREE to the purchase-and-sale by private persons of units of the agricultural and water-supply industry (stock buildings, poultry farms and others) increases along with the market reforms in rural areas. The total amount of property sold made up 2,516 units, including 14 state-owned units, with a value of UZS 4,376 mill. The growth rates in 2004 in comparison with the previous year were 2.8 times and 4.8 times respectively. As a result, the share of agricultural and water industry in the total amount of property sold through the RREE grew by 10.7 percentage points, and in value terms of sales – by 12.7 percentage points.

There has also been a significant increase in the sale of property pertaining to commercial and consumer services: by 469 units (1.5 times) in terms of quantity, and by UZS 4,029 mill. (2.3 times) in value terms. The share of these units in the structural composition of property sold through the RREE increased in the year under review as following: by 2.9 percentage points in quantitative terms and by 11.9 percentage points in value terms (Table 2.2.2).

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

Types of Property	03/IV	2003	04/IV	2004
Construction in Progress:				
Quantity	4.9	4.2	5.9	6.1
Amount	4.6	5.0	6.7	5.1
Commercial and Consumer Services Property				
Quantity	7.9	6.8	12.3	9.7
Amount	16.5	13.7	20.7	25.6
Property of Bankrupt Enterprises				
Quantity	4.3	2.7	-	0.2
Amount	10.2	6.6	-	1.8
Property Sold to Cover Tax Debts to State Budget:				
Quantity	0.2	1.5	-	0.1
Amount	1.0	1.6	-	0.1
Property Sold by Orders of Economic Courts:				
Quantity	1.6	1.1	-	0.2
Amount	1.6	1.7	-	0.5
Property of Agricultural and Water Industry :				
Quantity	3.7	6.5	22.8	17.2
Amount	1.6	2.8	12.8	15.5
Land Plots				
Quantity	44.0	53.1	33.0	43.1
Amount	1.4	2.1	1.3	2.2
Residential and Non-Residential Premises, other Property:				
Quantity	37.1	24.1	26.0	23.4
Amount	64.7	66.5	58.5	49.2
Total:				
Quantity	100	100	100	100
Amount	100	100	100	100

Source : Republican Real Estate Exchange

896 units of construction in progress worth UZS 1,449 mill. (Annex 2.2.2), were sold, exceeding the similar indicators of the previous year by 52.9% and 23.2% respectively. The more than twofold growth rate of the quantitative indicator of the sales of these units, as compared to their value, was due to the fact that large-scale units of construction in progress sold mostly in the previous years. In the year under review, mainly small units of non-governmental enterprises were offered for sale. As a result, the share of units of constructions in progress grew by 1.9 percentage points in the quantitative structure of property sold through the RREE, but by only 0.1 percentage point in value terms (Table 2.2.2).

Since the second half of 2004, in addition to the types of property indicated in the Table 2.2.2., the RREE has begun rendering purchase-and-sale services for shares in the statutory funds of limited liability companies offered for sale by the government as well as by private persons. Shares in the statutory funds of 435 limited liability companies worth UZS 3,848 mill. were sold in 2004. The growth of sales volume was 5.4 times in terms of quantity and 3.5 times in terms of value in comparison with the previous year. At the same time, the sale of state-owned shares grew 4.6 times and 3.3 times respectively, while the shares of private persons – 70 and 45 times, testifying to the increased interest of individuals and private legal entities in purchasing and selling shares of the statutory funds of limited liability companies through the RREE.

2.3. Small Enterprises (SE)

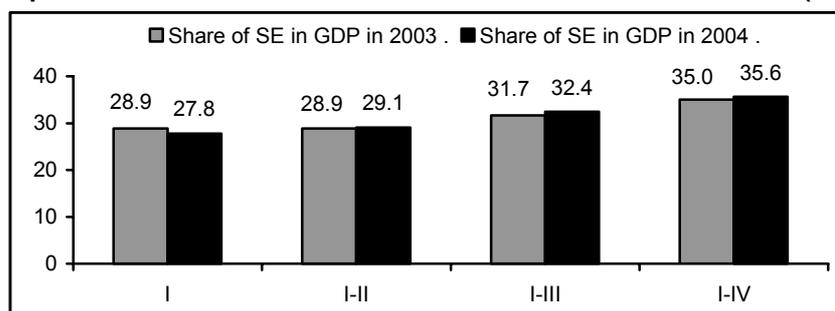
The development of the private sector of small enterprises is considered to be one of the priority directions toward the intensification of economic reforms in Uzbekistan. In accordance with this, the major aims of accelerating and increasing their contribution to the qualitative growth of GDP, forming an effective goods and services market as well as developing exports are to be encouraged by the following: limiting governmental intervention in the activity of private enterprises, widening the access of private enterprises to the resource market and marketing outlets, and providing financial support and additional tax preferences.

The activity of small enterprises¹ in 2004 was characterized by their increased contribution to the economic growth of the country, creation of new jobs and increase of the population's income.

The implementation of the measures aimed at the stimulation of small enterprises – in particular in providing freedom for business activity, applying simplified rules for their registration, widening their access to loan resources (loans extended by commercial banks to small enterprises in 2004 amounted to UZS 353.6 bn., an increase of more than UZS 71.4 bn. as

compared to 2003), as well as creating favorable macroeconomic conditions (a low inflation rate – 3.7%), convertibility and a stable exchange rate of the national currency – contributed to the growth of the share of small enterprises in GDP to 35.6% or 0.6 percentage points greater than in 2003 (Table 2.3.1).

Graph 2.3.1. Share of SE in the GDP of Uzbekistan in 2003- 2004 (in %)



Source: State Committee on Statistics of the Republic of Uzbekistan

Table 2.3.1. Main Indicators of Development of Small Enterprises

Indicators	Unit	2003	2004
Share of Small Entrepreneurship in the Uzbekistan GDP	%	35.0	35.6
Number of Employed by Small Enterprises	Thous. persons	5,436.7	6,038.3
Share of employed by small enterprises in the total number of employed in economy	%	56.7	60.9
Number of Employed:			
Small Enterprises	Thous.persons	346.6	359.2
Microfirms	Thous.persons	715.6	989.8
Individual Entrepreneurs	Thous.persons	4,374.5	4689.3
Number of New Jobs in small enterprises	Unit	375,410	427,571
Number of Acting small enterprises per 1000 persons	Unit	8.3	9.2

Source: State Committee on Statistics of Uzbekistan

The share of small enterprises in GDP in 2004 grew by 0.5 percentage points and amounted to 5.3%, while the share of microfirms increased by 1.6 percentage points and made up 13.3% in comparison with the previous year.

The share of individual businesses in GDP decreased by 1.5 percentage points in comparison with 2003 due to the decrease in the share of dekhkan farms by 6.0 percentage points in the total volume of agricultural production, amounting to 17.0% (Table 2.3.2 and Annex 2.3.1).

Stable growth of the share of SE in the GDP was extensively connected with the increased production of added value by small enterprises (growth by 5.5 percentage points) and particularly by microfirms (growth by 1.6 percentage points). Furthermore, the increasing share of small enterprises in the gross regional product of all the provinces also had a positive influence on growth. The high share of SE in the GRP was observed in Sirdarya (61.3%) and Jizzakh (57.2%) provinces mainly owing to the significant increase in the number of operating farms. This share increased also in Samarkand (52.6%), Namangan (47.7%), Surkhandarya (46.9%) and Khorezm (45.2%) provinces due to the growth in the indicators of activity of small enterprises and microfirms in agriculture. A share higher than the average republican level was observed in the Republic of Karakalpakstan, Fergana, Kashkadarya and Bukhara provinces. The share of SE in the GRP remained unchanged in Navoi province due to the decrease in the number of operating SE entities (Tables 2.3.2 and 2.3.4).

¹ According to the Presidential Decree of January 1, 2004 the following fall into the category of small enterprises:

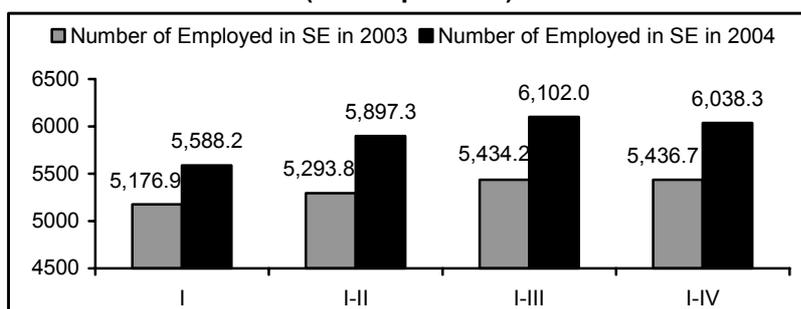
- microfirms with an average annual number of employed in production sectors - at the most 20 persons; in the services area and other non-production areas - at the most 10 persons; in wholesale trades, retail trades and public catering - at the most 5 persons;
- small enterprises with an average annual number of employed in the following sectors:
light and food industries, metal-working and instrument-working industries, woodworking, furniture industry and construction materials industry - at the most of 100 persons;
machine-building, metallurgy, fuel-energy and chemical industry; agricultural production and processing; construction and other industrial areas - at the most 50 persons;
science and scientific service, transport, communications, services (excepting insurance companies), trade and public catering and other non-production areas - at the most 25 persons

Table 2.3.2. Ratio of SME in the GDP and GRP (in %)

Province	Total		Including					
			Small Enterprises		Microfirms		Individual Businesses	
	2003	2004	2003	2004	2003	2004	2003	2004
Republic of Uzbekistan	35.0	35.6	4.8	5.3	11.7	13.3	18.5	17.0
Republic of Karakalpakstan	41.9	42.9	4.3	3.6	19.6	23.1	18.0	16.2
Andijan	38.5	38.6	3.3	3.5	7.7	9.2	27.5	25.9
Bukhara	37.1	39.7	4.7	7.9	13.7	13.6	18.7	18.2
Jizzakh	54.9	57.2	0.9	1.2	28.1	32.0	25.9	24.0
Kashkadarya	37.6	40.6	2.7	2.7	15.8	20.8	19.1	17.1
Navoi	20.0	21.2	2.3	2.3	6.5	8.5	11.2	10.4
Namagan	44.7	47.7	5.6	6.7	12.3	17.3	26.8	23.7
Samarkand	51.6	52.6	5.9	8.6	13.5	12.9	32.2	31.1
Surkhandarya	43.1	46.9	4.3	4	13.6	19.5	25.2	23.4
Sirdarya	55.8	61.3	4.8	2.8	27.2	36.3	23.8	22.2
Tashkent	36.0	36.1	7.1	8.7	9.4	8.8	19.5	18.6
Fergana	40.6	41.5	6.8	4.9	11.9	16.4	21.9	20.2
Khorezm	40.7	45.2	2.7	2.8	12.9	18.7	25.1	23.7
Tashkent city	43.2	43.5	14.2	15.4	12.9	12.5	16.1	15.6

Source: State Committee on Statistics of the Republic of Uzbekistan

Growth in the number of persons employed in SE in 2004 amounted to an 11.1% increase over 2003 (Table 2.3.3). The share of those employed in SE in the total number of employed in the economy increased to 60.9%, as compared to 56.7% in 2003, due to the growth in the number of employees in the operating enterprises of the consumer complex, including such basic sectors as machine-building, metallurgy, fuel- energy and chemical industry, as well as due to newly established SE entities.

Graph 2.3.2. Number of Employed at SE in 2003-2004 (thous. persons)


Source: State Committee on Statistics of Uzbekistan

Along with this, growth in the number of employed in SE was stimulated by the high growth (13.9%) of newly established jobs in SE (more than 427.5 thous. new jobs were created in 2004), owing to new enterprises. The number of newly established SE enterprises in 2004 amounted to 51.7 thous. units. The majority of these were in Kashkadarya (more than 16 thous. units), Bukhara, Fergana, Tashkent, Khorezm provinces and Tashkent City.

Table 2.3.3. Number of Employed in SE by Regions (thous. persons)¹⁾

Provinces	2003	2004	Growth rate, % 2004 to 2003
Republic of Uzbekistan	5,436.7	6,038.3	111.1
Republic of Karakalpakstan	287.0	319.0	111.1
Andijan	518.3	555.1	107.1
Bukhara	355.8	398.6	112.0
Jizzakh	218.2	246.8	113.1
Kashkadarya	429.1	488.3	113.8
Navoi	159.4	186.5	117.0
Namangan	362.5	400.1	110.4
Samarkand	593.0	677.5	114.3
Surkhandarya	330.2	358.9	108.7
Sirdarya	176.5	198.7	112.6
Tashkent	538.3	600.2	111.5
Fergana	654.7	716.7	109.5
Khorezm	272.6	293.4	107.6
Tashkent city	541.1	598.5	110.6

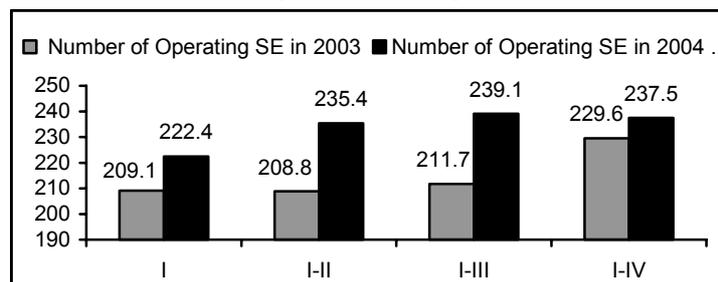
Source: State Committee on Statistics of the Republic of Uzbekistan

The growth rate of the number of employed in the businesses amounted to 127.0% and in quantitative terms this number reached 1,349.0 thous. persons (Table 2.3.1 and Annex 2.3.1).

The share of those employed in SE in the total number of those employed in the economy in the provinces significantly grew as follows: in Jizzakh province - by 6.6 percentage points, making up 76.4%, in Sirdarya- by 6.01 percentage points (72.7%, in Samarkand province by 6.3 percentage points (66.7%), in Fergana province by 3.4 percentage points (63.2%), in Bukhara by 4.7 percentage points (61.4%), in

Kashkadarya by 5.6 percentage points (61.3%) and in the Republic of Karakalpakstan by 4.8 percentage points (61.1%). Growth in the number of employed in SE was observed also in other regions.

Graph 2.3.3. Number of Operating SE in 2003-2004 (Thous. Units.)



Source: State Committee on Statistics of the Republic of Uzbekistan

By the end of 2004 the number of operating enterprises of SE amounted to 237.5 thousands, exceeding by 11.5% the level of 2003 (Table 2.3.4). Overall the share of operating SE in the total volume of enterprises, registered in the republic made up 85.6% as opposed to 86.3% in 2003. The decrease of this indicator resulted from the increase in the number of enterprises of SE in the liquidation process, taking into account those in this process for more than one year.

In many regions an increase was observed in the number of operating enterprises, resulting from the significantly simplified process of SE registration SE enterprises and receiving a post registration license. Particularly sizeable growth of operating SE enterprises was observed in Kashkadarya province (49.5%) connected with a high (56.5%) coefficient of establishment of new enterprises (growth of farms, construction enterprises and paid services) and low coefficient of their liquidation (1.3).

Table 2.3.4. Number of Operating SE Enterprises by Provinces (Thous. Units) *)

Provinces	2003		2004 **)	
	Operating SE Enterprises	Share of operating SE enterprises in total number of registered SE, %	Operating SE Enterprises	Share of operating SE enterprises in total number of registered SE, %
Republic of Uzbekistan	210.1	86.3	237.5	85.6
Republic of Karakalpakstan	11.3	88.4	12.3	90.0
Andijan	18.5	88.7	18.6	85.2
Bukhara	16.2	91.4	18.9	91.2
Jizzakh	15.6	91.9	15.4	84.1
Kashkadarya	26.7	93.5	41.7	94.1
Navoi	8.6	92.7	8.6	84.0
Namangan	12.8	82.9	12.0	74.8
Samarkand	19.3	88.6	20.8	88.3
Surkhandarya	10.3	81.9	12.3	83.9
Sirdarya	8.3	94.1	10.5	93.4
Tashkent	15.5	85.0	17.3	87.5
Fergana	10.9	80.2	18.2	81.3
Khorezm	11.9	85.2	12.9	81.0
Tashkent city	17.2	70.9	17.9	73.0

Source: State Committee on Statistics of the Republic of Uzbekistan

*) For legal entities as for the first day of the following quarter

**) According to the Resolution of the Cabinet of Ministry No. 439 of 11.10.2003.

Table 2.3.5. Number of Operating SE Entities by Sector of Economy (thous. Units)

Indicators	2003	2004
Republic of Uzbekistan-Total	229.6	237.5
Industry	21.0	20.1
Small enterprises	4.0	2.1
Microfirms	16.4	18.0
Agriculture	119.6	146.2
Small enterprises	8.3	2.9
Microfirms	110.0	143.4
Transport and Communications	2.0	2.3
Small enterprises	0.3	0.4
Microfirms	1.6	1.9
Construction	10.9	10.9
Small enterprises	1.9	0.8
Microfirms	8.3	10.1
Trade and Public Catering	41.8	41.9
Small enterprises	5.9	7.4
Microfirms	34.0	34.5

Source: State Committee on Statistics of the Republic of Uzbekistan

The number of operating SE entities per 1,000 persons in 2004 as a whole throughout the nation amounted to 9.2 units as opposed to 8.3 units in 2003 (for comparison, this indicator in developed countries makes up more than 35 units). Considerable increase took place in Kashkadarya province: from 11.6 units in 2003 to 17.8 units in 2004, from 14.0 to 15.7 units in Sirdarya province and from 11.0 to 12.7 units in Bukhara province. The level of this indicator was lower than the average national value in Namangan, Surkhandarya, Tashkent, Fergana, Samarkand provinces and in the Republic of Karakalpakstan.

The growth rate of operating SE entities by sector of economy was as following: in agriculture -112.2%, in transport and communications - 111.3%,

while in construction, trade and public catering - 100.2%. In industry the number of operating enterprises decreased by 4.5% due to a decrease almost by half in the number of small enterprises (Table 2.3.5) because of their registration by new classification.

Overall, in 2004 the activity of SE entities in industrial output was characterized by a decline (by 0.2 percentage points) of their share in the total volume of production output (Table 2.3.6 and Annex 2.3.2).

In the regional context a high level in the total volume of industrial production was achieved by the SE entities of Jizzakh (47.1%), Samarkand (26.6%), Sirdarya (23.7%) provinces and the Republic of Karakalpakstan (20.2%) mainly due to the increase in agricultural production processing (raw-cotton and others). The share of industrial production was lower than the average national level in Surkhandarya, Fergana, Kashkadarya, Andijan and Navoi provinces.

Table 2.3.6. Share of SE Entities in Production Output by Sector of Economy (%)

Indicators	2003	2004
Industry		
Share of small enterprises in the total volume of production output	10.9	10.7
Small Enterprises	4.6	4.4
Microfirms	2.1	2.3
Individual Business	4.2	4.0
Share of small enterprises in the total volume of consumer goods production	23.3	23.7
Small Enterprises	8.9	8.3
Microfirms	2.3	2.5
Individual Business	12.1	13.0
Share of small enterprises in the total volume of foodstuffs production	34.5	36.5
Small Enterprises	8.3	8.0
Microfirms	2.6	2.5
Individual Business	23.5	26.0
Agriculture		
Share of small enterprises in the total volume of production output	78.1	80.9
Small Enterprises	1.2	2.0
Microfirms	14.0	19.1
Dekhkan Farms	63.0	59.8
Retail Turnover		
Share of small enterprises in the total volume of commodity turnover	42.4	41.8
Small Enterprises	6.5	7.5
Microfirms	6.2	6.5
Individual Business	29.7	27.8
Paid services		
Share of small enterprises in the total volume of paid services	45.4	47.4
Small Enterprises	2.8	2.8
Microfirms	3.6	2.9
Individual Business	39.0	41.7

Source: State Committee on Statistics of the Republic of Uzbekistan

The activity of SE entities in consumer goods production has been maintained. The growth rate of their production amounted to 115.2% as compared to the previous year. It was high in microfirms and individual enterprises: more than 122% due to the production from local raw materials, which positively impacted on the growth of the share of SE (23.7%) in the total volume of CGP. The share of SE in the total volume of foodstuffs increased to 36.5%.

A high share of SE entities in the production of foodstuffs was observed in Jizzakh province - 83.3%, Sirdarya - 42.6%, Kashkadarya - 38.7% and Tashkent province - 36.4% in their total volume. This level was achieved due to the growth of production in individual businesses. A level lower than the average national level (23.7%) was observed in Andijan, Bukhara, Surkhandarya, Fergana and Khorezm provinces, because of the current reconstruction of large-scale enterprises of light industry located there. Small enterprises producing consumer goods in those provinces do not have very much productive and technological potential.

The share of SE in agricultural production grew by 2.8 percentage points as opposed to the level of the previous year, amounting to 80.9% (Table 2.3.6). This was connected with high growth rates of production of small enterprises (181.5%), microfirms (140.8%) and dekhkan farms (109.4%). Dekhkan farms accounted for more than 59.7% of agricultural production output.

SE activity in 2004 in retail turnover was characterized by a 0.6 percentage point reduction, amounting to 14.8% of its total volume against 42.4% in 2003 (Table 2.3.6). Such a decrease was due to the low pace in

retail turnover of individual businesses (98.0%) resulting from the lack of implementation of the new measures in regulating the registration process for individuals importing goods for commercial purposes (Resolution of the Cabinet of Ministry of 13.08.04).

The share of SE entities in the volume of retail turnover remained high in Samarkand province (56.0%), Sirdarya (52.8%), Fergana (42.3%) provinces and Tashkent City (54.4%). Lower indicators were observed in Surkhandarya, Bukhara and Kashkadarya provinces.

There was a significant increase in 2004 in the volume of paid services rendered to the population by SE entities. Their share in the total volume of rendered services amounted to 47.4% and grew by 2.0 percentage points in comparison with the previous year owing to the stable growth in projects executed by individual businesses (41.6%).

The share of paid services in total volume of services rendered by SE considerably grew in Andijan (75.4%), Bukhara (67.4%), Surkhandarya (66.7%), Kashkadarya (67.4%) and in a number of other provinces. The volume of paid services rendered to the population in Sirdarya and in the Republic of Karakalpakstan was lower than the average national level.

Overall, in 2004 the foreign trade of SE entities was characterized by the growth of indicators. The share of SE in the total volume of exports increased by 0.4 percentage points and made up 7.3% against 6.9% in 2003 (Table 2.3.7). The growth of exports amounted to 38.4% as compared to 2003 mainly due to small enterprises, the share of which amounted to 4.6 % in the total volume of exports of SE entities. There was an increase in the share of cotton-fiber, machine and equipments, and ferrous-and-non-ferrous metals in the commodity structure of the SE exports, testifying to the qualitative changes in the structure of export. There was a decrease in the share of export of foodstuffs, chemical production and energy carriers (Table 2.3.8).

Table 2.3.7. Share of SE Entities in the Macroeconomic Activity (%)

Indicators	2003	2004
Export		
Share of SE in the total volume of exports	6.9	7.3
Small Enterprises	3.6	4.6
Microfirms	1.6	1.2
Individual Businesses	1.7	1.5
Import		
Share of SE in the total volume of import	33.0	32.7
Small Enterprises	14.9	13.5
Microfirms	13.3	14.7
Individual Businesses	4.8	4.5
Number of SE entities engaged in the foreign economic activity, units	3,249	3,778

Source: State Committee on Statistic of the Republic of Uzbekistan

The ratio of SE in the total volume of imports decreased by 0.3 percentage points, amounting to 32.7%, while the share of small enterprises made up 13.5% and microfirms - 14.7% (Table 2.3.7). The share of machine and equipment accounted for the largest portion of exports - 44.5 % (growth by 3.8 percentage points), chemical production-16.9% (growth by 2.5 percentage points), ferrous and non-ferrous metals - 8.4% (growth by 0.2 percentage points). These structural shifts occurred due to the effect of the unification of exchange rates and the resolution of the problem of currency convertibility. The share of imports of foodstuffs amounted to 9.4% and had a tendency towards decrease by 8.4 percentage points as opposed to 2003, testifying to the increase in the share of local SE enterprises in foodstuffs production. There was a reduction in the imports of energy carriers (Table 2.3.8).

Table 2.3.8. Commodity Structure of Export and Import Activity of SE Entities (%)

Production	2003	2004
Exports	100.0	100.0
Cotton fiber	16.2	35.0
Foodstuffs	25.6	21.2
Chemical production, plastics and plastic products	4.1	2.6
Energy carriers	14.9	7.4
Ferrous and non-ferrous metals	0.2	0.7
Machinery and equipment	4.4	6.2
Services	11.0	10.0
Others	23.6	16.9
Imports	100.0	100.0
Foodstuffs	17.8	9.4
Chemical production	14.4	16.9
Energy carriers	0.3	0.2
Ferrous and non-ferrous metals	8.2	8.4
Machinery and equipment	41.7	44.5
Services	2.0	3.8
Others	15.6	16.8

The number of SE entities engaged in export and import operations increased by 529 units as compared to 2003 (Table 2.3.7 and Annex 2.3.3) testifying to their widened foreign economic activity.

A high share in the territorial structure of SE export in 2004 continued in Namangan-64.0% (growth of exports by 6.6 percentage points), Samarkand-31.7%, Tashkent-19.4% (growth by 15.2 percentage points) and Fergana-19.0% (growth by 6.6 percentage points) provinces, which mainly exported the production of light industry, ferrous and non-ferrous metals. The share of Andijan, Bukhara, Khorezm provinces and Tashkent city in exports decreased compared to 2003. SE entities in Kashkadarya (2.5%), Sirdarya (1.9%) and Navoi (0.2%) provinces had an insignificant share of exports. The share of SE in the total volume of imports grew in the Republic of Karakalpakstan, Jizzakh, Navoi, Namangan, Khorezm provinces and decreased in Andijan, Bukhara, Kashkadarya and Samarkand provinces because of growth in the local production of the small enterprises in these regions (Table 2.3.9.).

On the whole, real positive shifts were observed in the development of SE, due to the measures aimed at the improvement of the macroeconomic and business environment. Its further development is considered of strategic importance as a priority in the realization of economic reforms. It is practically impossible to solve the problem of stable economic growth as well as social issues without the stable development of small and private businesses. The President of Uzbekistan has charged the government with achieving a share of small business of not less than 45% by the year 2007. The follow-

Table 2.3.9. Share of SE in the Foreign Economic Activity of Regions (%)

Provinces	Share of SE exports in the total volume of exports		Share of SE imports in the total volume of exports	
	2003	2004	2003	2004
Republic of Uzbekistan	6.9	7.3	33.0	32.7
Republic of Karakalpakstan	10.8	6.6	29.6	36.2
Andijan	6.0	4.2	24.7	5.6
Bukhara	7.4	4.1	70.1	61.1
Jizzakh	4.8	4.2	81.0	91.5
Kashkadarya	2.8	2.5	27.7	20.2
Navoi	0.4	0.2	1.5	2.1
Namangan	36.6	64.0	62.3	64.9
Samarkand	32.9	31.7	58.2	41.7
Surkhandarya	6.0	6.5	82.4	82.2
Sirdarya	3.6	1.9	79.0	70.1
Tashkent	4.2	19.4	37.9	42.0
Fergana	12.4	19.0	41.4	42.1
Khorezm	13.6	7.7	58.8	72.5
Tashkent city	11.7	6.5	34.0	34.8

ings steps are necessary to reach those aims: further improving the macroeconomic and business environment, encouraging small entrepreneurship through efficient taxation in combination with banking reforms to provide small enterprises with easy access to loans, and forming an effective legal assistance system.

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

Indicator	2000	2001	2002	2003	2004	03/IV	04/IV
Number of Privatized Enterprises (Units)	374	1,449	1,912	1,519	1,228	490	262
Number of Enterprises with Non-State form of ownership, founded on the basis of privatized property	372	1,238	1,800	1,452	1,228	477	262
Joint-Stock Companies	152	227	223	75	28	32	8
Limited Liability Companies	117	184	325	396	162	180	26
Private Enterprises	103	827	1252	981	1038	265	228
Proceeds from Privatization (bn. soums)	14.3	23.2	43.6	56.1	78.4	22.3	22.3

Source: State Property Committee of Uzbekistan.

Note: A number of joint-stock companies were founded by means of consolidation of property of several state-owned enterprises, or splitting of property of one enterprise.

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

Indicator	2000	2001	2002	2003	2004	03/IV	04/IV
Total Shares Sold on Securities Market	17.11	26.13	41.74	74.7	115.03	24.93	27.44
On Primary Market	6.23	12.26	16.33	53.9	62.08	17.66	13.23
On Exchange Market	4.60	6.84	10.53	19.7	18.48	9.46	7.23
On Off-Exchange Market	1.63	5.42	5.80	34.2	43.6	8.20	6.0
On Secondary Market	10.88	13.87	25.41	20.8	52.95	7.27	14.21
On Exchange Market	0.63	1.10	4.60	12.4	22.76	5.07	6.47
On Off-Exchange Market	10.25	12.77	20.81	8.4	30.19	2.2	7.74

Source: Centre 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. soums)

Types of Property	2000		2001		2002		2003		2004		03/IV		04/IV	
	Quantity	Amount												
Construction in Progress	296	630	265	559	180	832	586	1,176	896	1,449	184	350	222	568
Commercial and Consumer Services Facilities	419	450	548	1,221	436	1,039	954	3,203	1,423	7,232	291	1,262	464	1,745
Property of Bankrupt Enterprises	435	1,028	565	1,264	289	719	372	1,559	23	524	161	780	-	-
Property Sold to cover Tax Debts to State Budgets	-	-	2,211	1,345	2,230	1,409	209	388	3	1	108	79	-	-
Property Sold by Orders of Economic Courts	-	-	496	415	343	312	147	391	26	149	77	133	-	-
Agricultural and Water Management Objects	602	450	510	367	413	396	904	653	2,516	4,376	511	368	861	1,082
Land Lots	5,700	254	8,662	504	8,335	551	7,391	490	6,296	618	1,526	79	1,248	107
Residential and Non-Residential Buildings and other Property	1,491	3,368	1,959	6,675	2,058	10,913	3,350	15,600	3,416	13,928	1,633	4,930	984	4,927
Total	8943	6,180	15,216	12,350	14,284	16,171	13,913	23,460	14,599	28,277	4,491	7,981	3,779	8,429

Source: Republican Real Estate Exchange

Annex 2.3.1. Main Indicators of level of Development of SE

Indicators	Units	2000	2001	2002	2003	2004	03/I	03/I-II	03/I-III	04/I	04/I-II	04/I-III
Share of Small and Medium Business in the GDP	%	31.0	33.8	34.6	35.5	35.6	28.9	28.9	31.7	27.8	29.1	32.4
Small and Medium Enterprises	%	13.1	14.8	15.7	16.4	18.6	13.8	13.3	13.5	13.4	13.9	15.4
Number of Operating Legal Persons	Thous. Units	168.9	177.7	215.7	229.6	237.5	209.1	208.8	211.7	222.4	235.4	239.1
Number of Employed at SE	Thous. Persons	745.3	801.8	900.3	1,062.2	1,349.0	903.2	936.0	1,202.0	1,007.0	1,203.6	1,236.2

Annex 2.3.2. Ratio of SE in Production Output by Sector of Economy (%)

Areas of Activity	2000	2001	2002	2003	2004	03/I	03/I-II	03/I-III	04/I	04/I-II	04/I-III
Industry	11.3	14.1	14.1	16.6	10.7	9.6	10.6	11.1	9.8	10.6	10.8
Agriculture	72.4	75.6	76.4	76.8	80.9	92.8	86.1	81.7	93.2	86.8	82.3
Retail Turnover	45.9	45.8	43.8	46.5	41.8	39.9	41.2	42.7	41.1	41.8	42.3
Paid Services	37.9	39.9	41.3	45.7	47.4	41.0	44.1	45.2	42.9	45.3	46.9

Annex 2.3.3. Ratio of SE Entities in Foreign-Trade Operations of the Republic

Indicators	2000	2001	2002	2003	2004	03/I	03/I-II	03/I-III	04/I	04/I-II	04/I-III
Exports, %	10.2	9.3	7.5	7.3	7.2	6.2	5.9	6.6	8.7	5.1	7.1
Imports, %	27.4	26.7	24.9	33.7	32.3	32.3	31.6	32.6	29.4	30.9	31.6
Number of Entities Participating in Foreign Economic Activity, thousand units	2.8	2.5	2.7	3.2	3.8	1.4	2.1	2.7	1.8	2.6	3.2

3. Structural-Investment Policy

3.1. Industry

Widened internal and external demand and improved conditions for business had a positive impact on the dynamics of industrial development. The volume of industrial production in 2004 grew by 9.4% compared to the previous year and amounted to UZS 8,074.8 bn. The high pace of industrial development was a result of the processes of the restructuring of enterprises and the reform of sectoral management implemented in the framework of measures aimed at the intensification of reforms in the real sector of the economy.

The share of industry in the structure of GDP grew from 15.8% to 17.1%. More than half of the growth of added value was connected with increasing production output in the primary sectors.

Table 3.1.1. Indices of Industrial Production Output

	Index of industrial production output (in % to the previous year)	
	2003	2004
Industry	106.2	109.4
Electric-Power Industry	101.8	100.3
Fuel Industry	100.6	105.8
Ferrous Metallurgy	109.1	128.5
Non-Ferrous Metallurgy	99.0	105.0
Chemical Industry	105.2	104.5
Machine-Building	130.8	134.5
Timber, Wood-Working Industry	100.0	117.1
Construction Materials Industry	104.3	108.2
Light Industry	106.2	105.2
Foodstuffs Industry	106.8	104.7
Other	105.0	121.7

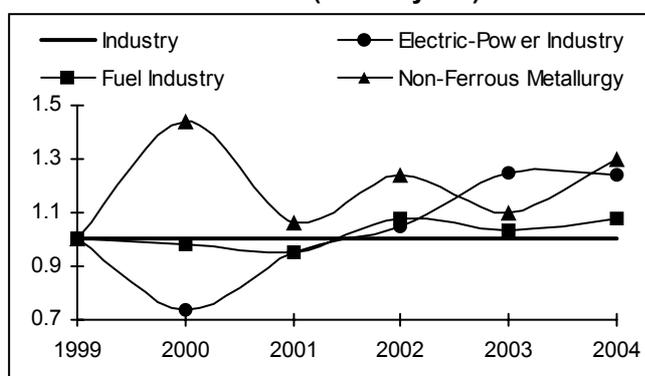
Source: State Committee on Statistics of Uzbekistan

The index of growth of non-ferrous metallurgy production output amounted to 5.0%, fully compensating for the previous year's decline (Table 3.1.1). The favorable changes in the conjuncture of world prices for non-ferrous metals were a main factor in achieving growth. The accelerated pace of growth in ferrous metallurgy was accompanied by growth in internal and external demand. The index of the growth rate exceeded the level of the previous year by 19.4 percentage points and amounted to 28.5%. The high liquidity level of goods contributed to the growth in physical volumes of steel - by 24.0%, and rolled ferrous metal - by 23.3 % (Table 3.1.2). The volume of export of ferrous and non-ferrous metals increased by 74.4%.

Along with increasing investment activity and recovering exploration and discovery work in oil, gas and coal fields, the tendency was observed towards the growth of production output of fuel- and-energy complexes (FEC).

The index of production output of the fuel industry in 2004 amounted to 5.8%. Production output of raw gas increased by 4.1%, diesel oil by 2.8% and liquefied gas by 22.8%. A tendency towards 7.8% decline of oil and condensate production output was compensated by a 41.8% increase in coal production. The index of growth in the electric-power industry amounted to 0.3%; electricity production increased by 1.9%. Along with the stable provision of the country's economy with energy carriers, the volume of their export increased by 65.1% as compared to 2003.

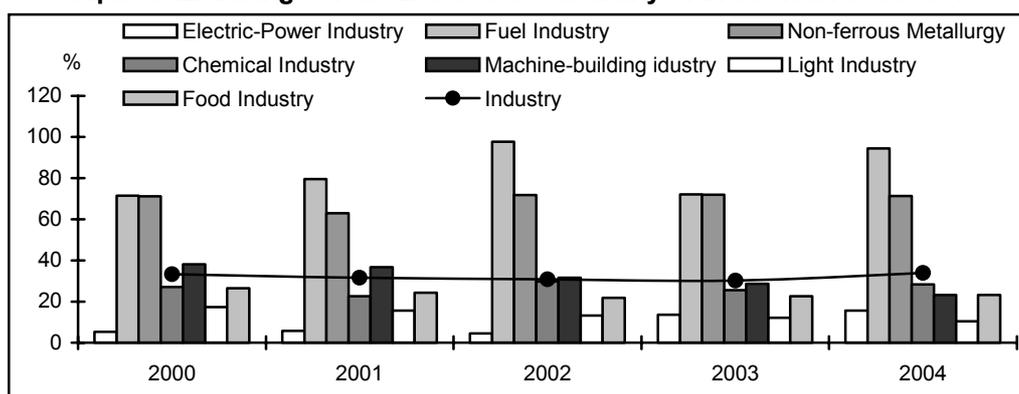
Graph 3.1.1. Dynamics of Prices of Natural Monopolies Compared to Average Prices of Industrial Products (industry = 1)



Source: State Committee on Statistics of Uzbekistan

Changes in prices on the domestic market had a decisive influence on the pace of growth, incomes and financial performance of the FEC sectors. In 2004, a tendency remained towards a growth in prices and tariffs for electric-power products as compared to manufacturers' prices. The indices of prices exceeded the average prices of manufacturers of industrial production in the electric-power industry by 31.7 percentage points and in the sectors of the fuel industry by 10.5 percentage points (Graph 3.1.1.). The same tendency was observed in non-ferrous metallurgy, where the growth rates of prices amounted to 69.4% as opposed to 29.6% in industry as a whole (Table 3.1.3).

Because of the growth in prices, profitability increased by 15% in the electric-power industry and by 30.9% in the fuel industry. The growth in prices was maintained by the high demand for the raw materials, leading to a considerable excess in the level of profitability in the sectors of ferrous and non-ferrous metallurgy, and in the fuel industry, as compared to the average sectoral level in the industry as a whole (Graph 3.1.2.).

Graph 3.1.2. Change of the Level of Profitability of Industrial Production ^{x)}

^{x)} Gross sales income to production costs
Source: State Committee on Statistics of Uzbekistan

The dynamics of changes in prices of foodstuffs manufacturers, on the contrary, had a tendency to slow down. Indices of growth of manufacturers' prices in light industry in 2004 amounted to 131.6% as opposed to 135.8% in 2003, in the food industry- 108.3% and 114.6%, in machine-building- 105.5% and 108.8% respectively.

This tendency had a positive impact on halting the inflation wave, which had resulted from the pace of dynamics of prices and tariffs of the natural monopolies. At the same time, in conditions of a high level of expenses, the rapid growth of tariffs had a substantial impact on the reduction of the profitability level in these sectors by about 15%-20%. However, the intensified influence of outside factors on industrial development led to positive dynamics on the whole.

The volume of machine-building production output in 2004 increased by 34.5%. High growth rates have been maintained mainly due to the increasing demand for cars. Car production output increased by 72.6%, while the share of exports in their total volume increased to 52%. More than 97% of the total export of cars during the year were to CIS countries, which were major customers during the year.

There was an increase in the volume of production of many types of consumer goods, as TV sets, air-conditioners and refrigerators. The decline in the production of the main types of agricultural technology was successfully overcome in 2004. The production volume of cotton-pickers increased by 25%, and tractors by 2.2%. Favorable conditions in the machine-building commodity markets had an impact on the dynamics of foreign economic activity. Proceeds from the export of machinery grew by 63.8%.

At the same time, tendencies remained towards the decrease in demand for domestic products of the instrument-making and machine-tool construction industry, technological equipment for the chemical, light and food industries, construction and road-building techniques. Because of low competitive ability, production of excavators, for example, decreased by more than 50%, the share of equipment for the light and food industries in the machine-building industry as a whole decreased, and amounted to about 0.5-0.6%. As a result, the import of machines and technological equipment in 2004 increased by 33.3% compared to 2003.

The index of growth of light industry production in 2004 amounted to 5.2%. A main contribution to the growth was the cotton-gin industry, and the production of cotton-fiber increased by 3.3% compared to 2003. Dynamics of the export of cotton-fiber grew by 18.5%. A significant influence on the structure of consumer goods production in light industry was the tendency towards a reduction in production output of cotton yarn-by 0.4%, cotton fabric-by 18% and knitwork-by 4.1%. The dynamics of growth in the processing sectors of light industry were restrained by the lack of circulating assets for purchasing raw materials on commodity exchanges, as well as by the continued reconstruction of large-scale enterprises. The growth of production in a number of joint ventures (by 33.0%), resulted from the increase in the efficiency of foreign economic operations, and had a significant impact on the total growth dynamics of the production volumes in light industry.

The index of growth in the food industry amounted to 4.7% and positively resulted in maintaining the position of this sector on the domestic consumer market. The share of domestic goods in the total volume of foodstuffs production in 2004 increased to 92% and led to a reduction in food imports of 11%.

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

	Unit	Production of major products (in kind units)		Indices of production of major products (in % to previous year)	
		2003	2004	2003	2004
Electric Power	Mill. K.W.H	48,698	49,627	100.2	101.9
Fuel Industry					
Oil and Condensate	Thous. tons	7,134	6,580.3	99.1	92.2
Gas	Mill.M ³	57,487.1	59,864.9	99.7	104.1
Liquefied gas	Thous. tons	160.6	197.2	131.2	122.8
Coal	Thous. tons	1,904	2,700	69.8	141.8
Metallurgy					
Steel	Thous. tons	485.6	602.2	105.1	124.0
Rolled Ferrous Metals	Thous. tons	446.5	550.7	106.4	123.3
Machine-Building					
Tractors	Units	2,804	2,865	90.9	102.2
Cotton Harvesting Machines	Units	12	15	26.7	125.0
Excavators	Units	60	27	107.1	45.0
Cars	Units	40,505	70,070	116.7	173.0
"Damas"	Units	6,962	9,495	106.1	136.4
"Tico"	Units	5,989	1,133	108.5	18.9
"Nexia"	Units	23,999	39,079	182.6	162.8
"Matiz"	Units	3,246	19,856	34.2	6.1 times
"Lacetti"	Units	309	507	-	164.1
Color TVs	Units	14,770	53,345	13.8 times	3.6 times
Isolated Cable	Km	1,689	2,185	118.3	129.4
Refrigerators and Deep-Freezers	Units	2,513	3,099	23.7 times	123.3
Air-Conditioners	Units	1,628	3,001	81.5	184.3
Laundry Machines	Units	1,195	973	7.0 times	81.4
Chemical Industry					
Mineral Fertilizers	Thous. tons	817.2	875.6	103.3	107.1
Nitric Fertilizers	Thous. tons	703.4	735.9	109.0	104.6
Phosphate Fertilizers	Thous. tons	113.8	139.7	78.4	122.8
Synthetic Ammonia	Thous. tons	992.9	1,019.1	109.7	102.6
Sulphuric Acid	Thous. tons	802.3	834.3	95.1	104.0
Synthetic Resins and Plastics	Tons	74,085	112,002	2.4 times	151.2
Chemical Fibers and Threads	Tons	14,863	9211	98.3	62.0
Synthetic Detergents	Tons	1,734	1,233	58.9	71.1
Chemical Protectants of Plants	Tons	3,947	5243	112.3	132.8
Paintwork Materials	Tons	6,775	9,463	145.6	139.7
Construction Materials Industry					
Walling	Mill. units of conditional bricks	119.4	105.0	65.8	87.9
Cement	Thous. tons	4,062.5	4,803.8	103.5	118.2
Asbestos-cement sheets	Mill. conditional tiles	313.6	350.3	105.0	111.7
Linoleum	Thous. M ²	360	16.0	86.3	4.4
Ceramic tile	Thous. M ²	516.1	446.4	99.4	86.5
Light Industry					
Cotton Fiber	Tons	945,893	976,656	94.0	103.3
Cotton yarn	Tons	159,806	159,108	102.4	99.6
Raw Silk Threads	Tons	574.0	676.7	66.3	117.9

Source: State Committee on Statistics of Uzbekistan

The dynamics of construction materials production is rather correlative with the volume of construction work, the average annual growth rate of which amounted to 3.6%. The growth in the volume of construction for residential and social purposes became a positive factor in the increased volume of production in the sector. In 2004, the index of growth of production output in construction materials industry exceeded by 3.9 percentage points the level of 2003 and amounted to 8.2%. The change in the technological supply of production was accompanied by growth in the production output of main types of construction materials: cement- by 18.2% and asbestos-cement sheets- by 11.7%. At the same time, the high competitive ability of imported trimming materials became a main factor in the decrease in the production of ceramic tiles- by 13.5% and walling- by 12.9%.

Table 3.1.3. Indices of Prices of Manufacturers by Sector of Industry (in percent to corresponding period of the previous year)

	2000	2001	2002	2003	2004
Industry	160.9	142.2	148.0	129.9	129.6
Electric-Power Industry	119.8	135.8	148.6	162.1	161.3
Fuel Industry	158.8	134.7	159.6	133.7	140.1
Ferrous Metallurgy	150.3	130.7	195.9	146.3	118.2
Non-Ferrous Metallurgy	232.3	150.6	183.0	142.7	169.4
Chemical Industry	150.7	142.9	147.8	134.5	125.2
Machine-Building	175.2	146.0	151.1	108.8	105.5
Timber, Wood-Working Industry	158.3	148.3	130.9	116.5	102.7
Construction Materials Industry	142.1	143.3	146.4	125.2	120.9
Light Industry	150.9	132.6	130.7	135.8	131.6
Food Industry	160.1	143.6	138.1	114.6	108.3

Source: State Committee on Statistics of Uzbekistan

In the analyzed period positive shifts in the development of the chemical complex continued. The index of growth in output of the chemical industry amounted to 4.5%. The main contribution to the growth was from the mineral fertilizers industry. As a result of the increased supply of technological raw materials, the physical volumes of the production of phosphate fertilizers grew by 22.8% and nitric fertilizers-by 4.6%. Growth tendencies were observed in the production of chemical protectants of plants- by 32.8%, synthetic resins and plastics-by 51.2%, synthetic ammonia-by 2.6% and sulphuric acid- by 4.0%. The tendency towards improving conditions on foreign commodity markets contributed to the intensive growth in the production of main types of chemical products. The volume of exports of chemical products in 2004 increased 2.0 times.

The decreased demand for chemical fibers and threads on foreign and domestic markets, resulting from their low price-competitive ability, contributed to the continuing decline in their production- by 38.0%. The lack of qualitative changes in the technology and structure of the production of household chemical products did not allow its share in the production structure of chemical industry to be increased. In 2004, the production of the synthetic detergents decreased by 28.9%.

Increased furniture production provided high growth rates in the woodworking industry, the index of which amounted to 17.1%. The application of new technologies as well as an increase in the production output of assembly enterprises based on import component parts, exerted a considerable influence on the dynamics of development in this sector.

Sectors of the "Other" group continued to play an important part in ensuring the positive dynamics of the development of industry. The index of growth of these sectors, including the printing industry, medical, microbiology and flour-and-cereal industries was one of the highest in the total dynamics of industrial development, amounting to 21.7%.

The dynamics of the sectoral structure of industry was formed under the influence of different development paces of enterprises. Structural shifts in industrial production within the analyzed period took place towards growth in the share of the fuel-energy complexes from 21.7% to 24.1% and metallurgical complex- from 17.0% to 17.9% (Table 3.1.4).

The total share of the sectors of fuel-energy and metallurgical complexes grew by 3.3 percentage points, providing more than 42% of the total value of industrial production output. The forward pace of development contributed to the increase in the share of the machine-building complex from 11.8% to 12.0%, becoming a positive factor in industrial development.

The share of the food industry decreased from 11.7% to 9.6%, light industry-from 20.3% to 19.4%, chemical sector-from 5.7% to 5.6%, and construction materials industry-from 4.4% to 4.1%.

Table 3.1.4. Structure of Industrial Production Output

	Structure of Industrial Production Output, % (in current prices)	
	2003	2004
Industry	100.0	100.0
Electric Power Industry	9.2	10.8
Fuel industry	12.5	13.3
Ferrous Metallurgy	1.8	2.6
Non-Ferrous Metallurgy	15.2	15.3
Chemical Industry	5.7	5.6
Machine Building	11.8	12
Timber, Woodworking Industry	1.0	1.0
Construction Materials Industry	4.4	4.1
Light Industry	20.3	19.4
Food Industry	11.7	9.6
Other	6.4	6.3

Source: State Committee on Statistics of Uzbekistan

Other sectors of industry, including the woodworking industry, maintained their share in the structure of industrial production output at the level of 7.3%.

An analysis of the structural shifts testified to the continuing decisive role of the sectors of raw materials and extraction in forming the dynamics of industrial production output. Their stable high share in the volume of production of added value of industry reflects tendencies in the conjuncture of demand on the domestic and foreign markets. In 2004 comparatively stable sales in these sectors contributed to continuing relatively high production capacities at the level of 70-75%. Increasing profitability in these sectors determined a tendency towards growth in the profitability of the industry as a whole from 30.2% in 2003 to 33.4% in 2004.

Despite the gradual improvement of the indicator of production capacities in the machine-building, light industry and other sectors of economy, the level of usage of production capacities in the processing sector was considerably lower and amounted to between 30% and 80%. Such a tendency led to the exhaustion of the natural margin of paybacks, the decline of profitability and the inability to save for re-equipment and investments. The low dynamics of the demand for domestic solvents and the competitiveness of products on the domestic and foreign markets were the primary factors in the reduction in the level of utilizing production capacities in consumer sectors. In conditions of a growing level of competitiveness, measures aimed at the increase of a product's competitive ability, including the decrease of expenses and prices as well as the improvement of quality, should be the priority directions of the structural reforms in industry.

The anticipated real income of the population in 2005 will stimulate an intensification of the values of production in the consumer sectors and allow an increase in the contribution of internal demand to industrial growth to be predicted. However, along with the dynamic growth of consumer demand, the reinforced influence of external factors on industrial development is also expected, determined by the favorable conjuncture of world prices for major industrial export goods. Industrial production, which is predicted to grow by 9.0%-10.0%, will maintain its tendency toward the growth of the share of industry in the GDP.

Diversification of production output and exports in 2005 remains one of the main objectives. The creation of the necessary institutional preconditions and the provision of macroeconomic stability are the fundamental bases for industrial development. The intensification of the dynamics of domestic demand will stimulate growth in the share of the processing sectors in the structure of industrial production output.

Qualitative shifts in the development of the industrial sector of the economy will be maintained by governmental measures aimed at the further development of tax- and- budget, money- and- credit, and price policy. Processes of further reforming and restructuring industrial enterprises and implementing new management principles and administrative reforms will play an important role in industrial development.

3.2. Consumer Goods Market

Economic reforms, aimed at significant increase of the internal production of consumer goods, have delivered positive results. The share of locally produced consumer goods in the domestic market in 2004 amounted to more than 75%, including foodstuffs - about 95.0% and non-foods-50%.

The production volume of consumer goods in 2004 amounted to UZS 2,405.1 bn., including foodstuffs-UZS 1,030.2 bn., and alcoholic beverages - UZS 162.7 bn. Thus, the rate of growth of production of consumer goods amounted to 13.4% (or UZS 280 bn. in comparative prices) as opposed to 8.4% in 2003. Foodstuffs production output grew by 9.9 % against 6.6%, and non-foodstuffs-by 18.6% against 12.1% (Table 3.2.1). This tendency towards growth in foodstuffs production is due to the intensified activity of industrial enterprises, small enterprises and the increased level of agricultural processing works of farms and dekhkan farms.

The growth rate in the non-foods group had a stable growth tendency during whole year and exceeded the indicators of 2003 (Table 3.2.1 and Annex 3.2.1), due to the growth in production of home appliances (TV-sets- 3.6 times, refrigerators-by 23.3%, irons-by 4.4%), cars (by 72.6%) and also carpets (40.2%) and hosiery (10.0%).

The structure of consumer goods remained practically unchanged and maintained the similar ratio tendencies of the previous year. Significant growth in the production of non-foods continued as a result of the reforms in the economy and industrial production. Their share in 2004 grew by 2.2 percentage points as opposed to the level of 2003 and exceeded 50% of the volume of consumer goods production (Table 3.2.2. and Annex 3.2.2.).

**Table 3.2.1. Consumer Goods Production Dynamics
(as % to Previous Period)**

	2003	2004
Consumer Goods	108.4	113.4
Foodstuffs	106.6	109.9
Alcoholic beverages	98.2	100.9
Non-Foods	112.1	118.6
Light Industry Foods	112.2	99.4

Source: State Statistics Committee of Uzbekistan

The processing of the new harvest's cotton by large-scale industrial enterprises in 2004 led to a reduction in the gap in the production of hosiery and vegetable oil by large-scale enterprises (Table 3.2.3. and Annex 3.2.3). As a result, they produced more hosiery and oil than in 2003, but in the production of cotton fiber and knitwear goods, the indicators of the previous year have not been achieved. Such conditions resulted from the reconstruction and re-equipment of the large-scale enterprises.

Table 3.2.2. Structure of Consumer Goods Production (%)

	2003	2004
Consumer Goods	100.0	100.0
Foodstuffs	44.2	42.8
Wine-and vodka, Beer	7.6	6.8
Non-Foods	48.2	50.4
Light Industry Foods	14.0	12.3

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

Table 3.2.3. Industrial Production of Major Types of Consumer Goods (as% to previous period)

	2003*	2004*
Cotton Fabric	97.8	82.0
Silk Fabric	100.3	91.4
Carpets and Carpet Goods	2.8 p	140.2
Hosiery	188.4	110.0
Knitwear Goods	100.6	95.9
Footwear	99.9	81.9
Milk and Dairy Products	107.6	183.4
Cheese, including brynza	78.4	89.1
Canned Goods	119.8	80.9
Granulated Sugar	114.2	78.0
Flour	73.7	145.6
Bread and Baked Goods	55.2	89.0
Pasta	60.4	110.1
Vegetable Oil	97.8	100.5
Grape Wine	73.4	59.9
Vodka and Liquors	96.6	107.1
Non-Alcohol Beverages	25.3	26.9
Filterless and Regular Cigarettes	92.5	94.6

Source: State Statistics Committee of Uzbekistan

* the data cited are on large-scale enterprises

Overall, in 2004 the growth in production of carpets and carpet goods amounted to 40.2% as a result of intensified production volumes of "Khiva Carpet" JV that was put into operation in 2003. An increase of 45.6% in the production volume of flour made from domestic grain over the level of 2003 led to an increase in the production of pasta by 10.1% (Table 3.2.3).

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

Province	2003	2004
Republic of Uzbekistan	108.4	113.4
Republic of Karakalpakstan	104.7	110.3
Andijan	120.3	145.3
Bukhara	106.0	107.8
Jizzakh	129.0	115.2
Kashkadarya	108.8	117.1
Navoi	105.3	97.3
Namangan	114.0	110.4
Samarkand	106.8	109.9
Surkhandarya	106.2	115.2
Sirdarya	104.2	107.5
Tashkent	107.1	111.7
Fergana	101.6	119.2
Khorezm	114.5	101.4
Tashkent City	102.7	103.4*

Source: State Statistics Committee of Uzbekistan

*) Without "Shakar Investment" JV and "Coca Cola" JV

The growth in consumer goods production took place in all regions of Uzbekistan excepting Navoi province (97.3%). Particularly high growth was observed in Andijan (45.6%), Fergana (19.2%) and Kashkadarya (17.1%) provinces (Table 3.2.4). The increase in consumer goods production in the regions to a great extent was due to the considerably intensified activity of small business entities, in particular those manufacturing bread and baked goods, cheese, canned fruits and vegetables, grape wine and non-alcohol beverages.

In 2004 the territorial structure of consumer goods production was maintained. The highest shares were observed in Andijan (20.3%), Tashkent (11.4%), Fergana (9.8%) provinces and Tashkent city (17.5%) (Table 3.2.5).

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

Province	2003	2004
Republic of Uzbekistan	100.0	100.0
Republic of Karakalpakstan	1.9	1.9
Andijan	15.8	20.3
Bukhara	9.0	8.5
Jizzakh	2.8	2.9
Kashkadarya	4.1	4.3
Navoi	2.6	2.2
Namangan	4.7	4.6
Samarkand	9.5	9.2
Surkhandarya	2.9	2.9
Sirdarya	1.9	1.8
Tashkent	11.5	11.4
Fergana	9.4	9.8
Khorezm	3.1	2.7
Tashkent City	20.8	17.5*

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

*) Without "Shakar Investment" JV and "Coca Cola" JV

Foodstuffs production output grew in all provinces, excepting Tashkent city (91.3%), which was a result of the reduction in the volumes of production of large-scale enterprises located in the city: "Shakar Investment" JV and "Coca Cola" JV due to the lack of raw materials (Table 3.2.3).

The main portion of the production output of light industry was in regions where cotton and silk fabrics, knitwear goods, ready garments, carpet goods and footwear are manufactured by existing large and newly established small enterprises, such as Bukhara (20.5%), Fergana (14.1%), Andijan (11.5%) and Tashkent (11.1%) provinces and Tashkent city (12.3%).

A decline in the production volume of light industry in the chemical complexes of Navoi province led to a total reduction in the rate of their production in both the province and on national level (Table 3.2.1, and 3.2.4, Annex 3.2.6).

The main exported consumer goods in 2004 were cars, cotton and silk fabrics, knitwear goods, hosiery, readymade garments, canned fruits and vegetables, juices and grape wine. As a result, the growth rate of consumer goods exports amounted to 45.9%, including non-foods- 50.5% and foodstuffs -32.9%. In the structure of exports, the growth of consumer goods by 1 percentage point occurred thanks to the non-foods (Table 3.2.6, 3.2.7).

In 2003 and 2004, the total exports of consumer goods amounted to UZS 314.7 bn. and UZS 483.6 bn. respectively, with imports at UZS 581.2 and UZS 351.3 mill. The decrease in imports of consumer goods resulted from the reduction of the volume of imported foodstuffs (the growth rate was 87.4%). As a result, the saturation of the internal market with domestically produced foodstuffs exceeded 95%. The group of imported foodstuffs consisted of sugar, canned meat and milk, tea, fat and vegetable oil, while non-food included footwear, fabrics, knitwear and hosiery made from wool and synthetic fibers, high-end home appliances and other goods (Tables 3.2.6 and 3.2.7).

Table 3.2.6. Dynamics of Exports and Imports of Consumer Goods (in % to previous period)

	2003	2004
Exports, total	124.6	130.3
Consumer Goods	121.3	145.9
Foodstuffs	96.5	132.9
Alcoholic beverages	32.8	81.3
Non-Foods	133.3	150.5
Imports, total	109.3	128.7
Consumer Goods	108.3	106.8
Foodstuffs	88.9	87.4
Alcoholic beverages	87.1	130.4
Non-Foods	120.5	115.8

Source: State Statistics Committee of Uzbekistan

Table 3.2.7. Structure of Exports and Imports of Consumer Goods (in % to previous period)

	2003	2004
Exports, total	100.0	100.0
Consumer Goods	8.7	9.7
Foodstuffs	2.2	2.3
Alcoholic beverages	0.1	0.1
Non-Foods	6.4	7.4
Imports, total	100.0	100.0
Consumer Goods	20.2	16.7
Foodstuffs	6.4	4.4
Alcoholic beverages	0.0	0.0
Non-Foods	13.8	12.4

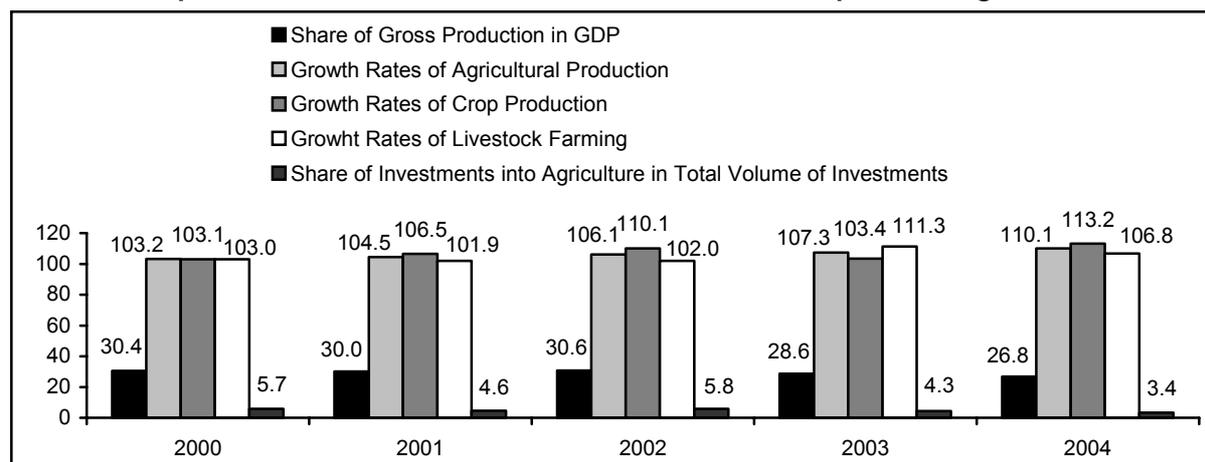
Source: Calculated by the author based on the data from the State Statistics Committee of Uzbekistan.

On the whole, the pace achieved in consumer goods production in 2004 will be a good foundation for their development in 2005. According to estimates, in 2005 the growth rate of consumer goods production will reach 10-12%.

3.3. Agrarian Sector

The agrarian sector plays an important role in the economic growth and intensification of reforms in the country. The share of agriculture in the structure of GDP in 2004 amounted to 26.8%. Within the last few years, this sector of the economy has had a stable growth dynamics. The volume of agricultural products of all categories of agricultural producers in 2004 amounted to UZS 4732.0 bn. There was growth of 10.1% in comparison with the corresponding period of 2003 (Graph 3.3.1., Annex 3.3.1).

Graph 3.3.1. Main Macroeconomic Indicators of Development of Agriculture



Source: State Statistics Committee of Uzbekistan

In comparison with the level of 2003 the areas under cultivation of all categories of farms fell by 2.6% (from 3,790.1 thous. hectares to 3,691.5 thousand hectares) or, by 98.6 thousand hectares. Areas under cereals declined by 124.4 thousand hectares and under forage crops-by 35.2 thousand hectares with, melons and gourds declining by 14.3 thousand hectares. At the same time, areas under industrial crops increased by 71.8 thousand hectares, including cotton-by 62.7 thousand hectares (Table 3.3.1, Annex 3.3.2).

The tendency towards decline in the share of agricultural enterprises in total area under cultivation and the increase in the share of farms and dekhkan farms continued in 2004. The share of farms in the total structure of areas under cultivation in 2003 amounted to 36.9% and dekhkan farms - 11.1%, while in 2004- 47.7% and 11.7% respectively. The share of shirkat farms decreased from 51.9% to 40.5% (Table 3.3.1).

Table 3.3.1. Structural Changes of Areas Under Crop by Form of Management for 2000 – 2004 (thous. hectares)

	2003				2004			
	In All Categories of Farms	Agricultural Enterprises	Farms	Dekhkan Farms	In All Categories of Farms	Agricultural Enterprises	Farms	Dekhkan Farms
Sowed, total	3,790.1	1,967.0	1,401.9	421.2	3,691.5	1,497.1	1,761.6	432.8
Cereals	1,790.9	912.1	680.3	198.5	1,666.5	661.4	805.2	199.9
Grain	1,507.6	766.6	581.3	159.7	469.7	593.5	715.1	161.1
Rice	121.0	67.3	47.8	5.9	65.9	22.7	40.0	3.2
Maize for seed	34.7	7.3	7.8	19.6	34.5	5.4	8.5	20.6
Industrial Crops	1,445	847.2	590.0	7.8	1516.8	690.8	815.6	10.4
Cotton	1,393	820.0	573.0	X	1455.7	662.9	792.8	X
Potatoes, Melons and Gourds	237.7	47.4	36.7	153.5	226.9	31.2	37.5	158.2
Potatoes	49.2	3.4	2.2	43.6	52.4	3.8	3.3	45.3
Vegetables	145.6	34.1	17.5	94.0	137.6	21.3	19.1	97.2
Melons	41.3	8.5	17.0	15.8	35.0	5.3	14.6	15.1
Fruits and Berries	201.5	108.7	27.3	65.6	198.9	97.1	37.8	64.0
Grapes	118.2	76.5	10.6	31.1	116.1	67.7	16.3	32.1
Feed Crops	316.5	160.2	94.9	61.4	281.3	113.7	103.3	64.3

Source: State Statistics Committee of Uzbekistan

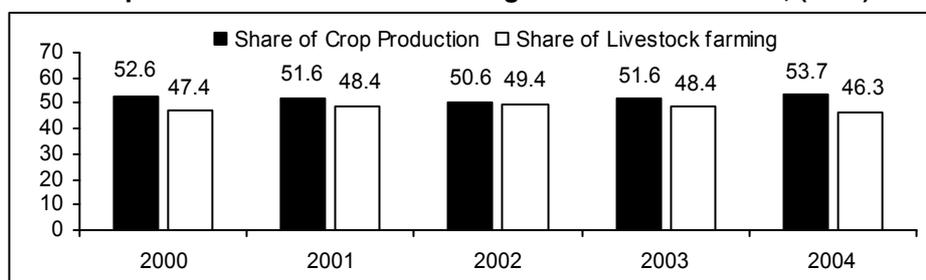
Such high paces were achieved for the first time not only due to the favorable weather conditions, but also due to the intensified restructuring of unprofitable shirkats into farms, the implementation of new credit mechanisms for enterprises, timely conducted agro technical works, satisfactory supply of mineral fertilizers and the improvement of contractual relationships.

The structure of gross agricultural production did not substantially change in 2004. The share of crop production amounted to 53.7% as opposed to 51.6% in 2003, while that of livestock farming was 46.3% and 48.4% respectively (Graph 3.3.2).

A rich harvest of cotton in 2004 amounted to more than 3.5 mill. tones. due to the increase in areas under cultivation, timely fulfilled agrotechnical works, the increase in raw cotton production output on farms and favorable weather conditions.

There was a decline in the production of grain, rice, melons and gourds. In 2004 there were declines in the volume of grain (wheat and barley), with 312.1. thousand tons less than in 2003, of rice- 269.5 thous. tons less and melons -- by 16 thousand tons. This was due to the decrease of areas under these crops in 2004 (Table 3.3.2).

Graph 3.3.2. Structure of Gross Agricultural Production, (in %)



Source: State Statistics Committee of Uzbekistan

Table 3.3.2. Gross Harvests of Agricultural Products in Farms of all Categories. Thousand tones

Products	2003				2004*			
	In All Categories of Farms	Agricultural Enterprises	Farms	Dekhkan Farms	In All Categories of Farms	Agricultural Enterprises	Farms	Dekhkan Farms
Cotton	2,803.3	1,741.8	1,061.5	X	3,535.4	1,707.1	1,828.3	X
Grain	6,319.2	3,075.6	2,264.1	979.5	6,017.1	2,211.6	2,781.5	1,024.0
Wheat	5,625.6	2,805.4	2,030.3	789.9	5,502.5	2,085.2	2,584.9	832.4
Rice	350.8	162.3	145.7	42.8	187.3	54.0	105.7	27.6
Potatoes	834.4	49.7	33.5	751.2	892.7	45.7	43.1	803.9
Vegetables	3,301.4	626.0	353.5	2,321.9	3,315.9	355.6	384.4	2,575.9
Melons	587.3	77.8	177.8	331.7	571.3	46.2	174.1	351.0
Fruits and berries	765.8	231.5	56.6	477.7	846.3	215.9	109.5	520.9
Grapes	401.5	160.5	22.5	218.5	577.6	264.3	56.9	256.4

Source: State Statistics Committee of Uzbekistan

* estimation

The yield of main types of crops increased in all categories of farms. Dekhkan farms have a relatively high yield compared to the other agricultural entities (Table 3.3.3).

Table 3.3.3. Crop Yield in all Categories of Farm (centner/hectare)

products	2003				2004			
	In All Categories of Farms	Agricultural Enterprises	Farms	Dekhkan Farms	In All Categories of Farms	Agricultural Enterprises	Farms	Dekhkan Farms
Raw cotton	20.5	21.6	18.9	x	24.6	26.0	23.4	x
Grain	34.3	32.7	32.6	47.6	35.4	32.9	33.9	49.5
Wheat	36.4	35.3	34.2	49.1	36.9	34.8	35.4	51.5
Rice	27.9	24.0	30.5	47.0	28.0	24.6	28.1	47.1
Potatoes	152.5	113.1	135.4	156.4	158.7	96.9	123.0	166.1
Vegetables	200.9	175.0	190.6	211.4	206.5	146.9	173.2	225.6
Fruits and Berries	52.5	32.0	34.3	83.6	59.4	34.1	46.4	93.9
Grapes	41.2	25.9	31.1	77.0	60.2	48.5	47.4	86.9
Melons	141.4	106.1	111.6	186.1	156.6	92.8	125.4	204.6

Source: State Statistics Committee of Uzbekistan

The situation in livestock farming improved in comparison with the previous years and the population of cattle, sheep, goats and poultry grew. The growth rate of livestock production output in all types of farms

amounted to 6.8%. Comparatively high growth was observed among sheep (6.4%) and poultry (5.9%) (Table 3.3.4, Annex 3.3.3).

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

	2003				2004*			
	In All Categories of Farms	Agricultural Enterprises	Farms	Dekhkan Farms	In All Categories of Farms	Agricultural Enterprises	Farms	Dekhkan Farms
Cattle	5,878.8	284.2	291.6	5,303.0	6,232.6	228.2	309.9	5,694.5
Sheep and Goats	9,928.6	2,460.8	309.4	7,158.0	10,560.3	2,449.9	419.6	7,690.8
Pigs	89.9	31.3	12.7	45.9	83.8	20.2	14.8	48.8
Poultry	17,675.7	5,630.4	770.9	11,274.4	18,726.9	5,139.6	766.6	12,820.7

Source: State Statistics Committee of Uzbekistan

* estimation

The growth of livestock population was maintained mostly due to dekhkan farms and farms. At the same time there was a decrease in the livestock population of cattle and poultry in the production output of shirkats. This was due to restructuring of shirkats and their transformation into cattle-breeding farms. There was an increase in the production output of main types of cattle-breeding, including meat -by 6.4%, milk - by 6.2 %, and eggs - by 13.9%. Dekhkan farms remained the main producers (Tables 3.3.5, 3.3.6).

Table 3.3.5. Production Output by Form of Management

Indicators	Units	2003				2004 *)			
		In All Categories of Farms	Agricultural Enterprises	Farms	Dekhkan Farms	In All Categories of Farms	Agricultural Enterprises	Farms	Dekhkan Farms
Milk yield per one cow	Kg	1,684	734	975	1,760	1,674	672	969	1,741
Wool from one sheep	Kg	2.2	1.7	1.4	2.4	2.2	1.7	1.5	2.5
Eggs from one hen	Pieces	170	199	143	160	170	196	145	168

Source: State Statistics Committee of Uzbekistan

As a result of implemented institutional and structural reforms the tendency remained towards the growing contribution of such a progressive form of management as farms and the decrease in the share of shirkats. (Tables 3.3.7, Annex 3.3.4). On the basis of 326 reorganized shirkats, 15,118 farms were established on a total of 769.1 thous. sq. hectares. Of these, 10,667 (469.9 thousand hectares) newly established farms specialized in the production of cotton and grain.

Table 3.3.6. Main Types of Production Output in Farms of all Categories

	Units	2003				2004			
		In All Categories of Farms	Agricultural Enterprises	Farms	Dekhkan Farms	In All Categories of Farms	Agricultural Enterprises	Farms	Dekhkan Farms
Cattle and Poultry	Thous. heads	936.7	40.0	18.7	878.0	996.3	37.3	22.1	936.9
Milk	Thous. tons	4031.1	81.9	83.5	3865.7	4279.8	63.4	88.8	4127.6
Eggs	Thous. Pieces	1632.4	699.1	60.2	873.1	1859.9	781.9	77.4	1000.6
Wool	Thous. tons	17.8	3.9	0.3	13.6	19.0	3.9	0.4	14.7
Karakul	Thous. Pieces	690.8	401.9	14.3	274.6	671.5	329.7	19.0	322.8
Silk Cocoons	Tons	16.7	14.9	1.8	x	16.8	12.7	4.1	x

Source: State Statistics Committee of Uzbekistan

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

	2003	2004	03/I	03/I-II	03/I-III	04/I	04/I-II	04/I-III
Share of Agricultural Enterprises in Gross Agricultural Production	22.2	19.9	7.9	15.5	18.9	7.6	14.6	18.3
- Crop Production	18.4	16.6	2.5	11.7	15.7	2.6	11.4	15.5
- Livestock Farming	3.8	3.3	5.4	3.8	3.2	5.0	3.2	2.8
Growth Rates of Production Output of Agricultural Enterprises	87.8	91.3	99.5	81.6	81.9	103.4	98.0	105.1
-Crop Production	84.8	89.9	98.4	76.8	78.6	111.9	99.4	105.5
- Livestock Farming	103.1	98.4	99.9	98.1	101.3	99.5	93.8	103.4

Source: State Statistics Committee of Uzbekistan

The restructuring of unprofitable shirkat farms into farms continued in 2004. The share of shirkat farms in the total agricultural production decreased from 22.2 % in 2003 to 19.9 % in 2004 (Table 3.3.7).

The total number of farms reached 103.9 thousand, covering 2.9 mill. hectares of land. The share of farms in the total production output of agriculture in 2004 compared to 2003 grew from 14.8% to 20.4%, while total areas under cultivation increased from 36.9% to 47%. Indicators in the production of raw cotton increased from 37.9% to 51.7%, grain-from 35.8% to 46.2%, and productivity of farms in cereals and cotton, according to experts' estimations, was 16.2 % higher than in shirkats. The average production cost of one ton of raw cotton by shirkats amounted to more than UZS 400 thousand, and by farms -- about UZS 230 thous. (Table 3.3.8).

Table 3.3.8. Main Indicators of Activity of Farms

	Units	2003	2004	03/I	03/I-II	03/I-III	04/I	04/I-II	04/I-III
Number of Farms	Units	87552	10,3921	79,649	84,562	85136	96,745	10,0116	10,1952
Area of land assigned to them	Thous. Hectares	2,148.1	2,935.4	1,832.2	2,029.8	2,090.1	2,531.1	2,770	2,808,2
Number of employees on farms	Thous. Pers.	603.0	765.3	512.9	576.9	603.6	654.5	713.6	800.9
Share of farms in gross production of agriculture	%	14.8	20.4	2.3	5.1	9.2	2.4	10.5	16.0
- Crop Production	%	13.8	19.3	0.3	4.1	8.2	0.3	9.5	15.0
- Livestock Farming	%	1.0	1.1	2.0	1.0	1.0	2.1	1.0	1.0
Growth rates of production output of farms	%	140.1	141.2	113.4	160.0	122.1	111.4	213.2	184.5
- Crop Production	%	141.9	142.9	133.2	175.7	123.6	116.2	235.8	192.0
- Livestock Farming	%	123.8	118.0	112	115.9	106.9	110.8	120.4	121.0
Land per farmer	Hectares	24.5	28.2	23.0	24.7	24.5	26.2	27.7	27.5

Source: State Statistics Committee of Uzbekistan

Growth rates on dekhkan farms of agricultural production output remained stable, but their share in the total gross production decreased, which was primarily due to the increase in the number of farms (Table 3.3.9).

Table 3.3.9. Main Indicators of Activity of Dekhkan Farms

	Units.	2003	2004	03/I	03/I-II	03/I-III	04/I	04/I-II	04/I-III
Number of Dekhkan Farms	Thous. Units	4,377.1	4,481.7	4,349.8	4,384.1	4,330.1	4,446.5	4,480.8	4,478.8
Area of land assigned to them	Thous Hectares	676.2	682.5	667.6	421.2	649.5	675.6	432.8	676.2
Number of employees on dekhkan farms	Thous. persons.	1,230.2	1,247.1*	1,242.9	1,208.9	1,240.1	1,252.8	1,230.3	1,293.9
Share of dekhkan farms in gross production of agriculture	%	63.0	59.7	89.8	79.4	71.9	90.0	74.9	65.7
- Crop Production	%	19.4	17.8	11.1	32.4	24.8	10.9	30.7	21.9
- Livestock Farming	%	43.6	41.9	78.7	47.0	47.1	79.1	44.2	42.8
Growth rates of production output of dekhkan farms	%	110.0	109.4	103.4	111.4	109.8	106.9	106.2	107.69
- Crop Production	%	106.1	114.2	112.2	112.3	108.8	104.7	105.3	109.3
- Livestock Farming	%	111.8	107.3	102.6	110.8	110.4	107.2	106.8	106.8

Source: State Statistics Committee of Uzbekistan

* estimation

The "Uzselkhoz mashholding" Company delivered in 2004 to agricultural producers 2,959 tractors, 1,661 trailers, 188 various ploughs, 985 cotton seeders, 80 grain seeders, 1,239 cultivators, 185 mowing machines and 789 syringes for cotton. The volume of deliveries of cotton seeders increased by 6.9 times in comparison with the previous year, cultivators-by 3.1 times, trailers-by 1.7 times, tractors-by 1.1 times and grain seeders-by 1.3 times.

Along with the achieved results, there are a number of problems in economic reforms in agriculture, such as the need for further improvement of the mechanisms for establishing farms, contract discipline, reform of banking-finance institutes, and the creation of a services infrastructure for agricultural producers in rural areas.

Further intensification of the economic reforms in the agrarian sector is envisaged for the year 2005. The accelerated development of farms remains a priority task. The anticipated liquidation of 406 shirkats will lead to the establishment of about 20 thousand farms on their basis.

3.4. Investments

Investments are one of the key factors of economic growth and development of the economy as a whole. During the last few years, an intensification of investment processes has been observed in Uzbekistan.

The volume of investments into fixed capital in 2004 from all sources of funding amounted to UZS 2,473.2 bn., and was 5.2 percentage points higher than in 2003. The share of investments in GDP amounted to 20.3%. Positive trends in the field of investments had a significant impact on the growth of the economy (Graph 3.4.1 and Annex 3.4.1)

Under conditions of total growth in the volume of investments, there took place changes in the distribution by form of ownership. The share of investments directed at the state sector grew by 1.0 percentage point and amounted to 41.4% of the total volume, due to the realization of the State Investment Program, as regards state-owned investment projects (Table 3.4.1).

The formation of a structure of investments by funding source has been stipulated by the intensification of economic reforms. Measures aimed at the improvement of tax and budget policy in order to reduce the tax burden for producers, strengthen payments discipline and intensify the privatization process contributed to the increase in enterprises' own funds. Their share in total structure of investments by funding source grew by 2.1 percentage points and amounted to 43.2%.

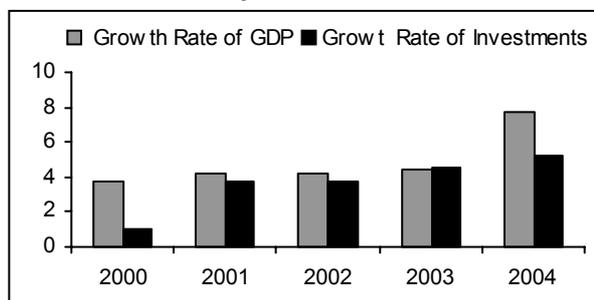
A favorable economic environment and the ability to compete on the foreign markets had impact on the growth of direct foreign investments. Direct foreign investments and non-guaranteed loans into the economy of Uzbekistan in 2004 amounted to USD 240.8 mill., which was 1.5 times higher than in 2003.

The share of population's savings decreased to 12.4%, which was 1.3 percentage points lower than the level of the previous year. The main portion of the population's savings was channeled to individual housing. The share of off-budget funds in the structure of investment by funding source grew by 2.0 percentage points and amounted to 2.4% mainly due to funds appropriated for the construction and reconstruction of roads and railways of national importance.

As a result of measures aimed at the attraction of cash into commercial banks, the decline of average interest rates for short-term and long-term loans allowed commercial banks to increase their share in the investing into the real sector of economy to 2.3%, which was 0.5 p. p. higher than the previous year's level.

Administrative reforms in the country, designed to reduce the share of state ownership in the economy, contributed to the decrease in the volume of centralized funds. The share of funds financed directly from the state budget decreased by 2.5 percentage points and the share of foreign investments guaranteed by the state - by 3.3 percentage points, amounting in 2004 to 14.9% and 14.5% of the total volume of investments respectively (Graph 3.4.2).

Graph 3.4.1. Dynamics in Growth Rates of GDP and Capital Investments.



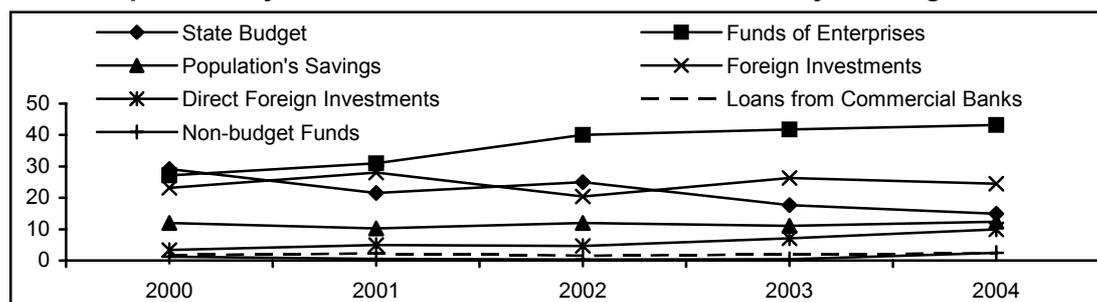
Source: State Statistics Committee of Uzbekistan

Table 3.4.1. Structure of Investments into Capital Assets by Form of Ownership (%)

	2003	2004
Investments in Capital Assets	100	100
State Property	40.4	41.4
Non-state Property	59.6	58.6

Source: State Statistics Committee of Uzbekistan

Graph 3.4.2. Dynamics of Growth Rates of Investments by Funding Source



Source: State Statistics Committee of Uzbekistan

The bulk of investments in 2004 were directed at the development of primary sectors of the economy (industry, transport and communications), impacting on the concentration of a significant volume of capital investments (to 64.1%) in the production area. The total volume of investments directed at the production area amounted to UZS 1,586.1 bn. (Table 3.4.2).

The share of capital investments into sectors of transport and communications increased by 2.8 percentage points and amounted to 23.1% of the total volume of investments. There was considerable progress in the construction of transport communications due to the construction of arterial roads in accordance with modern requirements and international standards. Construction was begun on an expressway to link Tashkent and Samarkand. A second stage has begun in the reconstruction of telecommunication systems.

As a result of structural reforms in the economy in 2004, investments in the sectors of industry grew by 0.6 percentage points. Their share in total volume of investments amounted to 28.6%. Due to both own and attracted funds, production facilities were put into operation for the producing car windows in the "Avtooyna" Industrial Associations and glass ampoules in the "Farm Plass" JV and others.

The share of investments directed at the development of agriculture decreased, mainly due to the reduction in the volume of foreign capital aimed at the support of infrastructure and development of cereal crops production. Their share in the total structure of capital investments amounted to 3.4% (Table 3.4.2).

Positive shifts took place in the structure of foreign capital by sector of the economy, the volume of which in 2004 amounted to USD 596 mill. In the production area its share decreased by 3.0 percentage points making up 82.7% of the total volume of investments. Foreign investments decreased by 7.5 percentage points in industrial sectors and 2.3 percentage points in agriculture. The share of foreign investments in the total volume of foreign capital directed at the development of transport and communications grew to 37.8%, i.e. by 5.7 percentage points. Those funds were used for the modernization of the diesel locomotives fleet, purchasing Boeing 767 class aircrafts, and for the national communications network (Table 3.4.3).

There have been changes in the investment activity of industrial sectors. The sectors of fuel-energy, metallurgical complex and light industry remained the major sphere for capital investment. The share of investments in the fuel industry amounted to 23.3% and was 1.0 percentage points lower than the level of the previous year due to the completion of re-equipment in the coal industry. The share of investments into the power industry remains on the level of the previous year- 9.5%. The share of investments into the metallurgical complex decreased considerably- by 5.9 percentage points.

The share of investments into the sectors of export-oriented production declined: from 3.7% to 3.2%, in the machine-building complex, from 9.2% to 7.6% in the chemical and petrochemical industry, and from 21.4% to 20.7% in light industry. A fall in the volume of investment capital in the chemical and petrochemical industries took place due to the decrease in governmental funding quotas for the construction of the Kungrad soda factory and completion of the "Azot" Industrial Associations in Fergana. The decrease in the volume of investments in the machine-building complex by 0.5 percentage points was caused by the decline in foreign capital in this sector, resulting from its reallocation into other sectors according to the adopted Investment Program (Table 3.4.4).

Table 3.4.2. Structure of Investments into Capital Assets by Sector of Economy (%)

	2003	2004
Total	100	100
For Production Purposes	63.0	64.1
Industry	28.0	28.6
Agriculture	4.3	3.4
Construction	0.5	0.4
Transport and Communications	20.3	23.1
Trade and Public Catering	3.3	1.3
Other Areas	6.6	7.3
For non-production purposes	37.0	35.9

Source: State Statistics Committee of Uzbekistan

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

	2003	2004
Total	100	100
For Production Purposes	85.7	82.7
Industry	46.5	39.0
Agriculture	3.0	0.7
Construction	0.0	0.0
Transport and Communications	32.1	37.8
Trade and Public Catering	1.1	0.3
Other Areas	3.0	4.9
For non-production purposes	14.3	17.3

Source: State Committee on Statistics of Uzbekistan

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

	2003	2004
Industry-total	100	100
Electric Power Industry	9.5	9.5
Fuel Industry	21.3	20.3
Metallurgy	22.3	16.4
Machine-Building	3.7	3.2
Light Industry	21.4	20.7
Food Industry	3.8	5.0
Chemical & Petrochemical	9.2	7.6
Construction Materials	1.6	2.0
Other Sectors	7.2	15.3

Source: State Statistics Committee of Uzbekistan

Significant volumes of investments into large-scale textile enterprises in 2003 secured the completion of their construction. In 2004 there was a decrease in the share of investments into light industry by 0.7 percentage points. The share of investments into the food industry grew by 1.2 percentage points, amounting to 5.0% of the total volume of investments directed at the industrial development. The intensification of investment activity in the food processing industry was connected with the increase of its financial stability (Table 3.4.4).

Light industry accounted for the bulk of foreign investments in 2004. The share of foreign investments into this sector grew by 2.9 percentage points and amounted to 49.2% of the total volume of foreign investments directed at industrial development. Significant growth of foreign investments into light industry occurred as a result of the increase in direct foreign investments for the establishment of joint ventures in the textile industry (Table 3.4.5).

The completion of the launching site of Shurtan Mining and Chemical Complex in 2003 was reflected in a decrease in the volume of foreign investments in the fuel industry. The share of foreign investments into this sector decreased by 4.2 percentage points, making up 4.5% of the total volume of foreign investments directed to the industrial development.

Putting into operation in 2004 the No. 1 head power-generating unit of Talimarjan hydroelectric power station had impact on the reduction of the share of foreign investments in the power industry to 6.6%. This is 2.9 percentage points lower than the level of the previous year. The share of foreign investments in the metallurgical complex decreased by 11.3 percentage points. The decrease in the share of foreign capital in the metallurgical complex to 5.5% resulted from the considerable volumes of foreign investments into projects which were completed in 2003. The share of foreign investments in the machine-building complex decreased by 0.5 percentage points, while increasing by 0.5 percentage points in the food processing industry, by 1.1 percentage points in the chemical and petrochemical sector and by 0.6 percentage points in the construction materials industry (Table 3.4.5).

The decline in the volume of new construction accelerated the progressive changes in the technological structure, resulting in a decrease in the volume of building and assembly jobs by 2.8 percentage points, i.e. to 45.6%. The share of investments directed at the purchasing of machines and equipment increased by 3.9 percentage points, making up 43.6% of the total volume of investments, which will help limit the wear and tear on the active part of capital assets (Table 3.4.6).

The development of leasing operations in Uzbekistan consecutively contributes to the growth of the volume of machines and equipment supply. In the technological structure, the share of machines, equipment and sundries acquired by leasing amounted to 11.1% (14.0% in 2003). For the intensification and expansion of the leasing system amendments were made to the improvement of standard acts regulating leasing operations (Table 3.4.7).

According to the approved Investment Program for 2005, the following large investment projects with foreign capital have been outlined: reconstruction of irrigation and melioration systems in Uzbekistan; modernization and construction of new trunk-railways and hydraulic-power systems; exploitation of the deposits of Kamdim group and geological survey in the Usturt region; after-construction of Zevardi, Kul-tak and Pamuk deposits; reconstruction of Samarkand chemical plants; establishment of a range of joint ventures in light and food processing industries.

Table 3.4.5. Structure of Foreign Investments into Capital Assets by Sector of Industry (%)

	2003	2004
Industry-total	100	100
Electric Power Industry	9.5	6.6
Fuel Industry	8.7	4.4
Metallurgy	16.8	5.5
Machine-Building	2.0	1.5
Light Industry	46.3	49.2
Food Industry	3.1	3.6
Chemical & Petrochemical	8.1	9.2
Construction Materials	0.2	0.8
Other Sectors	5.3	19.1

Source: State Statistics Committee of Uzbekistan

Table 3.4.6. Technological Structure of Investments into Capital Assets (%)

	2003	2004
Total	100	100
Building and Assembly Works	48.4	45.6
Machines, Equipment, Sundries	39.7	43.6
Other Expenses	11.9	10.8

Source: State Statistics Committee of Uzbekistan

Table 3.4.7. Value of Equipment Acquired by Leasing (%)

	2003	2004
The share of equipment acquired by leasing in appropriate section of the technological structure of investments into capital assets	14.0	11.1
The share of equipment acquired by leasing in the investments into fixed capital	5.5	4.9

Source: State Statistics Committee of Uzbekistan

Annex 3.1.1. Structure of Industrial Production Output (% of total volume)

Period	Industry	including:									
		Electric Power	Fuel	Ferrous Metallurgy	Non-Ferrous Metallurgy	Chemical and Petrochemical	Machine-Building and Metal-Processing	Construction Materials	Light	Food	Other sectors*
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	13.4	5.9	10.3	4.6	19.5	14.3	9.4
2003	100.0	9.2	12.5	1.8	15.2	5.7	11.8	4.4	20.3	11.7	7.4
2004	100.0	10.8	13.3	2.6	15.3	5.6	12.0	4.1	19.4	9.6	7.3
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	8.5	11.8	1.9	15.2	6.1	13.4	4.0	20.1	12.6	6.4
03/I-III	100.0	9.3	12.7	2.0	15.7	6.0	12.6	4.6	18.0	12.0	7.1
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
04/I-III	100.0	10.9	13.5	2.6	15.7	5.8	11.9	4.4	18.8	9.2	7.2

* including the timber and woodworking industry

Source: State Statistics Committee of Uzbekistan

Annex 3.1.2. Index of Industrial Production Output (% to previous year)

Period	Industry	including:									
		Electric Power	Fuel	Ferrous Metallurgy	Non-Ferrous Metallurgy	Chemical and Petrochemical	Machine-Building and Metal-Processing	Construction Materials	Light	Food	
2000	105.9	101.1	99.7	118.7	102.5	112.7	89.5	104.3	117.0	108.5	
2001	107.6	95.8	96.4	110.6	101.8	104.7	124.9	105.9	112.4	109.4	
2002	108.3	101.5	102.4	104.3	105.9	114.2	108.9	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	
2004	109.4	100.3	105.8	128.5	105.0	104.5	134.5	108.2	105.2	104.7	
03/I	104.0	100.6	97.5	104.4	101.1	102.6	108.8	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	
03/I-III	105.7	100.2	99.7	110.2	99.2	104.3	128.1	102.2	107.4	106.1	
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	
04/I-III	110.2	101.4	106.4	123.6	106.0	102.9	132.2	111.3	108.2	100.6	

Source: State Committee on Statistics of Uzbekistan

Annex 3.2.1. Dynamics Consumer Goods Production (in % to previous period)

	2000	2001	2002	2003	2004	03/I	03/I-II	03/I-III	04/I	04/I-II	04/I-III
Consumer Goods	106.2	107.6	108.4	108.4	113.4	102.3	104.0	106.8	114.9	114.4	113.3
Foodstuffs	110.5	110.2	116.1	106.6	109.9	104.2	105.1	106.1	117.6	112.8	111.2
Alcoholic beverages	108.1	102.6	95.5	98.2	100.9	87.8	93.2	95.5	101.7	104.5	100.2
Non-Foods	101.7	106.3	103.7	112.1	118.6	103.2	105.1	109.7	114.2	117.3	117.1
Light Industry Goods	117.3	110.7	105.8	112.2	99.4	112.0	110.5	113.1	101.8	105.5	103.5

Source: State Statistics Committee of Uzbekistan

Annex 3.2.2. Structure of Consumer Goods Production (%)

	2000	2001	2002	2003	2004	03/I	03/I-II	03/I-III	04/I	04/I-II	04/I-III
Consumer Goods	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Foodstuffs	44.6	45.6	47.1	44.2	42.8	44.4	43.2	42.6	46.0	42.4	40.9
Alcoholic beverages	11.9	9.9	8.6	7.6	6.8	7.5	8.3	8.4	6.0	6.7	6.9
Non-Foods	43.5	44.5	44.3	48.2	50.4	48.1	48.5	49.9	48.0	50.9	52.2
Light Industry Goods	x	12.0	11.6	14.0	12.3	13.7	13.4	13.5	13.0	13.5	13.9

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

Annex 3.2.3. Dynamics of Production of Major Types of Consumer Goods* (in % to Previous Period)

	2000	2001	2002	2003	2004	03/I	03/I-II	03/I-III	04/I	04/I-II	04/I-III
Finished Cotton Fabric	107.8	111.9	106.9	97.8	82.0	100.8	102.6	100.7	86.2	85.2	85.6
Finished Silk Fabrics	102.0	98.3	97.4	100.3	91.4	62.4	78.1	97.5	104.6	93.9	91.9
Carpets and Carpet goods	71.4	104.8	108.3	2.8 times	140.2	173.4	182.7	2 times.	103.6	148.9	155.4
Hosiery	119.9	63.4	77.0	188.4	110.0	140.3	183.7	175.6	104.3	101.4	101.0
Knitwear	97.6	85.7	82.4	100.6	95.9	115.2	105.3	98.7	91.3	84.8	84.5
Footwear	111.3	149.1	109.5	99.9	81.9	101.4	102.6	100.8	68.0	76.1	73.8
Milk and Dairy Products	91.2	102.5	115.9	107.6	183.4	111.3	100.0	107.7	2.2 times	167.8	188.4
Cheese including Brinza	89.7	87.2	74.3	78.4	89.1	78.0	88.8	81.7	100.0	87.9	83.3
Canned Goods	103.8	97.1	101.3	119.8	80.9	89.0	101.8	113.8	114.2	110.2	76.0
Granulated Sugar	48.6	2.8 times	7.6 times	114.2	78.0	106.2	108.2	101.7	149.8	93.8	72.4
Flour, total	94.0	103.4	87.1	73.7	145.6	39.6	44.3	53.6	2.3 times	2.1 times.	182.0
Bread and Baked Goods	106.3	100.4	99.5	55.2	89.0	50.3	49.4	52.4	75.4	84.7	85.3
Pasta	107.7	110.7	81.0	60.4	110.1	63.2	60.2	60.2	123.3	105.0	109.2
Vegetable Oil	108.0	96.3	93.8	97.8	100.5	100.9	102.9	99.9	86.4	86.7	88.6
Grapes	89.3	118.8	116.6	73.4	59.9	99.2	83.7	75.5	74.6	64.0	62.8
Vodka and Liquors	99.1	92.5	92.5	96.6	107.1	91.4	93.6	94.7	99.2	109.1	108.0
Non-Alcohol Beverages	107.5	77.8	93.1	25.3	26.9	58.1	33.4	27.6	5.5	10.8	13.5
Cigarettes:Filterless and Regular	72.8	89.8	101.0	92.5	94.6	91.0	91.6	91.4	85.0	91.2	95.9

Source: State Statistics Committee of Uzbekistan

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

Annex 3.2.4. Dynamics of Consumer Goods Production in Regions (in % to Previous period)

Province	2000	2001	2002	2003	2004	03/I	03/I-II	03/I-III	04/I	04/I-II	04/I-III
R. of Uzbekistan	106.2	107.6	108.4	108.4	113.4	102.3	104.0	106.8	114.9	114.4	113.3
R. of Karakalpakstan	105.9	113.5	104.3	104.7	110.3	103.1	105.9	106.7	119.0	122.8	119.4
Andijan	92.6	123.7	97.8	120.3	145.3	96.0	104.3	115.0	133.3	136.4	136.0
Bukhara	105.9	107.4	103.3	106.0	107.8	103.3	106.8	109.4	107.8	107.6	108.9
Jizzakh	123.6	119.3	159.3	129.0	115.2	101.2	115.7	119.3	113.0	117.8	120.5
Kashkadarya	113.1	112.7	108.5	108.8	117.1	113.2	105.8	116.1	127.0	124.7	115.2
Navoi	115.5	99.98	114.5	105.3	97.3	125.0	114.6	109.0	107.3	106.4	101.4
Namangan	124.3	111.8	118.1	114.0	110.4	107.7	112.3	114.6	124.7	116.1	116.2
Samarkand	92.4	102.6	102.5	106.8	109.9	104.8	104.0	106.3	100.3	102.0	112.4
Surkhandarya	111.9	100.9	114.8	106.2	115.2	88.7	105.0	105.9	129.5	124.1	132.6
Sirdarya	110.1	120.2	103.0	104.2	107.5	100.6	107.7	111.3	108.0	115.3	114.9
Tashkent	112.5	114.1	106.6	107.1	111.7	104.7	108.6	109.2	106.6	111.1	112.9
Fergana	111.3	98.1	106.4	101.6	119.2	96.7	95.5	101.3	113.2	122.4	119.5
Khorezm	107.8	94.0	95.0	114.5	101.4	115.9	115.4	120.5	96.6	102.5	101.5
Tashkent City	111.3	101.3	120.2	102.7	103.4*	100.8	102.9	101.5	115.7	101.5	103.1*

Source: State Statistics Committee of Uzbekistan

*) Without "Shakar Investment" JV and "Coca Cola" JV

Annex 3.2.5. Dynamics of Exports and Imports of Consumer Goods (in % to previous period)

	2000	2001	2002	2003	2004	03/I	03/I-II	03/I-III	04/I	04/I-II	04/I-III
Exports, total	100.9	97.1	94.3	124.6	130.3	145.9	140.9	123.2	131.5	125.2	134.6
Consumer Goods	100.6	80.7	83.3	121.3	145.9	117.1	114.9	119.7	140.7	136.9	143.8
Foodstuffs	82.4	81.5	90.9	96.5	132.9	105.3	78.0	87.4	150.0	137.7	134.8
Alcoholic beverages	141.4	90.6	2.7 p	32.8	81.3	184.0	29.1	29.8	41.6	50.7	64.2
Non-Foods	110.8	80.3	80.0	133.3	150.5	121.6	133.8	135.6	137.5	136.6	146.7
Imports, total	94.8	106.4	86.5	109.3	128.7	103.8	104.1	103.3	134.6	123.5	128.8
Consumer Goods	86.4	97.3	87.7	108.3	106.8	98.7	109.2	105.1	124.3	110.7	110.8
Foodstuffs	72.2	98.0	93.2	88.9	87.4	114.3	113.8	91.3	107.5	89.8	90.3
Alcoholic beverages	126.7	158.6	80.6	87.1	130.4	58.4	64.0	73.3	161.9	154.7	142.8
Non-Foods	97.2	96.9	84.5	120.5	115.8	90.7	106.9	112.9	135.1	121.9	120.2

Source: State Statistics Committee of Uzbekistan

Annex 3.2.6. Production of Consumer Goods in the Regions of the Republic of Uzbekistan in 2004

	Production (in % to previous period)					Territorial Structure of Production* (%)					Commodity Structure of Production* (%)				
	Consumer Goods Total	Food-stuffs	Alcoholic beverages	Non-Foods	Light Industry Goods	Consumer Goods Total	Food-stuffs	Alcoholic beverages	Non-Foods	Light Industry Goods	Consumer Goods Total	Food-stuffs	Alcoholic beverages	Non-Foods	Light Industry Goods
Republic of Uzbekistan	113.4	109.9	100.9	118.6	99.4	100.0	100.0	100.0	100.0	100.0	100.0	42.8	6.8	50.4	12.3
Republic of Karakalpakstan	110.3	109.6	115.2	109.1	108.2	1.9	2.9	4.1	0.6	1.8	100.0	68.1	14.9	17.0	12.2
Andijan Province	145.3	113.7	93.5	150.9	97.9	20.3	4.8	2.7	35.8	11.5	100.0	10.1	0.9	89.0	7.0
Bukhara Province	107.8	105.3	108.6	109.4	105.5	8.5	7.2	5.3	10.2	20.5	100.0	35.9	4.2	59.9	29.4
Jizzakh Province	115.2	116.2	11.3	120.3	143.2	2.9	6.1	0.1	0.5	0.8	100.0	91.0	0.1	8.9	3.3
Kashkadarya Province	117.1	119.4	104.5	107.2	104.6	4.3	8.3	1.8	1.1	3.5	100.0	83.6	2.8	13.6	10.1
Navoi Province	97.3	138.2	52.7	76.5	42.7	2.2	2.6	0.5	2.1	2.3	100.0	49.6	1.7	48.7	13.1
Namangan Province	110.4	117.8	72.3	102.8	102.2	4.6	7.0	2.4	2.8	9.1	100.0	65.6	3.5	30.9	24.4
Samarkand Province	109.9	119.0	86.2	105.4	111.3	9.2	10.2	8.0	8.5	4.8	100.0	47.6	5.9	46.5	6.4
Surkhandarya Province	115.2	126.7	75.1	89.6	80.0	2.9	5.6	3.9	0.5	0.7	100.0	81.8	9.0	9.2	2.9
Sirdarya Province	107.5	107.8	98.1	114.8	137.7	1.8	3.1	2.8	0.5	1.3	100.0	75.5	10.8	13.7	9.0
Tashkent Province	111.7	121.1	117.2	100.1	103.9	11.4	10.4	41.5	8.2	11.1	100.0	39.1	24.7	36.2	12.0
Fergana Province	119.2	112.4	55.1	126.2	166.5	9.8	6.8	2.5	13.4	14.2	100.0	29.6	1.7	68.7	17.6
Khorezm Province	101.4	109.3	103.7	91.8	86.7	2.7	3.3	4.6	2.1	6.1	100.0	50.9	11.4	37.7	27.1
Tashkent City	103.4**	91.3	101.3	100.5	71.9	17.5	21.7	19.8	13.7	12.3	100.0	53.0	7.6	39.4	8.6

Source: State Statistics Committee of Uzbekistan

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

*) Without "Shakar Investment" JV and "Coca Cola" JV

Annex 3.3.1. Main Indicators of Agricultural Production

	Units	2000	2001	2002	2003	2004	03/I	03/I-II	03/I-III	04/I	04/I-II	04/I-III
Raw Cotton	Thous Tons	3,002.4	3,264.6	3,122.4	2,803.3	3,535.4	-	-	317.0	-	-	2,050
Grain	Thous Tons	3,929.4	4,072.4	5,792.6	6,319.2	6,017.1	-	2,565.8	5,788.5	-	3,894.0	5,658.5
Potatoes	Thous Tons	731.1	744.4	777.2	834.4	892.7	-	404.3	637.9	-	461.9	725.9
Vegetables	Thous Tons	2,644.7	2,777.8	2,935.6	3,301.4	3,315.9	-	640.4	2,296.1	-	715.1	2,441.2
Fruits and Berries	Thous Tons	790.9	801.3	842.9	765.8	846.3	-	186	487.9	-	208.2	573.1
Grapes	Thous Tons	624.2	573.1	516.4	401.5	577.6	-	4.2	212.8	-	6.9	349.8
Melons	Thous Tons	451.4	466.1	4,79.1	587.3	571.3	-	19.2	369.8	-	25	391.0
Meat (in live weight)	Thous Tons	841.8	853.5	865	936.7	996.3	189.5	436.4	675.8	204.7	464	721.0
Milk	Thous Tons	3,632.5	3,665.2	3721.3	4,031.1	4,279.8	697.5	1,834.4	2,927.1	752.7	1,942.5	3,104.4
Eggs	Mill.pieces	1,254.4	1,287.8	1,368.9	1,632.4	1,859.9	305.2	750.8	1,189.4	346.5	810.3	1,439.1

Source: State Statistics Committee of Uzbekistan

Annex 3.3.2. Structural Changes of Areas Under Crops for 2000 – 2004 (thous. hectares.)

	2000	2001	2002	2003	2004
Sowed, total	3,778.3	3,444.5	3,540.8	3,790.1	3,691.5
Cereals	1,614.0	1,393.7	1,533.4	1,790.9	1,666.5
Grain	1,355.8	1,219.8	1,282.6	1,507.6	1,469.7
Rice	131.8	39.5	64.4	121	65.9
Maize for seed	49.2	38.7	35.1	34.7	34.5
Industrial Crops	1,512.5	1,500.3	1,462.2	1445	1,516.8
Cotton	1,444.5	1,452.1	1,421.0	1393	1,455.7
Potato, Melons and Gourde	222.8	219.3	216.1	237.7	226.9
Potatoes	52.2	50.8	48.9	49.2	52.4
Vegetables	129.9	131.2	127.5	145.6	137.6
Melons	36.9	35.6	37.3	41.3	35.0
Forage Crops	429	331.2	329.1	316.5	281.3

Source: State Statistics Committee of Uzbekistan

Annex 3.3.3. Livestock of Cattle and Poultry in All Categories of Farms (Thous. Heads)

Type of Product	2000	2001	2002	2003	2004*	03/I	03/I-II	03/I-III	04/I	04/I-II	04/I-III
Cattle	5353.4	5,416.1	5,477.6	5,878.8	6,232.6	5,388.5	5,852.8	5,851.7	5,806.4	6,203.1	6,212.2
Pigs	85.8	81.6	75.4	89.9	83.8	74.3	73.6	81.6	83.5	80.9	81.0
Sheep and Goats	8932.5	9,022.6	9,233.9	9,928.6	10,560.3	9990	10,615.8	10,285.4	10,634.5	11,181.9	11,221.7
Poultry	14510	14,828.7	15,354.9	17,675.7	18,726.9	15,434.9	17,584.1	18,136.6	16,743.4	18,822.6	19,445.0

Source: State Statistics Committee of Uzbekistan

* estimation

Annex 3.3.4. Gross Production of Agriculture and Change of Structure of Area under Cultivation by Form of Management (%)

	2000			2001			2002			2003			2004*		
	Agricul-tural	Farm	Dekhkan												
In Gross Production	27.8	5.5	66.7	27.3	7.3	65.4	25.9	10.0	64.1	22.2	14.8	63.0	19.9	20.4	59.7
In Crop Production	46.4	9.7	43.9	45.1	12.8	42.1	42.6	17.8	39.6	35.7	26.8	37.5	30.9	35.9	33.2
In Livestock Farming	9.0	1.3	89.7	8.3	1.5	90.2	8.7	2.0	89.3	7.8	2.1	90.1	7.2	2.3	90.5
In Area under Cultiva-tion	72.7	16.7	10.6	68.6	20.2	11.2	60.6	28.0	11.4	51.9	37	11.1	40.6	47.7	11.7

Source: State Statistics Committee of Uzbekistan

* estimation

Annex 3.4.1. Dynamics in Investments into Capital Assets in Current Prices

	Investments into capital assets bn. soums	Growth to corresponding pe- riod of previous year, %
2000	744.5	1
2001	1,320.9	4.0
2002	1,442.4	3.8
2003	1,899.2	4.5
2004	2,473.2	5.2
03/I	288.0	0.3
03/I-II	753.6	2.6
03/I-III	1,222.9	2.8
04/I	346.8	-0.4
04/I-II	912.0	2.2
04/I-III	1,529.6	3.0

Source: State Statistics Committee of Uzbekistan

Annex 3.4.2. Structure of Investments into Capital Assets by Form of Ownership (%)

	2000	2001	2002	2003	2004	03/I	03/I-II	03/I-III	04/I	04/I-II	04/I-III
Investments into Fixed Capital	100	100	100	100	100	100	100	100	100	100	100
State Property	63.9	47.0	40.9	40.4	41.4	31.9	35.9	38.0	44.5	45.6	43.0
Non-State Property	36.1	53.0	59.1	59.6	58.6	68.1	64.1	62.0	55.5	54.4	57.0

Source: State Committee on Statistics of Uzbekistan

Annex 3.4.3. Structure of Investments into Capital Assets by Source of Funding (%)

	2000	2001	2002	2003	2004	03/I	03/I-II	03/I-III	04/I	04/I-II	04/I-III
Total	100	100	100	100	100	100	100	100	100	100	100
State Budget	29.2	21.5	25.0	17.4	14.9	13.1	17.9	19.2	21.2	21.1	18.4
Funds of Enterprises	27.1	31.0	40.0	41.1	43.2	50.0	45.8	40.4	36.7	38.6	38.5
Population's Savings	12.0	10.3	12.0	13.7	12.4	9.6	11.8	19.2	10.4	13.4	15.8
Foreign Investments Guaranteed by State	19.8	23.2	15.8	17.8	14.5	15.4	14.2	12.3	19.2	14.2	12.9
Direct Foreign Invest- ments	3.4	4.8	4.7	7.1	10.0	10.0	5.9	6.1	11.4	9.5	9.6
Centralized Banking Credits	5.1	5.9	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Credits from Commer- cial Banks	1.7	2.2	1.6	1.8	2.3	1.2	3.6	1.7	0.6	0.8	2.4
Investments from Non- Budgetary Funds	1.3	0.1	0.3	0.4	2.4	0.0	0.1	0.2	0.5	2.2	2.2
Other Loan Proceeds	0.4	0.9	0.5	0.8	0.3	0.7	0.7	0.9	0.0	0.2	0.2

Source: State Statistics Committee of Uzbekistan

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

	2000	2001	2002	2003	2004	03/I	03/I-II	03/I-III	04/I	04/I-II	04/I-III
Total	100	100	100	100	100	100	100	100	100	100	100
For Production Purposes	57.5	63.1	57.1	63.0	64.1	68.4	58.6	54.4	65.0	58.1	56.5
Industry	29.7	38.9	32.4	28.0	28.6	36.8	29.5	27.1	28.1	24.3	26.7
Agriculture	5.7	5.5	5.8	4.3	3.4	4.7	4.1	3.8	4.2	3.0	3.0
Construction	0.5	0.6	0.4	0.4	0.4	0.4	0.5	0.5	0.2	0.3	0.5
Transport and Communi- cations	16.8	14.1	10.0	20.3	23.1	11.7	12.3	11.9	23.6	19.9	17.2
Trade and Public Cater- ing	2.9	1.5	1.6	3.3	1.3	5.4	5.0	4.1	1.6	1.3	1.4
Other Areas	1.9	2.5	6.9	6.7	7.2	9.4	7.3	7.0	7.3	9.3	7.7
For Non-production pur- poses	42.5	36.9	42.9	37.0	35.9	31.6	41.4	45.6	35.0	41.9	43.5

Source: State Statistics Committee of Uzbekistan

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

	2000	2001	2002	2003	2004	03/I	03/I-II	03/I-III	04/I	04/I-II	04/I-III
Industry-total	100	100	100	100	100	100	100	100	100	100	100
Electric Power Industry	5.3	3.8	6.4	9.5	9.5	7.6	10.4	10.9	11.4	11.9	11.1
Fuel Industry	20.2	32.3	29.1	21.3	20.3	30.2	26.8	24.9	13.7	18.2	17.7
Metallurgy	9.0	11.5	14.5	22.3	16.4	21.3	21.8	19.9	10.6	13.0	13.8
Machine-Building	13.8	14.6	10.9	3.7	3.2	2.3	3.1	3.4	2.1	2.4	2.4
Light Industry	7.9	15.9	14.1	21.4	20.7	16.2	17.7	18.2	28.1	21.8	23.8
Food Industry	8.4	5.8	6.0	3.8	5.0	3.7	3.5	3.8	2.9	4.8	5.5
Chemical & Petrochemical	26.7	9.9	11.1	9.2	7.6	12.2	9.7	9.8	24.8	16.9	11.0
Construction Materials	0.9	1.2	1.2	1.6	2.0	1.1	1.4	1.6	2.1	2.6	2.4
Other Sectors	7.8	5.0	6.7	7.2	15.3	5.4	5.6	7.5	4.3	8.4	12.3

Source: State Statistics Committee of Uzbekistan

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

	2000	2001	2002	2003	2004	03/I	03/I-II	03/I-III	04/I	04/I-II	04/I-III
Total	100	100	100	100	100	100	100	100	100	100	100
Building and Assembly Works	58.1	48.2	53.1	48.4	45.6	51.0	49.4	52.2	50.4	53.8	50.9
Machines, Equipment, Sundries	30.6	39.5	35.1	39.7	43.6	35.5	35.4	32.5	37.9	32.4	37.6
Other Expenses	11.3	12.3	11.8	11.9	10.8	13.5	15.2	15.3	11.7	13.8	11.5

Source: State Statistics Committee of Uzbekistan

4. Foreign trade

4.1. Trade balance, Export and Import

The processes of gradual liberalization of foreign economic relations began to pay off. In 2004 the positive tendencies in the development of foreign trade that had been noted in 2003 strengthened. During the period under review, the foreign trade turnover of Uzbekistan increased by 29.6% and equaled USD 8.7 bn. (Table 4.1.1.). At the same time, 56.0% of the total volume of foreign trade turnover consisted of export operations, while imports accounted for 44.0%.

Exports grew at a higher rate than imports did – by 30.3% and 28.7% respectively. This was determined by the results of the previous nine months, during which exports grew by 34.6% against the corresponding period of 2003, while imports increased by 28.8%. In the fourth quarter the opposite situation was observed, with imports growing more rapidly, reaching 28.5%, while exports grew by only 20.0%. Measures taken on customs and tariff regulations of import operations played a significant role in increasing the volume of trade. Thus, in January 1, 2004 in order to create favorable conditions for the further modernization and technological re-equipping of operating enterprises, the Government introduced zero tariff rates for imported machines, machinery and technological equipment, including those for the production of construction materials and other construction-related items and goods. The process of certification of imported goods was simplified. Growth of economic activity (the level of GDP increased by 7.7% in comparison with that of 2003) also facilitated the increase of imported supplies due to the increase in gross domestic demand of enterprises for investment and intermediate goods.

One of the factors that stimulated the growth of exports was the increase of export prices as a result of the favorable dynamics of the world market conjuncture for the main export commodities of the country. For example, gold prices at the end of 2004 were characterized by a continuance of their record growth over the last 16 years, and in early December of 2004 reached the level of USD 449 per ounce, as opposed to USD 330 per ounce in 2003¹. The dynamic growth of export volumes, partially due to the more rapid growth of exports of goods with high value added, was promoted by the introduction of convertibility of the national currency in current international operations.

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

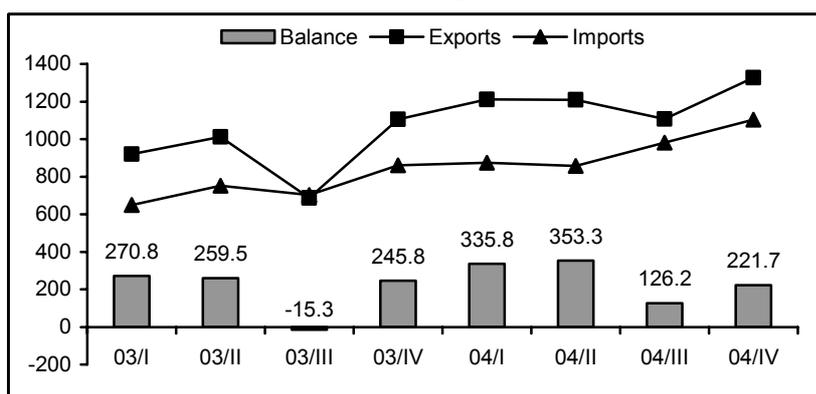
Indicators	2003	2004	Including		Change in volume, %	
			03/IV*	04/IV*	2004 to 2003	04/IV to 03/IV
Foreign trade turnover	6,689.2	8,669.0	1,965.2	2,430.9	129.6	123.7
CIS countries	2,105.4	3,002.6	606.2	857.2	142.6	141.4
Non-CIS countries	4,583.8	5,666.4	1,359.0	1,573.7	123.6	115.8
Exports	3,725.0	4,853.0	1,105.5	1,326.3	130.3	120.0
CIS countries	969.2	1,528.4	274.4	425.9	157.7	155.2
Non-CIS countries	2,755.8	3,324.6	831.1	900.4	120.6	108.3
Import	2,964.2	3,816.0	859.7	1,104.6	128.7	128.5
CIS countries	1,136.2	1,474.2	331.8	431.3	129.7	130.0
Non-CIS countries	1,828.0	2,341.8	527.9	673.3	128.1	127.5
Trade balance	760.8	1,037.0	245.8	221.7	X	X
CIS countries	-167.0	54.2	-57.4	-5.4	X	X
Non-CIS countries	927.8	982.8	303.2	227.1	X	X
Structure of foreign trade turnover, %	100.0	100.0	100.0	100.0	X	X
CIS countries	31.5	34.6	30.8	35.3	X	X
Non-CIS countries	68.5	65.4	69.2	64.7	X	X

Source: State Statistics Committee of Uzbekistan

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

During the period under review the coefficient of exports' covering imports was equal to 1.27; as a result, the active trade balance amounted to USD 1037 mill, demonstrating an increase of USD 276.2 mill. over the corresponding period of 2003 (Table 4.1.1., Annex 4.1.1., Graph 4.1.1.). In the fourth quarter, according to calculations, the positive foreign trade balance equaled USD 221.7 mill. Foreign trade with non-CIS countries accounted for 95% of the active balance of trade turnover, or USD 982.8 mill., which remained stable during all four quarters. The positive balance of trade turnover with CIS countries amounted to USD 54.2 mill. This was achieved thanks to the first three quarters. The fourth quarter resulted in a negative balance of USD 5.4 mill.

¹ Russian information agency "RossBusinessKonsalting" 10.11.2004

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

Source: State Committee on Statistics of Uzbekistan

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

Qualitative changes in the structure of exports continued. In 2004, an increase in the volume of exports was observed in practically all commodity groups. A significant increase was observed in the group of non-raw commodities (by 1.5-2.0 times) in accordance with the increase in production volumes in comparison with raw-material types of products (by 1.2-1.7 times). This tendency was observed throughout all four quarters of 2004. Thus, in comparison with the corresponding period of 2003, exports of chemical products increased by 2.0 times, foodstuffs – by 1.8 times, and machinery and equipment – by 1.6 times. At the same time, in the fourth quarter, exports of machinery and equipment increased by two times in comparison with the corresponding period of the previous year. The share of exports of chemical products equaled 4.7% (an increase of 1.6 percentage points over the same period of 2003), the share of foodstuffs – 3.8% (an increase of 1.1 percentage point), and machinery and equipment – 7.4% (an increase of 1.5 p.p.) (Table 4.1.2., Annex 4.1.2). The volume of exports of products of non-organic chemistry, fertilizers, perfumery-cosmetic products, plastics, grains, fruits, vegetables, and automobiles grew in 2004. Exports of textile clothes and fabrics increased significantly among the products of light industry. Enterprises, under such associations as “Uzeltechprom”, “Uzmetkombinat”, and such associations as “Uzavtoprom”, “Uzkimiyosanoat”, and “Uzselhozmashkholding”, increased their export volumes.

Table 4.1.2. Commodity Structure of Exports (%)

Commodity groups	Share in total volume of exports, %				Change in volume, %	
	2003	2004	Including		2004 to 2003	04/IV to 03/IV
			03/IV*	04/IV*		
Cotton fiber	19.8	18.1	26.1	19.2	118.5	88.3
Foodstuffs	2.7	3.8	3.0	4.0	183.0	158.1
Chemical products, plastics, and plastic goods	3.1	4.7	3.5	5.2	200.3	176.3
Energy carriers	9.8	12.4	10.0	11.6	165.1	139.4
Non-ferrous and ferrous metals	6.4	8.6	5.6	8.9	174.4	189.0
Machinery and equipment	5.9	7.4	5.2	8.7	163.8	200.0
Services	14.4	11.8	13.2	11.5	107.2	105.2
Other	37.9	33.2	33.4	30.9	114.0	111.2
Total	100	100.0	100	100.0	130.3	120.0

Source: State Statistics Committee of Uzbekistan

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

The volume of exports of services increased by 7.2% over 2003, including by 5.2% in the fourth quarter of 2004. In 2004, transportation services accounted for 72% of the total volume of services, including more than 50% from services of railroad and air transportation. The shares of telecommunication (5.1%), tourism (4.8%), and computer and information services (0.1%) were insignificant.

The share of exports of cotton fiber, one of the raw-material export commodities, decreased in comparison to the results of 2003 by 1.7 percentage points and amounted to 18.1%, while its export volume increased by 18.5%. This occurred both because of an increase in export volumes and the favorable prices. In the fourth quarter, the volume of export of cotton-fiber decreased, in comparison with the corresponding period of 2003, and amounted to 88.3%.

Exports of energy carriers increased by 65.1% compared to 2003, while exports of non-ferrous and ferrous metals increased by 74.4%. As a result, the share of energy carriers in total exports increased by 2.2 percentage points and amounted to 8.6%. Significant growth of exports of non-ferrous and ferrous metals (by 89.0%) was observed in the fourth quarter (Table 4.1.2., Appendix 4.1.2.). Exports of natural gas, oil and oil products, copper and its products, rod steel and steel angles, chemical products, machinery and equipment increased.

Some limits in the access of Uzbek goods to world markets create certain difficulties in enlarging exports. For example, certain trade issues which regulate Uzbek exports of textiles and clothing were agreed with the European Union in terms of separate bilateral agreement in 1993, and were prolonged up to 2004. According to this agreement, exports of cotton yarn from Uzbekistan to EU have to undergo a special procedure of licensing, which limits exports of that product.

Certain changes were observed in the commodity structure of imports as well. During the period under review further optimization of the structure of imports was observed. The volume of imports of products that are not produced in Uzbekistan but are necessary for the production cycle of enterprises, increased. That includes growth of imports of machinery and equipment, chemical products, non-ferrous and ferrous metals. At the same time, imports of foodstuffs decreased (Table 4.1.3., Annex 4.1.3.).

In comparison to the first half of 2003, the volume of imports of machinery and equipment, the leading commodity group in imports, increased by 33.3%. As a result, their share in imports increased by 1.6 percentage points, accounting for 46.0% of total imports. The import of chemical products increased by 25.7%, non-ferrous and ferrous metals – by 67.1%. Their shares in the total volume of imports were 12.5% and 10.3% respectively. Imports of such goods as technological equipment, products of organic chemistry, pharmaceutical products, fertilizers, perfumery and cosmetic products, plastics, rolled steel, and products of ferrous metals continued to increase.

Table 4.1.3. Commodity Structure of Imports (%)

Commodity groups	Share in total volume of imports (%)				Change in volume, %	
	2003	2004	Including		2004 to 2003	04/IV to 03/IV
			03/IV*	04/IV*		
Foodstuffs	9.9	6.8	9.4	7.3	88.9	98.8
Chemical products, plastics and plastic goods	12.8	12.5	12.2	11.3	125.7	118.7
Energy carriers	2.7	2.1	3.7	2.5	101.6	87.1
Non-ferrous and ferrous metals	7.9	10.3	7.3	9.9	167.1	174.3
Machinery and equipment	44.4	46.0	44.9	48.9	133.3	140.0
Services	10.2	11.1	10.7	8.8	141.2	106.0
Others	12.1	11.2	11.8	11.3	118.2	123.4
Total	100	100.0	100	100.0	128.7	128.5

Source: State Committee on Statistics of Uzbekistan

Imports of energy carriers grew insignificantly, by 1.6%. Their share in the total volume of imports amounted to 2.1%. At the same time, a decrease in imports of energy carriers by 12.9% was observed in the third and fourth quarters.

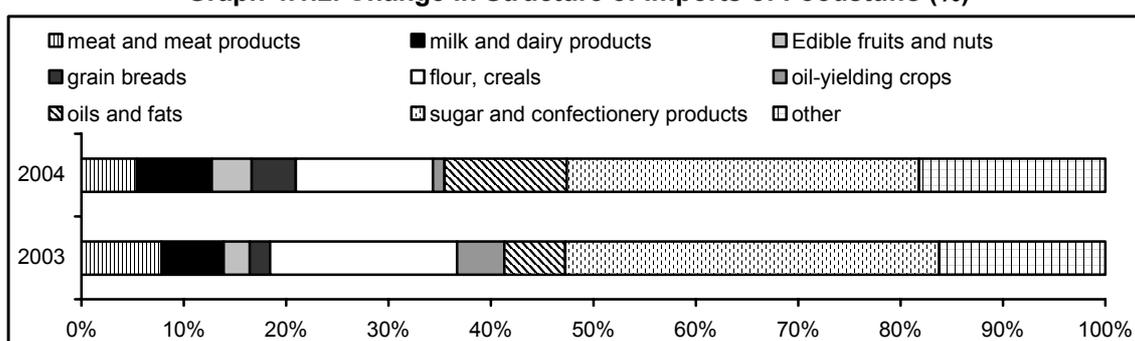
Imports of energy carriers grew insignificantly, by 1.6%. Their share in the total volume of imports amounted to 2.1%. At the same time, a decrease in imports of energy carriers by 12.9% was observed in the third and fourth quarters.

The volume of imports of services increased by 41.2% in comparison with 2003, including by 6.0% in the fourth quarter, mainly because of an increase in construction works and transport services. As a result, the share of services in the total volume of imports accounted for 11.1%, including 8.8% in the fourth quarter of 2004 (Table 4.1.3., Appendix 4.1.3.).

Imports of goods in the commodity group "other" increased by 18.2% and their share in the total volume of imports increased by 11.2%. The increase was mainly due to the increase in imports of wood and wooden products, textile products, and construction materials (Table 4.1.3., Appendix 4.1.3.).

In comparison to 2003, imports of foodstuffs decreased by 11.1%, while their share in the total volume of imports decreased by 3.1 percentage points, equaling 6.8%. In general, decreases continued to occur in imports of meat products, flour and flour products, oil seeds and fruits, and confectionery (Graph 4.1.2.).

Graph 4.1.2. Change in Structure of Imports of Foodstuffs (%)



Source: State Statistics Committee of Uzbekistan

Trade with CIS countries improved in every quarter. This indicates that traditional trade relations are strengthening. As a result, trade turnover with CIS countries equaled USD 3.0 bn. in 2004, and increased, in comparison with the previous year, by 1.4 times. During the period under review, trade turnover with foreign countries amounted to USD 5.7 bn., indicating an increase of 1.2 times. Accordingly, the share of trade turnover with partners from CIS increased from 31.5% in 2003 to 34.6% in 2004. At the same time, the share of trade turnover with foreign countries decreased from 68.5% to 65.4% (Table 4.1.1.).

In comparison with 2003, exports to the CIS increased by 1.58 times, as opposed to an increase in exports to foreign countries of 1.21 times (Tables 4.1.1). At the same time, the share of exports to CIS increased from 26.0% to 31.5%, while the share of exports to foreign countries decreased from 74.0% down to 68.5% (Table 4.1.4). This trend continued over the whole period under review. The export of such goods as foodstuffs, machinery and equipment, and non-ferrous metals to the CIS increased by more than two times during the period under review. CIS countries continue to remain the traditional market for exports of foodstuffs, energy carriers, machinery and equipment, while foreign countries continue to be a good market for such exports as cotton fiber, chemical products, and non-ferrous metals.

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

countries	Share in total volume, %							
	Of Exports				Of Imports			
	2003	2004	Including		2003	2004	including	
			03/IV*	04/IV*			03/IV*	04/IV*
Total	100	100.0	100	100.0	100	100.0	100	100.0
CIS countries	26.0	31.5	24.8	32.1	38.3	38.6	38.6	39.0
Kazakhstan	2.7	3.8	3.1	4.2	6.6	6.3	7.1	7.4
Russia	12.3	14.9	17.7	17.8	23.3	24.0	23.6	22.6
Tajikistan	3.3	3.0	2.5	3.0	0.8	1.0	0.5	0.8
Ukraine	3.9	2.3	-3.6	4.5	4.6	4.5	5.0	4.9
Other countries	3.8	7.5	5.1	2.6	3.0	2.8	2.4	0.3
Foreign countries	74.0	68.5	75.2	67.9	61.7	61.4	61.4	61.0
Afghanistan	2.4	2.6	2.3	3.0		0.1		0.05
Belgium	1.9	1.1	3.1	0.1	0.7	0.5	0.9	0.6
Great Britain	7.5	7.9	7.1	8.2	2.6	1.8	2.5	2.0
Germany	1.2	1.0	1.1	1.0	9.8	7.1	9.4	6.1
India	2.4	2.5	0.8	4.1	0.6	0.7	0.5	0.7
Iran	7.4	6.9	10.5	9.5	1.0	0.9	1.0	0.7
Italy	1.6	1.1	1.7	1.3	1.7	1.8	1.1	2.0
China	1.4	2.1	1.5	1.9	5.5	7.0	4.1	4.6
South Korea	1.5	1.2	1.3	1.2	7.9	9.2	8.6	7.6
Latvia	2.3	2.1	3.0	1.9	0.7	0.4	0.6	0.3
Netherlands	0.4	0.5	0.3	0.5	1.0	0.8	1.0	0.6
USA	2.9	3.1	2.5	2.4	7.7	10.3	7.3	14.3
Turkey	3.5	4.5	4.1	3.6	4.8	4.5	4.4	4.3
France	0.6	0.7	0.6	0.8	1.6	1.2	2.1	1.0
Switzerland	5.4	3.1	5.5	0.9	0.6	0.4	0.7	0.6
Japan	0.4	0.4	0.6	0.4	2.0	2.1	2.8	1.9
Other countries	31.2	27.7	29.2	27.1	13.5	12.6	14.4	13.6

Source: State Committee Statistics of Uzbekistan

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

In 2004, in comparison to the corresponding period of the previous year, there was an insignificant but more rapid growth of imports from CIS countries than from foreign countries, by 1.30 and 1.28 times respectively. Accordingly, share of imports from CIS countries increased from 38.3% to 38.6%, while imports from foreign countries decreased from 61.7% to 61.4% (Tables 4.1.1., 4.1.4.). In the commodity structure of imports from CIS countries, significant increases were observed in such commodity groups as non-ferrous and ferrous metals, chemical products, and wood, while some decrease was observed in such commodity groups as foodstuffs and energy carriers. As for foreign countries, in general, an increase was observed in such commodity groups as energy carriers, machinery and equipment, and services, while some decrease was observed in such commodity groups as foodstuffs, ferrous and non-ferrous metals. CIS countries remain the leading importers of energy carriers, ferrous and non-ferrous metals, while foreign countries maintain the leading position in imports of foodstuffs, machinery and equipment, and services. The main factor preventing imports from this CIS from increasing was the low price competitiveness of their products.

The following eight countries became leading trade partners for Uzbekistan's exports in 2004: Russia – 14.9% of total exports (157.8% to the level of 2003), Great Britain – 7.9% (137.4%), Iran – 6.9% (122.7%), Turkey – 4.5% (167.4%), Kazakhstan – 3.8% (186.4%), USA – 3.1% (140.1%), Switzerland – 3.1% (75.7%), and Tajikistan – 3.0% (121.1%) (Table 4.1.4., Annex 4.1.4.). In the fourth quarter, a significant decrease in exports was observed to Belgium (4.4% to the level of the fourth quarter of 2003) and to Switzerland (19.3%).

The main share of imports (72.9%) was made up by by eight countries: Russia, whose share in total imports was 24.0% (133.0% to the level of 2003), USA – 10.3% (172.5%), South Korea – 9.2% (149.9%), Germany – 7.1% (92.8%), China – 7.0% (162.9%), Kazakhstan – 6.3% (123.0%), Turkey – 4.5% (121.7%), and Ukraine – 4.5% (125.4%) (Table 4.1.4., Annex 4.1.5.). In the fourth quarter an increase in imports from USA by 2.5 times, in comparison with the corresponding period of the previous year, was observed.

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

In general, the tendency of foreign trade development in 2004 was positive. Qualitative changes in the commodity structure of exports and imports continued. More rapid growth of exports with a high share of value added was observed. The process of optimization in the structure of imports continued. The active balance of trade turnover increased, which, at this time, was formed not only by trade with foreign countries, but also by trade with CIS countries.

Perspectives for the development of foreign trade in 2005 were anticipated to be positive. This will be facilitated by further implementation of measures towards the liberalization of foreign economic activities and improving the trade regime, which are planned in the process of preparations for accession to the World Trade Organization. The growth of exports will also be facilitated by the favorable state of world prices for the main export commodities of Uzbekistan.

4.2. Enterprises with Foreign Investments

Over the past years, a complex of measures has been undertaken in Uzbekistan, aimed at improving the legislative basis, stimulating the work of enterprises with foreign investments (EFI), and forming macroeconomic preconditions for the further attraction of foreign capital and the creation of new joint productions.

Increased opportunities to participate in the privatization of enterprises, the introduction of convertibility of the national currency in current international operations, and the abolishment of all taxes except VAT for enterprises that produce certain consumer products, and measures for the further improvement of tariff regulations, have all had an impact on positive changes in the indices of production and foreign trade operations of EFIs.

Table 4.2.1. Main Operational Indicators of Enterprises with Foreign Investments in the Republic of Uzbekistan

	Measure unit	2003	2004	03/ IV*	04/ IV*	2004 in % to 2003	04/ IV in % to 03/ IV
Volume of industrial output of products, works, and services	Bn. UZS.	1,441.3	1958.4	x	x	x	x
Number of operating enterprises	Mill. USD.	2209	2412	x	x	109.2	x
Foreign trade turnover	Mill. USD.	1,422.8	1,950.9	409.2	532.1	137.1	130.0
Exports	Mill. USD.	564.4	785.2	155.4	201.1	139.1	129.4
Imports	Mill. USD.	858.4	1,165.7	253.8	331.0	135.8	130.4
Share of EFIs in the total volume of foreign trade turnover of Uzbekistan	%	21.3	22.5	20.8	21.9	x	x
Share of EFIs' exports in the total volume of exports of Uzbekistan	%	15.2	16.2	14.1	15.2	x	X
Share of EFIs' exports in the total volume of production of products, works, and services	%	38.1	41.0	x	x	x	X
Share of EFIs' imports in the total volume of exports of Uzbekistan	%	29.0	30.5	29.5	30.0	x	x
Ratio of exports to imports		0.66	0.67	0.61	0.61	x	x

Source: State Statistics Committee of Uzbekistan

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

In 2004 enterprises with foreign investments (EFIs) produced goods and services in the amount of 1958.4 bn. soums. The number of operating EFIs increased by 203 units. The highest contributions in the creation of additional products produced by EFIs were provided by enterprises in such branches as the automobile industry, light industry, foodstuff production, chemical industry, and non-ferrous metallurgy.

The growth of foreign trade turnover in 2004, including in the fourth quarter, amounted to 37.1% and 30.0% respectively. During the period under review, the share of EFIs in the foreign trade turnover of Uzbekistan increased by 1.2 and 1.0 percentage points respectively.

In 2004, exports of EFIs throughout Uzbekistan amounted to USD 785.2 mill., or 16.2% of the gross exports of Uzbekistan, and 139.1% of the level of 2003. Rapid increases were observed in the volume of exports of products of such branches as machinery building (2 times), chemical complex (by 1.6 times), fuel and power industry (by 1.5 times), and metallurgy (by 1.4 times).

Positive changes occurred in the commodity structure of exports. In the commodity structure of exports of EFIs (without taking into account the "other" category), the greatest share was gained by machinery and equipment (28.4%), followed by foodstuffs (3.9%), and energy carriers (3.6%). At the same time during the period under review, including the fourth quarter, the share of exports of the machinery building complex increased significantly (by 9.0 p.p and 6.9 p.p respectively). In the exports of the machinery building complex, exports of automobiles produced by the JV "UzDeawooAuto" took the lead. In 2004 exports of passenger cars increased by 18,556 units over 2003. The supply of such passenger cars as "Nexia" and "Matiz" to the Russian market of foreign automobiles increased by 1.7 times, leading to a fourth place ranking for the passenger cars of "UzDeawooAuto" among sales of foreign cars in the Russian market². Preconditions for an increase in the competitiveness of products of the joint venture include steps to maintain (decrease) production costs, such as by widening the domestic production of certain spare parts in accordance with the program of localization.

The decrease in exports of cotton-fiber is another positive tendency. The share of cotton fiber in the total volume of exports of the enterprises with investments declined by 1.0 percentage point in 2004 and by 2.4 percentage points in the fourth quarter (Table 4.2.2).

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

	2004 in % to 2003	04/IV in % to 03/IV	2003	2004	03/IV*	04/IV*
Total	139.1	129.4	100	100	100	100
Cotton-fiber	96.7	47.8	3.3	2.3	3.8	1.4
Foodstuffs	127.6	135.7	4.2	3.9	3.8	3.9
Chemical products	156.0	127.9	2.3	2.6	3.0	2.9
Energy carriers	149.5	200.1	3.3	3.6	3.2	5.0
Ferrous and non-ferrous metals	137.4	74.9	0.8	0.7	1.3	0.8
Machinery and equipment	203.3	168.7	19.4	28.4	22.6	29.5
Services	157.7	147.9	4.4	5.0	5.4	6.1
Other	119.6	114.5	62.3	53.5	57.0	50.4

Source: State Committee on Statistics of Uzbekistan

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

products, a special role was played by enterprises in the system of such companies as "Uzavtosanoat" Joint-Stock Company, State Joint-Stock Company "Uzbekengilsanoat", the Association "Maslojirtabakprom", the Association "Pisheprom", and the Association "Uzeltexsanoat".

In the territorial structure of EFIs' exports, the list of leading exporting regions included Navoi (28.8%), Andijan (26.9%), Tashkent (11.5%), Fergana (10.7%) provinces and the city of Tashkent (13.1%) (Table 4.2.3.). Their share accounted for 90.3% of the total exports of EFIs of Uzbekistan. The main export products included products of machinery building, gold mining, and chemical and light industries.

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.

² Foreign cars in Russia – the top ten in 2004. (17.01.2005)

The volume of exports of EFIs has grown with accelerated rates in the province of Andijan (twice) and in the Republic of Karakalpakstan (by 1.6 times). Export volumes decreased in Surkhandarya and Khorezm provinces (Table 4.2.3.).

The share of EFIs in the total volume of exports of the region was high in such regions as Andijan (82.0%), Navoi (57.9%), Fergana (55.4%), Namangan (27.8%), Samarkand (18.7%) and Tashkent (15.1%) Provinces. The largest enterprises with foreign investments are located in the above-mentioned regions that produce products of gold-mining (Navoi province), passenger cars and busses (Andijan and Samarkand provinces), chemical products (Tashkent province), and products of oil refining (Fergana province). Territorial disproportions in the production of export-oriented products are explained by differences in the development of regional economies, including the market infrastructure in the regions, which is a significant constituent.

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, %		2004 in % to 2003
	2003	2004	
Total	15.2	16.2	139.1
R. Karakalpakstan	2.3	2.6	164.4
Andijan	62.8	82.0	203.7
Bukhara	11.9	8.4	104.2
Jizzakh	3.1	3.0	122.4
Kashkadarya	8.7	7.6	116.6
Navoi	63.5	57.9	137.9
Namangan	24.4	27.8	100.3
Samarkand	19.0	18.7	130.2
Surkhandarya	5.7	1.4	135.9
Sirdarya	6.7	4.4	72.4
Tashkent	27.4	15.1	101.3
Fergana	47.5	55.4	117.0
Khorezm	10.4	6.0	84.4
City of Tashkent	6.3	6.8	146.9

Source: State Committee on Statistics of Uzbekistan

In 2004 imports of products, work and services of EFIs throughout Uzbekistan amounted to USD 1,165. mill., or 30.5% of the total imports of Uzbekistan, and USD 331.0 mill. and 29.9%, respectively, in the fourth quarter of 2004. The growth in the volume of imports during the period under review in comparison to 2003 and to the fourth quarter of 2003, amounted to 35.8% and 30.4% respectively.

In 2004, as in the previous year, investment commodities (imports of which had zero tariffs) predominated in the commodity composition of imports of enterprises with foreign investments. This is reasoned by the fact that the main contribution (about 60%) to the charter fund of EFIs was made in terms of equipment, technology, and other physical assets. During the period under review, the introduced measures regarding the activities of enterprises with foreign investments were aimed at decreasing imports and increasing exports of consumer products, and developing high-tech production in the processing of cotton and other agricultural products, as well as the processing of products of non-ferrous metallurgy, chemical industry, machinery building and other priority export-oriented sectors of the national economy.

In 2004, in the commodity composition of imports of enterprises with foreign investments, machinery and equipment (56.3%), chemical products (13.9%), and foodstuffs (12.0%) predominated (Table 4.2.4.). The introduction of 5 and 10 percent tariff rates in the place of zero percent rates for certain types of foodstuffs (fish, soybeans, vegetable oils, animal oils and fats, meat, meat products) facilitated measured growth of imports (108.2%) and a corresponding decrease in the share of imported foodstuffs in the total volume of imports of EFIs (by 3.1 percentage points).

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

	2003	2004	03/IV*	04/IV*	2004 in % to 2003	04/IV in % to 03/IV
Total	100	100	100	100	135.8	130.4
Foodstuffs	15.1	12.0	15.5	15.2	108.2	127.3
Chemical products	12.5	13.9	12.3	12.3	152.1	130.6
Energy carriers	0.4	0.5	0.4	0.4	159.2	117.0
Ferrous and non-ferrous metals	5.4	6.0	5.0	5.9	149.5	153.3
Machinery and equipment	55.4	56.3	55.9	54.0	137.9	126.0
Services	2.7	4.5	3.5	4.6	225.7	172.3
Other	8.5	6.8	7.4	7.7	108.2	135.8

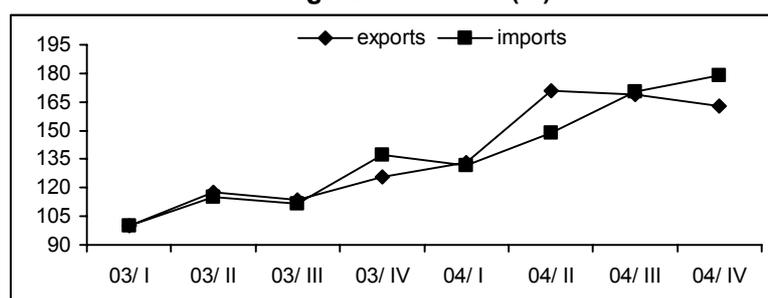
Source: State Committee on Statistics of Uzbekistan

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

The quarterly dynamics of export-import operations have shown that there was more rapid growth of imports (78.9), than exports (62.8%), which in turn conditioned the increase in the negative balance by USD 68.4 mln. in the fourth quarter of 2004 as opposed to the first quarter of 2003 (Graph 4.2.1).

In 2004, the foreign trade turnover of enterprises with foreign capital with countries of the CIS increased by USD 231.3 mill., and with other foreign countries by USD 296.8 mill. (Table 4.2.5). The higher growth rate of exports to CIS (180%) than to other foreign countries (123%) is mainly explained by the insufficient competitiveness of certain types of products of JVs in the markets of foreign countries (except CIS) and by the use of traditional channels of sales in the countries of CIS. As a result, the trade turnover with CIS ended up with a positive balance (USD 94.8 mill.) whereas with other foreign countries the balance was negative (USD -475.3 mill.).

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 Statistics Committee on of Uzbekistan

During the period under review, the share of foreign trade turnover of EFIs with the countries of the CIS increased from 18.7% to 25.5%, including in exports – from 29.1% to 37.7%.

More than 30% of EFIs' exports to the CIS consisted of machinery and equipment. Here, exports to Russia alone accounted for 27.4%. A large part of the imports from the countries of CIS belonged to chemical products, and to products of metallurgy and machinery building sectors. The main trading partners among the CIS countries were Russia, Kazakhstan, and Tajikistan.

Despite the tendency towards decrease, the share of EFIs' trade turnover with other foreign countries remained relatively high, at 74.5%. A large portion of the imports from those countries included machinery building products, foodstuffs, and products of the chemical industry. The list of main trade partners remained unchanged: USA, Turkey, Germany, South Korea, Great Britain, China, and Switzerland.

A review of operations of enterprises with foreign investments for 2004 indicated positive tendencies. More rapid growth of exports than of imports was observed. Also, the coefficient of exports' covering imports increased from 0.66 in 2003 to 0.67 in 2004.

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, %	
	2003	2004	2003	2004
Foreign trade turnover	1422.8	1950.9	100.0	100.0
Countries of CIS	265.9	497.2	18.7	25.5
Other foreign countries	1156.9	1453.7	81.3	74.5
Exports	564.4	785.2	100.0	100.0
Countries of CIS	164.4	296.0	29.1	37.7
Other foreign countries	400.0	489.2	70.9	62.3
Imports	858.4	1165.7	100.0	100.0
Countries of CIS	101.5	201.2	11.8	17.3
Other foreign countries	756.9	964.5	88.2	82.7
Trade balance	-294.0	-380.5	x	x
Countries of CIS	62.9	94.8	x	x
Other foreign countries	-356.9	-475.3	x	x

Source: State Statistics Committee of Uzbekistan

During the period under review a number of new joint ventures with foreign capital were established in Uzbekistan. These include JV "Surkhanteks", JV "Yadem tekstil", JV "Emteks", JV "Balikchi", JV "Iskovutteks", and JV "Elektron khisoblagich".

In general, products of joint ventures with foreign investments met international quality standards. Such enterprises with foreign investments as "UzDeawooAuto", "UzCaseMash", "SamkochAuto", "UzBAT", "Deutsche Cabel AG Tashkent", "Green World", "Oksaroy Tukimachi LTD", "Hobas Tapo" and others received certificates of the compliance of their products with the standards of ISO 9001.

At the same time, there remain some problems in the activities of enterprises with foreign capital. Enterprises with foreign investments continue to have a negative balance on export-import operations, which results from the profitability of working for the domestic market and the insufficient efficiency of the systems of tax and currency exchange regulations.

In 2005 enterprises with foreign investments will have to play an important role in the process of structural reforms in the real sector of the economy and in the organization of such production that would produce competitive, export-oriented products.

The Government of Uzbekistan has approved a corresponding program of investment projects for 2005 that will be implemented by attracting foreign capital under the guarantee of the Government of the Republic of Uzbekistan. The program, among other projects, foresees the creation of a new JV, "Bursel Bagat Textil" on the base of the unfinished construction of Bagat textile factory. The JV will be established in partnership with the Turkish firm "Bursel" and Uzbek-German JV "Kokand Khof Tekstil". The Japanese Bank of International Cooperation will also take part in the implementation of the projects.

In 2005, the JV "Vim Bill Dan – Central Asia – Tashkent", created on the basis of the Stock Company "Tashkentsut," "Uzmiasomolprom" and a Russian company, is planning to launch production of dairy products. This will increase the supply in the domestic market and start the export of dairy products to the markets of Kazakhstan, China, and Turkey.

The Government of Uzbekistan also approved a list of priority investment projects with foreign investments. The list consists of proposals with project feasibility studies for establishing joint ventures that will produce such goods as spare parts for the automobile manufacturing industry, cotton and paper products, textile fabrics and goods, wool carpets, mixed carpets, plastic cards for specialized bank payment systems and others.

In the near future, it is planned to significantly widen operations of EFIs in the system of light industry of Uzbekistan. Thus, it is planned to launch operations of 19 joint ventures by the end of the year 2008. The total cost of those projects exceeds USD 180.6 mill. Those projects will increase cotton processing capacity by 51 thousand tons and the output of final goods – by 115.4 mill. units. Exports of goods of the textile industry, based on processed cotton will increase by more than two times. The main partners on the projects are USA, Germany, Switzerland, and Turkey.

The implementation of priority projects with the attraction of foreign investments will not only saturate the domestic market, but also increase the production and exports of high quality products into world markets.

Annex 4.1.1. Trade balance (mill. USD)

Period	Exports	Imports	Trade balance
2000	3,264.7	2,947.4	317.3
2001	3,170.4	3,136.9	33.5
2002	2,988.4	2,712.0	276.4
2003	3,725.0	2,964.2	760.8
2004	4,853.0	3,816.0	1,037.0
03/I	920.3	649.5	270.8
03/II*	1,011.8	752.3	259.5
03/III*	687.4	702.7	-15.3
03/IV*	1,105.5	859.7	245.8
04/I	1,210.0	874.2	335.8
04/II*	1,209.9	856.6	353.3
04/III*	1,106.8	980.6	126.2
04/IV*	1,326.3	1,104.6	221.7

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

* the author's calculations based on the data from the State Statistics Committee 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)
2000	27.5	5.4	2.9	10.3	6.6	3.4	13.7	30.2	100.0	3,264.7
2001	22.0	3.9	2.7	10.2	7.0	3.9	14.6	35.7	100.0	3,170.4
2002	22.4	3.5	3.0	8.1	6.4	3.9	15.9	36.8	100.0	2,988.4
2003	19.8	2.7	3.1	9.8	6.4	5.9	14.4	37.9	100.0	3,725.0
2004	18.1	3.8	4.7	12.4	8.6	7.4	11.8	33.2	100.0	4,853.0
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	1,011.8
03/III*	7.6	3.9	4.1	14.5	10.0	6.2	19.8	33.9	100.0	687.4
03/IV*	26.1	3.0	3.5	10.0	5.7	5.2	13.2	33.3	100.0	1,105.5
04/I	25.5	4.3	4.1	8.0	7.0	8.4	11.3	31.4	100.0	1,210.0
04/II*	9.1	3.3	4.5	13.4	8.8	5.1	10.9	34.9	100.0	1,209.9
04/III*	7.4	3.7	5.2	17.1	9.9	7.2	13.8	35.7	100.0	1,106.8
04/IV*	19.2	4.0	5.2	11.6	8.9	8.7	11.5	30.9	100.0	1,326.3

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

* the author's calculations based on the data from the State Statistics Committee 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 (%)
2000	12.3	13.6	3.8	8.6	35.4	8.5	17.8	100.0	2,947.4
2001	10.8	12.7	1.9	10.9	41.2	10.3	12.2	100.0	3,136.9
2002	12.5	15.1	1.3	8.0	41.4	10.6	11.1	100.0	2,712.0
2003	9.9	12.8	2.7	7.9	44.4	10.2	12.1	100.0	2,964.2
2004	6.8	12.5	2.1	10.3	46.0	11.1	11.2	100.0	3,816.0
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
03/III*	7.4	15.1	3.8	8.8	43.2	9.8	11.9	100.0	702.7
03/IV*	9.4	12.2	3.7	7.3	44.9	10.7	11.8	100.0	859.7
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
04/III*	4.3	12.8	1.3	14.1	43.3	13.0	11.2	100.0	980.6
04/IV*	7.2	11.3	2.5	9.9	48.9	8.8	11.4	100.0	1,104.6

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

* the author's calculations based on the data from the State Statistics Committee 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
2000	3,264.7	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	3,170.4	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	37.8
2002	2,988.4	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	3,725.0	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
2004	4,853.0	100.0	31.5	3.8	14.9	2.3	10.5	68.5	1.1	7.9	6.9	1.2	0.5	3.1	4.5	3.1	40.2
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*	1,011.8	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
03/III*	687.4	100.0	35.9	3.9	15.6	10.3	6.1	64.1	1.2	8.0	5.5	1.2	0.6	3.9	4.9	1.7	37.1
03/IV*	1,105.5	100.0	24.8	3.1	17.7	-3.6	7.6	75.2	3.1	7.1	10.5	1.3	0.3	2.5	4.1	5.5	40.8
04/I	1,210.0	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*	1,209.9	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
04/III*	1,106.8	100.0	36.9	4.9	17.6	1.7	12.7	63.1	0.7	5.7	5.0	0.7	0.8	4.3	4.2	1.1	40.6
04/IV*	1,326.3	100.0	32.1	4.3	17.8	4.5	5.5	67.9	0.1	8.2	9.5	1.2	0.5	2.4	3.6	0.9	41.5

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

* the author's calculations based on the data from the State Statistics Committee 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
2000	2,947.4	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	3,136.9	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	2,712.0	100.0	36.9	6.7	22.0	4.5	3.7	63.1	2.7	7.8	4.2	9.5	12.1	3.2	2.1	0.7	20.8
2003	2,964.2	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
2004	3,816.0	100.0	38.6	6.3	24.0	4.5	3.8	61.4	1.8	7.1	7.0	9.2	10.3	4.5	1.2	2.1	18.2
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
03/III*	702.7	100.0	38.6	6.4	21.5	4.8	5.9	61.4	2.9	9.1	6.4	9.1	6.2	4.9	1.3	2.0	19.5
03/IV*	859.7	100.0	38.6	7.1	23.6	5.0	2.9	61.4	2.5	9.4	4.1	8.6	7.3	4.4	2.1	2.7	20.3
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
04/III*	980.6	100.0	41.4	5.4	27.6	4.8	3.6	58.6	1.8	9.7	6.6	11.4	5.7	3.5	1.4	3.1	15.4
04/IV*	1,104.6	100.0	39.0	7.4	22.6	4.9	4.1	61.0	2.0	6.1	4.6	7.6	14.3	4.3	1.0	1.9	19.2

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

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

Annex 4.2.1. Commodity Composition of EFIs' Exports (%)¹

	Total. mill. USD.	Total %	Cotton- fiber	Foodstuffs	Chemical prod- ucts	Energy carriers	Ferrous and non- ferrous metals	Machinery and equipment	Services	Other
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	3.3	0.8	19.4	4.4	62.3
2004	785.2	100	2.3	3.9	2.6	3.6	0.7	28.4	5.0	53.5
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
03/III*	140.2	100	2.3	4.9	2.4	4.2	0.7	20.9	5.0	59.5
03/IV*	155.4	100	3.8	3.7	3.0	3.2	1.3	22.6	5.3	57.0
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
04/III*	208.5	100	2.3	2.8	2.3	3.3	0.1	34.3	6.6	48.3
04/IV*	201.1	100	1.4	3.9	2.9	5.0	0.8	29.5	6.1	50.3

Source: State Statistics Committee of Uzbekistan

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

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

	Total. mill. USD.	Total %	Cotton- fiber	Foodstuffs	Chemical products	Energy carriers	Ferrous and non- ferrous metals	Machinery and equip- ment	Services
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	2.8	8.5
2004	1,165.7	100	12.0	13.9	0.6	6.0	56.3	4.5	6.7
2004	1,165.7	100	12.0	13.9	0.5	6.0	56.3	4.5	6.8
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
03/III*	206.5	100	12.9	13.7	0.5	5.6	55.9	2.3	9.0
03/IV*	253.8	100	15.5	12.3	0.4	5.0	55.9	3.5	7.4
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
04/III*	315.4	100	6.0	15.5	0.5	6.0	61.4	4.6	6.0
04/IV*	331.1	100	15.2	12.3	0.4	5.9	54.0	4.6	7.7

Source: State Statistics Committee of Uzbekistan

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

¹ Statistical information on commodity composition of exports and imports of EFIs presented starting from 1998; and information on territorial structure starts with the year 1997.

Annex 4.2.3. Territorial Structure of EFI Exports (%)

	Total. mill. USD	Total %	R. Karakalpakstan	Andijan	Bukhara	Jizzakh	Kashkadarya	Navoi	Namangan	Samar kand	Surkhandarya	Sirdarya	Tashkent	Fergana	Khorezm	City of Tashkent
2000	451.6	100	0.0	13.3	0.3	0.1	0.0	31.9	4.2	2.8	0.0	5.0	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	28.3	2.9	2.4	0.3	0.8	15.7	12.7	0.7	12.4
2004	785.2	100	0.1	26.9	2.1	0.2	1.9	28.0	2.1	2.3	0.3	0.4	11.5	10.7	0.4	13.1
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
03/III*	140.2	100	0.1	19.9	2.2	0.1	2.5	26.1	3.3	3.3	0.5	2.4	15.5	12.1	0.7	11.3
03/IV*	155.4	100	0.1	21.1	3.6	0.5	1.6	24.5	2.9	2.1	0.1	0.5	14.0	11.7	0.7	16.6
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
04/III*	208.5	100	0.1	32.2	2.1	0.2	2.1	24.9	1.7	1.6	0.4	0.3	11.1	8.5	0.4	14.3
04/IV*	201.1	100	0.3	28.2	2.2	0.4	1.7	26.9	2.1	2.1	0.4	0.8	9.6	12.4	0.4	12.7

Source: State Statistics Committee of Uzbekistan

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

Annex 4.2.4. Territorial Structure of EFI Imports (%)

	Total. mill. USD	Total %	R. Karakalpakstan	Andijan	Bukhara	Jizzakh	Kashkadarya	Navoi	Namangan	Samar kand	Surkhandarya	Sirdarya	Tashkent	Fergana	Khorezm	City of Tashkent
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	48.1
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	32.3
2002	704.8	100	0.4	27.1	2.1	3.8	0.7	4.1	2.2	3.9	0.1	0.2	5.9	5.7	3.8	39.8
2003	858.4	100	1.1	28.2	0.8	0.3	0.8	5.3	1.8	3.8	1.0	0.1	3.8	4.1	0.3	48.6
2004	1,165.7	100	1.4	27.1	0.8	0.2	0.4	6.9	2.1	2.6	0.3	1.8	4.7	1.4	1.2	49.1
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
03/III*	206.5	100	0.6	25.8	0.6	0.4	0.1	5.8	2.5	5.0	0.6	0.2	6.4	5.4	0.4	46.2
03/IV*	253.8	100	0.7	27.8	0.6	0.3	2.4	6.0	1.9	3.5	2.7	0.1	3.4	1.3	0.2	49.1
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
04/III*	315.4	100	2.4	31.7	0.3	0.2	0.4	7.4	1.7	2.2	0.1	5.1	3.6	1.2	2.7	41.0
04/IV*	331.1	100	2.2	24.1	1.3	0.1	0.3	5.7	1.2	2.2	0.1	0.1	6.2	1.0	0.3	55.2

Source: State Statistics Committee of Uzbekistan

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

5. Living Standards and the Labor Market

5.1. Incomes and Expenditures of the Population

In 2004, the nominal monetary income of the population increased by 17.6%, in comparison with 2003. In real terms, the growth in income was 16%. Main factors in the growth of the population's real income were the macroeconomic conditions created – the high rate of economic growth and the considerable decline in inflation, as well as the structural transformations in the economy and the intensification of targeted social protection of the population.

The increase in the share of monetary income in the total income structure intensifies the impact on the economics of the population's solvent demand. Based on the results of budget surveys of households, the share of monetary income in the structure of total income of the population has increased from 82.2% in 2003 to 83.7% in 2004. The share of income in kind has decreased from 17.8% to 16.3% respectively (table 5.1.1.). The given tendency was caused, first of all, by an increase in the monetary income of rural population owing to the growth of the share of remuneration for labor (from 21.4% in 2003 to 22.5% in 2004), social transfers (from 14.6% in 2003 to 15.1% in 2004), and income from sales of agricultural products (from 24.9% in 2003 to 25.3% in 2004). Main factors in the growth of monetary income of the rural population are: improvement of the system of organization of agricultural production with emphasis on farms; increasing the yield of all the types of agricultural crops, especially in dekhkan farms; and intensification of targeted social protection of low-income families, two thirds of which live in rural areas.

At the same time, the gap between monetary and non-monetary income among the urban and rural population remains considerable. The income in kind of the urban population amounted to 6.2% in 2004 (as opposed to 6.1% in 2003), and of the rural population – 23.2% (as opposed to 25.8% in 2003). The influence of income in kind on satisfaction of needs remains significant for the rural population, while for urban population, labor remuneration was in the range of 40% of all their earnings.

Table 5.1.1. Total Income of the Population (in % on Average per Household)

Indicator	2003			2004*		
	Uzbekistan	Urban Areas	Rural Areas	Uzbekistan	Urban Areas	Rural Areas
Total Income	100	100	100	100	100	100
Monetary Income	82.2	93.9	74.2	83.7	93.8	76.8
Remuneration for Labor	28.6	39.2	21.4	29.6	39.9	22.5
Social Transfers	15.7	17.3	14.6	15.8	17.1	15.1
Income from Sales of Agricultural Products	18.0	7.9	24.9	17.4	5.8	25.3
Income from Property	1.4	2.6	0.5	1.2	1.3	1.1
Entrepreneurial Income	13.1	17.3	10.3	15.2	21.4	10.9
Other Monetary Income	5.4	9.6	2.5	4.5	8.3	1.9
Income in Kind	17.8	6.1	25.8	16.3	6.2	23.2

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

* January – November 2004

A rise in wages and benefits was the major factor of growth of monetary income of the population. The state policy aimed at increasing salaries of employees of budget-funded institutions and organizations, all types of pensions, social benefits, and stipends, as well as implementing the target program "The Year of Kindness and Mercy" resulted in the growth of wages by 18.0%, and of social transfers – by 32.8% (table 5.1.2.). Tendencies towards an increase in the share of social transfers in the population's income resulted in a gradual reduction of income inequality among various social groups of the population.

Table 5.1.2. Structure and Growth Rates of Monetary Income of the Population (%)

Indicator	In % to Monetary Income		In % to the corresponding period of the previous year	
	2003	2004	2003	2004
Monetary income, Total	100	100	124.9	117.6
Remuneration for labor	26.9	26.9	128.3	118.0
Pensions, benefits, and stipends	11.4	12.9	115.9	132.8
Income from entrepreneurial activities and other income	29.7	29.1	127.1	115.5
Income from entrepreneurial activity, and other income	32.1	31.1	123.6	113.9

Source: based on the data of the balance of monetary incomes and expenditures of the population. Uzbekistan State Statistics Committee.

Based on the data of the balance of monetary incomes and expenditures of the population, a tendency towards a slowdown in the growth rate of entrepreneurial income was observed. This was caused by a reduction in the informal sector as a result of the implementation of the government's measures regarding the regulation of registering and of engaging in trading activity by legal entities and individuals, as well as measures for the regulation of registration of persons engaged in importing goods intended for commercial activities. The tendency is also confirmed by indicators of a decrease in the share of individual entrepreneurs in Uzbekistan's GDP, and, at the same time, a growth in the share of small enterprises and micro-firms in the GDP.

The interregional differentiation of monetary incomes of the population is an important factor in the growth of average per capita income in Uzbekistan. In 2004 the range of the level of average per capita income fluctuated between UZS 158.4 thous. (the Republic of Karakalpakstan) and UZS 904.1 thous. (Tashkent City). The regions with average per capita monetary incomes above the average national level still include Navoi and Tashkent provinces and Tashkent City – industrially developed regions with relatively high wages. In 4 provinces – Jizzakh, Namangan, Samarkand, and Khorezm – average per capita incomes ranged between 60-70% of the average national level (Table 5.2.3.). Fundamental reasons for the growing interregional gap in terms of incomes were the low economic potential of the underdeveloped regions and the issue of unemployment of the population in some of the regions.

Table 5.1.3. Structure of Monetary Expenditures of the Population (in % to Monetary Income)

Year	Monetary Income of Population	Of which monetary expenditures			Cash remainder
		Consumption Expenditures	Compulsory payments and mandatory contributions	Bank deposits, purchase of securities and hard currency	
2003	100	78.7	7.8	9.2	4.3
2004	100	76.9	7.8	14.3	1.0

Source: State Statistics Committee of Uzbekistan

Tendencies of growth in real monetary income have determined the positive shift in the volume and structure of the population's expenses. The share of consumption expenses has dropped from 78.7% to 76.9%, and the share of the population's savings in the form of bank deposits, purchases of securities and hard currency has grown from 9.2% to 14.3% (Table 5.1.3). The reduction of the financing of the current consumption of households at the expense of a rise in their savings indicates an increase in the population's inclination for saving, and its investment activity. As a result, in 2004 the share of the population's funds in the general structure of investments into the economy rose to 12.4%, which was 1.3 points higher than the level of the previous year. The bulk of the population's investment funds were directed towards individual housing construction.

Table 5.1.4. Structure of Expenditures of the Population (in % of Average per Household)

Year		Expenditures of Population	Including Consumption Expenditures				Non-Consumption Expenditures
			Foodstuffs	Non-Foodstuffs	Services	Other Expenditures	
2003	Uzbekistan	100	51.8	19.5	12.3	0.6	15.8
	Urban areas	100	50.6	19.5	14.2	0.6	15.1
	Rural areas	100	53.3	19.5	10.1	0.5	16.6
2004	Uzbekistan	100	52.0	18.6	13.0	0.4	16.0
	Urban areas	100	50.4	18.3	15.5	0.4	15.4
	Rural areas	100	53.7	19.0	10.2	0.5	16.6

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

* January – November 2004

In the structure of consumption expenditures, expenditures increased for services connected with ensuring vital needs: payment for housing and communal services, transport and healthcare and educational services. Expansion of the sphere of activities of the social complex sectors with regard to rendering paid services, as well as reducing subsidies in the housing and communal area (a rise in heating, electricity, network gas and water supply tariffs) in 2004 resulted in an increase in the population's expenses for payment for services from 12.3% to 13.0%. The increase in the expenses was, first of all, connected with a growth in expenses of the urban population for housing and communal services (Table 5.1.4.).

On the whole, in 2004 a change in general economic conditions affected the shifts in the main proportions of consumption expenses of households. Positive shifts took place in the structure of the population's expenses towards an increase in their monetary savings. In 2005 by means of further intensification of reforms and

liberalization of the economy, and taking into account the forecasted growth of real income of the population, one should expect a corresponding growth in the monetary expenses and savings of households, and an increase in the savings-and-investment potential of the population. There is a need to develop financial markets, and to encourage an increase in the population's bank deposits and in their purchase of securities.

5.2. Domestic Trade and Services

Macroeconomic conditions created through the reduction of inflation and the indexation of income promoted growth of the population's solvent demand and improvement of the population's consumption structure. In the total volume of sales of goods and services to the population in 2004, the share of services amounted to 20.5%, as opposed to 18.1% in 2003, and the sales of goods declined from 81.9% to 79.5% accordingly (Table 5.2.1.).

Table 5.2.1. Volume of Sales of Goods and Services to Population

Year	Volume of sales of goods and services		Including			
			Sales of goods		Sales of services	
	Bill. UZS	%	Bill. UZS	%	Bill. UZS	%
2003	5,238.1	100	4,289.7	81.9	948.4	18.1
2004	5,991.3	100	4,764.7	79.5	1,226.6	20.5

Source: State Statistics Committee of Uzbekistan

Changes in the structure of the population's consumption are connected with the acceleration of growth of paid services – by 13.8% (7.9% in 2003), and the slowdown in the growth of retail trade turnover – by 4.7% (5.1% in 2003) (Table 5.2.2.).

Retail Trade Turnover. The following factors affected the dynamics of growth of retail turnover: an increase in the levels of income and expenditures of the population; a decrease in the differentiation of incomes; a slowdown in the

Table 5.2.2. Retail Trade Turnover and Paid Services

Year	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, %
2003	4,289.7	105.1	948.4	107.9
2004	4,764.7	104.7	1,226.6	113.8

Source: State Committee on Statistics of Uzbekistan

growth rates of retail prices and an increase in the purchasing power of income; and growth of production of consumer goods. Deceleration of the growth of retail turnover depended, first of all, on the reduction of the scale of the informal sector in the trade sphere, as a result of governmental resolutions with regard to the regulation of trading activity of legal entities and individuals; and on the pace of development of the markets' infrastructure, which differentiated among the regions.

In 2004 the gap between the minimum and maximum level of the average per capita retail turnover among the regions was 1:5.57 (1:5.00 in 2003). The highest level of the average per capita turnover (UZS 514.0 thous.) was observed in Tashkent City, and the lowest level (UZS 92.3 thous.) – in the Republic of Karakalpakstan (Table 5.2.3).

Table 5.2.3. Income, CPI, Retail Trade Turnover and Paid Services by Region

Region	Monetary income per capita, thous. UZS		Consumer Price Index, in % to corresponding period of previous year		Retail trade turnover per capita, thous. UZS		Paid services per capita, thous. UZS	
	2003	2004	2003	2004	2003	2004	2003	2004
Uzbekistan	253.8	295.3	110.3	101.6	167.2	183.6	37.0	47.3
R. Karakalpakstan	142.7	158.4	110.8	102.5	85.7	92.3	14.1	18.6
Andijan	268.5	282.4	110.8	103.3	209.4	197.5	30.0	47.2
Bukhara	239.4	259.3	109.8	102.0	145.1	160.3	32.1	42.2
Jizzakh	168.9	187.9	108.6	101.6	103.0	113.0	17.4	23.1
Kashkadarya	199.6	229.8	111.4	103.9	128.9	141.1	17.3	19.9
Navoi	354.4	450.7	109.2	100.5	135.2	177.1	27.5	39.9
Namangan	177.6	182.6	109.6	100.9	127.1	133.0	19.2	24.0
Samarkand	182.4	202.8	108.3	102.1	123.3	130.5	24.9	31.5
Surkhandarya	181.6	217.2	108.8	101.0	116.8	132.5	17.3	22.4
Sirdarya	174.6	215.1	112.9	100.9	98.5	109.5	13.9	18.7
Tashkent	267.2	311.6	112.2	100.4	186.1	215.9	23.2	30.7
Fergana	250.7	271.6	110.2	101.9	190.7	197.2	21.7	29.8
Khorezm	163.4	196.5	111.1	103.1	103.1	111.1	22.7	31.2
Tashkent city	692.4	904.1	110.8	101.1	429.4	514.0	155.3	195.3

Source: State Statistics Committee of Uzbekistan

Only in 4 provinces of Uzbekistan did growth rates of retail trade turnover exceed the average national level. The highest growth rates of retail trade turnover were observed in Navoi province (123.5%), Tashkent province (111.5%), Surkhandarya province (107.3%) and Tashkent City (114.2%). The volume of retail trade turnover decreased only in Andijan province (89.2%) (Table 5.2.4.).

Table 5.2.4. Regional Composition of Retail Trade Turnover and Paid Services

Region	Retail trade turnover, UZS bn.			Paid services, UZS bn.		
	2003	2004	Growth rate in relation to previous year, in comparable prices, %	2003	2004	Growth rate in relation to previous year, in comparable prices, %
Uzbekistan	4,289.7	4,764.7	104.7	948.4	1,226.6	113.8
R. Karakalpakstan	133.7	144.7	100.9	21.9	29.1	109.2
Andijan	481.8	460.9	89.2	69.1	110.1	132.7
Bukhara	215.7	240.8	102.9	47.8	63.5	117.3
Jizzakh	106.2	117.8	103.1	18.0	24.0	118.5
Kashkadarya	298.9	333.1	100.8	40.0	46.9	102.6
Navoi	108.8	143.5	123.5	22.1	32.3	121.8
Namangan	258.6	274.3	100.0	39.1	49.5	117.4
Samarkand	347.1	372.5	101.1	70.1	89.8	113.9
Surkhandarya	216.4	249.5	107.3	32.0	42.1	111.7
Sirdarya	66.0	73.8	103.6	9.3	12.6	112.5
Tashkent	453.2	530.0	111.5	56.6	75.5	113.2
Fergana	532.9	558.3	100.0	60.6	84.3	119.6
Khorezm	144.6	158.2	103.4	31.8	44.4	119.2
Tashkent city	925.8	1,107.3	114.2	334.8	420.7	105.7

Source: State Statistics Committee of Uzbekistan

In the structure of turnover the ratio of foodstuffs to non-foodstuffs is changing towards an increase of the non-foodstuffs section - from 60.7% and 39.3% to 56.9% and 43.1% (Table 5.2.5.). In five regions (as opposed to eight regions in 2003) over 60% of the volume of sales of consumer goods belonged to foodstuffs, which was caused by a gradual reduction of differences in the development of the consumer market in the regions. The reduction of the share of foodstuffs in the structure of turnover, as well as the expansion of markets for more expensive and high-quality non-foodstuffs (durable goods, in particular) indicates the gradual improvement of the population's quality of life.

Table 5.2.5. Structure of Retail Trade Turnover Per Capita

Region	Retail trade turnover per capita, UZS thous.		Including in % to total volume			
	2003	2004	Foodstuffs		Non-foodstuffs	
			2003	2004	2003	2004
Uzbekistan	167.2	183.6	60.7	56.9	39.3	43.1
R. Karakalpakstan	85.7	92.3	60.4	56.3	39.6	43.7
Andijan	209.4	197.5	51.2	56.8	48.8	43.2
Bukhara	145.1	160.3	72.5	62.1	27.5	37.9
Jizzakh	103.0	113.0	51.1	50.0	48.9	50.0
Kashkadarya	128.9	141.1	68.1	60.3	31.9	39.7
Navoi	135.2	177.1	59.9	49.4	40.1	50.6
Namangan	127.1	133.0	46.9	46.0	53.1	54.0
Samarkand	123.3	130.5	61.9	61.3	38.1	38.7
Surkhandarya	116.8	132.5	55.1	47.0	44.9	53.0
Sirdarya	98.5	109.5	55.4	58.5	44.6	41.5
Tashkent	186.1	215.9	65.7	49.4	34.3	50.6
Fergana	190.7	197.2	55.1	56.3	44.9	43.7
Khorezm	103.1	111.1	66.4	62.5	33.6	37.5
Tashkent city	429.4	514.0	66.8	62.8	33.2	37.2

Source: State Committee on Statistics of Uzbekistan

Positive shifts in the structure of retail trade turnover promoted the growth of provision of the population with long-term durable consumer goods, in particular, color televisions, refrigerators, and automobiles (Table 5.2.6).

Table 5.2.6. Provision of the Population with Long-term Durable Consumer Goods (in % to all Households)

Year	Televisions		Stereos	Refrigerators	Washing machines	Sewing Machines	Automobiles
	Color	B/W					
2003	32.9	60.2	30.1	50.8	21.1	39.0	13.4
2004	37.8	60.0	27.7	52.3	20.1	34.6	14.1

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

Services. The acceleration of growth rates of paid services rendered to the population was due to the increase in the population's solvent demand, interregional differences and the pace of development of the social structure system. In 8 provinces the physical volume of paid services grew at rates above the average national level. Provision of paid services grew at the highest rate in Andijan Province (132.7%), Navoi Province (121.8%), Fergana Province (119.6%), and Khorezm Province (119.2%). The high growth rates in these provinces were achieved as a result of: a) the growth of solvent demand of the population for services; b) expansion of employment in the human services sphere; c) the development of competition and expansion of the private sector in the sphere of services; and d) the effective implementation of regional and target programs connected with the development of the sphere of human services. Low growth rates of paid services were observed in Kashkadarya Province (102.6%), and Tashkent City (105.7%) (Table 5.2.4.).

In the structure of paid services the share of consumer services, housing and communal services and communications services has grown. The share of housing and communal services increased, mainly, due to the increase in electricity and natural gas tariffs. At the same time, the shares of culture and tourism services, physical culture and sports, and healthcare and educational services are still low.

Social Infrastructure. In 2004 6,178.6 thous. sq.m of housing were put into operation; 2.8 thous. km of gas-supply and 1.9 thous. km of water-supply pipelines were built, of which over 90% were in rural areas; secondary schools with places for 19.7 thous. students, and polyclinics, including rural medical clinics, for 12 thous. visits were put into operation. The appropriate commissioning of social sphere facilities allowed the provision of the population with housing to be increased up to 14.4 sq. m per capita, with centralized water-supply – up to 82.2% (as opposed to 81.8% in 2003), and with natural gas – up to 80.2% (as opposed to 79.8% in 2003) (Annex 5.2.3.).

Table 5.2.7. Commissioning of Social Sphere Facilities

	Unit	2003	2004
Commissioning of housing	Thous. sq. m	6,739.7	6,178.6
Including individual housing construction	Thous. sq. m	6,597.7	6,133.5
In rural areas	Thous. sq. m	5,997.7	5,496.3
Polyclinics (including rural medical clinics)	Thous. visits	15.5	12.6
Including those in rural areas	Thous. visits	14.5	12.0
Secondary schools	Thous. student seats	22.1	19.7
Vocational colleges	Thous. student seats	92.2	100.4
Gas pipelines	Thous. km	2,982.9	2,831.0
Including those in rural areas	Thous. km	2,865.0	2,729.2
Water-supply pipelines	Thous. km	1,747.5	1,946.1
Including those in rural areas	Thous. km	1,641.8	1,768.3

Source: State Committee on Statistics of Uzbekistan

533 in 2003 to 827 in 2004) and their students, from 531.6 thous. persons to 757.6 thous. persons respectively; and institutions of higher learning (from 62 in 2003 to 63 in 2004) and the number of their students – from 254.4 thous. persons to 263.6 thous. persons (Annex 5.2.3.).

Despite the fact that such sectors of the social sphere as education and healthcare are largely supported by the state, the problems of strengthening the material-and-technical base and improving the quality of services rendered, as well as issues of retraining and providing professional development of the personnel, while taking into account the real demand for highly qualified specialists in these spheres, need to be resolved. These problems are especially acute in rural areas.

In general, as a result of the normative acts for regulation of the operation of individual entrepreneurs, adopted by the Government of Uzbekistan, the informal sector in the trade sphere has decreased, and high growth rates of paid services have been ensured. A further increase in consumer demand and the development of the consumer market, in particular, of the human services sector in the rural areas, and the reform of the housing and communal sector, as well as implementation of a package of social programs, can be considered among the priorities of 2005.

5.3. Employment and Labor Market

Population. The population of the Republic of Uzbekistan increased by 300,000 persons within the year, amounting to 26,007,000 people by the end of 2004 (Annex 5.3.1). The population of Uzbekistan is growing on the basis of natural migration. In contrast to previous years, in 2004 an increase in the birth rate was marked. Over the year, 533.2 thousand children were born, which is 24.8 thousand more than in 2003. This

is, in a sense, a demographic echo from the high birth rates of the mid-80s. In 2004 and, most likely, over the next 2 or 3 years, the increasing birth rate will be result from the fact that generations of women born during that period of time have begun reaching their active fertility age.

Of those born, cities accounted for 31.1%, and rural areas for 68.9%. In 2004, the overall birth coefficient was 20.5 per thousand, as opposed to 19.8 per thousand in 2003.

Positive changes have occurred in the population's mortality indicators as well. In 2004 130.0 thousand people died (in 2003 – 135.9 thous. people). The general death rate of the population decreased within the year from 5.3 to 5.0 per thousand. Based on the cited data, the natural growth of the population amounted to 403.2, which is 30.7 thous. people more than in the previous year.

The indicated changes in the processes of natural migration of the population testify to a significant improvement in the demographic situation.

As for emigration, Uzbekistan still has a negative balance. In 2004 the emigrational outflow of the population from Uzbekistan increased by 7.9 thousand people, compared to 2003.

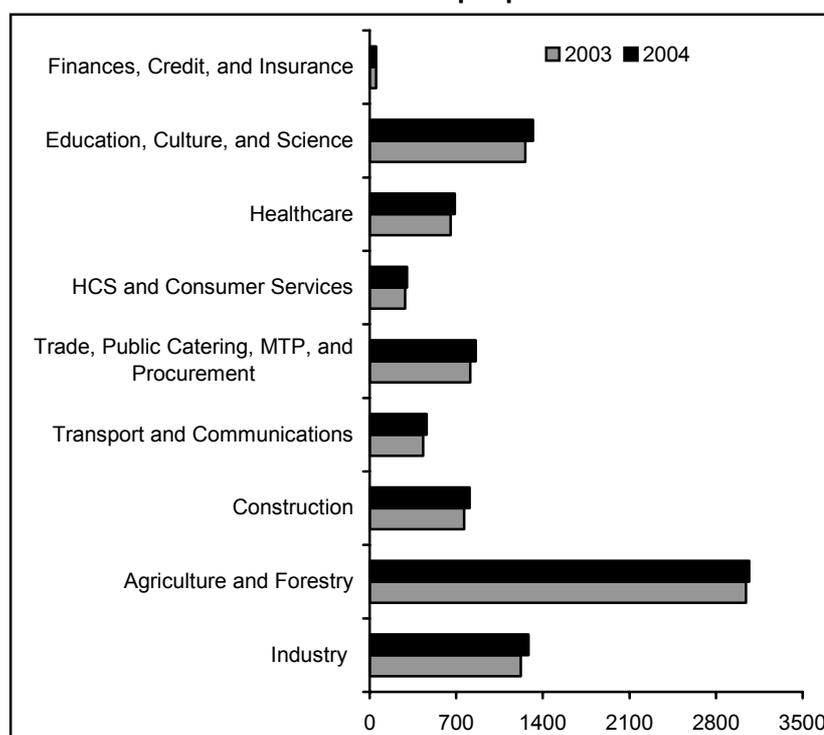
Employment of the Population. In recent years, in Uzbekistan an absolute and relative growth of employment of the population has been taking place, being especially noticeable in 2004. In 2004 the number of those employed in the economy increased by 321.600 people (3.4%), as opposed to 256.000 people (2.7%) in 2003. The growth in 2004 exceeded the corresponding indicator of 2003 by 66,000 people. This favorable tendency is due to a considerable degree to the accelerated growth of the number of industrial workers. Within 2004, this exceeded all the previous years, having reached 60,600 people (18.8% of the total growth of those employed in the economy), as opposed to 37,300 people (14.6%) in 2003, and 26,000 people (13.2%) in 2002 (Annex 5.3.2). This consistent growth of industrial personnel has resulted from structural transformations in the economy and is the most important positive tendency in the sphere of employment and labor priorities of the population.

Of the other branches of the real sector, construction was of great importance. It ensured a growth in employment of 44,800 people. The number of employees has also increased in the sectors of trade, public catering, supplies of materials and machinery, and procurement (by 5.2%), accounting for 13.2% of the growth in employment in 2004. For the first time in recent years, employment increased in the agrarian sector of the economy (by 24,600 by 0.2%).

In the course of employment formation in the Republic of Uzbekistan, the sphere of non-material production was in the lead. In 2004, in the total number of the working population, its share increased from 31.8% to 32.3%, accounting for 46% of the growth in the number of the employed. This worldwide positive tendency of growth of employment is connected with an increase in the number of employees of the real sector that facilitates development of the sphere of non-manufacturing businesses and human services.

The greatest increase in the number of employees (by 63,600 or by 5.1%) took place in education, culture, art, sciences, and scientific service. These sectors accounted for 19.8% of the total growth of employment within the year, resulting from the implementation of the government program for the training of the nation's personnel. The continuous growth of employment in this sphere has already been going on for several years, and is becoming a steady positive tendency. In

Graph 5.3.1. Population's Employment Structure by Sectors, thousand of people



Source: State Statistics Committee of Uzbekistan.

2004, employment in the transport and communications services for population was growing at a rapid pace (by 11,400 people or by 8.9%), and the share of the non-production segment of this sector increased from 29.8% to 30.4% (Graph 5.3.1). This is connected with the extensive development of the infrastructure, including an increase in transportation thoroughfares, and the introduction of modern-day informational and telecommunication technologies.

In 2004 an expansion of the sphere of employment occurred, owing to the non-state sector of the economy. Compared to the previous year, its share in growth increased (from 80.7% to 82.9%). As a result, the proportion of the non-state sector in the total number of employees increased from 76.8% to 77.0%, with a corresponding increase in the real sector.

Entrepreneurship continues to play a major role in providing the population with employment, leading to the creation in 2004 of 427,500 new jobs, as opposed to 375,400 in 2003. The number of persons employed in the sphere of small entrepreneurship increased within the year by 601,600 people, and their proportion in the total employment – from 56.7% to 60.9%.

Current Labor Market. Throughout the year, the tendency towards a relative decline in the number of people who register with job placement centers as job seekers was observed. On the whole, within the year 425,000 people were registered, which is 5,500 people fewer than the level of the previous year. This tendency is especially representative of the Republic of Karakalpakstan (a 13.1% decline). At the same time, in some regions the influx of people into job placement centers increased: in Navoi province – by 18.3%, and in Khorezm province – by 11.5%. The highest numbers of registered job seekers were in Fergana Province (16.0% of the total number), Namangan Province (11.3%), and Samarkand Province (11.5%). To a certain extent, this indicates a more difficult situation regarding the population's employment in these regions. The consistent improvement in effectiveness of the employment assistance operation of job placement centers should be noted. IN 2004, 76.2% of the total number of registered people was provided with jobs, as opposed to 73.7% in 2003, and 71.9% in 2002 (Table 5.3.1.). The highest level of job placement was marked in Tashkent City (81.3%), and in Kashkadarya (77.6%) and Samarkand (77.1%) provinces, in conformity with the demand and supply of the work-force that had developed during this period.

Table 5.3.1. Basic Current Labor Market Indicators

Year	Registered job seekers, thousand people	Successful job placements, thousand people	Ratio of placements to registered, %	Number of officially registered unemployed people by the end of the reporting period, thousand people
2000	421.4	280.6	66.6	35.4
2001	462.8	318.1	68.7	37.5
2002	448.2	322.2	71.9	34.8
2003	430.5	317.4	73.7	32.2
2004	425.0	323.7	76.2	34.9
03/I	108.3	77.1	71.2	39.2
03/I-II	231.6	167.0	72.1	42.5
03/II-III	337.0	248.0	73.6	38.1
04/I	104.8	76.2	72.8	36.6
04/I-II	228.1	170.5	74.7	41.3
04/I-III	331.1	252.3	76.2	36.6

Source: Based on data collected from job placement centers.

The inflow of youth into labor placement centers has structurally changed. The number of young people, who start their career development after having finished secondary schools decreased by 2,800 people, while the number of young people who have graduated from institutions of higher and specialized secondary education increased by 5,500 people, and from vocational schools – by 1,200 people. The total number of registered graduates increased from 121,600 people in 2003 to 125,500 people in 2004, i.e. by 3,900 people or by 3.2%. Accordingly, at the same time their share in the structure of the workforce supply on the current labor market increased (from 28.2% to 29.5%). On the whole, the share of young people aged below 30 in this structure somewhat decreased, having reached 55.3% in 2004, as opposed to 57.2% in 2003.

More than one third of the total number of registered job seekers (38.2%) comprised people without any occupation or profession, mainly in rural areas (83.3% of this category of the population). But, at the same time, one should also note certain strengthening in the qualitative aspects of development of the current labor market, an evidence of which is a noticeable growth in the inflow of people with college and university diplomas to job placement centers (by 15% in 2004).

As a result of the existing ratio of demand and supply of the workforce, the number of unemployed who have received official status has somewhat increased. By the end of 2004 it reached 34.9 thousand people, as opposed to 32.2 thousand people in 2003. The growth of unemployment was especially sizeable in Jizzakh province (1.9 times), in Navoi and Bukhara provinces (1.6 times), and in Tashkent province (1.4 times).

The highest absolute number of unemployed for this period was registered along the lower reaches of the Amudarya River. In Khorezm province it equaled 8.2 thousand people or 24.6% of the total number for Uzbekistan, and for the Republic of Karakalpakstan – 5.5 thousand people and 15.8% respectively. These regions also hold the lowest national level of job placement for persons who applied to job placement centers: in the Republic of Karakalpakstan it was 67.7%, and in Khorezm province – 51.9%, and, moreover, these indicators worsened in 2004. The cited data indicate that the situation with regards to manpower resources is not very favorable, and somewhat deteriorated in this region in 2004.

At the year's end, job placement centers retained vacancies (23.7 thousand), mainly, in the cities (63.4%). A considerable proportion of the vacancies belonged to industry (21.5%), and in the rural areas – to agriculture (28.0%).

In the current labor market of Uzbekistan, the number of people who have been trained professionally at corresponding infrastructures is decreasing. In 2004 a total of 41.9 thousand people were trained, as opposed to 63.6 thousand people in 2003, and 81.3 thousand people in 2002. This indicator has declined in practically all the regions, except Navoi province (a 3.0% growth) and Khorezm province (a 13.6% growth). Analysis of relative vocational training indicators has allowed the most unfavorable regions to be identified. For example, while in Uzbekistan on average 99 persons per 1,000 on the whole received vocational training in 2004 (148 persons in 2003), 489 persons did in Tashkent City, 10 persons – in the Republic of Karakalpakstan, 29 persons – in Tashkent province, and 27 persons – in Kashkadarya province. This indicates the necessity of modernizing and reorienting the work of training bases, giving special attention to the broadening of professional profiles in the training and career-guidance of the population in need of employment, especially in the distant regions of Uzbekistan.

The tendency of a decrease in the number of the unemployed participating in public works can also be seen. In 2004 there were 50.1 thousand people as opposed to 68.1 thousand people in 2003. To a certain extent this is connected with a general decline in the number of the unemployed who have received official status in the current period.

In the current labor market, rural areas are becoming more and more significant. In 2004 73.6% of all people registered at the job placement centers as job seekers were from the villages, as opposed to 60%-65% in the past and 73.5% in 2003 (Table 5.3.2.). Rural unemployed made up 73.4% in 2004 (in 2003 – 70.3%). The growing role of the rural areas in this sphere is becoming a steadily developing trend.

Table 5.3.2. Employment in Urban and Rural Areas

Year	Registered as jobseekers, thousand people		Placed in a Job, thousand people		Level of employment, %	
	Urban	Rural	Urban	Rural	Urban	Rural
2003	114.1	316.3	79.2	238.2	69.4	75.3
2004	112.0	313.0	94.6	229.1	81.5	73.2
03/I	31.6	76.7	21.3	55.9	67.4	72.8
03/II-II	64.9	166.7	44.0	123.0	67.8	73.8
03/II-III	86.6	249.3	63.6	184.3	73.5	73.9
04/I	27.4	77.3	18.9	57.3	68.9	74.2
04/I-II	59.0	169.0	41.8	128.7	70.7	76.1
04/I-III	85.9	245.3	61.6	190.7	71.8	77.7

Source: Based on data collected from job placement centers.

On the whole, in 2004 the labor market's conditions appear to be as follows:

- workforce supply: 425.0 thousand people;
- workforce demand: 347.4 thousand people, including 323.7 thousand people – satisfied demand (the number of those placed in a job), and 23.7 thousand people -- unsatisfied demand (vacancies).
- surplus of supply over demand equals 77.6 thousand people, or 12.2%.

Exports of Workforce. As a result of reorganization of the Agency for Foreign Workforce Migration at the Ministry of Labor and Social Security of the Republic of Uzbekistan, the organized export of workforce from Uzbekistan is growing. There are rather high quotas on job placement of people based on contracts outside of Uzbekistan. However, despite this fact, some labor migration is still taking place on an unorganized basis.

With consistent formation of a necessary legislative and legal base, the export of workforce will be of a task-oriented and systemic nature.

With a view to ensuring further productive employment of the population, the following steps are necessary:

- expanding employment in the real sector of the economy;
- ensuring a quantitative and qualitative equilibrium of the supply and demand of the workforce in the labor market;
- accelerating the development of the non-agricultural sphere of application of labor force in rural areas, and creating on that basis additional jobs for the employment of the rural population;
- improving the quality and effectiveness of the professional training system and career-guidance of unemployed people with a view to ensuring competitiveness and the growth of professional mobility of the workforce on the labor market.
- creating an informational system regarding workforce demand and supply, extending the population's access to information on vacancies in an effort to reduce people's job search time;
- coordinating and harmonizing the volume and professional and qualification structure of training workers and specialists with the needs of territorial labor markets.

Annex 5.2.1. Volume of Goods and Services Sold to Population

Year	Volume of goods and services sold		Including			
			Goods sold		Services provided	
	UZS bn.	%	UZS bn.	%	UZS bn.	%
2000	2,097.4	100	1,787.5	85.2	309.9	14.8
2001	3,172.2	100	2,699.9	85.1	472.3	14.9
2002	4,497.7	100	3,786.3	84.2	711.4	15.8
2003	5,238.1	100	4,289.7	81.9	948.4	18.1
2004	5,991.3	100	4,764.7	79.5	1,226.6	20.5
03/I	1,144.7	100	955.5	83.5	189.2	16.5
03/I-II	2,447.8	100	2,022.7	82.6	425.1	17.4
03/I-III	3,815.9	100	3,143.8	82.4	672.1	17.6
03/IV	1,422.2	100	1,145.9	80.6	276.3	19.4
04/I	1,299.8	100	1,057.9	81.4	241.9	18.6
04/I-II	2,733.7	100	2,184.7	79.9	549.0	20.1
04/I-III	4,269.2	100	3,400.8	79.6	868.4	20.1
04/IV	1,722.0	100	1,363.8	79.2	358.2	20.8

Source: State Statistics Committee of Uzbekistan

Annex 5.2.2. Retail Trade Turnover and Provision Paid Services

Period	Retail turnover		Paid services	
	In actual prices, UZS bn.	Growth rate in relation to previous year, in comparable prices, %	In actual prices, UZS bn.	Growth rate in relation to previous year, in comparable prices, %
2000	1,787.5	107.6	309.9	115.7
2001	2,699.9	109.6	472.3	114.7
2002	3,786.3	102.1	711.4	108.6
2003	4,289.7	105.1	948.4	107.9
2004	4,764.7	104.7	1,226.6	113.8
03/I	955.5	99.8	189.2	101.7
03/I-II	2,022.7	100.3	425.1	104.4
03/I-III	3,143.8	105.5	672.1	106.4
03/IV	1,145.9	109.5	276.3	107.5
04/I	1,057.9	105.0	241.9	111.8
04/I-II	2,184.7	104.2	549.0	113.5
04/I-III	3,400.8	103.1	868.4	113.9
04/IV	1,363.8	106.5	358.2	113.1

Source: State Statistics Committee of Uzbekistan

Annex 5.2.3. Adequate Provision of Social Infrastructure Facilities to Population

Year	Provision of Population with					
	Housing, sq. m per capita	Hospital beds per 10 thousand people	Outpatient and polyclinic institutions, per 10 thousand people	Students taught during 1 st shift, %	Centralized water-supply, %	Natural gas, %
2000	13.8	55.9	157.7	73.6	80.4	76.1
2001	14.0	55.8	160.4	73.1	81.4	77.2
2002	14.3	57.8	163.1	71.9	81.6	78.0
2003	14.3	57.4	159.2	71.1	81.8	79.8
2004	14.4	x	x	71.3	82.2	80.2

Source: State Statistics Committee of Uzbekistan

Annex 5.2.4. Dynamics of Main Indicators of the Educational System Development

Indicator	Unit	2000	2001	2002	2003	2004
Secondary schools						
Secondary schools, total	Piece	9,802	9,788	9,799	9,834	9,835
Number of their students	Thousand people	6,037.4	6,076.4	6,329.1	6,263.1	6,154.4
Academic lyceums						
Lyceums, total number	Piece	46	47	51	54	65
Number of their students	Thousand people	9.8	17.5	20.5	26.2	30.5
Admission	Thousand people	3.0	10.6	9.3	10.3	13.4
Vocational colleges						
Colleges, total number	Piece	241	303	414	533	827
Number of their students	Thousand people	59.5	216.8	366.9	531.6	757.6
Admission	Thousand people	30.1	164.0	184.1	145.9	310.1
Specialized secondary schools						
Schools, total number	Piece	194	181	141	95	-
Number of their students	Thousand people	254.8	211.9	158.5	126.1	-
Admission	Thousand people	73.5	47.8	43.1	59.1	-
Institutions of higher learning						
Institutions of higher learning, total	Piece	61	61	62	62	63
Number of their students	Thousand people	183.6	207.2	232.3	254.4	263.6
Admission	Thousand people	44.7	50.6	54.6	60.9	59.3
Including contract students	Thousand people	22.6	27.9	31.7	38.0	36.9

Source: State Statistics Committee on Uzbekistan. *) Estimates

**Annex 5.3.1. Dynamics in the Population of the Republic of Uzbekistan
(by the beginning of the year, thousand people)**

Year	Entire Population		Urban		Rural	
	Number	Growth, %	Number	Growth, %	Number	Growth, %
2000	24,487.7	1.5	9,165.5	0.9	15,322.2	1.8
2001	24,813.1	1.3	9,225.3	0.7	15,587.8	1.7
2002	25,115.8	1.2	9,286.9	0.7	15,828.9	1.5
2003	25,427.9	1.2	9,340.7	0.6	16,087.2	1.6
2004	25,707.4	1.1	9,381.3	0.4	16,326.1	1.5
2005	26,006.8	1.2	9,430.3	0.5	16,576.5	1.5
04/I (by 1.04.04)	25,777.3	0.3	9,397.2	0.2	16,380.1	0.3
04/I-II (by 1.07.04)	25,851.8	0.3	9,405.3	0.1	16,446.5	0.4
04/I-III (by 1.10.04)	25,936.4	0.3	9,413.9	0.1	16,522.5	0.5

Source: State Statistics Committee of Uzbekistan

Annex 5.3.2. Employed Population by Sectors of the National Economy

	2003	2004	2004 in %% to 2003
Employed - Total	9,589.0	9,910.6	103.4
In manufacturing	6,537.0	6,710.6	102.7
Industry	1,223.3	1,283.9	105.0
Agriculture and Forestry	3,063.0	3,067.6	100.2
Transport and Communications	304.0	320.8	105.5
Construction	763.3	808.1	105.9
Trade, Public Catering, MTP, and Procurement	815.0	857.6	105.2
Other	368.4	372.6	101.1
In Non-Material Production	3,052.0	3,200.0	104.8
Transport and Communications	128.8	140.2	108.9
Housing and Communal Services, and Consumer Services	285.4	301.1	105.5
Healthcare, Physical Culture, and Social Provision	654.4	689.0	105.3
Education, Culture, Art, Science, and Scientific Service	1,257.4	1,321.0	105.1
Finances and Credit	50.4	52.8	104.8
Other	675.6	695.9	103.0
In the State Sector, %	23.2	23.0	
In the Non-State Sector, %	76.8	77.0	

Source: State Statistics Committee of Uzbekistan

6. Socio-Economic Development in the Regions

The establishment of the two-chamber Oliy Majlis (Parliament) – the legislative body and the Senate – of the Republic of Uzbekistan opens up new opportunities for securing sustainable socio-economic development of the provinces through their regional representatives in the Senate.

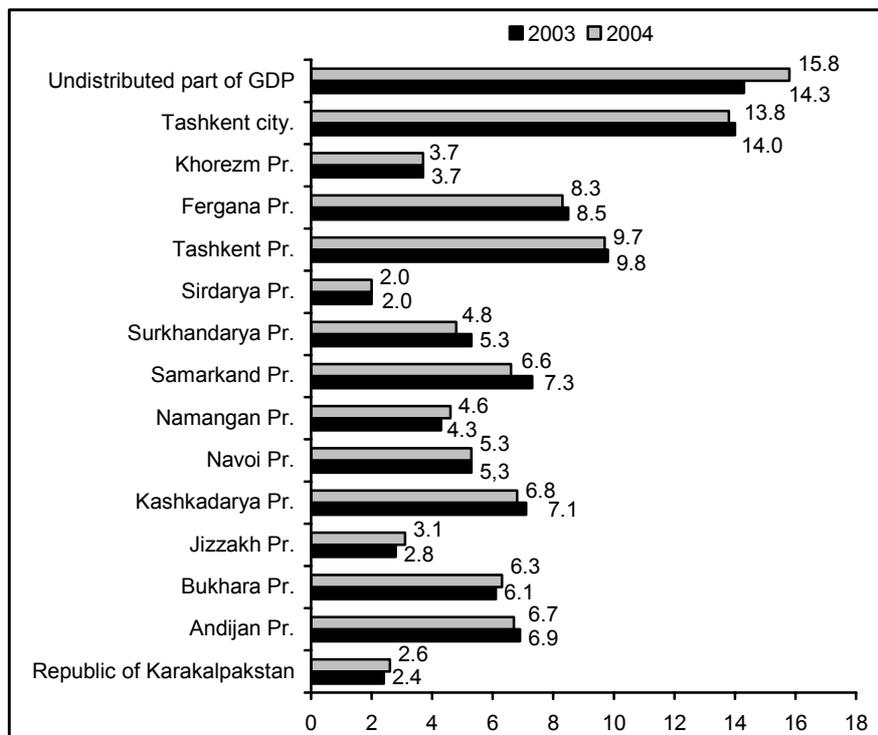
The regions of Uzbekistan (the Republic of Karakalpakstan, twelve provinces and the city of Tashkent) developed throughout 2004 at a steady pace. If the growth of the main indicator – overall GDP in Uzbekistan – was 107.7% in comparison with the same figure in 2003, then the growth of the gross regional product in the Republic of Karakalpakstan (108.7%), Tashkent Province (109.0%), Sirdarya Province (108.4%) and Khorezm Province (108.2%) was registered at a rate higher than the national average. The gross regional products of Jizzakh and Namangan Provinces grew at the rate of the national average. Growth rates of GRP lower than the national average were registered in the city of Tashkent (104.0%), Fergana Province (104.9%), Kashkadarya Province (105.7%) and Surkhandarya Province (105.9%) (Annex 6.1). The high growth rates of GRP as the main aggregated indicator were registered due to positive tendencies and high rates of growth in the manufacturing branches of the economy.

The territorial structure of the GRP has somewhat changed in comparison with the same structure in 2003. The highest share in the GRP was held by Tashkent city – 13.8%, followed by Tashkent -9.7%, Fergana – 8.3%, Kashkadarya – 6.8%, Andijan – 6.7% and Samarkand – 6.6% Provinces.

During 2004 compared with the same figures of 2003 the share in the total GRP declined in the city of Tashkent (from 14.0% to 13.8%), Fergana (from 8.5% to 8.3%), Tashkent (from 9.8% to 9.7%), Surkhandarya (from 5.3% to 4.8%), Samarkand (from 7.3% to 6.6%), Kashkadarya (from 7.1% from 6.8%) and Andijan Provinces (from 6.9% to 6.7%).

The share in the total GRP increased in Bukhara (from 6.1% to 6.3%), Jizzakh (from 2.8% to 3.1%), Namangan Provinces (from 4.3% to 4.6%) and in the Republic of Karakalpakstan (from 2.4% to 2.6%). In all other provinces the share in the GRP remained unchanged (Graphs 6.1 and 6.2).

Graph 6.1. The Share of Regions in the GDP of the Republic of Uzbekistan for the Period of 2003-2004 (in %)



Source: State Statistics Committee of the Republic of Uzbekistan

darya, Andijan and Surkhandarya Provinces in comparison with the indices of 2003.

As in previous periods the Republic of Karakalpakstan placed in the low level. Although its index rose somewhat in comparison with the index in 2003 it remained the lowest (0.423). Per capita GRP in the Republic of Karakalpakstan is UZS 199.2. This is almost four times less than the same index in the city of Tashkent and 2.5 times less than the national average level.

Per capita GRP indices have changed to a certain extent (Annex 6.2). Such changes involve provinces at the medium and low level. Provinces in the high level with high index levels remained unchanged in comparison with the indices of 2003. As in previous periods this level includes Navoi, Bukhara, Tashkent Provinces and the city of Tashkent.

There were the following changes in the medium level: Sirdarya Province marked an increase (from 0.754 to 0.768) as did Jizzakh Province (from 0.702 to 0.768). Such increases brought these Provinces to the top of the medium level. Other provinces registered considerable decline in the indices, especially Fergana, Kashka-

Table 6.1. Ranking of Provinces Based on their Per Capita GRP

2003	Index	2004	Index
I. High level	Greater than 1.000	I. High level	Greater than 1.000
Navoi Province	1.685	Navoi Province	1.705
Tashkent city	1.682	Tashkent city	1.678
Bukhara Province	1.053	Bukhara Province	1.085
Tashkent Province	1.041	Tashkent Province	1.032
II. Medium level	From 0.500 to 1.000	II. Medium level	From 0.500 to 1.000
Fergana Province	0.785	Sirdarya Province	0.768
Kashkadarya Province	0.782	Jizzakh Province	0.768
Andijan Province	0.764	Fergana Province	0.759
Sirdarya Province	0.754	Kashkadarya Province	0.747
Surkhandarya Province	0.734	Andijan Province	0.744
Jizzakh Province	0.702	Khorezm Province	0.669
Khorezm Province	0.681	Surkhandarya Province	0.657
Samarkand Province	0.669	Samarkand Province	0.601
Namangan Province	0.543	Namangan Province	0.572
III. Low level	Less than 0.500	III. Low level	Less than 0.500
Republic of Karakalpakstan	0.400	Republic of Karakalpakstan	0.423

Source: calculations of the author based on the data from the State Statistics Committee of the Republic of Uzbekistan.

The pace of industrial output growth was also high in most provinces in 2004. Andijan Province (135.8%), the Republic of Karakalpakstan (123.5%), Samarkand (113.4%), Jizzakh (112.8%) and Tashkent (109.6%) Provinces registered growth rates higher than the national average (109.4%). Such positive growth rates were attained due to a growth in manufacturing of ready-made products and localized manufacturing of some items in the leading sectors (machine building, ferrous metallurgy, timber industry and woodworking, as well construction materials production).

The index of industrial development level (on a per capita basis) rose in the Republic of Karakalpakstan (from 0.193 to 0.207), Andijan (from 0.960 to 1.028), Kashkadarya (from 0.967 to 1.050), Tashkent (from 1.537 to 1.650) and Surkhandarya Provinces (from 0.286 to 0.295). Other provinces marked declines in the index. Navoi (4.431), Tashkent (1.650), Kashkadarya (1.050) and Andijan (1.028) Provinces reported the highest indices (Annex 6.2).

The Republic of Karakalpakstan marked the lowest level of industrial output production on a per capita basis (UZS 64.6). This is twenty one times less than the same index in Navoi Province and seven times less than the index in the city of Tashkent. Such big differences in the indices are due to the weak industrial potential of the Republic of Karakalpakstan.

All provinces except Navoi Province (97.3%) reported growth in the production of consumer goods. The growth rates were especially high in Andijan (145.3%), Fergana (119.2%), Kashkadarya (117.1%), Jizzakh and Sirdarya Provinces (115.2% each). These provinces registered growth rates higher than the national average (113.4%) (Annex 6.1).

Such high growth rates were attained as a result of taking measures designed to stimulate the production of consumer goods, extension of tax and customs benefits, simplification of procedures for licensing, certification of goods and registration of newly established enterprises specializing in the production of consumer goods. Navoi Province did not meet the growth rate objectives in the production of consumer goods due to the fact that some large enterprises in the Province did not achieve the targeted level of work volume in the production of consumer goods.

The per capita index on consumer goods production rose in Andijan (from 1.847 to 2.259), Bukhara (from 1.458 to 1.477), Jizzakh (from 0.655 to 0.723), Surkhandarya (from 0.356 to 0.403), Sirdarya (from 0.669 to 0.677), Fergana (from 0.844 to 0.903) and Namangan Provinces (from 0.561 to 0.573); the remaining provinces registered a decline in the index, especially in Kashkadarya, Tashkent, Khorezm Provinces and the city of Tashkent (Annex 6.2). Ten regions registered an index of production of consumer goods lower than the national average (USZ 92.900); the Republic of Karakalpakstan registered the lowest level (USZ 28.500). Comparatively low rates of growth in the production of consumer goods on a per capita basis in many regions was due to insufficient measures taken by the local state administration on the saturation of the consumer market with goods of local production, the lack of support for small businesses, as well as the slow deployment of mechanisms for extending consumer loans for the purchase of durable goods.

All regions registered high growth rates of agricultural production in 2004. Khorezm (114.1%), Tashkent (112.8), Namangan (112.7%), Sirdarya (111.8%), Jizzakh (111.2%) Provinces and the Republic of Karakalpakstan (112.5%) registered this indicator higher than the national average (110.1%) (Annex 6.1). High growth rates of this indicator were registered mainly due to the effective performance of farming and peasant enterprises.

Ten regions saw per capita agricultural production indicators higher than the national average in 2004. However there was a decline in the indicator in most provinces, with only Bukhara, Sirdarya, Khorezm and Jizzakh Provinces observing an increase (Annex 6.2).

Investment growth rates were not met in six provinces: Andijan (by 37.5%), Kashkadarya (18.6%), Navoi (12.2%), Namangan (4.5%) and Fergana (9.6%) Provinces. This was mainly due to the completion of construction of a number of buildings, as well as a reduction in funding from the national budget.

In 2004 large amounts of investment resources were channeled to Bukhara, Sirdarya, Khorezm Provinces and the city of Tashkent. These resources were mainly used for the construction and reconstruction of new works, creating new industrial facilities, developing manufacturing infrastructure and improving the fertility of arable land (Annex 6.1).

Bukhara Province saw the establishment of «Uzpolcharm» JV, «Bukhara-gusht» JSC. Also some work was done out of investment resources available for the development of tourism in this province. Sirdarya Province marked the establishment of «Lola Model» JV, «Mos-Yanteks» JV, «Sayhun-mebel» JV and «Altay» JV. Investment resources in Tashkent Province were mainly utilized for the creation of social infrastructure, and in Jizzakh Province for the creation of water supply infrastructure and improving the fertility of arable land.

Per capita investment indices increased in Bukhara (from 0.701 to 1.174), Jizzakh (from 0.583 to 0.611), Surhandarya (from 0.600 to 0.641), Sirdarya (from 0.592 to 0.819), Tashkent (from 0.872 to 1.085), Khorezm (from 0.437 to 0.874) Provinces and in the city of Tashkent (from 2.864 to 3.088). All other regions marked a decline in this index.

All provinces except Andijan (89.2%) registered growth in retail trade turnover. Growth was especially high in Navoi (123.5%), Tashkent (111.5%) Provinces and the city of Tashkent (114.2%). Such growth was attained through setting up a considerable number of retail trading shops, the provision of consumer services and catering, especially in rural areas, and the activation of the wholesale chain. The slowdown in Andijan Province in retail trade turnover was due to poor arrangements in retail trade, as well as the low purchasing power of the population.

The indices of per capita retail trade increased in most of the provinces, especially in Navoi, Tashkent Provinces and the city of Tashkent. Andijan, Sirdarya, Fergana and Samarkand Provinces registered considerable decline in these indices; ten regions registered indices on the provision of paid services at a level lower than the national average (UZS 184,100). This index was highest in the city of Tashkent (UZS 518,500), lowest in the Republic of Karakalpakstan (UZS 92,500).

A relatively high pace of growth in the provision of paid services was registered in all Provinces in 2004. The pace of growth in the provision of paid services in Andijan (132.7%), Navoi (121.8%), Fergana (119.6%), Khorezm (119.2%), Jizzakh (118.5%), Namangan (117.4%) and Bukhara Provinces was higher than the national average (113.8%) (Annex 6.1).

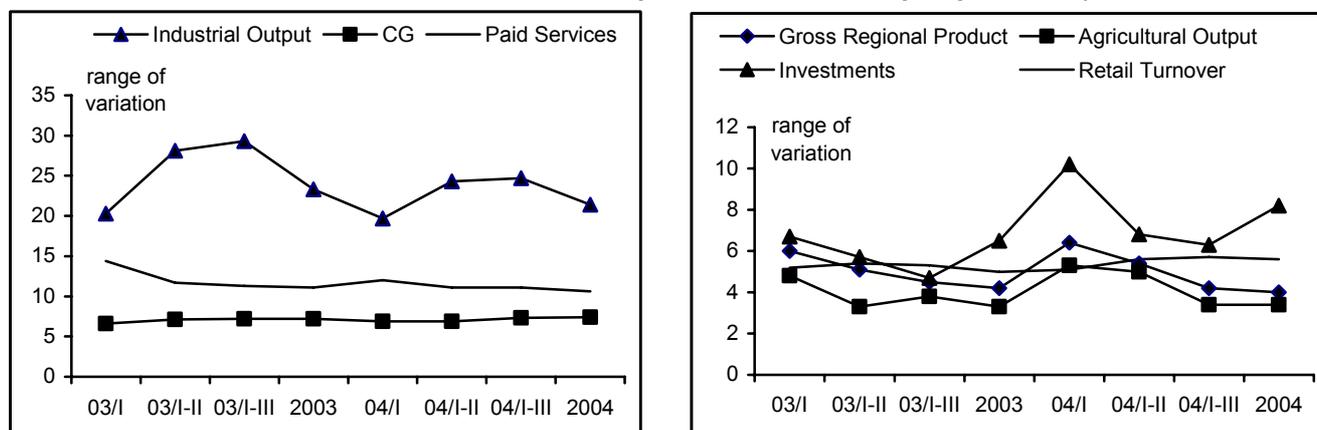
Such high rates of growth were attained through the expansion in the provision of services such as education, health care, public transportation, telecommunication and internet services.

Per capita indicators on the provision of paid services increased in most of the regions in 2004. These indicators declined in Kashkadarya, Samarkand, Fergana Provinces and the city of Tashkent (Annex 6.2).

2004 marked a decline in the level of interregional differentiation on important indicators such as GRP (from 4.2 in 2003 to 4.0 in 2004), industrial output (from 23.3 to 21.4 respectively), and the provision of paid services (from 11.1 to 10.6). There was an increase in all other indicators of interregional differentiation: production of consumer goods (the level of differentiation increased from 7.2 to 7.4), investments (from 6.5 to 8.2), agriculture (from 3.3 to 3.4) and retail trade turnover (from 5.0 to 5.6) (Graph 6.2).

A large impact on interregional differentiation was exerted by Navoi Province (with regard to GRP and industrial output) and the city of Tashkent (retail trade turnover and provision of paid services) since these regions have considerable economic potential. The high level of differentiation is also caused by the status of these regions in comparison with the status of such weakly developed provinces as the Republic of Karakalpakstan, where per capita indicators of the development of the real sector of economy are the lowest in the country.

Graph 6.2. Dynamics of the Differentiation Level in the Socio-economic Development of the Regions (the ratio of indices of most developed and least developed provinces)



Source: State Statistics Committee of the Republic of Uzbekistan

The ranking of regions in 2004 based on the level of development of the manufacturing branches of the economy allowed the following results to be determined (calculations were made based on scores depending on the growth rates of the main indicators: industrial output, production of consumer goods, investments, agriculture, retail turnover and provision of paid services).

The first group with high indicators (7.5-10 points) includes Andijan, Bukhara, Jizzakh, Tashkent and Khorezm Provinces. The second group (6.5-7.5 points) includes Namangan Province, the Republic of Karakalpakstan, Sirdarya, Samarkand, Fergana and Surkhandarya Provinces. The third group (5.3-6.5 points) comprises Navoi Province, the city of Tashkent and Kashkadarya Province.

In comparison with 2003, the rankings of Fergana, Sirdarya, Khorezm, Tashkent and Jizzakh Provinces moved up. The ranking of Navoi, Surkhandarya, Kashkadarya and Samarkand Provinces plummeted.

One of the positive outcome of the socio-economic development of regions during 2004 was the strengthening of economic potential of weakly developed Provinces such as the Republic of Karakalpakstan, Jizzakh, Kashkadarya, Surkhandarya and Sirdarya Provinces, as well as a decline in the interregional differentiation level on GRP, industrial output and provision of paid services. However there still exists a large gap between the most developed and least developed regions in terms of industrial output and production of consumer goods and this requires further objectively targeted state regulation of the socio-economic development of regions with the full consideration of the provinces' natural and economic potential.

Important objectives for the development of regional economies in 2005 include deepening administrative reforms with respect to decentralization, providing state support and stimulating the development of the least developed provinces including rural areas, and strengthening the logistical and financial resources of local state administration.

Annex 6.1. Dynamics of Main Indicators of Socio-Economic Development of the Regions (growth rates in % to the previous period in comparable prices)

Gross Regional Product (GRP)

Regions	2000	2001	2002	2003	2004	03/I	03/I-II	03/I-III	04/I	04/I-II	04/I-III
Republic of Karakalpakstan	89.7	98.3	101.6	110.1	108.7	94.0	98.9	104.5	103.5	107.0	108.1
Andijan	102.8	108.9	103.4	102.8	106.2	100.5	102.3	102.6	106.1	102.8	104.7
Bukhara	104.2	103.5	102.7	101.4	106.1	102.4	104.4	102.6	100.0	104.2	109.2
Jizzakh	104.2	106.5	109.5	107.5	107.7	102.2	104.2	105.5	105.1	109.7	110.4
Kashkadarya	99.0	105.0	110.1	105.4	105.7	103.5	102.9	101.4	103.2	104.5	109.6
Navoi	103.2	101.4	104.8	103.9	107.6	101.0	101.2	102.4	102.5	105.1	108.9
Namangan	108.0	104.5	103.7	102.1	107.7	103.6	101.6	101.3	103.2	105.9	109.8
Samarkand	104.6	103.5	107.6	106.9	106.5	100.2	106.5	106.8	104.2	107.2	109.5
Surkhandarya	105.5	108.0	104.0	105.3	105.9	100.3	103.7	101.7	103.6	105.4	111.5
Sirdarya	102.6	102.9	98.3	102.5	108.4	95.1	94.6	102.4	102.8	112.3	112.4
Tashkent	110.9	104.2	103.1	102.5	109.0	100.1	100.9	101.9	104.1	107.8	109.0
Fergana	106.1	99.5	105.1	100.5	104.9	100.1	100.0	100.6	102.1	102.3	105.2
Khorezm	94.8	103.0	102.9	103.8	108.2	99.4	102.8	101.1	102.5	105.0	110.7
Tashkent City	104.5	104.3	102.6	104.4	104.0	99.2	102.8	104.2	105.5	104.4	103.3
Republic of Uzbekistan	103.8	104.2	104.2	104.4	107.7	102.2	103.8	104.0	104.8	106.2	108.9

Source: State Statistics Committee of Uzbekistan

Industrial Production

Regions	2000	2001	2002	2003	2004	03/I	03/I-II	03/I-III	04/I	04/I-II	04/I-III
Republic of Karakalpakstan	111.2	95.9	94.9	100.3	123.5	89.0	85.4	93.9	117.7	125.2	128.8
Andijan	90.0	128.1	105.5	118.6	135.8	101.0	108.4	117.2	126.9	127.2	131.9
Bukhara	103.9	107.7	103.3	102.5	109.1	105.7	110.6	106.9	108.4	106.6	109.7
Jizzakh	122.7	119.9	130.3	114.1	112.8	106.8	115.6	125.4	114.3	120.9	116.1
Kashkadarya	101.9	104.4	112.1	114.4	110.0	120.1	122.5	118.3	111.4	110.8	109.9
Navoi	102.2	100.6	106.5	99.4	106.0	102.7	100.4	99.3	101.4	107.0	107.7
Namangan	126.1	118.2	112.5	113.0	109.4	107.7	112.8	109.2	109.0	106.0	114.1
Samarkand	97.3	105.7	106.7	111.1	113.4	107.8	115.9	114.7	115.0	111.2	115.7
Surkhandarya	107.9	104.1	113.1	104.6	109.2	101.5	117.0	109.1	106.4	110.1	121.8
Sirdarya	106.7	101.3	122.4	100.1	107.2	101.2	100.1	103.4	103.2	109.8	115.5
Tashkent	108.8	109.1	108.3	102.6	109.6	101.0	101.4	103.0	107.2	108.2	109.2
Fergana	108.5	101.4	108.7	102.4	104.3	102.4	100.3	100.2	103.6	103.7	105.8
Khorezm	103.5	100.3	103.9	98.9	102.9	100.2	94.4	94.7	100.1	100.2	108.1
Tashkent City	113.2	110.5	111.7	112.5	104.8	105.4	106.9	107.7	115.2	110.1	105.1
Republic of Uzbekistan	105.9	107.6	108.3	106.2	109.4	104.0	105.5	105.7	108.8	109.6	110.2

Source: State Statistics Committee of Uzbekistan

Consumer Goods Production

Regions	2000	2001	2002	2003	2004	03/I	03/I-II	03/I-III	04/I	04/I-II	04/I-III
Republic of Karakalpakstan	105.9	113.5	104.3	104.7	110.3	103.1	105.9	106.7	119.0	122.8	119.4
Andijan	92.6	123.7	97.8	120.3	145.3	96.0	104.3	115.0	133.3	136.4	136.0
Bukhara	105.9	107.4	103.3	106.0	107.8	103.3	106.9	109.4	107.8	107.6	108.9
Jizzakh	123.6	119.3	159.3	129.0	115.2	101.2	115.7	119.3	113.0	117.8	120.5
Kashkadarya	113.1	112.7	108.5	108.8	117.1	113.2	105.8	116.1	127.0	124.7	115.2
Navoi	115.5	99.98	114.5	105.3	97.3	125.0	114.6	109.0	107.3	106.4	101.4
Namangan	124.3	111.8	118.1	114.0	110.4	107.7	112.3	114.6	124.7	116.1	116.2
Samarkand	92.4	102.6	102.5	106.8	109.9	104.8	104.0	106.3	100.3	102.0	112.4
Surkhandarya	111.9	100.9	114.8	106.2	115.2	88.7	105.0	105.9	129.5	124.1	132.6
Sirdarya	110.1	120.2	103.0	104.2	107.5	100.6	107.7	111.3	108.0	115.3	114.9
Tashkent	112.5	114.1	106.6	107.1	111.7	104.7	108.6	109.2	106.6	111.1	112.9
Fergana	111.3	98.1	106.4	101.6	119.2	96.7	95.5	101.3	113.2	122.4	119.5
Khorezm	107.8	94.0	95.0	114.5	101.4	115.9	115.4	120.5	96.6	102.5	101.5
Tashkent City	111.3	101.3	120.2	102.7	103.4	100.8	102.9	101.5	115.7	101.5	93.5
Republic of Uzbekistan	106.2	107.6	108.4	108.4	113.4	102.3	104.0	106.8	114.9	114.4	113.3

Source: State Statistics Committee of Uzbekistan

Agricultural Production

Regions	2000	2001	2002	2003	2004	03/I	03/I-II	03/I-III	04/I	04/I-II	04/I-III
Republic of Karakalpakstan	65.6	90.5	101.2	129.8	112.5	97.6	110.5	130.3	109.1	124.0	117.4
Andijan	110.2	107.1	102.1	100.2	107.0	101.0	100.3	100.2	106.9	100.8	105.4
Bukhara	106.3	102.0	102.6	106.2	110.5	102.3	109.6	108.2	104.5	112.8	120.6
Jizzakh	100.1	106.9	113.8	112.0	111.2	103.4	104.3	115.2	108.9	121.1	117.5
Kashkadarya	89.4	106.9	119.9	106.2	109.0	103.4	100.6	100.2	107.7	106.1	119.6
Navoi	105.0	107.2	106.7	109.3	108.6	102.0	106.4	110.7	108.8	109.4	114.7
Namangan	111.5	101.4	101.5	102.9	112.7	101.8	97.1	100.8	104.0	113.6	115.8
Samarkand	104.8	103.9	112.4	110.0	108.4	104.2	108.4	110.3	107.6	111.8	112.8
Surkhandarya	106.7	110.5	102.8	106.4	106.7	106.6	102.5	100.4	106.0	106.2	116.2
Sirdarya	101.9	105.8	98.9	105.2	111.8	101.6	95.2	110.1	107.1	129.4	117.5
Tashkent	114.9	103.7	102.8	102.7	112.8	105.3	103.0	102.3	106.7	116.9	111.7
Fergana	113.5	100.4	105.7	100.6	110.0	103.4	114.1	100.2	106.4	104.1	110.6
Khorezm	82.8	103.6	106.8	110.5	114.1	101.3	100.7	100.7	106.3	113.2	117.8
Tashkent City					-						
Republic of Uzbekistan	103.1	104.2	106.1	105.9	110.1	103.3	103.8	104.7	106.7	110.4	114.2

Source: State Statistics Committee of Uzbekistan

Investments

Regions	2000	2001	2002	2003	2004	03/I	03/I-II	03/I-III	04/I	04/I-II	04/I-III
Republic of Karakalpakstan	83.0	106.0	114.0	118.0	98.3	112.0	119.0	119.0	2.3 times	150.5	122.6
Andijan	101.0	118.0	105.0	106.9	62.5	100.2	104.0	105.0	100.1	65.6	64.3
Bukhara	108.0	119.0	103.0	100.6	168.2	69.0	86.0	93.1	2.1 times	186.8	131.6
Jizzakh	111.0	78.0	112.0	83.5	111.0	81.0	80.0	80.0	92.6	101.8	100.9
Kashkadarya	93.0	130.0	94.0	111.7	81.4	128.0	114.0	112.2	56.5	77.1	79.4
Navoi	116.0	107.0	98.0	109.6	87.8	122.0	110.0	109.0	66.1	101.3	106.2
Namangan	103.0	96.0	100.1	101.7	95.5	100.2	100.2	101.2	107.2	108.9	100.1
Samarkand	104.0	107.0	99.8	107.9	109.6	115.0	107.0	107.2	104.8	108.5	104.5
Surkhandarya	102.0	116.0	101.0	104.0	102.0	101.0	102.0	103.3	2.3 times	156.1	121.0
Sirdarya	100.2	101.0	84.0	105.5	150.9	114.0	106.0	103.0	45.5	103.7	159.3
Tashkent	106.0	112.0	102.0	108.3	122.0	98.0	108.0	105.3	147.2	123.1	119.9
Fergana	107.0	109.0	108.0	95.9	90.4	101.0	95.0	95.2	31.2	73.4	80.8
Khorezm	102.0	96.0	103.0	91.6	2.2 p	81.0	87.0	90.0	97.4	101.0	124.7
Tashkent City	92.0	106.0	81.0	106.8	121.6	87.0	108.0	103.6	130.3	95.7	100.4
Republic of Uzbekistan	101.0	104.0	103.6	104.5	105.2	100.3	102.6	102.8	99.6	101.8	103.0

Source: State Statistics Committee of Uzbekistan

Retail Turnover

Regions	2000	2001	2002	2003	2004	03/I	03/I-II	03/I-III	04/I	04/I-II	04/I-III
Republic of Karakalpakstan	103.6	117.9	102.6	107.9	100.9	90.2	96.0	101.8	103.5	100.7	100.1
Andijan	106.4	109.3	107.3	100.0	89.2	110.8	103.8	103.5	102.0	93.7	88.1
Bukhara	110.3	114.7	107.1	101.1	102.9	107.7	103.1	102.4	100.2	101.4	103.5
Jizzakh	111.0	125.8	116.2	101.8	103.1	117.6	104.8	101.4	103.3	101.2	100.8
Kashkadarya	109.9	116.5	105.5	108.3	100.8	111.9	109.1	113.3	100.1	100.4	100.3
Navoi	105.4	113.3	105.0	104.3	123.5	97.2	102.2	107.3	109.1	111.2	120.4
Namangan	110.8	118.8	103.9	100.9	100.0	108.8	102.4	103.3	105.6	101.1	101.0
Samarkand	113.6	106.6	100.1	108.8	101.1	99.6	105.4	109.3	104.8	104.3	103.4
Surkhandarya	121.4	113.7	113.3	109.5	107.3	106.3	111.0	113.5	105.1	105.5	104.0
Sirdarya	105.8	102.1	95.4	100.3	103.6	85.1	85.3	92.7	101.1	101.8	106.1
Tashkent	123.3	115.9	101.1	108.6	111.5	99.2	111.0	110.7	110.9	111.9	109.5
Fergana	103.2	103.5	106.2	100.0	100.0	97.7	97.3	100.1	100.8	101.6	97.9
Khorezm	111.8	107.9	101.1	96.0	103.4	97.9	96.6	96.6	104.5	101.5	101.7
Tashkent City	100.2	104.7	90.1	110.2	114.2	88.7	93.4	103.7	109.2	110.1	109.9
Republic of Uzbekistan	107.6	109.6	101.1	105.1	104.7	99.8	100.3	104.9	105.1	104.2	103.1

Source: State Statistics Committee of Uzbekistan

Paid Services

Regions	2000	2001	2002	2003	2004	03/I	03/I-II	03/I-III	04/I	04/I-II	04/I-III
Republic of Karakalpakstan	114.2	105.1	112.4	111.3	109.2	117.0	114.4	112.4	120.4	115.4	109.2
Andijan	138.9	113.3	109.3	120.1	132.7	107.6	109.1	108.7	113.6	125.9	133.5
Bukhara	112.6	108.4	117.0	109.3	117.3	118.1	119.9	114.5	120.3	122.2	118.0
Jizzakh	110.4	116.2	114.2	114.1	118.5	108.8	110.1	115.7	116.4	124.6	117.7
Kashkadarya	137.2	114.6	121.9	108.2	102.6	108.1	109.0	110.0	105.6	104.9	104.6
Navoi	116.8	118.7	108.9	118.8	121.8	112.4	116.9	116.1	123.6	116.7	119.3
Namangan	137.0	115.5	110.8	122.6	117.4	115.4	117.2	121.6	118.6	116.1	116.9
Samarkand	118.1	121.8	104.0	124.5	113.9	118.1	117.5	132.3	119.0	116.0	115.7
Surkhandarya	109.6	114.2	114.3	112.6	111.7	114.7	116.9	113.7	113.4	112.0	112.0
Sirdarya	104.8	125.8	109.6	103.1	112.5	103.5	100.5	101.2	116.3	106.5	107.5
Tashkent	111.5	100.2	109.2	105.5	113.2	105.7	106.8	103.9	107.8	112.8	114.9
Fergana	115.5	113.5	110.5	112.4	119.6	107.2	112.0	114.0	119.1	118.6	115.3
Khorezm	107.9	106.4	102.0	107.0	119.2	100.7	108.7	110.0	127.0	123.1	122.9
Tashkent City	113.5	117.4	112.8	105.3	105.7	103.2	104.1	104.8	105.5	103.3	104.9
Republic of Uzbekistan	115.7	114.7	108.6	107.9	113.8	102.0	104.4	106.4	112.5	113.5	113.9

Source: State Statistics Committee of Uzbekistan

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

Regions	2000	2001	2002	2003	2004	03/I	03/I-II	03/I-III	04/I	04/I-II	04/I-III
Republic of Karakalpakstan	0.456	0.413	0.392	0.400	0.423	0.360	0.397	0.405	0.352	0.364	0.407
Andijan	0.911	0.935	0.834	0.764	0.744	0.618	0.717	0.791	0.585	0.707	0.749
Bukhara	1.109	1.155	1.101	1.053	1.085	1.047	1.091	1.035	0.974	1.092	1.035
Jizzakh	0.742	0.669	0.666	0.702	0.768	0.561	0.632	0.712	0.563	0.568	0.672
Kashkadarya	0.722	0.724	0.780	0.782	0.747	0.635	0.688	0.666	0.666	0.656	0.722
Navoi	1.039	1.267	1.490	1.685	1.705	1.687	1.766	1.755	1.753	1.860	1.697
Namangan	0.667	0.637	0.599	0.543	0.572	0.486	0.505	0.536	0.434	0.471	0.545
Samarkand	0.709	0.679	0.693	0.669	0.601	0.525	0.564	0.657	0.457	0.494	0.645
Surkhandarya	0.716	0.727	0.760	0.734	0.657	0.520	0.616	0.669	0.473	0.606	0.679
Sirdarya	0.807	0.822	0.776	0.754	0.768	0.567	0.604	0.777	0.525	0.626	0.711
Tashkent	1.040	1.017	1.032	1.041	1.032	0.990	0.951	1.027	1.012	0.989	1.022
Fergana	0.941	0.866	0.843	0.785	0.759	0.773	0.793	0.822	0.738	0.744	0.766
Khorezm	0.832	0.717	0.720	0.681	0.669	0.682	0.653	0.644	0.595	0.586	0.661
Tashkent City	1.563	1.665	1.671	1.682	1.678	2.164	2.021	1.817	2.257	1.976	1.665
Republic of Uzbekistan	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000
Range of Variation (times)	3.4	4.1	4.3	4.2	4.0	6.0	5.1	4.5	6.4	5.4	4.2
Without taking Tashkent c. into account	2.4	3.1	3.8	4.2	4.0	6.0	4.4	4.3	5.0	5.1	4.2

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

Industrial Production

Regions	2000	2001	2002	2003	2004	03/I	03/I-II	03/I-III	04/I	04/I-II	04/I-III
Republic of Karakalpakstan	0.279	0.247	0.201	0.193	0.207	0.184	0.159	0.158	0.207	0.184	0.184
Andijan	0.909	1.071	0.979	0.960	1.028	0.912	0.953	0.958	0.939	0.988	0.999
Bukhara	1.100	1.096	1.133	0.996	0.952	1.173	1.086	0.991	1.083	0.985	0.931
Jizzakh	0.278	0.360	0.380	0.418	0.381	0.436	0.398	0.399	0.440	0.389	0.326
Kashkadarya	0.931	0.953	0.917	0.967	1.050	0.912	0.893	0.923	1.055	1.048	1.036
Navoi	3.144	3.318	4.046	4.490	4.431	3.737	4.463	4.629	4.086	4.461	4.560
Namangan	0.466	0.450	0.396	0.377	0.343	0.382	0.353	0.330	0.375	0.331	0.339
Samarkand	0.515	0.459	0.398	0.351	0.330	0.352	0.341	0.341	0.315	0.305	0.312
Surkhandarya	0.323	0.302	0.283	0.286	0.295	0.304	0.295	0.245	0.294	0.297	0.276
Sirdarya	0.460	0.541	0.427	0.429	0.402	0.560	0.418	0.357	0.533	0.396	0.365
Tashkent	1.368	1.487	1.569	1.537	1.650	1.502	1.530	1.565	1.604	1.690	1.720
Fergana	1.169	1.024	1.072	0.944	0.911	1.038	0.970	0.957	0.928	0.898	0.923
Khorezm	0.507	0.467	0.414	0.363	0.319	0.454	0.351	0.318	0.369	0.297	0.282
Tashkent City	1.700	1.744	1.729	1.823	1.468	1.874	1.918	1.903	1.568	1.604	1.519
Republic of Uzbekistan	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000
Range of Variation (times)	11.3	13.4	20.1	23.3	21.4	20.3	28.1	29.3	19.7	24.3	24.7
Without taking Tashkent c. into account	6.1	7.1	8.6	9.4	8.0	10.2	12.1	12.0	7.7	9.2	9.3

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

Production of Consumer Goods (CGP)

Regions	2000	2001	2002	2003	2004	03/I	03/I-II	03/I-III	04/I	04/I-II	04/I-III
Republic of Karakalpakstan	0.425	0.400	0.341	0.332	0.307	0.340	0.329	0.320	0.344	0.321	0.299
Andijan	1.354	1.616	1.677	1.847	2.259	1.754	1.918	1.857	1.998	2.215	2.199
Bukhara	1.501	1.589	1.550	1.458	1.477	1.614	1.587	1.500	1.639	1.604	1.576
Jizzakh	0.266	0.385	0.573	0.655	0.723	0.547	0.624	0.675	0.618	0.628	0.599
Kashkadarya	0.616	0.656	0.560	0.615	0.470	0.575	0.548	0.571	0.507	0.458	0.440
Navoi	0.616	0.619	0.640	0.712	0.707	0.653	0.666	0.668	0.721	0.677	0.665
Namangan	0.665	0.579	0.571	0.561	0.573	0.553	0.558	0.555	0.609	0.611	0.613
Samarkand	1.226	1.072	1.016	0.884	0.836	0.927	0.881	0.915	0.789	0.793	0.837
Surkhandarya	0.433	0.377	0.364	0.356	0.403	0.296	0.324	0.313	0.365	0.382	0.395
Sirdarya	0.700	0.700	0.659	0.669	0.677	0.832	0.684	0.644	0.723	0.697	0.675
Tashkent	1.071	1.164	1.184	1.252	1.206	1.195	1.239	1.249	1.206	1.212	1.252
Fergana	1.076	1.009	0.934	0.844	0.903	0.871	0.845	0.860	0.824	0.916	0.948
Khorezm	0.787	0.543	0.551	0.544	0.501	0.737	0.613	0.555	0.568	0.515	0.487
Tashkent City	2.093	2.004	2.360	2.396	2.124	2.262	2.310	2.317	2.367	2.128	2.100
Republic of Uzbekistan	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000
Range of Variation (times)	8.2	5.3	6.9	7.2	7.4	6.6	7.1	7.2	6.9	6.9	7.3
Without taking Tashkent c. into account	5.6	4.3	4.9	5.6	7.4	5.9	5.9	5.9	5.8	6.9	7.3

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

Agricultural Production

Regions	2000	2001	2002	2003	2004	03/I	03/I-II	03/I-III	04/I	04/I-II	04/I-III
Republic of Karakalpakstan	0.425	0.354	0.360	0.435	0.480	0.345	0.470	0.439	0.361	0.329	0.439
Andijan	1.170	1.119	1.150	1.051	1.042	0.818	1.114	1.192	0.845	1.342	1.087
Bukhara	1.340	1.375	1.321	1.376	1.418	1.345	1.534	1.310	1.242	1.632	1.352
Jizzakh	1.331	1.211	1.329	1.425	1.497	1.254	1.366	1.315	1.504	1.165	1.252
Kashkadarya	0.831	0.851	0.980	1.006	1.003	0.703	1.029	0.845	0.560	0.796	0.992
Navoi	1.238	1.144	1.149	1.218	1.218	1.400	1.295	1.479	1.222	1.491	1.110
Namangan	1.019	0.996	1.042	0.970	0.968	0.794	0.756	0.777	0.565	0.767	0.847
Samarkand	1.037	1.081	1.110	1.154	1.084	1.315	1.125	1.211	1.225	1.075	1.282
Surkhandarya	1.187	1.353	1.311	1.279	1.222	1.157	1.375	1.238	1.204	1.388	1.320
Sirdarya	1.397	1.501	1.373	1.393	1.636	1.303	1.340	1.672	1.286	1.519	1.503
Tashkent	1.511	1.539	1.268	1.255	1.242	1.666	1.133	1.329	1.916	1.168	1.205
Fergana	0.977	1.024	0.995	0.931	0.883	0.939	0.948	0.943	1.058	0.968	0.885
Khorezm	1.144	1.025	1.072	1.098	1.173	1.636	1.217	1.072	1.529	1.150	1.243
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	1.000
Range of Variation (times)	3.6	4.2	3.8	3.3	3.4	4.8	3.3	3.8	5.3	5.0	3.4

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

Investment

Regions	2000	2001	2002	2003	2004	03/I	03/I-II	03/I-III	04/I	04/I-II	04/I-III
R. of Karakalpakstan	0.819	0.648	0.832	1.119	1.111	0.803	0.879	1.027	1.878	1.451	1.314
Andijan	0.552	0.505	0.439	0.641	0.377	0.384	0.456	0.630	0.382	0.352	0.386
Bukhara	0.705	0.627	1.063	0.701	1.174	0.473	0.588	0.795	1.144	1.185	1.092
Jizzakh	0.577	1.112	1.155	0.583	0.611	0.428	0.491	0.515	0.410	0.527	0.569
Kashkadarya	1.897	1.931	1.608	1.760	1.507	2.482	1.962	1.808	1.374	1.497	1.503
Navoi	2.014	2.535	2.125	2.213	1.835	2.598	1.780	1.925	1.707	1.779	1.929
Namangan	0.701	0.501	0.476	0.471	0.449	0.437	0.436	0.524	0.457	0.504	0.518
Samarkand	0.523	0.453	0.404	0.531	0.505	0.518	0.612	0.652	0.537	0.640	0.589
Surkhandarya	0.470	0.509	0.451	0.600	0.641	0.375	0.447	0.504	0.854	0.736	0.699
Sirdarya	0.772	0.754	0.713	0.592	0.819	1.152	0.821	0.694	0.511	0.849	1.054
Tashkent	0.747	0.762	0.899	0.872	1.085	0.803	0.862	0.855	1.235	1.118	1.055
Fergana	0.587	0.796	0.931	0.480	0.396	0.893	0.807	0.628	0.275	0.499	0.439
Khorezm	0.630	0.695	0.855	0.437	0.874	0.562	0.560	0.562	0.525	0.511	0.589
Tashkent City	2.730	2.272	2.131	2.864	3.088	2.089	2.498	2.370	2.800	2.382	2.426
Republic of Uzbekistan	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000
Range of Variation (times)	5.8	5.6	5.3	6.5	8.2	6.9	5.7	4.7	10.2	6.8	6.3
Without taking Tashkent c. into account	4.3	5.6	5.3	5.1	4.9	6.9	4.5	3.8	6.8	5.1	5.0

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

Retail Turnover

Regions	2000	2001	2002	2003	2004	03/I	03/I-II	03/I-III	04/I	04/I-II	04/I-III
R. of Karakalpakstan	0.470	0.485	0.491	0.505	0.503	0.471	0.475	0.483	0.489	0.485	0.491
Andijan	1.272	1.314	1.356	1.284	1.077	1.389	1.435	1.302	1.349	1.171	1.086
Bukhara	0.756	0.841	0.902	0.855	0.873	0.934	1.008	0.873	0.886	0.882	0.881
Jizzakh	0.420	0.530	0.630	0.602	0.617	0.600	0.584	0.589	0.623	0.601	0.600
Kashkadarya	0.662	0.697	0.715	0.755	0.768	0.728	0.743	0.750	0.735	0.748	0.757
Navoi	0.728	0.770	0.808	0.800	0.965	0.810	0.835	0.810	0.841	0.901	0.961
Namangan	0.691	0.747	0.805	0.773	0.720	0.808	0.777	0.760	0.801	0.746	0.743
Samarkand	0.791	0.709	0.707	0.744	0.711	0.734	0.722	0.720	0.717	0.705	0.694
Surkhandarya	0.588	0.594	0.665	0.700	0.716	0.729	0.736	0.717	0.711	0.742	0.727
Sirdarya	0.691	0.665	0.639	0.609	0.595	0.581	0.575	0.593	0.576	0.591	0.618
Tashkent	1.033	1.041	1.038	1.112	1.179	1.042	1.089	1.098	1.107	1.172	1.190
Fergana	1.219	1.145	1.232	1.153	1.076	1.172	1.141	1.143	1.141	1.100	1.084
Khorezm	0.662	0.685	0.668	0.610	0.605	0.626	0.616	0.601	0.606	0.594	0.591
Tashkent City	2.854	2.789	2.452	2.550	2.816	2.431	2.557	2.567	2.516	2.718	2.808
Republic of Uzbekistan	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000
Range of Variation (times)	6.8	5.7	5.0	5.0	5.6	5.2	5.4	5.3	5.1	5.6	5.7
Without taking Tashkent c. into account	3.0	2.7	2.8	2.5	2.3	2.9	3.0	2.7	2.8	2.4	2.4

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

Paid Services

Regions	2000	2001	2002	2003	2004	03/I	03/I-II	03/I-III	04/I	04/I-II	04/I-III
R. of Karakalpakstan	0.410	0.340	0.358	0.380	0.393	0.310	0.372	0.374	0.379	0.406	0.387
Andijan	0.870	0.856	0.771	0.813	0.999	0.554	0.677	0.730	0.590	0.800	0.925
Bukhara	0.927	0.856	0.878	0.883	0.894	0.865	0.866	0.874	0.928	0.934	0.908
Jizzakh	0.455	0.441	0.448	0.481	0.488	0.486	0.476	0.473	0.502	0.522	0.493
Kashkadarya	0.463	0.420	0.423	0.462	0.420	0.432	0.427	0.437	0.410	0.400	0.402
Navoi	0.707	0.718	0.663	0.755	0.844	0.770	0.786	0.756	0.933	0.845	0.841
Namangan	0.500	0.479	0.448	0.506	0.504	0.513	0.506	0.519	0.542	0.506	0.519
Samarkand	0.626	0.612	0.606	0.687	0.666	0.591	0.579	0.679	0.620	0.589	0.630
Surkhandarya	0.480	0.441	0.444	0.457	0.469	0.486	0.469	0.469	0.475	0.455	0.467
Sirdarya	0.366	0.361	0.366	0.382	0.395	0.405	0.396	0.382	0.459	0.407	0.387
Tashkent	0.732	0.670	0.616	0.631	0.653	0.608	0.658	0.630	0.652	0.671	0.677
Fergana	0.610	0.553	0.556	0.586	0.631	0.554	0.549	0.572	0.600	0.585	0.597
Khorezm	0.707	0.596	0.581	0.602	0.659	0.621	0.597	0.569	0.696	0.657	0.634
Tashkent City	3.455	3.761	4.090	4.201	4.156	4.473	4.354	4.237	4.548	4.415	4.304
Republic of Uzbekistan	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000
Range of Variation (times)	8.4	11.1	11.4	11.1	10.6	14.4	11.7	11.3	12.0	11.1	11.1
Without taking Tashkent c. into account	2.5	2.5	2.5	2.3	2.5	2.8	2.3	2.3	2.5	2.3	2.4

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

ANALYTICAL PART

1. The Development of Uzbekistan's Industry: Structural Shifts and Priorities

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This article was written based on the report "A Strategy for the Development of Industry for the Long-term Perspective" drafted by the Center for Effective Economic Policy under the Ministry of Economy of the Republic of Uzbekistan.

The achievement of the goal of sustainable economic growth of the Republic of Uzbekistan depends mainly on industrial development, as it is precisely the industry that creates the material foundation of the economy. The development of country's industry determines whether or not a country will start down the road to sustainable development.

In order to address this issue a whole set of objectives is considered in the strategy of industrial development:

- to utilize fully and efficiently the country's natural resource potential;
- enhance the efficiency of structural and institutional reforms;
- raise the competitiveness of industrial production in order to maintain the position of domestic goods on the domestic market and to expand access to the external market;
- use domestic scientific and technical potential to increase the output of innovative products and technologies.

An analysis of market reform processes indicates that significant structural changes have taken place in industry over the years of reforms. These were directed first of all at strengthening state independence and sovereignty, ensuring economic security – including energy and food security, and rationally utilizing rich natural and economic potential.

Under the active role of the government, the development and modernization of national industry has been of a stage-by-stage nature, using different tools and mechanisms of regulation.

At the first stage (1991-1995), government policy was aimed at supporting and developing strategically important raw materials, extracted materials and some import-substituting products. The objectives were set: to ensure accelerated growth rates of development of fundamental industrial sectors and key life support systems; to maintain protectionist measures in foreign economic activity, protecting the domestic market; to support the profitability of major products via price restraints for energy resources; to approach thoughtfully the realization of the privatization processes of large enterprises.

At the second stage (1996-2000), reforms in industry were oriented at the establishment of favorable conditions for attracting investments into the development of processing sectors. The realization of structural transformations was ensured by supporting priority programs and projects oriented towards expanding exports and further substituting imports. Investment flows were changing towards increasing capital investments into machine-building, light, food and chemical sectors. Investments from the state budget became one of the key channels for making impact on the development of industrial production.

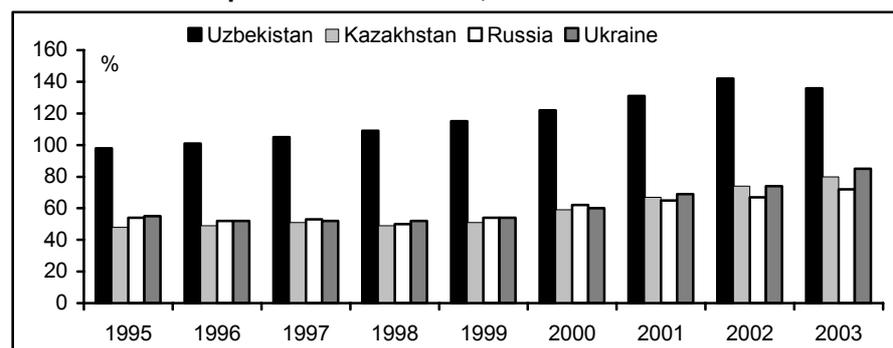
At the third stage (2000-2004), the privatization of large enterprises, the restriction of the state property monopoly and the growth of the private sector became major directions of reforms. During that period tight measures were taken to accelerate bankruptcy and liquidate inefficient production, and to reform organizational management structures. The liberalization of foreign exchange policy and the reduction of the level of fiscal withdrawals facilitated the increase in enterprises' own funds. The development of localized production allowed the import of raw materials and components to be significantly reduced.

The main results of reforming and developing industry in the years since independence are characterized by the following trends:

- Institutional transformations have led to the formation of a multiform economy in industry, with an increased share of the private sector. The share of the non-state sector in the total volume of industrial output rose from 10.0% in 1991 to 70.8% in 2003, and the share of small enterprise rose accordingly from 2.0% to 16.6%. The results achieved are to some extent related to the considerable shifts in organizational management structure by some sectors and complexes through the implementation of administrative reform;

– Starting from the second stage of reforms, growth in industrial output was registered. Thus for 1995-2003, growth in Uzbekistan industrial output reached 136.0%, (for comparison: in other CIS countries the levels were: Russia– 72.0%, Kazakhstan– 80.0%, Ukraine– 90.0% (Graph 1.1);

Graph 1.1. Uzbekistan Industrial Development Dynamics for 1995-2003 and Comparison with Russia, Ukraine and Kazakhstan



Source: Statistical collection 'Commonwealth of Independent States' in 2003

– Structurally the increase was characterized by the rapid development of basic industrial sectors such as

the fuel industry, including the power industry – ensuring the economic independence of the country. The share of the fuel and energy complex in the total output over the years of reforms increased from 6.5% to 21.1%;

– Structural shifts in industry were ensured through growth in primary sectors. Since 1996 shifts in the structure of industry towards processing sectors have been observed;

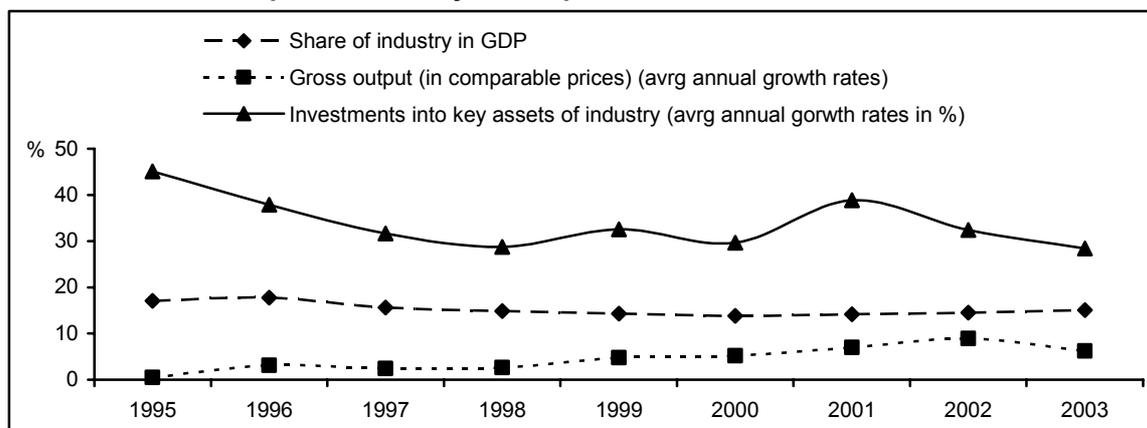
– The consumption of foodstuffs by the population from own production has increased from 60.0% to 90.0%;

– The share of industrial goods in export has risen from 38.0% to 50.2% along with a reduction in the share of cotton fiber exports from 48.5% in 1991 down to 20.0% in 2003.

At present, industry is a developing system producing hundreds of items of different industrial goods. This is a tremendous production potential that has become renewed over the years of reforms and can compete with many foreign firms in the production of certain types of output. Strengthening role of industry in the production of the most important and necessary types of output both for domestic and foreign markets has become possible due to the structural shifts which took place in its sectors.

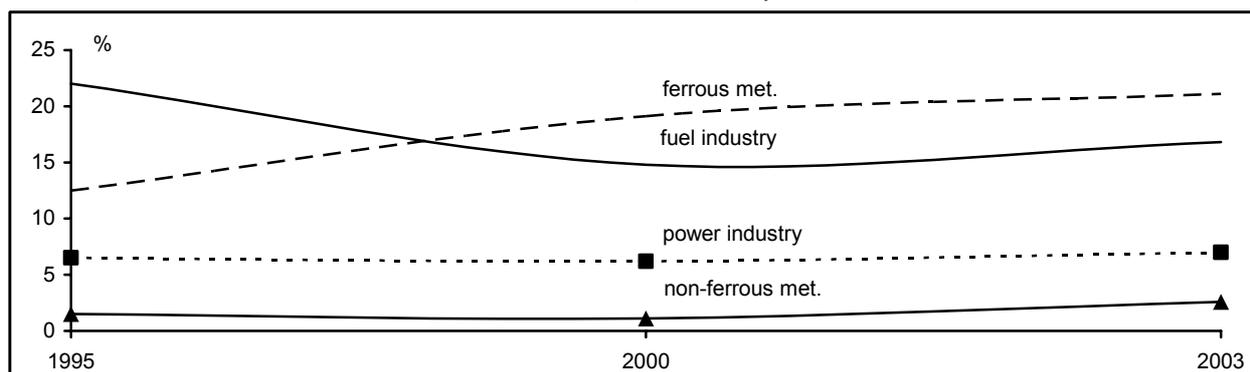
Along with positive processes, industry development in recent years has not been accompanied by considerable improvement of quality of growth and structural indicators. Industry growth in GDP (Graph 1.2) in spite of rising average annual growth rates of production, is maintained at an insufficiently high level. Over the last five years the share of industry in GDP growth has been less than 20%. Industry suffers from a lack of capital investments.

Graph 1.2. Industry Development Statistics for 1995-2003

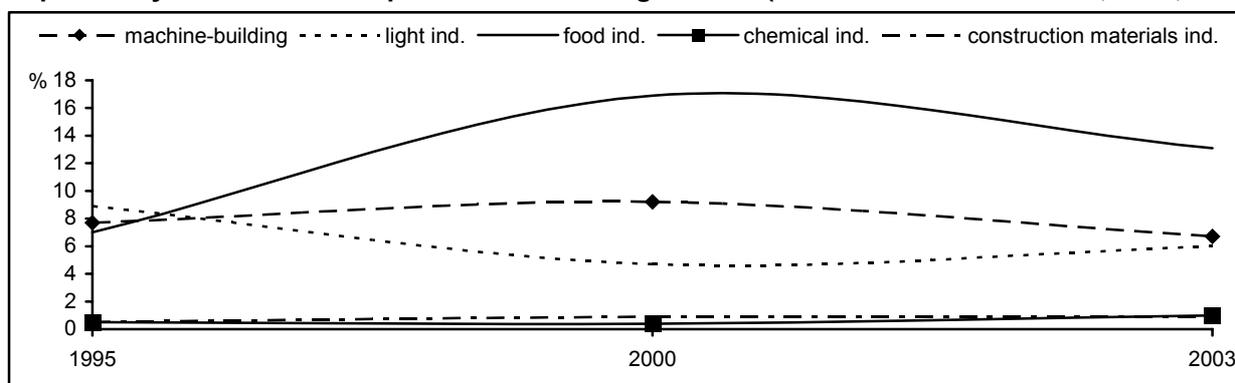


Source: State Statistics Committee of the Republic of Uzbekistan

Starting from 2001 the share of raw materials sectors – fuel, non-ferrous and ferrous metallurgy – in the structure of industry began to rise (Graph 1.3). Accordingly, a trend developed towards a reduction in the share of processing industries, especially the machine-building and food industry (Graph 1.4). The degree of raw materials orientation in industry amounts to more than 56.0% (for comparison in industrially developed countries it is 33.0%).

Graph 1.3. Dynamics of Development of Raw Materials Sectors of Industry (with value added in 1995, 2000, and 2003)


Source : State Statistics Committee of Uzbekistan

Graph 1.4. Dynamics of Development of Processing Sectors (with value added for 1995, 2000, 2003)


Source : State Statistics Committee of Uzbekistan

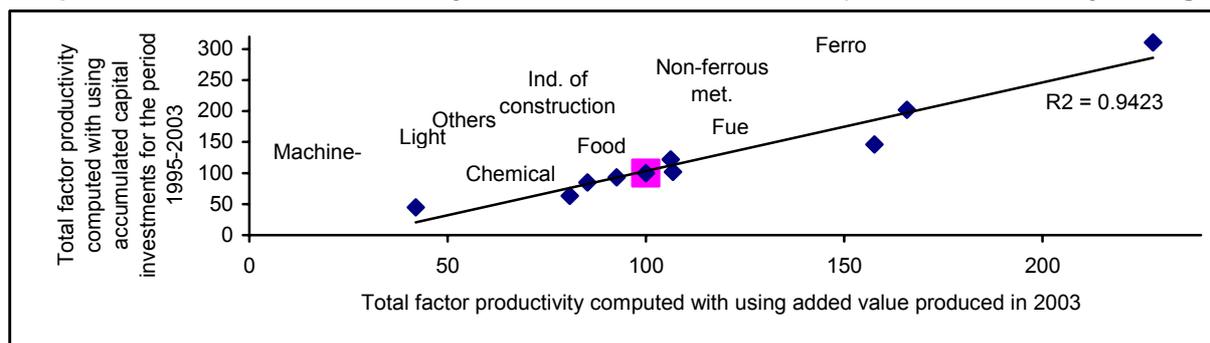
In exports of industrial production, the share of energy resources, non-ferrous and ferrous metals and natural gas is increasing, leaving industry vulnerable to changes in demand and supply in the international market.

Major reasons for the falling rates of sustainable growth in industry are:

- The low share of machine-building in the total volume of industry (in 2003 – 12.1%, with a maximum critical level of no less than 20.0%);
- The technical and technological backwardness of the majority of industrial enterprises of the processing sector (the level of physical depreciation of key assets is on average 53.2%);
- The low level of utilizing production capacity, especially of processing sectors and enterprises, including machine-building, chemical industry, construction materials and the food processing industry;
- The moral and physical obsolescence of a significant part of fixed assets, their resource intensity and the use of obsolete technologies at present are major obstacles for the possible involvement of free capacities in the production process;
- The low efficiency of using material and raw materials resources. Material intensity and power intensity exceed the world average level by 2.0-2.5 times. The level of labor productivity in industry is much lower than average indicators in industrially developed countries and CIS countries;
- The insufficient contribution of innovative types of production to ensuring an increase in the total volume of industrial production and its export.

Calculations of total factor efficiency on value added indicators in 2003 and using accumulated capital investments in sectors for 1995-2003 indicated that ferrous and non-ferrous metallurgy and the fuel industry complex have a level of efficiency above the average national level. They play a major role in the quality growth of industry (Graph 1.5).

Graph 1.5. Total Factor Productivity of Industrial Sectors in 2003 (as % of the industry average)

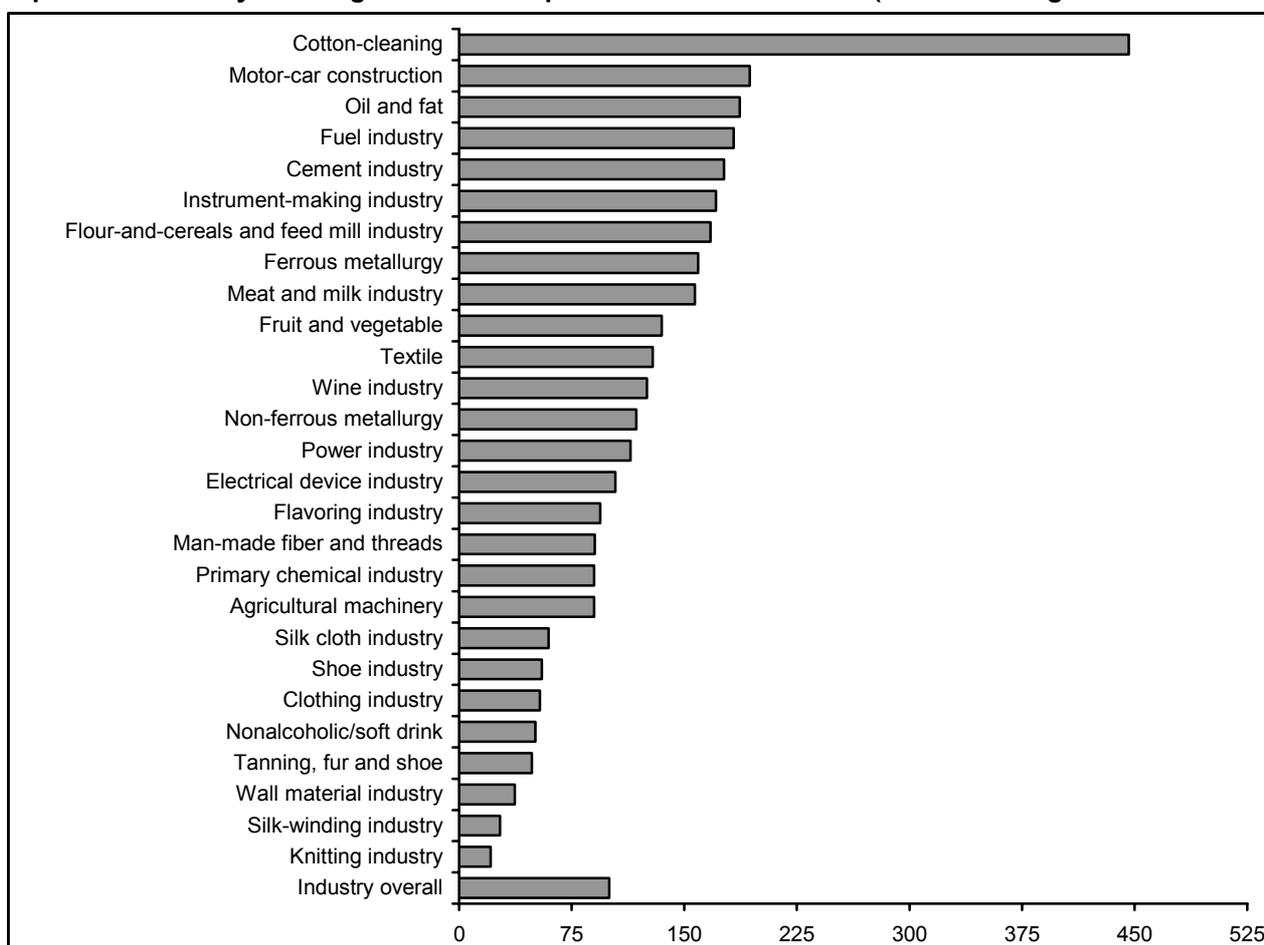


Source: CEEP computations based on data from State Statistics Committee of Uzbekistan

A general assessment of the level of technical progress in industrial sectors conducted using indicators of labor productivity and capital productivity (Graph 1.6) has revealed:

– in the raw materials sector: its high level is characteristic for sectors of the fuel and energy complex and non-ferrous and ferrous metallurgy due to their technical reconstruction based on the re-distribution of a significant part of investment resources to these sectors in order to increase the potential of the raw materials sectors to support the development of other sectors and branches of industry;

Graph 1.6. Efficiency of Using Labor and Capital in Industrial Sectors (in % to average level in industry)



Source: CEEP computations based on data of State Statistics Committee of Uzbekistan

– in the processing sector: the high efficiency of labor and capital became evident in new sub-sectors – motor car construction and instrument-making. Efficiency within the range average level in industry was observed in aircraft and electrical industries. This allows the conclusion to be drawn that machine-building is on the rise and has a sound base to increase the efficiency of production and provide production supplies to domestic and foreign markets. Entering the international market with this sector is not only a positive phenomenon but also a natural outcome.

In light industry the level of technical progress is high in cotton-cleaning and the textile industry. This has become possible as a result of reform in the textile industry based on the wide utilization of possibilities of joint enterprises with foreign firms. Foreign investments and technical reconstruction of textile enterprises have allowed the export potential of the sector to be increased.

New sub-sectors of the food industry which have been established – sugar, tobacco, flour-milling and reformed fat-and-oil sub-sectors – have the highest productivity in using labor and capital in comparison with the industry average.

A low level of efficiency of the utilization of labor and capital is observed almost in all sub-sectors of the chemical industry (except for the paint-varnish sub-sector) and some sub-sectors of the food industry.

The competitive level of certain goods produced by industry, computed on the basis of such indicators as price ratio, analysis of profitability of production and export (micro competitiveness) and also demand in domestic and foreign markets, allows to appraise its achieved level, reflected in goods (Table 1.1).

Table 1.1. Price Competition and Efficiency of Export of Major Industrial Products

Name of production	Index of production competitiveness $I_c = P_e/P_w < 1; = 1$				Index of export efficiency $I_e = P_e/P_w > 1; = 1$			
	2000	2001	2002	2003	2000	2001	2002	2003
Fuel energy complex								
Natural gas	0.49	0.57	0.57	0.57	1.33	2.20	3.00	2.64
Motor gasoline	0.76	0.70	0.51	0.51	0.47	0.49	0.52	0.62
Chemical complex								
Ammonium nitrate	1.03	1.04	1.03	1.18	1.06	1.32	1.50	1.27
Super phosphate ammoniated	1.00	1.00	1.00	1.00	5.90	6.45	9.35	1.55
Nitron fiber	1.00	1.00	1.00	1.00	0.36	0.47	0.65	0.60
Acetate threads	1.00	1.00	1.00	1.00	0.24	0.29	0.34	0.36
Paint products	0.63	0.67	0.67	0.67	0.25	0.36	0.52	0.62
Machine-building complex								
Agricultural machine-building								
Tractors	0.74	0.88	0.69	0.53	0.48	0.52	0.87	1.06
Cultivators	0.83	0.87	0.88	0.70	0.85	0.90	1.06	0.95
Seeders	0.93	0.98	1.00	1.00	1.03	1.44	2.04	1.87
Mowing machines	1.00	1.00	1.00	1.00	0.83	1.32	2.05	2.19
Motor-car construction								
Buses	0.56	0.56	0.56	1.00	0.30	0.44	0.57	0.73
Motor cars								
'Nexia'	0.64	0.61	0.55	0.60	1.00	1.01	0.60	0.59
Industry of construction materials								
Cement	0.35	0.34	0.34	0.34	0.79	0.87	1.08	0.85
Light industry								
Cotton fiber	0.89	1.05	1.13	1.00	1.12	1.24	1.47	1.32
Cotton fabric	0.95	1.00	1.00	1.00	0.50	0.56	0.71	0.77
Silk fabric	0.93	1.00	1.00	1.00	0.30	0.24	0.24	0.53
Food industry								
Wine, Champagne, Cognac	1.00	1.00	1.00	1.00	0.27	0.32	0.31	0.43
Alcoholic beverages	1.00	0.97	1.00	0.98	0.41	0.47	0.89	1.41
Canned fruit and vegetables and juice	0.95	0.96	0.92	0.92	1.24	1.55	2.03	2.20

Source: CEEP computations based on data from State Committee of the RUz on Statistics and Industrial Enterprises

I_c – index of competitiveness
 P_e – export price for product
 P_w – world price for product
 P_w – wholesale price

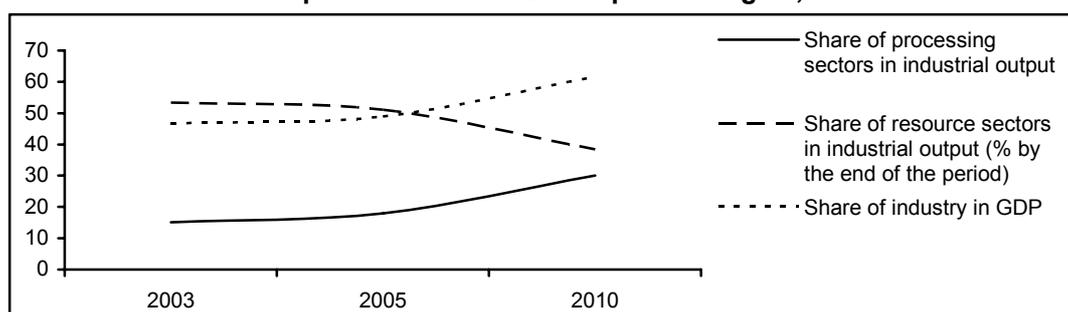
As the table demonstrates, mainly raw materials, such as natural gas, cotton fiber and individual commodities of the processing industries are competitive in price and have high export efficiency.

Analysis of industrial development results for recent years shows that many industries have managed to adapt to market conditions and ensure high efficiency operations with certain government support. However, in industry, contradictory trends are observed indicating an unstable character of growth factors and sources. These become a serious impediment to entry into external markets by Uzbekistan goods and may have negative implications for Uzbekistan's accession to the WTO. Existing trends and issues call for efforts to ensure the qualitative growth of industrial output.

Thus, a major objective of industrial development in Uzbekistan should be not just an attempt to increase growth rates of this sector of the economy, but rather to create a set of measures to increase the efficiency and competitiveness of domestic industry on internal and external markets, forming its contemporary structure and developing priority sectors and industries on the basis of rich resource potential. The strategic area of structural transformations is the formation of the export-oriented structure of industry, and the transition from prevailing raw commodities to products with high added value.

In the development of an industrial development strategy, special attention should be paid to structural transformations which are forecasted in interrelation with macroeconomic indicators and structural shifts in industry sectors. The improvement of the sectoral structure of industry by 2010 implies a considerable increase in the share of industry in the GDP, from 15.1% in 2003 to 30% in 2010 (Graph 1.7), making the sectoral structure of the GDP more similar to that of newly industrial countries. With this goal, the necessary conditions and prerequisites will be created for accelerated industrial development and average annual growth rates should reach at least 14 percent in 2006-2010.

Graph 1.7. Industrial Development Targets, %



Source: Estimates by the CEEP

Underlying priorities for structural transformations are:

- the ongoing reform of ownership and the growth of the non-government sector through to the denationalization and privatization of large enterprises in primary sectors; and
- the increase of small and medium business's contribution to industrial production, specifically into the formation of a sound consumer market (Table 1.2).

Expected structural shifts in an industry imply a consistent decrease in the share of the raw-material extracting sectors from 43.3% in 2003 to 38.4% in 2010 and a faster development rate of the processing industry, whose share in total industrial output

Table 1.2. Structural Shifts in Forms of Ownership, in %

	2003	2010
Share of state-owned enterprises in total output	29.4	25.0
Share of non-government sector in total output	70.6	75.0
Share of small and medium business in total industrial output	16.6	29.0-30.0

Source: Estimates by the CEEP

should increase from 46.7% in 2003 to 61.6% in 2010 to support growth rates of industrial exports at the level of 18.0%-20.0% annually. These structural shifts will be the results of the intensification of industrial development.

In machine building industry priority sectors are motor-car construction, instrument-making and the electrical industry, which have large technical potential and a reserve of competitive facilities, and even now distinguished by high labor and capital efficiency, output competitiveness and realistic possibilities for entering the world market. The share of these industries in the total output of mechanical engineering would increase. Due to the market situation and earlier accumulated capital assets it is expected that the production of automobiles would considerably increase, as well as electrical household appliances. The sectors are rather attractive for foreign investment and therefore it is necessary to set up favorable conditions for their maximum inflow.

The launch of new models of vehicles, next generation TV sets, computer hardware and mobile telecommunication facilities, having high added value, are forecasted. This would help improve the quality structure of consumer goods with high added value and would facilitate the development of the industrial consumption sector. Growth in the physical volumes of output of these products would enable the share of high-tech instrument-making industry in the total machine building industry structure to be increased.

In line with increasing demand from domestic agricultural producers, an increase in the output of modern agricultural machinery and equipment such as tractors, cultivators, seeders, including small machinery for

small farms is forecasted. These types of agricultural machinery are in demand both in domestic and external markets, specifically tractors, seeders and mowers, which have a high export earning capacity.

The strategic goal of machine building industry development is also to provide the domestic consumption sector enterprises with modern equipment, as a necessary condition for overcoming their technological obsolescence. For this purpose, in-depth technical reconstruction and structural transformation of production facilities should be performed in branches of the machine building industry, as well as increases in the production of progressive technologies and technical materials.

Promotion of the above priorities and growth in production of high-tech products would allow annual average growth rates of gross output and the share of mechanical engineering in the general industrial structure to be significantly increased.

In light industry priorities were determined by the goal of increasing the processing of cotton fiber up to 50.0% by 2010. This would allow the sectoral structure to be gradually transformed towards the development of finished goods production. In addition to cotton ginning and textile sectors, characterized by a high level of labor and capital efficiency, as well as the output of competitive products, the silk sector may also become a priority sector, given its resource base, production capacity and reserve of production facilities. The availability of resource, technological and staff capacity for the textile sector may facilitate the development of garment, knitting, leather and fur, as well as footwear industries.

The expected high level of competition on domestic and external markets would become a strong impetus for the reconstruction and modernization of existing facilities and the introduction of up-to-date technologies. Institutional transformations towards the development of small businesses and micro-firms producing finished goods would intensify.

Provinces of Uzbekistan would pay special attention to the development of the sector, including in small and medium cities, in order to saturate local markets with domestic inexpensive and good-quality products and to ensure employment, especially employment for women. The growth of output in light industry sectors would facilitate the increase of its share in the structure of industrial production.

In the food processing industry priority sectors encompass the oil and fat, fruit and vegetable processing, alcoholic-beverage, flour-milling, sugar and tobacco industries, distinguished by positive development trends and the efficient utilization of production factors. Major criteria for the development of these sectors are the need to increase the share of processed raw products up to 55%-60.0%, the need to saturate the domestic consumer market with vitally important types of competitive foodstuffs and the need to decrease dependency on imports of foodstuffs. Priorities will be the following: foodstuffs for children, confectionery and non-alcoholic beverages. The need to increase the quality and range of food industry products calls for the introduction of new manufacturing technologies. Considerable support is necessary for the baking, confectionery, pasta production and other sub-sectors.

Major structural changes in food processing industry sectors should be the modernization of existing and the establishment of new facilities, primarily in small enterprises processing agricultural produce at its place of origin, in order to eliminate losses and use resources in a more efficient manner.

The above priorities in the light and food processing industries should be supported by a system of protective measures with regard to imports. Adding value to local agricultural production, developing small and private business and increasing demand for domestic products are the key sources of output increase for these sectors.

In the fuel and energy complex there are the following priorities: natural gas, coal and petroleum industries, related to the extraction and processing of local resources and capable of ensuring the production of competitive output. The importance of maintaining these priorities is stipulated by the growth in demand from other sectors.

In perspective the complex development strategy is focused on keeping the achieved level of liquid hydrocarbons extraction, increasing natural gas production and considerably increasing coal mining.

The development of the coal industry in prospect would take place under conditions of changing demand for its products. The possibility of increase mining of coal by the most efficient, open pit method (with mandatory compliance with all environment protection requirements), as well as the implementation of measures on the improvement of coal mining technologies, would allow its output to be increased by more than 2.5 times, which would make a positive impact on the dynamics of the change in the structure of the country's energy balance.

The development of the power industry would be aimed at increasing the reliability and efficiency of the electricity and heating supply in the country. It is planned to introduce totally new technologies to address this issue.

The implementation of measures for improving the energy balance of the country and the introduction of energy-saving technologies aimed at a more than two-fold decrease of power intensity in all sectors of the economy would support the internal demand for power resources at a relatively high level of sustainability. Higher growth rates in the processing industry would facilitate the decrease of the share of the fuel and energy complex in the general structure of national industry.

In metallurgical industry major priorities would be the extensive introduction of innovative technologies in the mining and processing of non-ferrous and precious metals, the addition of more value and output to finished products, the maximum conservation of resources and power at all stages and the increase of the range of high quality products.

In the medium-term period, gold and copper mining sectors would remain key priorities, as their products are in high demand on the world market. Major factors facilitating stable growth rates would be the reconstruction and re-equipment of available facilities.

With the growth of finished products in the sector its share in the general structure of industry would increase.

In the chemical industry complex the following priority has been determined: the production of chemical fertilizers with an increasing output of highly enriched and compound fertilizers having a higher average content of nutrients, for the supply of national agricultural producers and export markets, primarily to neighboring countries having no similar industries.

The most dynamic and efficiently developing industries are the production of synthetic resin production, nylon fiber and acetate threads. The varnish and paint industry is distinguished by its competitive products and production efficiency indicators which make it possible to increase the growth and output of varnish and paint for the automobile industry, construction, mechanical engineering and home use. An increase is forecasted in production of acetate threads, polyamide-6 and carpet strands, which would create a stable base for light industry operation. The development of new products of small-capacity chemistry (primarily to substitute imports) would also be among sector priorities, as well as the increase of the output and range of detergents and measures for environment protection.

In the construction materials industry structural transformations would be aimed at the dramatic increase of diverse and high-quality building materials. Major priorities are developing sub-sectors to respond quickly to investment demand and facilitating the economic efficiency of construction. It is envisaged to increase the output of ceramic tiles, colored cements, ceramic and plastic plumbing fixtures, linoleum, and wall and roof materials.

It is intended to develop heat-insulating, bituminous-polymeric soft roofing materials, and acid- and fireproof materials, among others.

Sustainable development of industry may be facilitated by managerial and regulatory mechanisms. Strategic areas for creating conditions for the development of industrial production should be primarily the formation of a favorable macroeconomic environment, including instruments of fiscal, monetary, price and foreign exchange policies, allowing for a boost in the investment process; and the improvement of the financial standing of efficient enterprises, to enable more substantiated transformations for overcoming structural and technological disparities and managing the industry reorganization processes.

The implementation of the above priorities calls for the acceleration of institutional reforms in industry, assistance in restructuring of enterprises necessary for successful operations under market economy conditions, as well as the creation of incentives to increase production efficiency. It would be necessary to develop a targeted technological approach and to change the output structure in asset-generating sectors, primarily in national mechanical engineering and specifically its development for food and light industries, which would allow the technological level of many enterprises and the share of mechanical engineering in total industrial output to be dramatically increased.

The strategic direction for increasing the competitiveness of national industry should be a set of measures for the retention and reorganization of the capacity for research and development by creating a modern infrastructure in the area of developments and innovations, as well as developing information services for industrial enterprises with the aim of providing access to information on available research and developments both domestically and abroad.

2. Evaluation of financial condition of Uzbekistan's manufacturing sector

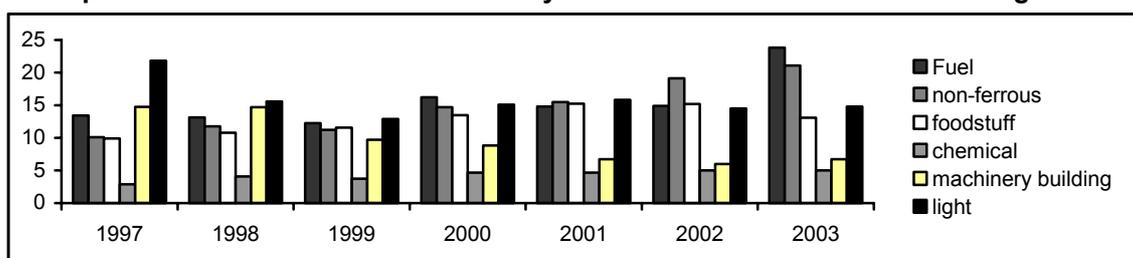
Kovalenko N.M. CEEP

The improvement of the financial stability of industrial enterprises is an important condition for the sustainable development of a nation on the path of market reforms. This, in turn, depends to no small degree on the efficiency of the tools applied for regulating the process of reforming and developing industry. On this basis, the goal of this study was identified, namely, to elicit the factors that affect the financial condition and the evaluation of the economic results of the reforms in Uzbekistan's manufacturing sector

The impact of structural reforms on the financial results of branches of the manufacturing sector. An analysis of the financial condition of the branches of the manufacturing sector for the period of 1997-2003 has shown that: -- the development of manufacturing, based on principles of branch priorities, often predetermined conditions, in which the cost of expenses were disproportionate to the financial results achieved. At the same time, the concentration of resources in certain branches of the manufacturing sector was not always able to secure adequate growth of production and gains from marketing the finished products; -- in spite of worsening market conditions, production in certain branches of the manufacturing sector continued to stay the same. However, it was the share of products with low profitability or negative profitability, which increased. And marketing such products only deteriorated the financial stability of enterprises;

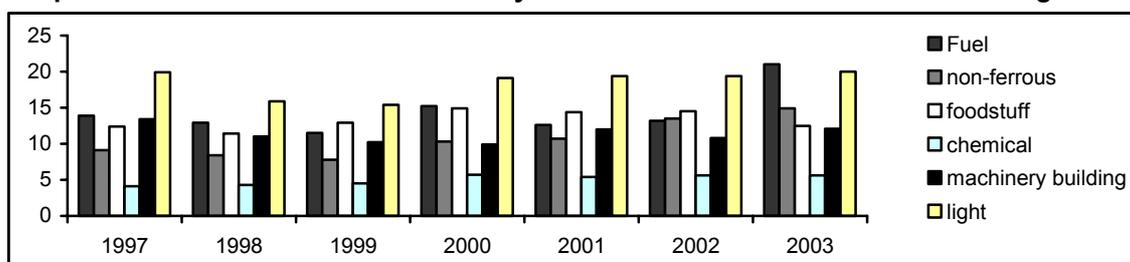
This is evidenced by the dynamics of inadequate changes in the share of branches in the formation of value added and gross revenue of products (Graphs 2.1 and 2.2).

Graph 2.1. Share of Branches of Industry in Value Added in the Manufacturing Sector



Source: State Statistics Committee of Uzbekistan

Graph 2.2. Share of Branches of Industry in Total Production in the Manufacturing Sector



Source: State Statistics Committee of Uzbekistan

Positive tendencies were registered in the development of such branches as fuel industry, production of foodstuffs and non-ferrous metallurgy. In these branches, the increase in the share of value added was not followed by an increase in the total volume of production in the manufacturing sector. Negative tendencies were observed in the chemical industry, machinery building and in light industry. Especially noteworthy was machinery building, where growth in the total output was achieved at the same time there was a decrease (almost twofold) in the share of the branch in the volume of value added created in the manufacturing sector.

In turn, this predetermined tendencies and disproportions in industrial development. The following had a significant impact on the financial conditions of primary branches of the manufacturing sector:

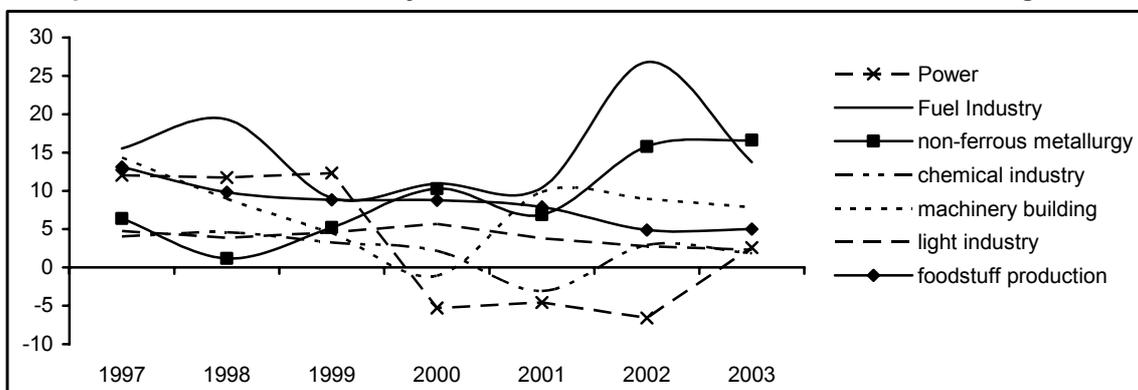
- Disproportions between financial capacity and expenses as a result of various dynamics of expenses (growth) and gains (decrease);
- High interest rates on bank loans;
- Disproportions between equity capital and borrowed capital (increase of financial dependency) in conditions of the decrease of internal sources of financing (decrease in the share of net profit and devaluation of depreciations allocations of enterprises);
- Disproportions in the accumulation of capital assets and the inefficiency of their utilization;

- disproportions between the capital assets and working capital;
- low efficiency of the taxation system.

The above-mentioned structural disproportions resulted in the following:

- reduction of the manufacturing sector's share in GDP;
- worsening of financial indicators (profitability of production, profitability of sales), which characterize the efficiency of production and business operations of enterprises in various branches of the manufacturing sector (Graphs 2.3 and 2.4).

Graph 2.3. Level of Profitability of Production in Branches of the Manufacturing Sector.

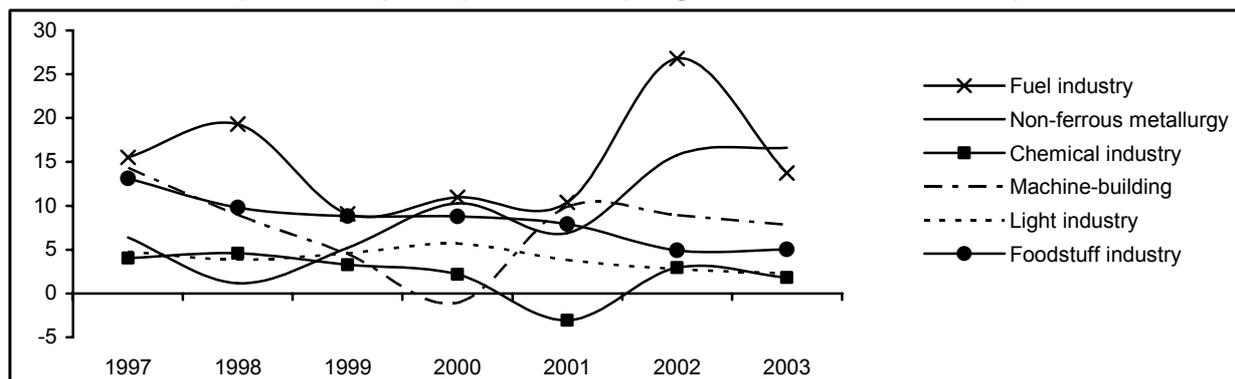


Source: the author's calculations based on the data from the State Statistics Committee of Uzbekistan

Graph 2.3 indicates that the lowest point of decrease in profitability of production in the most significant branches of the manufacturing sector took place during the period from 1999 to 2001. That can be easily explained by the fact that the introduction of structural reforms was followed by heavy investments, and their impact on production was not as significant during the first few years as in the period under discussion, when the main part of the loan had to be repaid. In general, some increase in the level of profitability was observed in 2002, mainly because of the quite high growth of profitability in the fuel industry and non-ferrous metallurgy. However, in 2003, this indicator decreased in all branches, except for non-ferrous metallurgy and light industry.

Analysis of the net profit to sales ratio, which actually is the indicator of the business activity of enterprises, revealed different levels of efficiency in selling the products of the manufacturing sector (Graph 2.4.)

**Graph 2.4. Level of Profitability of Sales, %
(relation of profit (before taxes) to gross revenues from sales)**



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

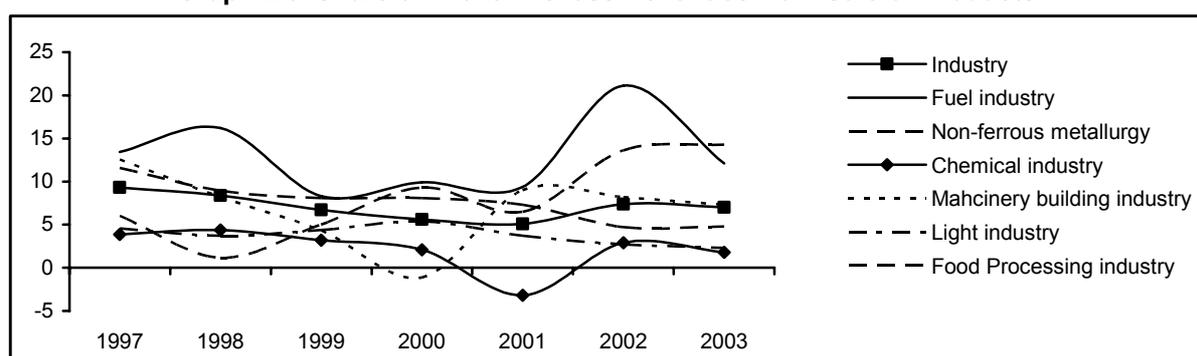
The high level of profitability of sales remained stable only in the fuel industry (surpassing the average of the manufacturing sector). During 2000-2003 non-ferrous metallurgy marked significantly high figures in that indicator. A decrease in profitability was observed in such branches as foodstuffs production, light industry, chemical industry and machinery building.

The decrease in the level of profitability of production and the profitability of sale of products of those important branches of the manufacturing sector was due to the growth in the share of expenses in net profits from sales of products.

Production costs had the least impact on the increase of expenses. Here, the main factors included the increase of period expenditures and expenditures on financial activities. In the first case, this was caused by the increase of expenses on sales of products, as well as administrative, and other operational expenses, that included payments to budget and non-budget funds as well as maintenance expenses of objects of social infrastructure. The increase of "expenditures on financial activity" mainly took place on such articles as "expenses on serving bank loans and clearance of debt obligations" and "negative exchange rate differences and losses in operations with foreign currencies", which was the most significant among all articles of expenses that contributed to the growth of expenditures on production and sales of products in all branches of the manufacturing sector without exception.

The share of profit in net gains from sales decreased in all important branches of the manufacturing sector. The only exception was non-ferrous metallurgy, where the share of profit increased by more than two times (Graph 2.5).

Graph 2.5. Share of Profit in Gross Revenues from Sale of Products.

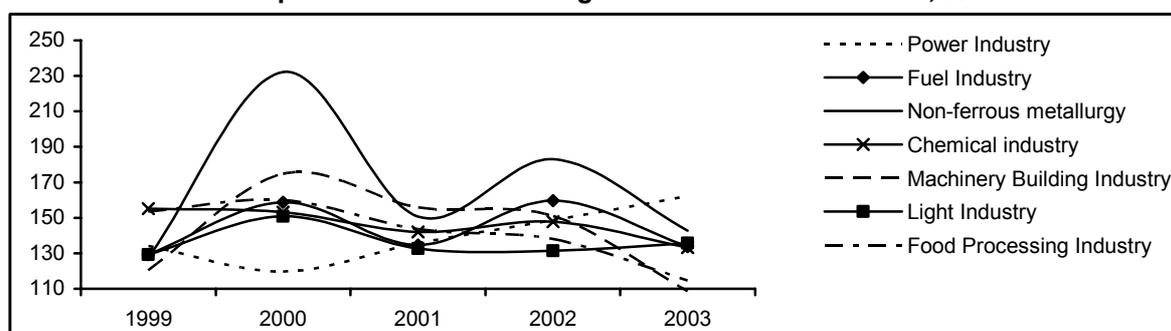


Source: the author's calculations based on the data from the State Statistics Committee of Uzbekistan

During the period under review, price policy had a significant impact on the decrease of the share of profit in gross revenues, as did the reduction of working capital, which resulted from inadequate growth in the volume of products sold and the cost of the capital used in its production.

In 1999-2003 significant differences were observed in annual average indices of growth of prices (Graph 6).

Graph 2.6. Indices of Average Annual Growth of Prices, %



Source: State Committee of Uzbekistan on Statistics.

Graph 6 illustrates the high growth rates of prices in all branches of the manufacturing sector during 1999-2000. The slowdown of growth rates in electrical power production is explained by state regulation of prices. The maintenance of low tariffs on electrical power (which don't cover expenses) up to mid 2001 resulted in the non-profitability of this branch. With the goal of improving the financial situation, tariffs on electrical power consumption began to rise and still continue rising. This explains why price growth rate in electrical power production was the highest among all of the branches and even higher than the average for the whole manufacturing sector in 2003. The difference among the levels of growth of prices in the branches indicates the existence of price disparities among branches that have appeared because of imbalanced development in the manufacturing sector. Higher investments in the export-oriented sector for the technical renewal of production contributed to the increase in expenses, and consequently, even higher growth of prices.

An analysis of the efficiency of export operations indicated that the majority of industrial enterprises had low profits from the export of their products; in some cases, the companies experienced losses (Table 2.1.)

Among the reasons for the low efficiency of export activities, the insufficient efficiency of financial management in conducting foreign trade operations should deserve special attention. Another example is the application of privileged and differentiated export prices (lower than the average market level) on certain products of the machinery building industry (automobiles, TV-sets), which does not provide compensation of the costs. The existence of privileges for those products, coupled with the difference between exchange rates, to some extent sustained the necessary conditions for the application of the prices dictated from 1997 to 2003. However, the introduction of free convertibility of the national currency by the end of 2003 deprived the enterprises that enjoyed privileges of access to foreign currency of the opportunity for further usage of that factor in their attempt to sustain low export prices.

Impact of the tax system on the financial results of the branches of manufacturing sector. High tax rates and imperfect mechanisms of levying taxes did not stimulate development of industrial production and did not facilitate the strengthening of the financial condition of enterprises, since these did not provide the necessary conditions for increasing their real income and accumulating financial resources.

Table 2.1. Efficiency of Export Operations

Name of industries	Share of profit (before taxes) from exports of products (works, services) of own production in net gain from sales, %			
	2000	2001	2002	2003
Industry	-0.4	0.5	-0.6	-0.2
Fuel	0	0	-3.2	0
Non-ferrous	-4.5	4.3	0	-0.1
Chemical	0.6	-1.3	-1.7	-3.7
Machinery building	0.2	0	0.8	0.01
Light	0.3	0.1	0.1	0
Foodstuffs production	-0.1	0	0.1	0.1

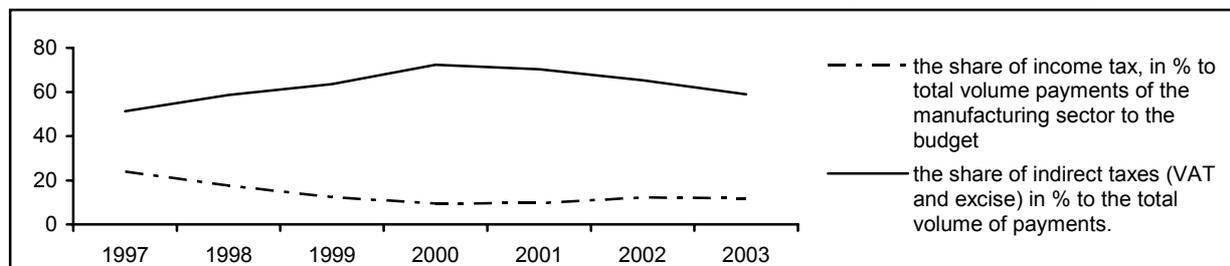
Source: State Committee on Statistics of Uzbekistan

The operating system of taxation did not have a vector direction. Thus, in spite of implemented measures designed to reform, the taxation system remained inefficient as a result of the following:

- the Tax Code of Uzbekistan lacks the necessary systemization of all conditions and norms on taxes that regulate tax relations and secure the balance of the tax burden for all categories of taxpayers (enterprises, joint and private companies) and increase attractiveness for foreign investments;
- there is no mechanism for protecting income of enterprises from double and triple taxation.

The share of the income tax in the structure of tax flows from the manufacturing sector to the budget declined by two times. In spite of the tendency towards decline that was observed in 2002-2003, the share of indirect taxes (VAT and excise) remain at a very high level (Graph 2.7).

Graph 2.7. Correlation of Direct and Indirect Taxes in Payments to the Budget

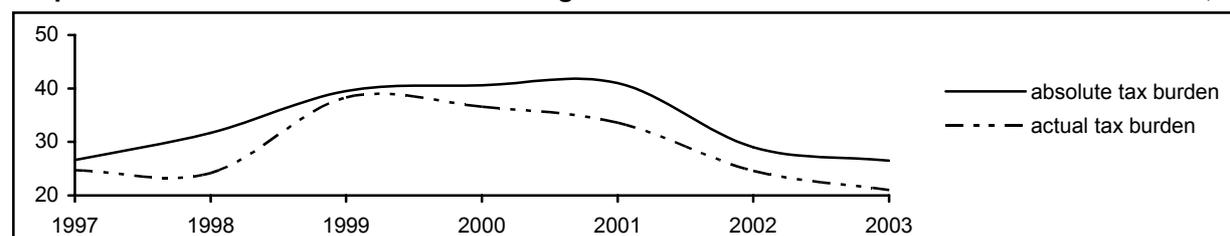


Source: the author's calculations based on the data from the State Statistics Committee of Uzbekistan.

In developed countries the reforms of the taxation system intended to increase its efficiency result in a reduction of the share of indirect taxes in total taxation. In Uzbekistan, the established correlation of tax payments indicates the high fiscal orientation of the current system of taxation.

The analysis has shown that during significant fluctuations, starting in the year 2002, the absolute and actual tax burden on the manufacturing sector in relation to net gains from sales began to decline (Graph 2.8).

Graph 2.8. Tax Burden on the Manufacturing Sector in Relation to Gross Revenues from Sales, %

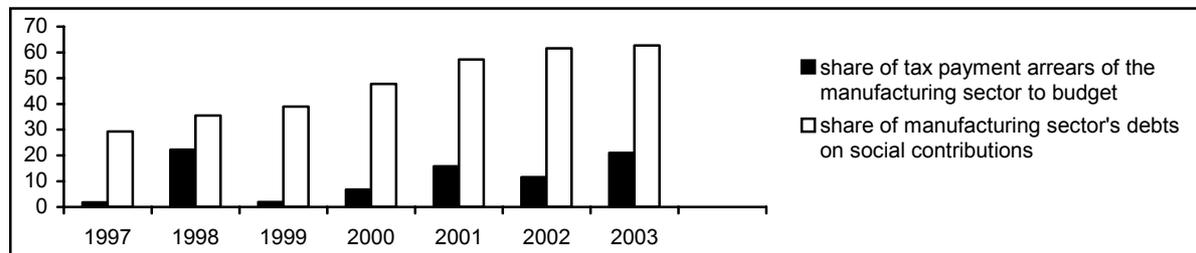


Source: the author's calculations based on the data from the State Statistics Committee of Uzbekistan

However, significant fluctuations in the levels of absolute and actual tax burdens by years to a large degree reflect changes in the income basis of enterprises.

This conclusion is confirmed by the fact that the decrease in the level of the actual tax burden in 2003 in comparison to 1997, and its relatively low level in comparison to the absolute tax burden, resulted from the fact that the manufacturing sector did not pay tax payments accrued in full to the budget and had some debts for social contributions (Graph 2.9).

Graph 2.9. Arrears in Payments to the Budget, %



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

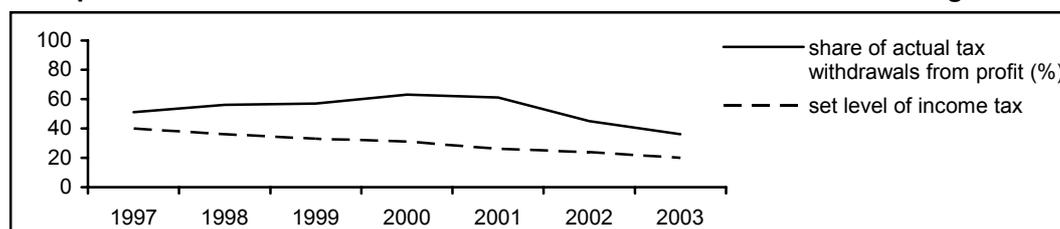
The volume of arrears to the budget indicates that tax burden on the manufacturing sector are rather high. Since the banking system of the Republic carried out the functions of controlling and collecting tax arrears, enterprises had no opportunity to deviate from paying taxes. The increase in arrears in social contributions of the manufacturing sector (as the proportion of payments due) also indicates the high tax burden and the growth of fiscal antagonism between the budget and industrial enterprises.

It is worth noting the high rates of indirect taxes (VAT and excise) that raise the cost of a product, and consequently, the revenue base of enterprises. VAT rate remained at the level of 20%. Because of the existing privileges the real tax base of VAT - gross revenues from the sales of products in various industries and in the whole sector was lower than the fixed rate (20%). Significant differentiation of the charged levels of VAT that was conditioned by the mechanism of estimating taxes and by the existence of various types of privileges and preferential conditions created unevenness in the level of distributing indirect taxes to industrial sectors. As a result, the main burden of indirect taxes was carried by three industrial sectors: fuel, light industry, and foodstuffs production.

Various levels of indirect taxes, coupled with the level of production expenditures, created various conditions for selling the products and maneuvering prices. Lower levels of VAT and excise taxes meant more favorable conditions for increasing prices in order to increase the volume of sales and profit. Branches of the consumer complex did not have the opportunity to use this formula during the past period, since products of light industry and foodstuffs production have a high coefficient of demand elasticity. Even a slight increase in prices had a significant effect on the decrease of sales, and consequently on the decrease of profits in those branches of the manufacturing sector. Thus, because of the insufficient purchasing power of the population, consumers were reoriented to less expensive imported goods. Proceeding from that, we may conclude that established burden of indirect taxes on the branches of light and foodstuffs industries worsened their financial condition.

The application of the current Regulations on the composition of expenditures of producing and selling goods and on financial reporting in income – particularly its Appendices 1 and 2, that identify the list of articles of expenditure that are included in the taxable base – contradicts the main task of creating favorable conditions for the modernization and improvement of industrial production. Under the current mechanism of charging taxes, the level of actual withdrawals from profit in the manufacturing sector during the period under review was immeasurably high and exceeded the size of the applied rate in the range of 1.7-2 times, despite its annual reduction (Graph 2.10). Such a situation is more or less (depending on privileges) true in all branches of the manufacturing sector.

Graph 2.10. Level of Actual Withdrawals from Profit in the Manufacturing Sector



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

Even the tax privileges and preferences provided for some enterprises did not secure priority development for them because of the imperfect mechanism of identifying the taxable base of profit. The increase of the taxable base, by including in it part of production expenses, increases the level of withdrawals. It is not an effective measure for the government.

- firstly, high tax withdrawals promote the formation of significant volumes of debt in enterprises from budget and governmental off-budget funds;
- secondly, they decrease enterprises' share of profit. Since charging tax on expenses is already included in production expenses, this decreases the sum of profit for the second time. As a result, the opportunity for self-financing is lessened and interest in further development and improvement of production is eliminated.

The high level of tax privileges and preferences is the most significant shortcoming of the current system of taxation, distorting the real results of activities of enterprises and creating unequal conditions for their functioning. The current mechanism of privileged taxation is mainly oriented to supporting unprofitable products. And this actually reveals its inefficiency. Other shortcomings of the mechanism of privileged taxation include the preconditions for corruption which it creates.

The reviewed disproportions in the development of the taxation system and its shortcomings have resulted in a decrease in indicators of the efficiency of restructuring industrial production. In the present situation, it is necessary to take measures towards solving existing problems and improving the taxation system in order to provide a stimulating role for the development of the manufacturing sector. In order to accomplish that, the following actions are expedient:

1. Rationalization of budget expenses; provision of adequate distribution of income from external trade between the government and producers.

2. In order to stimulate credit investments in the real sector, the government needs:

- to develop a mechanism for reducing the tax on the income of banks, depending on their volume of loans to the manufacturing sector (using the example of the existing mechanism for exporting enterprises);
- to eliminate from the taxable base on profit the growth of bank reserves created for insurance from risk;
- to raise the efficiency of the mechanism for providing loans for working capital needs, which are necessary for importing raw materials (this will allow addressing the tension in the financial well-being of enterprises, caused by the deficit in their own working capital).

3. Raising the role of depreciations as a main source of financing the development of enterprises. This may be facilitated by giving enterprises the right to determine their own forms and methods of amortization policy.

4. Eliminating disproportions in the correlation of growth of capital cost and the volume of products sold. This will be facilitated by:

- developing a new mechanism for the regulation and control on inflow and outflow of capital assets. The current instrument of regulation, the property tax, does not facilitate liquidation of excessive equipment (coefficient of inflow exceeds the coefficient of outflow by more than two times). The reason for such disproportions is hidden in the usage of the equipment in shadow economy.

- strengthening work on the real evaluation of demand for produced goods in domestic and foreign markets in order to increase the volume of their sales. Presently, marketing expenses are included in the taxable base and limited by norms of sub-legislative acts. It is advised to exclude expenses on marketing research from the taxable base on profits.

- increasing export efficiency through:

- accurate choice of markets for selling products (considering transportation costs as well);
- widening the usage of middleman services by firms and enterprises that have already gained solid positions in the markets for goods which are of interest for Uzbekistan.

5. Improvement of the taxation system towards simplification of collecting taxes.

Currently, a huge quantity of sub-legal acts are used in the taxation system that are not included in the Tax Code. This creates preconditions for discrepancies between the articles of the Code and the context of sub-legal acts, and reduces the efficiency of applying them. In this regards, the Government of Uzbekistan's decision to develop a new edition of the Tax Code of the Republic of Uzbekistan should be welcomed.

3. Issues of Improving the Forms and Methods of Government Support for Sectors of the Economy under Conditions of Deepening Economic Liberalization

S.V. Chepel, M. Katanova

In the preparation of this article, materials by Professor V. V. Popov of the Russian Economic School and the work he did during his visit to the CEEP of the Ministry of Economy (November 2004), sponsored by the USAID project, were used.

The issue of the role of the government in the stimulation of economic growth, and in the forms and methods of government support for priority sectors and production, is one of the most heavily debated issues in contemporary economic science. This is specifically acute in developing and transitional countries. The array of opinions here is very wide, ranging from statements about the need to minimize such intervention (with references to the experience of Poland and other East European countries), to those emphasizing the exceptional role of the government in the elimination of market failures, ensuring the competitiveness of national economies and closing the gap in development with Western countries (with references to practices in China, Chile and a number of East Asian countries).

Supporters of the first line of argument refer to numerous findings of inter-country studies testifying that the limitation of government interference and the liberalization of the economy facilitate sources of growth and increase its rate in the medium and long-term perspective. In fact, a large number of studies by the World Bank and IMF experts, as well as authorities in the area of analysis of economic growth issues, present much evidence on the existence of sustainable interrelations between long term GDP growth on the one hand and the reduction of the difference in exchange rates, the lowering of tariff barriers, the expansion of the non-government sector of the economy, and the growth of the economic freedom index and other economic liberalization indicators on the other hand. At the same time, there are no fewer examples from countries where the liberalization of foreign trade, the rejection of an active industrial policy and the deregulation of the market led to an outflow of capital from the national economy, increased its vulnerability to internal shocks, suppressed national commodity producers and increased social inequality.

Liberalization is not a universal solution for developing countries and this is proven by the majority of Latin American countries, which over the last decade of the 20th century advanced further along the road of privatization and liberalization than the countries of the Asian Miracle – by forty years; yet achieved considerably lower rates of economic growth. Moreover, the new industrial countries of Eastern Asia are the very countries where such forms of government support of priority sectors as industrial policy, indicative planning and so forth are actively implemented.

The mixed results of international economic development raise the issues of which areas of reform in a single country may ensure the maximum effect for long-term economic growth, whether the degree of achieved economic liberalization is sufficient for this, how it should be combined with measures of government support of individual sectors and what the forms and mechanisms of such support should be. The answer could be partially obtained from an analysis of the results of the most recent inter-country surveys of the impact of liberalization on growth. In recent years increasing support has been given to the hypothesis that *the decrease of import tariffs, the deregulation of foreign trade and financial markets, the liberalization of capital flows, the weakening of government control and the facilitation of competition may lead both to positive and negative outcomes depending on the stage of development of the economy.*¹

Four development stages are distinguished: (1) the initial stage of industrialization, (2) the stage of initializing export-orientated growth, (3) the stage of stimulating accelerated growth, and (4) the stage of the developed market. The technological gap with respect to the world level, and primarily the relation of national GDP per capita to the respective indicator in the USA, are used as quantitative indicators. If, for instance, two countries are at different stages of economic development, the same economic liberalization measures may both facilitate and slow down their rates of economic development.

Surveys results also demonstrated that the achievement of high and sustainable economic growth rates is possible only if, at every stage of economic development, specific types of economic policy are applied, determining a rational degree of government presence in the economy and the level of its liberalization. The success of East Asian countries in many ways is explained by the fact that they managed in time to switch

1 See V.M. Polterovich, V.V. Popov. Stimulation of growth and development Stages (*Стимулирование роста и стадии развития*). RSE, MEMO 2004. Rodrik, Dani (2003). Growth Strategies. Working draft for eventual publication in the Handbook of Economic Growth. April 2003. Acemoglu, Daron, Philippe Aghion, and Fabrizio Zilibotti (2002a). Distance to Frontier, Selection, and Economic Growth. June 25, 2002 (http://post.economics.harvard.edu/faculty/aghion/papers/Distance_to_Frontier.pdf).

the priorities and focuses of their economic policies as well as the methods and forms of government regulation based on level of development achieved and their national interests.

In this respect the Korean experience is exemplary. At the stage of export expansion, the government was actively using tariff, foreign trade and monetary policies for the protection of national commodity producers (see Exhibit 1), and the government itself was directly participating in establishing major industrial export-oriented industries, while in subsequent growth stages the government pursued an active policy of liberalizing foreign trade, encouraging competition and eliminating the shadow economy. The scope of direct government interventions in the economy decreased considerably.

Exhibit 1. South Korea: Stages, Issues and Mechanisms for Achieving Sustainable Economic Growth.

The export-oriented strategy of economic growth in South Korea was effected stage-by-stage over the last four decades of the 20th century. The major characteristics of these stages are presented below.

Stages	Problems, strategies and mechanisms for their resolution
First 1961–1970	Export stimulation period. The import substitution <i>strategy</i> pursued earlier was adjusted towards the expansion of exports and the concentration of financial resources on the development of labor-intensive sectors, primarily the textile and food industries, with competitive advantages on external markets. National currency exchange rate devaluation <i>policy</i> . Decrease of corporate tax rates. <i>Measures</i> for stimulating private savings, including government regulation of interest rates of bank deposits to the benefit of private depositors. During this period, imports of raw, intermediate and capital goods was facilitated using tariff and foreign trade <i>policies</i> , while imports of consumer goods were limited as much as possible.
Second 1973 -1979	The <i>strategy</i> of export-oriented industrialization was complemented by <i>measures</i> for the development of capital and technology-intensive sectors, primarily mechanical engineering and petro-chemical industry. This enabled the country to enter new sales markets, continue its <i>policy</i> of export-oriented economic growth, improve the balance of payments and achieve higher level of economic security. <i>The key role</i> was played by the banking sector and the government regulation of capital flows. However, a number of negative implications also emerged, such as a decrease of investment efficiency, overproduction in the mechanical engineering sector, the suppression of small and medium enterprises and high inflation.
Third 1980 –1990	The essence of <i>measures</i> undertaken at this stage was to freeze the government budget and wages of government employees, to decrease the government budget deficit, and to use levers of <i>monetary policy</i> for curbing aggregated demand. A <i>policy</i> of limiting excessive government intervention in the economy aimed at strengthening its dependency on market mechanisms and increasing the role of the private sector was used. Tariffs on imports were considerably lowered <i>with the goal</i> of increasing domestic market competition, and the list of goods licensed for import was significantly shortened. The index of foreign trade liberalization increased from -52.7% in 1977 to 94.8% in 1988. <i>Measures</i> on banking sector liberalization triggered the development of small and medium businesses, whose share in GDP increased from 35.2% in 1980 to 50.3% in 1993. In 1986 for the first time since the transition to an export-oriented strategy, a positive current account balance was recorded. However, the rapidly changing foreign trade situation in the beginning of the 1990s <i>slowed down the economic development of South Korea again</i> . The growth of trade union activity resulted in increasing growth of industrial sector employees' income compared to labor productivity growth, <i>which decreased the competitiveness of Korean products and hampered their sale in external markets</i> . As a result, the share of industry in GDP decreased again from 32.1% in 1988 to 27.8% in 1992, while inflation increased.
Fourth Since the mid 1990s	The <i>strategy</i> at this stage was the weakening of government regulation in fiscal, financial and administrative areas and the liberation of the private sector from bureaucratic control for the long-term period. Tax policy was radically <i>reformed</i> , government expenditures were drastically reduced and legislation facilitating competition and growth of production efficiency was revised. The privatization of large and medium government structures, as well as ensuring better transparency of financial transactions, encouraged the strengthening of economic fairness and the elimination of the shadow sector in the economy. As a result, despite the world financial crisis in 1996-1997, the export of goods and services in 1993-1999 again increased by 15-16% (in average annual terms), the level of prices become stable, and the efficiency of labor and capital resources utilization again increased.

Source: summarization of materials by the authors. The Korean Economy 1945-95: Performance and Vision for the 21st Century. The International Conference Commemorating the Fiftieth Anniversary of Korean Liberation. Korea Development Institute.

Summarizing the above, we may conclude that the major criteria in making decisions on whether to intensify liberalization processes or the opposite and whether to increase government regulation, should be the *achieved stage of economic development, the ability of the government to pursue efficient economic policy, including its timely adjustment, the degree of consideration of the interests of government and private sector, and the coordination of their efforts in the process of implementing economic reform*.

It is very important to take these criteria into account at the present stage of development and reform of the national economy of Uzbekistan. The key objectives are increasing the potential role of exports in ensuring economic growth sustainability, increasing contribution of small and private businesses, and deepening the liberalization processes and efficient growth of government support for priority sectors.

One of the major objectives of foreign trade liberalization is the *accession of Uzbekistan to the WTO on terms and conditions in line with national interests*. According to WTO requirements, accession of countries to this organization is accompanied, as a rule, by a reduction in the tariff protection level and other foreign

trade liberalization measures. How does this match national interests and what is the acceptable level of such a decrease without serious threats for the economic development perspectives of the country?

The answer to this question could be obtained if we review the issue of foreign trade liberalization from the standpoint of the theory of economic growth stages. At the industrialization stage, import substitution is a reasonable strategy. In addition there should be a gradual increase in the level of protective tariffs, as this is necessary for the increasing number of emerging sectors. However, their emergence is based on the initial import of relevant products, entailing import externality. Prematurely erecting import barriers may block growth at this stage.

As time goes by, protective measures come to result in more harm than benefit, freeing domestic commodity producers from the necessity of competing with advanced foreign companies. At this new stage it would be reasonable to pursue a strategy of supporting export sectors, stimulating the introduction of new technologies and management methods (export externality). This does not imply the immediate liquidation of tariffs. Tariff protection could be weakened with the growth of national production efficiency.

The result of the inter-country econometric analysis obtained by professor V. Popov² has also enabled the relation to be established between the initial development level of a country (GDP per capita by purchasing power parity in % to the respective indicator for the USA), long term economic growth and the impact of changes in import duties upon it (import taxes and duties in % to foreign trade turnover). About 80 countries participated in the calculations, for which the necessary macroeconomic reporting for 1975-2000 was available (Data Base of the World Bank). They demonstrated that if the initial level of economic development is not greater than approximately 10% of the USA level, the growth of tariff barriers is generally positively inter-related to long term GDP growth. However, an excessive tariff level (above 29%) even at a lower initial development level (13-14% to the USA level) hinders economic growth. With a development level of 33-35% any positive level of tariffs has a negative impact on GDP growth rates.

These results enable the formulation of *conditions of accession to the WTO for developing countries all over the world*: from a foreign trade liberalization standpoint, for countries with a low level of GDP (under 10% of the USA level) accession to the WTO does not contradict national interests (primarily with regard to long-term economic growth prospects), if no significant decrease of the initial level of import duties occurred as a results of the negotiation process.

This conclusion can also be empirically verified for transition countries as well. This is evidenced by our summary of the results of WTO accession by seven transition countries (Kyrgyzstan, Mongolia, Latvia, Poland, Hungary and Slovenia). The average annual values of the key macroeconomic indicators for the five-year period prior to WTO accession were analyzed, as well as their values at the time of accession and for the five-year period after accession to the WTO. Major emphasis was placed on the volume and dynamics of GDP, import tariffs, exports, foreign direct investment, government reserves and external debt, the balance of payments, the deficit and gross savings (World Bank reporting data).

Outcomes of the analysis demonstrated that the countries in the most difficult situation were those having a larger technological gap in relation to the international level (according to the GDP per capita indicator by purchasing power parity in % to the USA level) in combination with a low level of tariff protection³, which did not allow them to subsequently pursue an active economic policy supporting domestic producers. Kyrgyzstan and Mongolia are the examples. Accession to the WTO (1999 and 1997 respectively) had various implications for them. Despite the increase in GDP growth rates, which was characteristic for practically all transition economies at the end of the 1990s due to the specifics of transformational decline, these countries failed to achieve noticeable results in foreign trade which, in fact, had been the objective of WTO accession. The inflow of foreign direct investments decreased in Kyrgyzstan (to 3% of the GDP in average annual terms for 2000-2002 versus 4.9% of the GDP in 1995-1998), exports decreased (from \$124 per capita to \$118 per capita), and external debt increased (from 58% of the GDP to 119% of the GDP). Mongolia also did not benefit considerably from accession to the WTO. Exports increased insignificantly (from \$212 to \$262), the balance of payments deficit noticeably increased (from 11.5% to 23.6%), and external debt increased from 65% of the GDP to 89%. The only exception is the foreign direct investment indicator, whose share in the GDP increased from 1.3% to 4.3%.

On the other hand, foreign trade liberalization in terms of a considerable decrease in import tariffs at accession to the WTO was most favorable for the foreign trade of countries for whom the technological gap was not that high. These are mainly transition economies from Eastern Europe and the Baltic. The most impres-

² See V.M. Polterovich, V.V. Popov. Stimulating of growth and development stages. RSE, MEMO 2004.

³ For most of the reviewed countries the amount of import tariffs (in % to foreign trade turnover) after accession of the country to the WTO decreased by 2- 3 times.

sive success was achieved by Hungary and Slovenia. For Hungary, accession to the WTO stimulated export growth from \$1,070 to \$2,828 (per capita), facilitated a decrease of the balance of payments deficit from 2.7% to 1.3% (in average annual terms) and growth of foreign direct investments from 4.4% to 5.3% of the GDP. Foreign trade intensification resulted in the growth of the financial capacity of the Hungarian real sector which was reflected in an increase of gross savings from 20.8% of the GDP (prior to accession to the WTO) to 28.1% (after accession). Slovenia achieved even better results with exports – \$5,369 (versus \$3,458 prior to accession), foreign direct investment – 6.8% (2.3%) and gross savings – 25.7% (18.7%). In addition, external government reserves considerably increased in all those countries, while external debt (except in Latvia) and inflation decreased.

With regards to *Uzbekistan*, the obtained results call for a *more carefully considered approach to foreign trade liberalization*. Located at a considerable distance from the world level of technological development (7.5% of the USA level for GDP per capita by purchasing power parity based on World Bank data for 2002) and below the threshold value of 10% for this indicator, Uzbekistan has all the grounds for bringing up the *issue of maintaining (or insignificantly decreasing) the level of protective tariffs in the case of WTO accession*. In other words, the long-term economic growth of Uzbekistan requires conditions of WTO accession which would not considerably decrease import tariffs and would maintain the possibility of pursuing an active government policy of supporting national producers at this stage of development.

Surveys of businessmen, managers and investors are often used to evaluate the *optimal degree of economic liberalization and the efficiency of government support*. The results of one of them, performed in 1999 by the European Bank and the World Bank for 20 transition economies, are presented in Table 3.1. More than 120 companies were polled in every country and more than 550 in Russia. There were questions asking how often the government interferes in company decisions related to sales, prices, employment, wages and investments. Six options for answers were offered: always, usually, often, sometimes, seldom and never. The index of government interference in decisions of all types was calculated as a share of the companies ticking one of the first four answers.

Then the 10 most successful countries (having maximum indicators of 1999 GDP compared to 1989) out of the 20 countries polled were selected. Among them were 7 countries in which output decline had never surpassed 20 percent in the transition period (see Table 3.1). As the polling results indicated, among them were 4 countries with the highest index of government intervention (second column of the table). The GDP of the selected countries was also very closely related to the indicator of interference/intervention into investment decisions (third column). Correlation ratios for these two dependencies were approximately 60%.

In addition, econometric analysis of the correlation between growth and government intervention, made on the basis of the Table 3.1⁴ data, demonstrated a clearly defined point of inflection. Its value accounted for about 40%, i.e. up to this threshold value the increase of the government presence index corresponded with GDP growth, and above the value – with lower evaluations of accumulated GDP dynamics (1999 in % to 1989).

Table 3.1. Government Intervention into Company Decisions: Ten of the Most Successful Transition Economies

Country	Index of government intervention (% companies)	Intervention into investment decisions (% companies)	Subsidies (% of companies)	Subsidies and other current transfers, (% of GDP)	GDP in % 99/89
Estonia	11.8	10.2	10.7	20.0	79.0
Croatia	15.8	18.4	14.4	18.4	77.8
Poland	16.4	17.3	11.6	20.4	121.8
Russia	21.8	15.9	13.7	15.2	57.8
Czech Republic	23.4	23.7	13.9	27.9	94.8
Slovenia	29.8	23.1	11.5	20.3	105.5
Uzbekistan	43	28.7	15.2	-	93.9
Hungary	43	37.9	23.3	19.3	99.3
Belarus	52.2	32.6	27.2	18.4	81.4
Slovakia	54.2	52.2	14.4	22.3	100.5

Source: Hellman and Schankerman, 2000, pp.560, 569; Economic Survey of Europe, 2001, pp. 254, 89.

It is worth considering also that the value of this index for Uzbekistan in 2000 somewhat surpassed the threshold value. Here it is necessary to take into account the fact that from 2000 till 2004 the index of gov-

⁴ The respective regression equation is the following: $GRR = -41 + 6.93 \cdot GIG - 0.0828 \cdot GIG^2$, where GRR – accumulated GDP dynamics (last column of Table 2), and GIG - index of government interference (second column).

ernment intervention for Uzbekistan considerably decreased, due to the liberalization of the foreign exchange market, the legislative limitation of the number of inspections of companies and firms, the simplification of the process of their registration, the implementation of additional measures restricting government intervention in current operations, and the implementation of administrative reform restricting the role of government administration in social and economic processes – which testifies to the timeliness of measures which restrict excessive government intervention into the business operations of companies and enterprises and grant them more freedom in the area of production, sales and production development.

The efficiency of the government support of priority sectors and industries considerably depends on applied *methods, forms and mechanisms of government regulation*. The support may be targeted, ensuring more favorable conditions for individual companies, enterprises or groups of companies or may stimulate the growth of entire sectors and industries. In the first case we imply *selective* measures of government support, while in the second – *universal* (non-selective) measures. Selective measures need higher government awareness of the financial state of individual companies or investment projects and are more risky in this respect. The higher the degree of uncertainty and the lower the efficiency of government office operations – the lower the efficiency of selective policy. In addition, granting benefits and subsidies to some companies automatically entails infringing the rights of those enterprises and sectors which were not granted such benefits, and this violates the fair competition principle, encouraging a lobbying attitude in executive and legislative government bodies. However, as international experience demonstrates, the reasonable use of selective policy to form national leaders among national commodity producers is a very promising and widely spread form of government regulation, specifically for countries at the second and third development stages.

An analysis of the methods and forms of government support of commodity producers practiced in recent years in Uzbekistan allows a conclusion on the domination of selective measures to be reached. One of the major specifics of the existing legislative base in the area of economic reform and regulation of economic operations is the availability of a large number of benefits, including on taxes, on investments, on access to financial and other resources, on sales, or related to writing off accrued debt, rendered by government agencies to individual companies. Only in the last 4 years several government resolutions and regulatory acts of such types were passed. The area of their effect is very wide – from areas of activity (investment, production, sales of output) and economic sectors (industry, agricultures and construction), to individual associations and enterprises (Uzneftepererabotka, Ugol JSC, Uzagromashservis, Shurtan Refinery, UzCasemash, Uzprommashcomplex SJSC and so forth). Tax benefits contained there are rendered for all major types of taxation: VAT, income tax, customs duties, excise tax and others.

How effective is this form of government support of local producers and foreign investors from the standpoint of economic development in general and development of priority sectors in particular? Analysis made on the basis of statistics of inter-sector balances for 1998-2000 does not allow an unambiguous answer to this question to be given. Despite the fact that government subsidies for such sectors as oil extraction and mechanical engineering reached 37.8% and 5.4% respectively of the gross output value, the annual average production growth rates there were negative in the reporting period. On the other hand, in the agricultural sector, where the amount of such subsidies accounted for 6.6% and in the other sectors where there were no subsidies at all or they did not surpass 1-2%, annual average production growth rates reached 4-5%.

The major reason for this outcome, in our opinion, is the following: most of the companies were initially in a difficult situation due to the price factor, when fixed prices for output did not cover production costs, and they were also facing administrative barriers in obtaining financial resources and in the foreign trade area, had to bear considerable transaction costs in resolving their production and operations issues, and objectively were unable to ensure sustainable growth of output even with significant tax benefits and subsidies.

The basic conditions of company operations in the real sector of the economy are not adequate for achieving sustainable economic growth, as there is a considerable gap between producers' prices and prices of products for final consumption, with trade and transportation margins and net indirect taxes accounting for the majority of the difference. Being restricted by various decisions of local governments, companies have to sell their products to various intermediaries at prices much lower than market prices for final consumption. As a result, a considerable portion of revenues and profits go to intermediaries or to taxes, making the activity of production less and less attractive when compared to other types of operations such as trade.

Indeed, a considerable difference in sector average prices is characteristic both for extracting and raw material sectors and for processing sectors. Enterprises of the petroleum production sector account for the largest losses of potential income (a 7.2 times gap), followed by the natural gas extraction sector (2.6 times), industrial building materials (1.6 times), refineries (1.6 times) and food and microbiological industry (2.1 times). Obviously, in such conditions it is very complicated for commodity producers to develop their operations even under terms of favorable taxation and other measures of government support.

An increase of the effectiveness of government support in this situation should be linked, in our opinion, with the elimination of monopolies in the area of goods and services circulation, access to financial and material resources, decrease of the tax burden and its leveling for various economic sectors, as well as the improvement of other basic conditions for real sector operations. Priority should be given to non-selective methods of government support, which correspond to a greater extent with the export-oriented stage of development of the national economy. Among them should be a policy of exchange rate regulation favorable for exporters, investments into infrastructure, organization of universal banks of reconstruction and development, tax policy aimed at the stimulation of innovations, the encouragement of the implementation of new technologies by creating favorable terms for their import and the attraction of foreign investments. Support for the undervalued rate of the Uzbek Soum – which may significantly decrease the need to use selective regulators – as well as the attraction of foreign investment could be facilitated by the government policy of accumulating reserves. Considerable government funds should be channeled to enhancing labor force qualifications, developing research and information services for commodity producers and increasing the efficiency of implemented reforms, including the restructuring of leading industrial enterprises and the efficient functioning of government institutions. All this would also require considerable redistribution of financial flows from the government budget and their optimization.

4. The Economic State of Real Sector Industries – as a Factor of their Investment Attractiveness

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The investment activity of the economy and of its individual components is an indicator of change in total demand, and in future – its volume of national production and its employment level. But to make the investment process more active it is necessary to define clearly and unambiguously the economic situation in both the economy as a whole and in its sectors.

Investors as a rule evaluate a potential object of investment and consider prospects for its development. Investment attractiveness of an economy's sectors depends on a number of factors and is of an individual nature. And the evaluation of the economic situation in sectors of an economy reveals critical problems, disproportions which require immediate resolution. Timely purposeful impact on key points may facilitate improvement in the object's attractiveness, both for private and foreign investors.

There are different methodological approaches to the evaluation of an investment situation for subjects of the economy depending on purposes, objectives and possibilities of developers, and the importance of the issue in this or that country. In CIS countries, including Russia and the Ukraine, works in this area were conducted through government assignment by large economic divisions involving representatives of foreign companies, international audit firms, and large investment organizations, such as the International Bank for Reconstruction and Development, TACIS, USAID, British & American Tobacco, Ernst & Young, and others.

The author has conducted comparative computations on the diagnosis of the economic state of real sector industries according to results from 2000 and 2003 and established their rank evaluation based on the system of mutually connected statistical indicators using the mathematical apparatus of integrated computation of heterogeneous analytical series and the algorithm of implementation. For these computations a three-factor model was used, developed based on international experience, recommendations of highly skilled specialists of foreign and domestic companies, and auditor and consulting firms involved in issues of investment attractiveness. The evaluation of the economic state of the real sector in order to rank them by degree of investment attractiveness is based on integrated computations and is represented in the form of the following system of elements: 1- prospects for development, 2- profitability of activity and 3- investment risks. Each of these three elements represents the totality of indicators grouped as a result of the processing of individual indicators.

1. Prospects for development are evaluated based on the following indicators:

- *Importance of the sector in the country's economy.* Quantitative evaluation of this indicator is made up of the actual and forecasted share of the sector's output in the gross domestic product (GDP) of the country, considering the structural reforms of the economy being conducted, the share of the cost of capital assets in total book value of capital assets (CA) of the nation;
- *Sector's sustainability with regard to changes in the economy.* This level is defined based on the ratio between dynamics of growth rates of sectoral production in the country's GDP and dynamics of sold and produced output;
- *Sector's social importance.* This is characterized by the share of the number of employed in the sector in the total number of the country's employed population and the ratio of the average annual salary in the sector to the average annual salary on the country;
- *Level of adequate provision of financial resources for the development of the sector.* For evaluation, indicators used are the share of capital investments made into the sector from enterprises' own financial resources and bank loans in the total volume of capital investments, and of the correlation of the dynamics of the increase in capital investments of the sector to the dynamics of the increase in capital investments in the country as a whole;
- *Level of state support for the sector of economy.* Quantitative evaluation of this indicator is made based on the share of state capital investments into the sector in total capital investments.

2. Profitability level is evaluated based on:

- *profitability of sector's assets* – allows to determine the level of profit generation by assets;
- *profitability of production sale* – shows the ratio between profit from production output sold and its cost in the sector of economy;
- *profitability of current expenses* – gives an idea of the potential possibilities of forming a price range for production from the viewpoint of the current level of costs for production and sale.
- *return on capital investments into sector* shows the ratio between the increase in added value and capital investments made a year earlier.

3. The level of investment risks is represented by the following indicators:

- *Solvency level* is evaluated based on Cook's ratio showing to what extent bank loans can be covered by enterprises' own funds;
- *Level of social status* – is defined as the ratio of average salary in the sector to the level of the cost of living in the country;
- The coefficient of variation of the average sectoral indicator of profitability of own capital in the context of sub-sectors – is a traditional measure of the level of financial (investment) risk in dynamics.

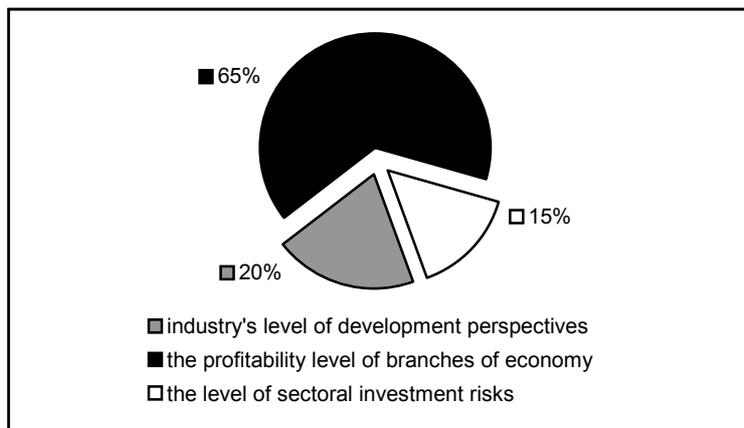
Since indicators of elements of an economic state have different units and measurement scales, then a method of rank values is used to bring results to a single scale of perception. The method is based on the even distribution of positions at intervals [0.1] for each indicator of evaluation of investment attractiveness. The lowest level of indicator for elements of evaluation is given 0, and the highest level of indicator is given 1. Thus, the rest of indicators are distributed inside the interval, i.e. between 0 and 1 in accordance with their levels.

The integral indicator is understood as an average level of rank indicators of elements of evaluation of investment attractiveness. Therefore defining levels of indicators of elements of investment attractiveness makes possible a comprehensive evaluation of the system of heterogeneous factors.

Since individual elements of evaluation differentially reflect the investment attractiveness of sectors of the economy, they play a different role in making investment decisions. For this reason the significance of major elements is defined by way of expert judgment, i.e. considering the particularities of the profiling evaluation. To evaluate investment attractiveness of the real economy sector based on expert calculations, the following ratios of significance of major elements are proposed:

- Level of development prospects of sector – 0.2;
- Level of profitability of sector of economy – 0.65;
- Level of sectoral investment risks – 0.15.

Graph 4.1. Ratios of Significance of Major Elements (%)



It should be noted that the significance of elements of evaluation of investment attractiveness should add up to 1 or to 100% if expressed in percentages.

These ratios of significance of major elements of evaluating investment attractiveness are to some extent of a general nature, as they represent the author's concept of I.A. Blank.

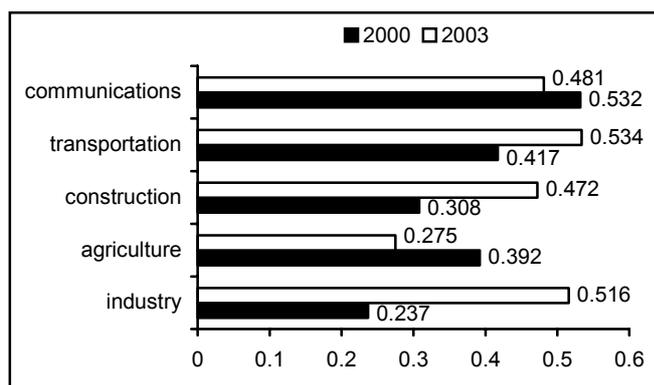
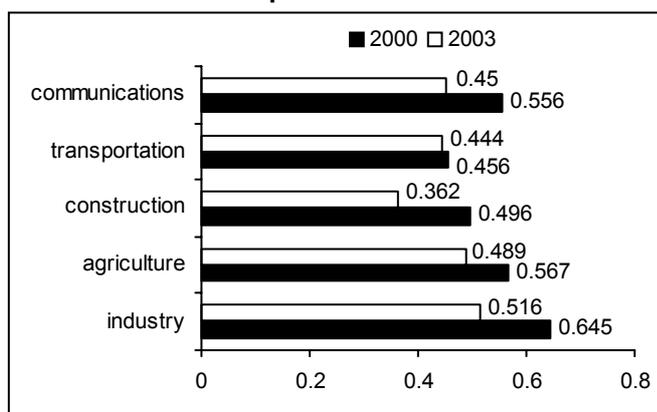
The computation of the absolute integral rank indicator of evaluating the investment attractiveness of the real sector is made according to the formula:

$$R_j = \sum R_{kj} \cdot f_k$$

Where R_j - absolute integral rank indicator of investment attractiveness of j - sector of economy;
 R_{kj} - Integral rank indicator according to the considered element of evaluating investment attractiveness of sector of economy; f_k - Significance of respective element in total evaluation of sector of economy: where $f_k \in [0;1]$, $\sum f_k = 1$

The above methodological approaches to defining investment attractiveness and the computation material on the results of 2000 were developed based on the Ministry of Economy's assignment and accepted for further use.

Comparative evaluation of the results of functioning of real economy sectors has revealed that in 2000-2003 it became possible to achieve a certain positive consistence in their development through the creation of conditions for the formation and inflow of investment resources. In that period macroeconomic stabilization ensured an increase of GDP (on average by 4.5%). As a result of implementing measures taken by the Government of Uzbekistan to improve the management system, liberalize fiscal policy, tighten monetary policy and intensify reforms in sectors of the economy, positive trends of increase were noticed in industrial production (6%), agriculture (4.5%), and construction (3%).

Graph 4.2. Absolute Integral Indicators of Investment Attractiveness

Graph 4.3. Integral Indicators of Prospective Development Level


Change in the economic situation in sectors of the economy had impact on the levels of absolute integral indicators of their investment attractiveness (Graph 4.2).

Transportation industry was defined as the leading absolute indicator (according to the results of 2003), followed by industry, communication, construction and agriculture.

Insofar as the absolute integral indicator is a result of systemic evaluation, each of its components has been considered.

A shift of positions among indicators of the level of development prospects of real sectors of the economy has occurred (Graph 4.3).

In the rating, industry remains in first place, with indicators of added value having risen in relation to the growth rate of GDP, and own capital investments, etc. having changed positively (Table 4.1).

The other real sector industries are sequenced as follows: agriculture, communications, transportation and construction.

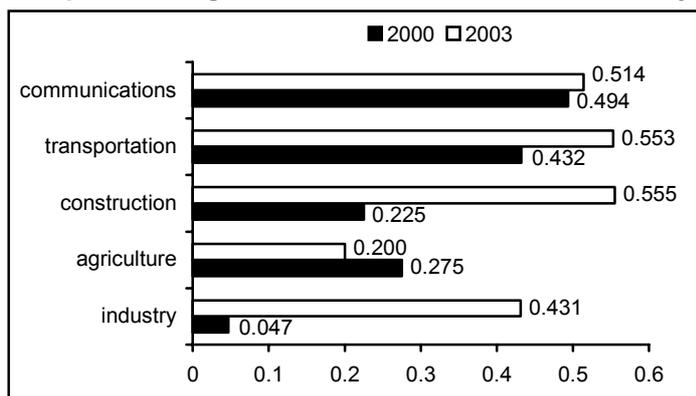
The growth of price disparity remains a negative factor for agricultural sector development. Price relations of agricultural products and resources for agricultural production are not simple; with economic liberalization, resource

prices are growing faster than sales prices, which affects the share of the sector's added value in GDP. Underdeveloped market infrastructure in the agricultural sector entails a situation in which domestic producers can not sell their products in time, while the consumer market remains not fully satisfied. There is also outflow of labor resources from this sector to other industries.

Economic sectors are also inadequately provided with financial resources. The picture is different from the situation with investment. The share of own capital in the total amount of capital investment increased in industry, communications and transportation by 17-36% due to the improvement of the tax policy and financial state of companies and organizations.

Table 4.1. Comparative Indicators of Prospective Development Level (balance of 2000-2003).

	industry	agriculture	construction	transportation	communications
Share of added value of the sector in GDP	+ 0.8	- 0.3	- 1.5	- 0.2	0
Forecasted share of added value of the sector in GDP (2005)	+ 4.5	- 3.7	- 1.2	- 0.9	0
Share of capital assets of real sector industries in total book value of capital assets in the country	+ 8.4	- 1.6	- 1.3	+9.0	- 0.9
Level of sustainable sector output	0	0	0	0	+ 0.2
Demand indicator for output	-0.03	0	+ 0.3	+ 0.54	+ 0.2
Share of employed in the sector in total employed population	0	- 0.7	+ 0.2	0	+ 0.1
Ration of average annual salary in the sector to average annual salary in the country	0	0	0	0	0
Share of sector own capital in total utilized investment	+ 17.5	- 5.4	- 4.2	+36.5	+31.5
Share of capital investment in the sector raised as bank loans in total capital investment.	-8.2	-1.5	+10.0	-6.1	-8.9
Correlation of sector capital investment growth to growth dynamics.	+0.4	+0.1	+0.1	-0.2	-0.4
Share of capital investment in the sector provided by government budget in total capital investment	-0.2	+31.1	+14.8	-3.9	+2.0

Graph 4.4. Integral Indicators of Economic Efficiency


Over the years reviewed ratios of sector average economic efficiency have changed. The leading sectors were transportation and communications followed by construction, industry and agriculture.

The lowest economic efficiency was recorded in agriculture and industry, which indicates problems with profit-making. Major factors hindering the growth of net profit were high production costs, imperfect tax policy and management flaws (Table 4.2).

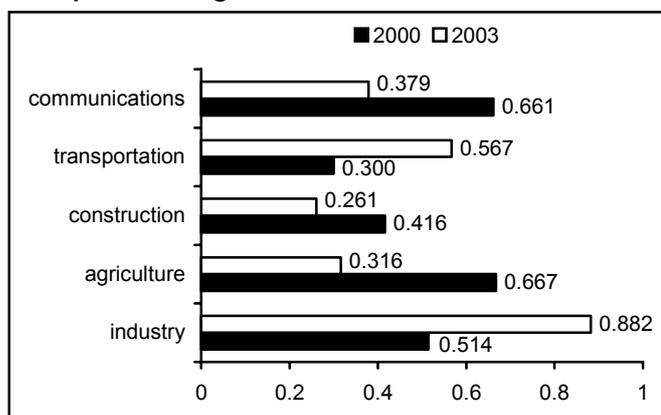
A significant share of morally and physically obsolete equipment, undeveloped marketing services, insufficient studies of demand for products and sales markets and a lack of competitive environment, and therefore, low capacity utilization, decreased the economic efficiency of the sector's assets by 4.6 percent in industry. In transportation and communications complexes, the decrease of economic efficiency of assets was related to underutilization of available production assets and their high market value.

Table 4.2. Comparative Indicators of Economic Efficiency (2000-2003 balance)

	Economic efficiency of sector assets	Economic efficiency of sales	Economic efficiency of current expenses	Economic efficiency of capital investment in the sector
industry	-4.6	+2.1	+1.6	+0.7
agriculture	-8.7	-8.5	-8.6	+125.7
construction	-10.5	+1.3	+0.9	+44.6
transportation	-18.0	-5.9	-18.4	+45.9
communications	-28.8	-1.3	-52.7	+19.6

The most significant obstacle in the expansion of geographical boundaries of markets and intensification of competition are the administrative barriers which increase transaction costs.

Higher-than-average consumption of power and materials, problems with the provision of technological resources and raw materials in the absence of local inputs and high production costs caused a decrease in the indicator of the level of profitability of current expenses in agriculture, transportation and communications. Economic efficiency of capital investments is correlated both with their volume and the profit resulting from their implementation. In agriculture small investments may generate a rather high added value. In industry, however, this relation is more negative.

Graph 4.5. Integral Indicators of Investment Risks


The integral indicator of investment risks is the highest in construction and agriculture (Graph 4.5). The amount of risk is generally related to the insufficient paying capacity of the real sector and aggravation of financial state of companies (Table 4.3).

Debt service remains a heavy burden for them. Among the risks in agriculture are also climatic conditions and the shortage of water.

The social standing of the sector reflects the living standards of the population resulting from the existing relation of wages and the minimum for subsistence.

Table 4.3. Investment Risks (2000-2003 balance)

	Paying capacity	Social standing	Ratio of economic efficiency indicator variations by sub-sectors
industry	+182.0	+1.5	+0.37
agriculture	+46.4	+0.3	-0.07
construction	+19.1	+1.1	-0.17
transportation	+15.9	+1.1	+0.72
communications	+17.1	+1.7	+0.07

Over the reviewed period social standing considerably improved in communications and industry sectors against the background of general positive dynamics.

The positive dynamics of key economic indicators result from measures undertaken by the government to deepen economic reform and liberalize monetary policy. Mechanisms established by government documents and legislation have begun to take effect. The issues of adapting sensitive sectors of the Uzbekistan economy to WTO accession were identified and are currently being addressed.

The above-mentioned shifts by individual parameters indicate positive trends; however, there are also disproportions which should be eliminated in the nearest future. One of the directions for stabilizing enterprises' financial states as well as for the entire real sector could be tax policy improvement. Changing the conditions and methods of taxation and implementing a capital mobility mechanism may facilitate an increase of output and make it competitive as well as resolving social issues. Improvement of the economic state would ensure an increase of equity and therefore accelerated modernization and technical re-equipment of existing enterprises. The most important factor for economic well-being is the development of the stock market and the successful formation of privatization investments.

Sustainable development of the real sector could be facilitated by improving the management system with efficient implementation of its basic elements. Comparative assessment of the existing two-layer and mixed (English-American) management system is necessary in order to implement the optimal one in the country.

In construction, investment attractiveness could be increased by introducing an effective pricing system and a sustainable functioning of the market for design and contractor's works.

For agriculture the most important factors are structural transformations and the creation of conditions for producing competitive output through the implementation of optimal production technologies.

5. Trends in Power Resources Consumption in the Transition Economy of Uzbekistan

By E. Bikeeva
The CEEP

At present the fuel and energy complex of Uzbekistan (FEC) remains among the most stably operating economic sectors. It is fully meeting domestic demand for power resources in addition to considerably increase in exports; the total output of primary power resources in 2004 increased by 40.2% compared to 1991.

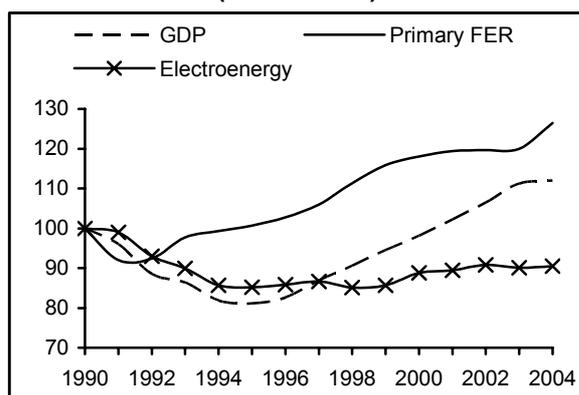
Domestic consumption dynamics have formed under the impact of macroeconomic parameters, the structure of the GDP, industrial output transformation, power resources efficiency and a number of other factors. In 1991-2004 domestic consumption of fuel and power resources increased by 26.5%, supporting and facilitating the development of other sectors, and mitigating the overall decline in output during the first stages of reform (Graph 5.1). The relatively high sufficiency of power resources has become a crucial factor in their development and a prerequisite for implementing a system of priorities in social and economic policy and maintaining equilibrium among resources and technologies.

However, achievement of the above results was accompanied by a decline in the efficiency of power resources. The growth rate of power resources consumption surpassed the growth rate of GDP, and as a result the power intensity of the economy increased by 24.6% over the period from 1991-2000 (Graph 5.2). In the 1950s-60s the demand for power resources in many industrially developed countries grew at approximately the same rate as GDP. The rise in oil prices in the 1970s distorted this tendency, while regular transformations in the structure of the economy have made the increasing lag between the demand for power resources and the GDP growth rate a new sustainable trend.

At the economic liberalization stage in Uzbekistan (2000-2004) power resources efficiency indicators turned out to be better than expected. With the increasing dynamics of major economic parameters, the domestic demand for primary power resources was considerably lower than forecasted, ensuring higher power resource efficiency (by approximately 10%-12%).

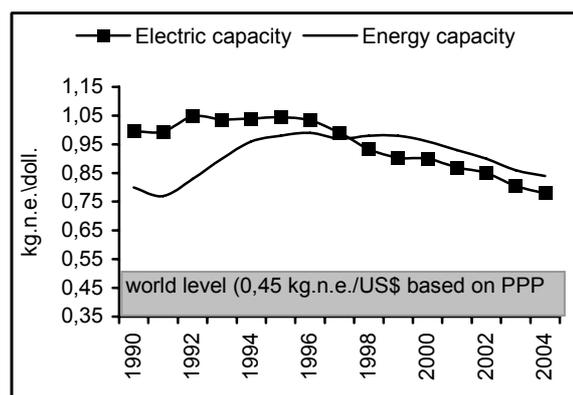
However, despite the progress in power resources consumption, the value of GDP power intensity in Uzbekistan is considerably higher both than in developed countries (by 3-4 times) and in many dynamically developing countries of South-East Asia and Eastern Europe (by 2-2.5 times).¹

Graph 5.1. Dynamics of the GDP Growth Rates and Fuel and Power Resources Consumption (1990 -100%)



Source: author's estimates

Graph 5.2. Power Resources Efficiency



Source: author's estimates

The high power intensity of the national economy is related to both the increase in the cost of the fuel share per unit of products and services due to the deterioration of fixed assets, and to the unfavorable sector transformations in the structure of power consumption. In the years of economic reform, the sustainable trend of the dominance of energy-intensive sectors such as resource and mining in the structure of power consumption has formed due to existing tendencies in the output structure of GDP. The share of power-intensive sectors in the consumption structure of primary power resources accounts for more than 53%.

¹ Comparative estimates were made on the basis of World Development Indicators 2000/2001.

Industrial output accounts for more than 50% of total electric power consumption, and the share of power-intensive sectors increased from 49% in 1991 to almost 68% in 2004. In most developed countries a decrease in the final amount of power per unit in GDP was achieved by implementing measures aimed at increasing the share of less power-intensive processing sectors in the output structure. Structural shifts in the economies of the leading nations during 1976-1985 decreased the power intensity on average by 17-27%.

In addition, analysis of per unit power consumption for production of steel, cement, mineral fertilizers, copper, zinc, non-ferrous metals and so forth indicates an obvious declining trend in the power intensity indicator of industrial processes in the most developed countries. According to the International Energy Agency (IEA) data, energy consumption for the production of steel in industrial countries decreased more than twofold in 1980-2000, and for production of one ton of cement by 20-30% and so forth.

The efficiency of the respective indicators in Uzbekistan has slightly worsened or remained at the pre-reform rate. As a result, the energy-intensity indicator in the resource and mining sectors is approximately 30-45% higher than the average world level.

The energy capacity of processing industries has increased by 9-10% in the reform period due to underutilization of capacities. This is one of the factors decreasing the competitiveness of local output on both domestic and international markets.

The dynamics of changes in power intensity was significantly affected by the increase of the services share in the structure of energy consumption. At present households and utility services account for more than 36% of total energy consumption of the country. Per unit energy consumption of rendered services is more than two times higher than in many developed countries due to considerable losses in low-efficiency energy supply systems. For instance, in the housing sector, due to the lack of meters and incentives for conserving power, the level of natural gas consumption is 3-4 times higher than the similar indicator in many Western countries.²

The current trend of power intensity growth, specifically in industry and the services sector may become a major impediment for achieving the goals and objectives of ensuring sustainable economic development. Calculations performed under the Program for Energy Saving in the Republic of Uzbekistan up to 2010, taking into account economic and specific conditions, and factors and parameters of various options of the country's social and economic development forecasts, allowed the country's needs for power by major sectors of the economy to be substantiated.

The estimates indicated that implementation of target structural transformations in power consumption and growth of processing sectors would allow the power intensity of the GDP to be significantly decreased in general by 33%-35%, which would in turn ensure reasonable growth of demand for primary resources within the set limits over the forecasted period (Graph 5.3).

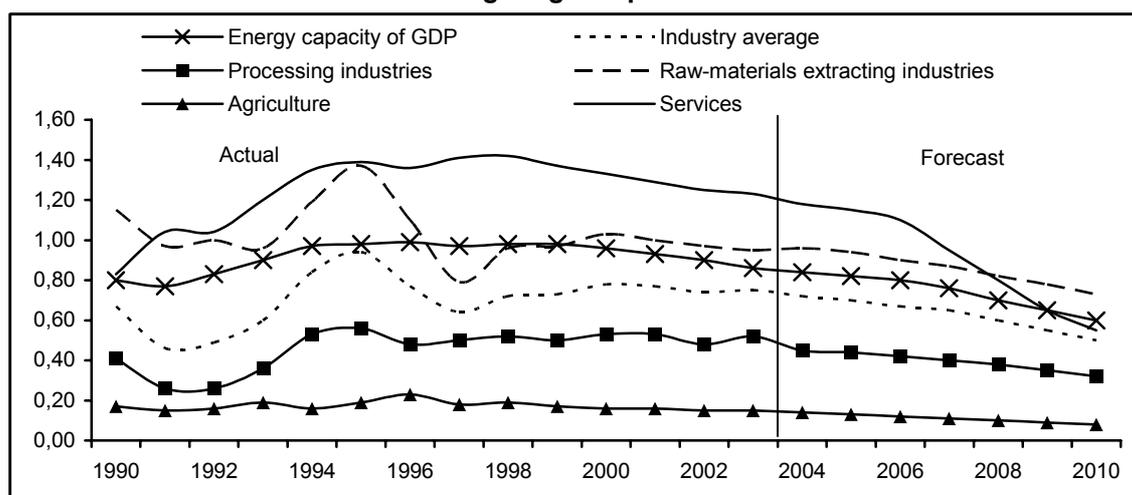
In addition to the structural factor, the implementation of organizational and technological measures on saving of fuel and energy is envisaged, i.e. effecting a targeted energy-conservation policy. Uzbekistan has a huge capacity for organizational and technological energy conservation, accounting at least for 8-10 million tons of power resources. Mining and resources sectors account for about 30% of this saving capacity, while utilities account for more than 45% and the other sectors account for the remaining 25%.

However, even with objective prerequisites in place, the implementation of energy conservation measures would require the government to follow a wise and balanced policy in the area of internal prices, investment, tax and customs rates. This balance should ensure the co-ordination of ongoing processes, simultaneously taking into account the interests of major economic subjects.

A major prerequisite for the intensification of energy conservation is the growth of internal prices for energy resources to a level allowing complete self-funding of power producers, including future investments. Key objectives of the pricing policy are:

– Step by step improvement of internal prices for fuel and energy using mechanisms of market pricing and taking into account the competitiveness of efficient commodity producers, and ensuring the financial and investment attractiveness of the fuel and energy sectors. The process of convergence of internal and world prices should be implemented in a flexible manner, taking into account possible structural and technological shifts in all economic sectors. For power-intensive enterprises with energy inputs accounting for up to 10%-12% of the output cost, the increase in prices could be offset by a decrease in VAT.

² From the Program for Energy Saving in the Republic of Uzbekistan up to 2010.

Graph 5.3. Dynamics of Power Intensity of Economic Sectors in 1991-2004 and Energy Saving Targets up to 2010

Source: Estimates by the author.

At least 70%-75% of additional profit generated by FEC enterprises from the increase in prices of their output should be invested into new energy-saving technologies and the implementation of measures aimed at decreasing per unit consumption and losses of power within the sector;

– Elimination of disparity among prices for major types of power resources. Prices for natural gas should be subject to government regulation due to its prevalence in the energy consumption structure. This process should be made on the basis of bringing prices of natural gas to their optimal level, taking into account the heating capacity of various power resources. This would facilitate the more active implementation of resource conserving technologies and the development of the optimal structure of the country's power sector in general.

Monetary policy should play an important role in addressing structural transformations in the power sector. Establishing the necessary prerequisites for the accelerated development of the real sector of the economy, this policy should be closely related in terms of its key parameters to the expected growth rate of the GDP, to investments and to the budget deficit, in order to ensure significant growth of financial mediation in the energy conservation process while simultaneously strengthening macroeconomic stability. This should be facilitated by the ongoing reform of the banking system.

Using monetary policy levers for ensuring progressive structural shifts should not be limited to granting tax benefits for priority sectors of the economy. A decrease in the share of resource sectors in the structure of the economy would be facilitated by the improvement of the rent payments mechanism and natural resources taxation.

A sound pricing policy and measures to improve fiscal policy are an absolutely necessary but not adequate condition for the intensification of energy conservation. It is necessary to undertake an entire system of legal, administrative and economic steps encouraging efficient power utilization. Under this system the following steps are imperative:

– To take more active administrative and normative measures, including: the revision of existing norms, rules and regulations determining the expenditure of fuel and power, with a view towards tightening requirements for energy saving; the improvement of rules for recording and controlling power consumption and also setting standards for power consumption and power losses, as well as compulsory certification of power-consuming devices and equipment of mass use to meet norms of power usage (meeting international standards); the conducting of regular energy audits of enterprises.

The role of the government in raising energy efficiency was clearly demonstrated in industrially developed countries during the oil crisis. Systems of state management by sectors of the economy, including the energy sector, and also the level of self-provision of energy resources in member countries of the IEA differ significantly. Nevertheless the structure of state regulation measures directed at raising the efficiency of fuel resources utilization is of a universal nature, since merely possessing a developed market economy is by itself not an adequate condition for reducing GDP power intensity. In almost all countries, among energy conser-

vation measures the first priority is given to ensuring proper recording and control over fuel and energy usage by means of equipping all categories of energy consumers with corresponding devices and systems. It is quite obvious that without the organization of a proper record of energy resources use, there is no way to conduct an energy saving policy. The reduction of the power-intensity of the economy by an average of 32%, as an important factor in decreasing the dependence of these countries on imports of energy resources, should be considered as one of most important results of state influence on the situation in the energy sector of the member countries of the IEA.

- To envisage additional stimuli for energy conservation, transferring it into the efficient area of business: by releasing from the profit tax investments directed at the realization of organizational and technological measures for saving fuel and energy; by accelerating the depreciation of energy-saving equipment; by levying tax penalties when standard indicators of energy efficiency are not met, etc.;
- To arrange broad popularization of the efficient use of energy among the population, through the mass education of personnel; to provide accessible databases containing information on energy-saving measures, technologies and equipment, and technical documentation.

In addition, the implementation of measures for energy conservation, especially in enterprises of the power, chemical and metallurgical complexes and in the construction materials industry, will require large investments. Their source should be first of all enterprises' own funds, for which it is necessary to realize a complex of interrelated measures on strengthening the financial state of these enterprises, including the above-mentioned steps on reducing the tax burden, raising norms of depreciation charges, etc.

However to give this process a more purposeful and consistent nature at the state level it is necessary to resolve the following issue: the establishment of a specialized fund for energy conservation whose purpose will be to fund the highest priority projects in the area of energy conservation, which are able to provide the greatest effect on the economy as a whole. The fund can be created through contributions from enterprises, penalties for use of energy above norms, and 10% of the contributions of enterprises of the energy sector from additional profit generated at each stage of the converging levels of domestic and international prices for energy resources.

Mechanisms of flexibility, including projects for the joint implementation and trade of quotas for greenhouse gas emissions envisaged by the Kyoto Protocol, can become an important additional measure encouraging energy conservation. In order to prevent non-fulfillment of commitments, it is necessary to ensure: the establishment of a system for recording and controlling emissions in the energy sector; the adjustment of greenhouse gas emissions at least once every two years; and the direction of funds generated from assigning emissions rights exclusively to energy efficient projects ensuring the maximum reduction of emissions.

Prospects for fulfilling the international commitments of Uzbekistan in the area of ecology will be considerably determined by the efficiency of the implementation of measures for arranging governmental impact on scientific, technical and ecological policy in the energy sector, which envisages: establishing a legal and economic environment ensuring the aspiration of producers and consumers of fuel resources to raising the efficiency and ecological compatibility of applied and newly developed technologies; and encouraging innovation activity by means of using tariff regulation as a source for the formation of additional investments directed at raising the economic competitiveness of innovative technologies implemented for the use renewable energy sources and raising the efficiency of fuel resources utilization.

The Development of Uzbekistan's Economy in 2005

The high rates of economic growth achieved in 2004, the favorable macroeconomic environment created, and the positive shifts in the development of foreign trade as well as in the development of structural and institutional reforms, may become good stimuli for the development of Uzbekistan's economy in 2005.

The most important priorities for economic reforms in 2005 and in the nearest future were identified in the speech of the President I.A. Karimov at the joint meeting of the Legislative Chamber and the Senate of Oliy Majlis. The following were identified as the most important priorities in the economic sphere:

- deepening economic market reforms and further liberalizing the economy in order to secure a fitting standard of living for the population by limiting the interference of the Government in the economy, creating functional guarantees for free entrepreneurship and forming the necessary market infrastructure;
- securing more rapid development of the private sector, increasing its share in the economy of the country, creating functional and effective mechanisms and tools of legal protection, stimulation and support of private entrepreneurship;
- deepening and widening the scope of activities on developing private businesses and farms by creating additional guarantees, privileges and preferences in the system of taxation and resolution procedures; creating new small enterprises and private shops that work on the orders of large enterprises and marketing structures that serve small businesses;
- deepening reforms in the banking and financial systems through the adoption of measures on the capitalization of banks, the increase of their charter and working capital funds and the attraction of their funds for investments, particularly into the real sector of economy; increasing the confidence of economic entities and the population in banks;
- reforming housing-communal entities, in particular, developing and implementing the Government Target Program on reforming housing-communal entities;
- further improving taxation policy, including the development of a new edition of the Tax Code, which foresees further simplification of legislation, unification of taxes, reduction of the tax burden, improvement and liberalization of the tax administration.

In 2005, it is planned to continue the course of securing macroeconomic and financial stability through tight monetary policy. The implementation of the complex of measures and mechanisms in this sphere will be devoted to maintaining a relatively low level of inflation, within 5-6%, and stabilizing the national currency.

Another important priority for 2005 is further reform of banking and financial institutions (creation of a depositary, restructuring and privatization of banks, increasing their capitalization; improving the quality of loan portfolios, etc.)

Fiscal policy in 2005 will be conducted within the framework of the parameters that were approved by Oliy Majlis of the Republic of Uzbekistan. Budget revenues, without government target funds, will equal UZS 3.1 trill., while expenditures will amount to UZS 3.3 trill. The size of the budget deficit to GDP will equal 1%.

As in previous years, in 2005 the largest portion of budget funds will be spent on the social sphere and the social protection of the population (48.7% of all expenditures). According to the plans for this year, taxes will be reduced (income taxes from 18% to 15%, single social tax from 33% to 29%).

In general, according to projections, a high level of economic growth (GDP) is expected at about 7.0%-8.0%. The formation of a favorable macroeconomic environment will create favorable conditions for development in the real sector and for institutional and structural reforms in the economy.

The implementation of the developed Program on Privatization and Denationalization for 2005-2006 will provide a new impulse in the acceleration of the process of formation of new owners and the development of the private sector. One of the tasks the Government has identified for the near future is to increase the share of small business in GDP up to 45% by 2007.

In the agrarian sector, one of the main tasks in deepening reforms is the reorganization of 1100 unprofitable shirkats in the period of 2005-2007, including 406 in 2005, and the creation of farmer entities on their basis.

According to experts' projections, in 2005 the volume of industrial production will increase by 9%-10%, in comparison to its level in 2004. At the same time, agricultural production will increase by 6%-7%, and investments – by 7%-8%.

The stable growth of demand observed in foreign markets for Uzbek goods allows assumptions to be made in favor of the growth of exports of raw materials, industrial and consumer goods. Based on the expected conjuncture on world markets, it might be expected that in 2005 the volume of exports will grow by about 12%-15%, while imports will grow 10%-12%. In such conditions, the trade balance will remain positive.

Active social policy remains as a continuing priority in the economic reforms of Uzbekistan. 2005 was announced as "the year of health" and a special program was adopted for its realization.

Additionally, a whole package of target social programs is planned for this year, which is devoted to securing social stability and growth in the living standards of the population. The package consists of such programs as: reforming housing-communal entities, addressing social support towards vulnerable groups of the population, training specialists, developing school education, providing drinking water and natural gas to rural inhabitants, developing children's sports, increasing employment among the population and others.

Projected high rates of economic growth will facilitate a gradual increase in wages and income of the population.

Achieving the planned rates of economic development and the resolution of social problems will depend to a large extent on the efficiency of the mechanisms and measures for implementing target tasks and priorities of economic reforms.