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Content

Introduction

The issue of the Uzbekistan Economy for the first quarter of 2005 basically covers all the key components of macroeconomic policy, as well as the trends and specifics of the ongoing macroeconomic, institutional, structural, investment, foreign trade, social and territorial transformations.

The Macroeconomic Situation. In the first quarter of 2005, the growth of the real GDP of the country reached 4.8 percent, as it did in the respective period of 2004. Major growth factors were the development of the base sectors and the increase in investment and exports. Tight monetary policy kept inflation at the level of 2.2 percent (in percent to December of the previous year). The public budget was executed with a surplus of 1.9 percent of GDP. The nominal exchange rate of the national currency Uzbek Soum (UZS) to the US Dollar decreased by 2.08 percent compared to the previous period.

Institutional and Market Reform. Significant steps towards deepening the processes of denationalization and privatization were made on the basis of the new Privatization Program. In the first quarter of this year, 195 production enterprises and social sector facilities were transformed to a non-government form of ownership. Proceeds from the sale of state-owned entities reached UZS 16.6 billion, which is 20.3 percent more than in the first quarter of 2004. The activity of small businesses increased, resulting in the growth of their share in the GDP from 27.8 to 28.2 percent.

Structural and Investment Shifts. Due to the growth of domestic and international demand, the growth rates of industrial output reached 108.3 percent, agricultural output – 106.6 percent and consumer goods output – 116.4 percent. The establishment of favorable macroeconomic conditions facilitated investment processes. Capital investments increased by 4.2 percent.

Foreign Trade Turnover. In the first quarter of 2005, foreign trade turnover increased by 10 percent. Exports reached 57.9 percent of the total foreign trade turnover while imports accounted for the remaining 42.1 percent. Exports increased by 9.7 percent and imports by 10.4 percent. Among the key growth factors were the favorable market prices for raw commodities and the increase in exports of finished products by processing industries. In enterprises with foreign investments, foreign trade turnover grew by 40.6 percent, exports by 25.5 percent and imports by 50.6 percent.

The Welfare of the Population and the Labor Market. Economic growth, the moderate level of inflation and the implementation of the social reform package facilitated an increase in the average per capita income of the population by 13.6 percent. Retail turnover increased by 8.7 percent and fee-based services to the population by 14.2 percent. The number of those employed in the economy increased by 3.6 percent. An increase in the birth rate was registered. About 128.3 thousand new jobs were created through various sources.

The Development of the Regions. During the period under review, all the regions enjoyed growth in Gross Regional Product (GRP). The level of inter-regional differentiation decreased from 6.4 times to 5.1. times for GRP, from 19.7 to 16.7 times for industrial output and from 12.0 times to 10.1 times for fee-based services.

The analytical review includes articles dedicated to the macroeconomic trends in public budget regulation, issues of protection of selected sectors of industry under the conditions of accession to the WTO and an analysis of computation practices of the unified land tax.

The official data for the review were obtained from the State Statistics Committee of Uzbekistan, the Central Bank of Uzbekistan, the Ministry of Finance of Uzbekistan, and the State Property Committee of Uzbekistan. In addition, data from the national and foreign mass media were used, as well as estimates, developments, pilot assessments and graphs by the authors.

Main Economic Events

January

On 7 January 2005 the Resolution of the Cabinet of Ministers of RUz #8 was issued, defining the conditions of activity in Uzbekistan for “VBD Toshkent” LLC – established by the Russian company “Vimm-Bill-Dann” for cooperation with enterprises of the milk industry. According to the Resolution, the enterprise is exempted from income tax for a period of 7 years and from custom payments (except for fees for custom documentation) for imported technological equipment. The enterprise enjoys holidays on all types of local fees and taxes for a period of 5 years. An important part of the resolution is the permission for the enterprise to purchase milk from farms, dekhkan farms and individuals for cash.

On 12 January 2005 the Resolution of the Cabinet of Ministers of RUz #15 “On Measures for the Development of Samarkand Tea-Packing Factory” was issued with the goal of increasing production of tea in the country packed by an enterprise bought by the American company “All Americas International Inc”. The new foreign enterprise was included into the investment program of Uzbekistan for 2005-2006. From the moment of starting production activity, the enterprise is exempted for a period of two years from all types of customs duties (except for fees for custom documentation) for unprocessed tea, equipment, machinery, material and technical resources imported for its own needs under the implementation of this project and also from value added tax when selling packed tea of its own production.

On 5 January in the Press-Center of the Central Election Committee a press conference was held devoted to the results of the election campaign. Results of the almost four months election campaign were summarized. 120 delegates were elected to the Legislative Chamber. Elections of local Kengashes of delegates were held; at meetings of the Kengashes 84 senators – members of the upper chamber of the Parliament – were elected. 16 members of the Senate of Oliy Majlis were appointed by the Decree of the President from among the most authoritative citizens with extensive practical experience and special accomplishments in the areas of science, art, literature, production and other areas of state and public activity.

The Joint Resolution of the Agency for Foreign Economic Relations, the Ministry of Finance and the State Customs Committee, dated 14 January 2005 added Cyprus, Malta and Slovenia to the list of the most favored nations which is related to the expansion of the European Union.

The seminar "Management Systems of Commercial Enterprises" was held on 19th January 2005 in the AFER of Uzbekistan with the participation of experts from the non-profit Japanese Association on Trade with Russia and Eastern Europe (ROTOBO). This event was arranged under the Project on Support of Industrial Development in the Countries of Central Asia. The objective of the project is to provide consulting assistance to carmakers, the electric industry and also enterprises specializing in the production of home appliances.

In the first quarter of 2005 the Resolution of the Cabinet of Ministers of RUz #38 of 27 January 2005 approved the Program on Attracting Investments into the Textile Industry for 2005-2008, envisaging production of highly competitive textile goods with high added value and their export in an amount not lower than 80% of production. The resolution foresees several benefits for enterprises enrolled into the program and the exemption from custom payments (except for fees for custom documentation) on imported technological and subsidiary equipment, spare parts and technological auxiliaries.

A round table with the topic "Issues of Financial and Technical Assistance to the Private Sector and Entrepreneurs Provided by International Donors, and the Search for Opportunities to Enhance the Efficiency of Assistance Programs" was held in the capital’s International Business Center. The Chamber of Commerce and Industry arranged this round table with the assistance of the Information and Analytical Department on Foreign Relations Issues of the Cabinet of Ministers, the Agency on Foreign Economic Relations, the State Property Committee of the Republic, UNDP and the International Financial Corporation.

In the Agency on Foreign Economic Relations, an intergovernmental agreement on financial cooperation between Uzbekistan and the Federal Republic of Germany was signed, under which the Government of Germany will issue a grant amounting Euro 2.5 million to Uzbekistan to implement the project “Fighting Tuberculosis." Since 2000, the FRG has issued 7.5 million Euro for this purpose under the DOTS program to purchase medical and technical equipment and laboratories. In addition, the Government of Germany will issue a soft loan amounting Euro 1.2 million to improve the system of vocational education in the area of information and communication technologies of Uzbekistan.

The electrification of a thirty-kilometer section of the hundred-kilometer Tashkent-Angren railway was completed. The operation of electric trains to Kuchluk station began. In the opinion of experts, the use of electric locomotives compared with diesel locomotives allows for funds to be saved, speed and capacity of trains to be increased; and noise and pollution of the environment to be decreased. “Uzbekiston temir yullari,” the company conducting the electrification of the railways, has planned to introduce electric locomotives on the railroad to Bukhara in the near future.

The seminar “Prospects for the Further Development of Systems of Non-cash Payments through the use of Plastic Cards in Uzbekistan” was held in the Uzbekistan Bank Association. Participating in the seminar were managers and leading experts of commercial banks familiar with the results of implementing systems of non-cash payments based on plastic cards – one of the major directions of reforming the banking sphere. The Single Republican Processing Center within the interbank payment system of the DUET type completed the primary issue of more than 477,000 microprocessor plastic cards. Overall last year, interbank financial transactions in the system of plastic cards of this type exceeded 3.4 billion Soum. The service network expanded to 1900 trade terminals and 170 ATMs placed in trade-services enterprises across the country.

A delegation of the Korean Federation of Small and Medium Business visited Uzbekistan. Under the program of this visit, the seminar “Do Business in Uzbekistan” was held in the International Business Center of the capital. The organizers of the seminar were the Chamber of Commerce and Industry of Uzbekistan, the Agency on Foreign Economic Relations, and the Ministry of Labor and Social Protection of the Population. Today 28 representative offices of Korean companies are accredited in the republic, and 127 enterprises with the participation of Korean capital are operating.

Within the framework of the Decree of Cabinet of Ministers of the Republic of Uzbekistan “On the Program for the Year of Health” from January 26, 2005, the main objectives and directions of the program were to include the following: a) implementation of projects and activities for the protection of mother and child; b) improvement of hygienic education and culture of the population, particularly in rural areas; c) organization of target activities for combating drugs, smoking and the spread of infection diseases, including tuberculosis and HIV/AIDS; d) further improvement of measures for strengthening the health of pensioners and people with disabilities; e) implementation of programs for protecting the environment, adopting ecological norms, providing every residential area with access to drinking water and others.

The joint meeting of the Legislative Chamber and the Senate of the Oliy Majlis (Parliament) of the Republic of Uzbekistan was held. In his speech at the meeting the President of Uzbekistan Islam Karimov summarized the outcomes of the recent elections and highlighted key priorities of the economic reform and transformation of the government and the society.

February

On 1st and 4th February 2005 the management of the State Property Committee held meetings with the representatives of the World Bank for Reconstruction and Development. Specific steps were considered on strengthening the role of the private sector in Uzbekistan Economy, support to entrepreneurship, limiting interference of the government into activity of privatized enterprises.

On 3 February a meeting of an expert group was held in the Ministry of Economy, where the recommendations given in the report of the International Financial Corporation (IFC) "The Business Environment in Uzbekistan as Stated by Representatives of Small and Medium Entrepreneurships on the Results of 2003" were considered in order to work out proposals for their implementation.

On 7 February 2005 in the Oqsaroy residence, a working meeting of the President with newly appointed members of the government was held. The leadership of the country determined the main requirements and principles of the work of the government on implementing the objectives and priorities deriving from the program speech of the President at the joint meeting of the Legislative Chamber and the Senate of Oliy Majlis “Our Main Goal – the Democratization and Renewal of Society, the Reform and Modernization of the Country."

The Chamber of Commerce and Industry of Uzbekistan submitted a package of proposals for supporting small business which proposes to introduce additional tax benefits for small and private business, to reduce the number and simplify permission procedures for carrying out certain types of activity, and to begin the stage-by-stage introduction of a system of small business agents registering in an application base.

A “Financial Services” Exhibition was held in the Intercontinental Hotel. Among the participants were Uzbek banks, consulting, insurance, valuation companies and credit unions. The purpose of the exhibition was to

find an optimal solution for offering loans, facilitating entrepreneurship and using leasing transactions as a new source of investment.

In the Decree of the Cabinet of Ministers of the Republic of Uzbekistan "On Additional Measures for Improving the Activities of Councils of Home-owners" dated February 10, 2005, the main objectives of the Councils of Home-owners (CHO) were identified, including the following: a) provision of coordinated work of the Councils of Home-owners with local authorities for the maintenance of houses and surrounding areas in proper technical and sanitary condition; b) improvement of cooperation of the CHO with operational, technical, emergency, repair and maintenance units on the issues of maintaining the technical condition of the housing fund, the provision of capital and current repair works and the reconstruction of houses; c) assistance in creating a full-scale market infrastructure to serve the needs of the CHO; d) organization of training and re-training of specialists and managers of Councils of Home-owners.

In order not to allow unreasonable increases of tariffs and to improve the responsibilities of consumers with regards to carrying out timely and full payments for communal services, the Cabinet of Ministers of the Republic of Uzbekistan adopted a Decree on February 11, 2005, which stated the following: a) starting July 1, 2005 operational expenses and technical maintenance services are to be provided at the expense of owners of houses and should not be included in the expenses of enterprises that provide cold water, heat and electricity; b) tax privileges will be granted to professional managing companies of the councils of home-owners; c) any units of commercial banks and points for accepting payments should accept payments from the population for provided communal services without any limits; d) councils of home-owners and suppliers of communal services will be prohibited from organizing independent collections of cash from the population for provided housing and communal services, including payments of operational expenses.

In order to satisfy the population's needs for comfortable housing, the accelerated development of housing construction, especially in small towns and in rural areas, and the wide application of the system of privileged long-term mortgage credit for housing construction, the Cabinet of Ministers of the Republic of Uzbekistan adopted a Decree on February 16, 2005 on the establishment of a commercial-stock bank "Hypothec Bank". Loans will be provided against the collateral of houses (buildings, constructions, objects of unfinished construction) to be built along with the land on which they are located. The term for providing mortgage (hypothec) loan is no less than 15 years, with a privileged period of two years, and the interest rate is no more than 5 per cent annually. The required amount of initial down payment is no more than 20%.

On 18 February, a meeting of the Cabinet of Ministers of the Republic of Uzbekistan was held. The results of the country's socio-economic development in 2004 and the priority objectives of the government for the further reform and liberalization of the economy were discussed at a joint meeting of the Legislative Chamber and the Senate of Oliy Majlis.

Tashkent was the venue of the international conference "Medium-term Strategy in Attracting Foreign Investment." Issues of improving the legislative and regulatory basis and environment for attracting foreign investment were addressed there.

March

In order to improve the customs and tariff regulations on import operations, to further regulate the import of some types of goods to the territory of the Republic of Uzbekistan, and to form favorable conditions for expanding domestic competitive production, the Resolution of the President of the Republic of Uzbekistan was issued "On Measures for Regulating Export-Import Operations".

The International Exhibitions "UzBuild 2005" and "MebelExpo Uzbekistan" took place in the Central Pavilion of the UzExpoCenter with participation of more than 60 companies from 14 countries of the world. The exhibitions facilitated technological exchange between domestic and foreign producers.

On 3rd March negotiations were held with the IMF mission headed by the Advisor from the Department of Middle East and Central Asia Mr. John Veikhman-Lynn. Detailed information was presented to the representatives of the Mission on privatized enterprises and investments made into these enterprises and also on steps taken to support small business and private entrepreneurship. The Mission appraised highly the large-scale program of reforming economy put forward by the President of the Republic of Uzbekistan I. Karimov key elements of which are enlarging scope of privatization, considerable improvement of private business activity.

The foreign currency trading floor was opened at the UzRCE for the export sale of all kinds of legally allowed domestic produce for the freely convertible currency, including commodities with high liquidity.

The first representative level meeting in the format “Central Asia + Japan” was held in Tashkent with participation of the representatives from five countries of the Central Asia and Japan. The parties have unanimously expressed the standpoint that the further cooperation shall adhere to the following five areas: political dialogue, inter-regional cooperation, encouragement of business, intellectual dialogue, cultural links and exchange of human resources.

On 14th March the Resolution of the President of the Republic of Uzbekistan “On Program of Denationalization and Privatization of Enterprises for 2005 – 2006” was approved. The resolution is aimed at ensuring advance development of the private sector of economy through radical reduction of government share in the statutory funds of the economic organizations, improvement of their investment attractiveness, securities market development.

The first meeting of the specialized club “Quality Manager” and the first seminar “Criterion of Processes – a Base for Quality Management Processes of Quality Systems on ISO 9001,” arranged by PLC "MS Consult", the International Certifying Body RWTUV (Germany), the training company TUV Academy (Germany) and leading domestic consulting companies, were held in Tashkent on 18th March 2005. The activity of the seminar was aimed at the improvement of management systems and the quality of production of domestic producers, strengthening the competitiveness of domestic producers in domestic and international markets and providing qualified assistance to enterprises in improving management systems.

On the initiative of the Association of Commerce and Trade of the Italian province Rovigo and with the support of the Embassy of Italy in Uzbekistan, a meeting was held at the MDI Tashkent & Towers hotel of managers and members of the Association with the representatives of small and medium business of Uzbekistan. The purpose of the meeting was to establish partner relations with local producers and entrepreneurs, to familiarize them with information on modern technologies of industrial production, and to discuss opportunities for joint business.

In March fifth anniversary of the Uzbek International Exhibition “Food Industry– UzFood 2005” took place, at which about 50 foreign companies participated from Belarus, UK, Germany, Kazakhstan, Moldova, Poland, Russia, Turkey, Ukraine, the Czech Republic and Switzerland – presenting foodstuffs, equipment for the food industry, packaging technologies, equipment and materials.

Seminars under the framework of the Program of Investment into Activities of Communities, CHF International and Counterpart International were held in Tashkent. Specific decisions were identified and agreed upon, aimed at the development of small and private business in the southern regions of Uzbekistan.

In order to intensify in-depth reform in the building materials sector and increase variety to satisfy the domestic market, as well as increasing export capacity, the President of the Republic of Uzbekistan signed a Decree “On the Facilitation of Economic Reform and the Acceleration of Development of the Building Materials Sector” on 23 March 2005. The Chamber of Commerce and Trade of Uzbekistan, with the financial assistance of the Tashkent Center of the OECD, prepared a manual for entrepreneurs “Basics of Entrepreneurial Activity Development” in which new normative and legal documents on supporting small business and private entrepreneurship were presented.

ANALYSIS OF STATISTICS

1. Macroeconomic Policy

1.1. Economic Growth

In the first quarter of 2005 the utilization of measures for maintaining macroeconomic stability and increasing the role of the private sector in the economy facilitated the sustainability of the upward trend in the growth of GDP. Among the key factors which made an impact on further growth of the economy were the continuing upward trend in the external demand for Uzbek exports and the stable operations of the real sector of the economy.

The GDP in nominal terms in the first quarter accounted for UZS 2504.0 billion. The growth of real GDP in the first quarter stabilized at the level of 4.8 percent and was ensured by the dynamic development of the base sectors of the economy (5.3%), the increase in capital investments (4.2%), the growth in exports (9.7%), and to a certain extent due to the trend of the maintenance of internal social stability and the improvement of the foreign economic market situation (Table 1.1.1., Figure 1.1.1).

Table 1.1.1. Key Macroeconomic Indicators in First Quarters of 2004 and 2005 (growth rates in %)

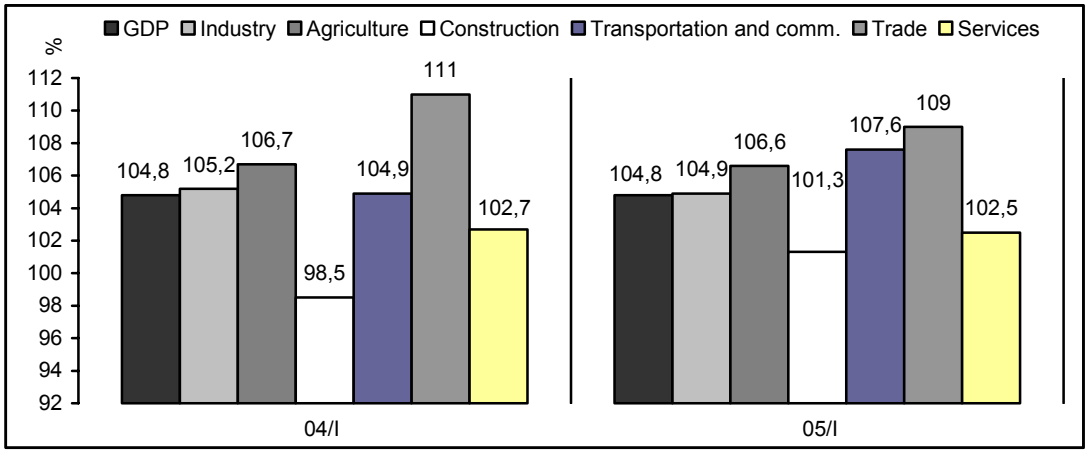
	2004	2005
GDP (produced)	104.8	104.8
Base Sectors Output (Industry, Agriculture, Construction, Transportation and Communications)	104.9	105.3
Industrial Output	108.8	108.3
Exports	131.5	109.7
Capital Investments	99.6	104.2
Inflation (March to December of the previous year)	101.1	102.2
Public Budget Execution (in percent to GDP)	4.0	1.9
Exchange Rate (devaluation in %)	1.0	2.1
Unemployment (end of the period in percent)	0.4	0.4

Source: The State Statistics Committee of Uzbekistan

The growth of GDP was also facilitated by the following: the low level of inflation (2.2%), the implementation of the Public Budget with a surplus (1.9% to GDP) and the moderate devaluation of the national currency (under 2.1%).

Due to the efforts focused on facilitating production of goods and services (the corporate income tax rate was reduced from 18% in 2004 to 15% in the first quarter of 2005, growth of capital investment from 0.4% to 4.2%), the share of real added value in industry has grown by 4.9% compared to the first quarter of 2004, in agriculture by 6.6%, in construction by 1.3% and in services by 5.6% (including transportation and communications by 7.6%, trade and public catering by 9.0% and other sectors, including non-production services by 2.5 percent) (Figure 1.1.1).

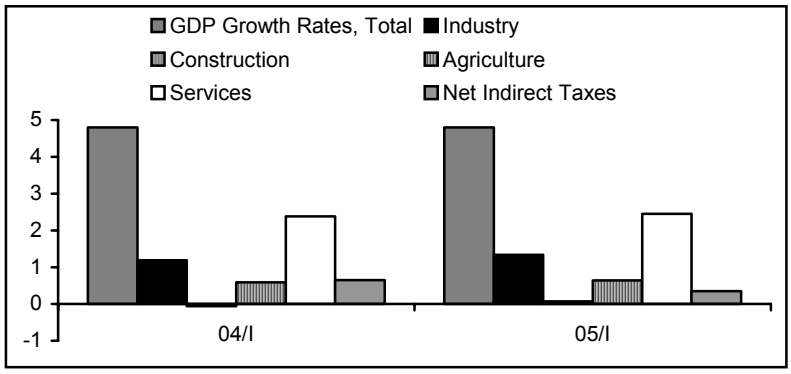
Figure 1.1.1 The Growth of Added Value in Economy Sectors (in %).



Source: the State Statistics Committee

Of 4.8% growth in GDP (the same level as in 2004) industry accounted for 1.13% (1.15%), agriculture for 0.64% (0.74%), construction – 0.06% (-0.07%) and services – 2.48% (2.50%), (including transportation and communications – 0.89% (0.50%), trade and public catering 1.06% (1.38%), other sectors and services – 0.53% (0.63%), and net taxes – 0.53% (0.64%) (Figure 1.1.2.).

Figure 1.1.2. Contribution of Selected Economy Sectors into GDP Growth (% of growth to GDP)



Source: Estimates by the author on the basis of the State Statistics Committee data.

Contribution of industry into GDP growth increased by 0.13 - 0.15 percent due to ongoing modernization and technical reconstruction, while the share of net taxes in GDP decreased by 0.3 percent due to the reduction of the tax burden on the real sector of the economy.

The share of industry **in the production structure of GDP** increased from 22.9 percent to 27.4 percent partially due to the growth of the demand for locally produced competitive goods in major trade partner countries. In addition, the growth of industrial output by 8.3 percent was facilitated by efforts towards the modernization of the technological base of industry, the introduction of advanced management methods and the creation of incentives for the production of finished and localized goods. This growth value was achieved largely due to considerable growth of mechanical engineering products, which accounted for 49.5 percent of the total, followed by the ferrous metallurgy – 27.4%, light industry – 13.1%, the chemical and petrochemical industry – 7.3% and the building materials industry – 4.4%.

The growth of output in the above sectors was to a certain extent facilitated by the increase in the demand for motor vehicles in Russia and other CIS countries, the domestic demand for building materials due to the constant upward trend in the growth of individual housing construction, the launch of facilities for the production of rolled ferrous metals and the increase of capacity utilization in the production of liquefied natural gas and petrol for vehicles.

Table 1.1.3. Growth and GDP Breakdown by Sectors of Economy

Period	GDP		Production Structure of GDP, %				
	In Current Prices of the Respective Year, UZS Billion	To the Respective Period of the 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	14.1	30.0	5.8	38.2	11.9
2002	7450.2	104.0	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
04/I	2029.7	104.8	22.9	9.7	4.9	44.6	17.9
05/I	2504.0	104.8	27.4	9.1	4.9	45.1	13.5

Source: The State Statistics Committee of Uzbekistan

In the structure of GDP use, capital investments increased from 24.5% to 26.5% and changes in inventories from -15.7% to -14.5%, which resulted in an increase of gross savings (from 8.8% to 12.0%) (Table 1.1.4.). This was mainly facilitated by the acceleration of the growth of capital investments (from -0.4% to 4.2%).

Table 1.1.4. Breakdown of the GDP by Use (%)

Period	Total Final Consumption, in %		Gross Savings, in %		Net Exports, in %
	Private	Public	Gross Domestic Capital Investments*	Changes in the Inventories and Other	
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	-0.9	0.6
2003	55.6	17.5	21.0	-0.3	6.2
2004	51.7	17.1	22.1	1.8	7.3
04/I	51.8	24.4	24.5	-15.7	15.0
05/I	50.4	23.3	26.5	-14.5	14.3

Source: The State Statistics Committee of Uzbekistan.
* Including net purchased valuables.

The growth of capital investments is indicative of positive processes in the development of the real sector of the economy due to ongoing favorable market conditions for the output of the

export-oriented companies of Uzbekistan, the growth of real income of the population and the expectations for the growth of domestic demand for industrial goods and services.

The rise in gross savings affected the decrease in the share of expenditures for final consumption from 76.2% to 73.7%, largely due to the decrease in the share of households' spending (from 51.8% to 50.4%) and the decrease in expenditures for public administration (from 24.4% to 23.3%) as a result of transformations and redundancies.

The demand for exported goods in the first quarter of 2005 remained high mainly due to the ongoing favorable situation on international markets, the increasing competitiveness of domestically produced goods, the growth of the economy and consumption in major trade partner countries, which facilitated the growth of output in the export-oriented sectors of industry. The growth of exports by 9.7% (cotton fiber by 1.17 times, non-ferrous and ferrous metals by 1.53 times and services by 9.3%) was ensured by signed agreements for the supply of goods to international markets, the regular operations of export-oriented sectors and the measures implemented for the liberalization of foreign trade. The share of net exports in the GDP accounted for 14.3 percent.

1.2. Fiscal Policy

The issue of the tax burden is extremely acute in transition countries. The scope and depth of economic and social objectives determine the crucial importance of studying the tax burden. The balance between fiscal and incentive functions should match the tactical and strategic priorities and objectives of structural and institutional reforms. In addition to being a classical tool for macroeconomic policy stabilization and social sector development, fiscal policy is one of the key tools for developing market institutions, increasing and concentrating business capital and households' income, as well as for overcoming the asymmetrical development of regions and industrial policy.

The Key Objectives of Fiscal Policy for 2005. The underlying objectives of fiscal policy in 2005 are the following: to ensure conditions for sustainable economic growth and to increase the real income of the population by increasing the efficiency of government participation in the re-distribution of financial resources, through the improvement of the tax system and the optimal utilization of public funds.

In line with the above objectives the key tasks of fiscal policy in 2005 are the following: to relieve the tax burden on the economy, to strengthen the stimulating role of taxes and to reduce and optimize inefficient public expenditures. In addition, a new version of the Tax Code is being developed, envisaging further improvement of tax policy as a priority area in deepening economic reform, strengthening the stimulating and regulatory role of taxes, increasing the integrity and transparency of the tax system and strengthening the discipline of public budget payments.

On 28 December 2004 the Cabinet of Ministers of Uzbekistan passed Resolution 610 "On Parameters of the Public Budget of the Republic of Uzbekistan for 2005", stating major changes in the tax policy for 2005. Specifically, the corporate income (profit) tax rate was decreased to 15% from the 18% in force in 2004. Individual income tax rates were not changed. In addition, in line with Paragraph 2 of the Cabinet of Ministers Resolution 595 dated 21 December 2004 "On Measures for the Implementation of the Law of the Republic of Uzbekistan On Accumulative Provision of Pensions for Nationals" the amount of tax payable to the public budget, computed in line with effective rates, was decreased by the amount of mandatory monthly contributions transferred to the individual accumulative pension accounts of nationals (1% of accrued wages). Fixed rates for the computation of the excise tax on vegetable oils and tobacco products originating in Uzbekistan were introduced. The rate of the unified social tax was reduced from 33% to 31% of the payroll fund. The rate of the unified tax for micro-firms and small businesses applying the simplified system of taxation was decreased from 13% to 12%.

The implemented measures on strengthening the financial discipline of business entities with regard to the timely payment of taxes and other mandatory contributions enabled the revenue section of the public budget in the first quarter of 2005 to be executed in the amount of UZS 724.8 billion, or 103% of the forecast.

Public budget revenues in relation to GDP accounted for 29.1 percent, which was 1.1% less than for the first quarter of 2004 (Table 1.2.1.). The major taxes which form government revenue are VAT, excise tax, corporate income tax and individual income tax. These taxes accounted for 60 percent of government revenue or 17.5% of GDP in the first quarter of 2005.

The decrease of the corporate income tax from 18% to 15% facilitated the increase of business activity as well as the share of net profit of enterprises which they may use for the expansion and development of production, the replenishment of equity and incentive wages. This to a certain extent contributed to the increase

of the taxable base and entailed a rise in the share of direct taxes in GDP (from 7.4% to 8.0%). The introduction of fixed rates of excise taxes, the cancellation of excise taxes on toilet soap, rice, oil and natural gas condensate and the reduction of the excise tax on natural gas (to 19%) resulted in a decrease in the share of indirect taxes in GDP (from 18.3% to 13.9%). The increase in resource taxes (natural gas, gas condensate and oil), as well as the indexation of the effective rates on other natural resources by 1.3 times ensured the rise in revenues from resource taxes and the property tax (from 2.9% to 5.3%).

Table 1.2.1. Public Budget Revenues (% of GDP)

Indicator	2000	2001	2002	2003	2004	04/I	05/I*
Revenues	28.5	26.0	25.2	24.2	23.7	30.2	29.1
Direct Taxes	7.5	7.4	6.8	6.4	6.0	7.4	8.0
Indirect Taxes	16.0	13.5	13.8	14.0	13.8	18.3	13.9
Resource Taxes and Property Tax	2.8	2.4	1.9	2.3	2.6	2.9	5.3
Infrastructure Development Tax	0.3	0.3	0.5	0.4	0.4	0.5	0.6
Other Revenues	1.9	2.4	2.2	1.1	0.9	1.1	1.3

Source: The Ministry of Finance of the Republic of Uzbekistan.
*- Preliminary Data

An analysis of the breakdown of direct taxes reveals that the share of individual income tax decreased from 47.8% to 45.5% largely due to the reduction of the tax on the amount of monthly payments transferable to individual accumulative pension accounts. At the same time, the share of revenues from the unified tax on micro-firms and small businesses increased from 10.6% to 10.9%, partially due to the extension of the taxable base caused by the reduction of the unified tax rate for micro-firms and small businesses applying the simplified system of taxation (from 13% to 12%) (Table 1.2.2.). This finding is supported by the outcome of the econometric analysis of the impact of this tax on the growth of small business income which determined that the reduction of this tax rate by 1% would result in an 11.3% increase in their income (inflation adjusted).[1]

Table 1.2.2. Direct Taxes (% of total)

Indicator	2000	2001	2002	2003	2004	04/I	05/I*
Direct Taxes	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Corporate Income (Profit) Tax	49.4	39.7	34.4	34.1	29.9	28.0	30.7
Gross Income Tax on Trade and Public Catering Enterprises	-	-	-	-	8.5	8.6	8.3
Unified Tax on Micro-firms and Small Businesses Applying the Simplified System of Taxation	-	7.8	13.1	14.1	10.2	10.6	10.9
Individual Income Tax	44.5	44.9	45.6	46.7	46.2	47.8	45.5
Fixed Tax on Individual Entrepreneurs	6.1	7.6	6.9	5.1	5.2	5.0	4.6

Source: The Ministry of Finance of the Republic of Uzbekistan.
*- Preliminary Data

An analysis of the composition of indirect taxes demonstrates that during the reviewed period the share of VAT increased from 37.4% to 50.6% as a result of a decrease in excise tax from 53.7% to 38.2%, while the share of revenues generated by the tax on individuals for consumption of gasoline, diesel fuel and natural gas for vehicles increased from 2.6% to 4.0%. The share of customs duties also increased from 3.5% to 4.8% due to the growth in imports (Table 1.2.3.).

Table 1.2.3. Indirect Taxes (% of total)

Indicator	2000	2001	2002	2003	2004	04/I	05/I*
Indirect Taxes	100.0	100.0	100.0	100.0	100.0	100.0	100.0
VAT	47.3	48.8	43.9	39.6	39.1	37.4	50.6
Excise Tax	48.4	46.3	48.3	51.3	52.3	53.7	38.2
Customs Duties	2.0	2.7	2.9	3.0	3.3	3.5	4.8
Unified Customs Payment on Individuals	2.3	2.2	2.4	3.3	2.3	2.8	2.4
Tax on Individuals for Consumption of Gasoline, Diesel Fuel and Natural Gas for Vehicles	-	-	2.5	2.8	3.0	2.6	4.0

Source: The Ministry of Finance of the Republic of Uzbekistan.
*- Preliminary Data

Public budget expenditures in relation to GDP increased from 26.2% to 27.2%, i.e. by 1% (Table 1.2.4.) largely due to the increase in expenditures on social sector development (from 9.2% to 11.5%). Implemented measures for curtailing government intervention in the economy resulted in a decrease in expenditures on the economy (from 3.4% to 3.1%) and centralized investments (from 4.0% to 3.7%).

1 Dr. Sergey Chepel. Macroeconomic Trends in Light of Government Budget Regulations and their Implications for the Economy in General: An Econometric Approach, see analytical section of the Review.

Table 1.2.4. Public Budget Expenditures (% to GDP)

Indicator	2000	2001	2002	2003	2004	04/I	05/I*
Expenditures	29.5	27.0	25.8	24.6	24.6	26.2	27.2
Social Sector	10.4	10.2	9.8	9.3	9.3	9.2	11.5
Social Welfare	2.3	2.1	2.0	2.1	1.8	2.2	2.0
Economy	3.0	2.3	2.3	3.0	3.1	3.4	3.1
Centralized Investments	6.0	5.0	4.7	3.3	2.7	4.0	3.7
Government Administration and the Judicial System	0.6	0.6	0.5	0.5	0.5	0.5	0.8
Other	7.2	6.8	6.5	6.4	5.6	6.9	6.1

Source: The Ministry of Finance of the Republic of Uzbekistan.
*- Preliminary Data

The public budget for 2004 was executed with a surplus of 1.9% to GDP (Table 1.2.5.).

Table 1.2.5. The Execution of the Public Budget (percent to the GDP)

Indicator	2000	2001	2002	2003	2004	04/I	05/I
Deficit (-).	-1.0	-1.0	-0.8	-0.4	-0.4	4.0	1.9
Surplus (+).							

Source: The Ministry of Finance of the Republic of Uzbekistan.

In the second quarter of 2005 the implementation of measures for reducing the tax burden and optimizing government expenditures will be continued.

1.3. Monetary Policy

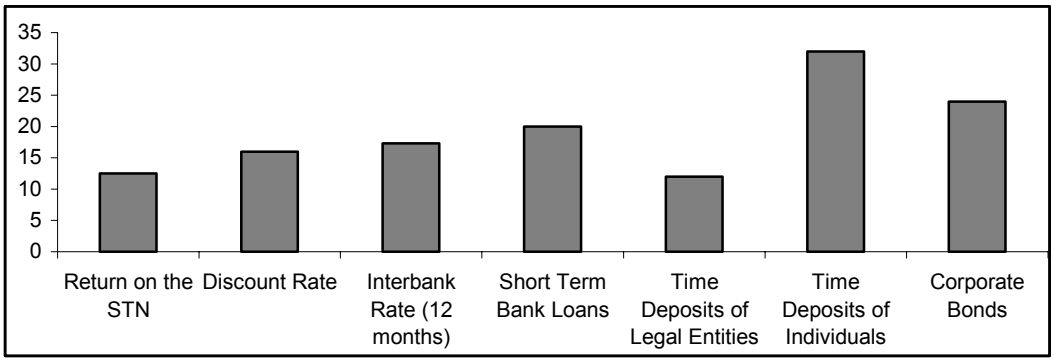
The Monetary Policy of the Central Bank of Uzbekistan (CBU). A financial market capable of effectively distributing monetary resources among businesses, sectors of the economy, the government and households is a crucial precondition for the long-term growth of the economy. At the present stage of economic development, the monetary policy of the CBU and the overall economic policy of the Government are aimed at the continuing liberalization of the national economy, specifically the financial markets and the banking sector[2]. The discount rate[3] is one of the instruments of the monetary policy pursued by the CBU, whose regulation of the demand for money aims, on the one hand, to achieve monetary policy objectives[4] while at the same time immediately affecting the other interest rates of the financial market. The monetary policy of the CBU adheres to its key priorities established in 2004 and is mainly focused on ensuring the stability of the national currency, maintaining inflation at a low level and decreasing interest rates on the money market, as well as creating favorable conditions for economic growth by fully satisfying the economy's need for cash[5].

At present, the structure of interest rates on the financial markets of the country is rather segmented. Every money market is characterized by its own interest rate (Figure 1.3.1.). The range of the rate of return of different interest rates varies considerably, and such specifics of the national market are explained by the following factors: risk, time, amount of a loan, taxation, and privileges and limitations for competition on the market.

The Discount Rate. In the first quarter of 2005 the CBU did not change its discount rate and maintained it at a level of 16% annually. The last time the CBU changed the discount rate was in December 2004, decreasing it from 18% to 16%. The discount rate of the CBU in the first quarter of 2005 was 4% lower than in the first quarter of 2004. As a result of the reduction of the discount rate by the CBU was the reduction of the interest rates on the the time deposits of legal entities and individuals by the commercial banks (Table 1.3.1.).

2 The CBU pursued a monetary policy in line with "The Key Areas of Monetary Policy", Resolution by the Cabinet of Ministers dated 4 February 2003 "On Measures for Improving the Mechanism for the Regulation of Monetary Indicators" and Resolution dated 15 December 2003 "On Major Parameters of Macroeconomic Indicators for 2004 and Measures for Strengthening Control over their Implementation."
3 In line with the Presidential Decree, dated March 21, 2000, "On Measures for the further Liberalization and Reform of the Banking System" the nominal discount rate of the CBU is subject to monthly revision taking into account actual and forecasted inflation, and the demand and supply on the money market. The updated discount rate is announced through the mass media.
4 The mission of the monetary policy of the CBU is the achievement of a stable level of prices in the economy (Article 3, of the law "On the Central Bank of the Republic of Uzbekistan").
5 For more detail please see "Bankovskiye Vedomosti", issue 15, dated April 6, 2005.

Figure 1.3.1. The Structure of Interest Rates on the Money Market, March 2005



Source: Return on the GKO: Bankovskiye Vedomosti, issue 14, March 30, 2005;
Corporate bonds: Bankovskiya Vedomosti, issue 5, January 26, 2005;
Discount rate, short term bank loans, fixed-term deposits of legal entities, fixed-term deposits of individuals: CBU;
Interbank rate: www.uzibor.uz

Table 1.3.1. Changes in Interest Rates (%)

Period	Annual Discount Rate	Average-weighted Interest Rate on Short Term Loans Granted in UZS	Average-weighted Interest Rate on Fixed-term Deposits in UZS of Legal Entities	Average-weighted Interest Rate on Fixed-term Deposits in UZS of Individuals
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
04/I	20.0	19.8	13.0	33.9
05/I	16.0	21.0*	11.0*	31.0*

Source: The CBU.
*Estimates by the author

Obligatory Reserve Requirements. In order to increase the efficiency of monetary policy instruments and facilitate lending activity, the Central Bank of Uzbekistan has decreased the requirements for obligatory reserves deposited by commercial banks in the Central Bank from 20% to 15% of total deposited liabilities in national currency. In addition, new requirements were effected for obligatory reserves of 5% of deposited obligations in foreign currency.

The change in the obligatory reserve requirements allows the Central Bank to regulate monetary aggregates, and the demand for money as well as the interest rate. This leads first to changes in the money base amount, and second, affects the money multiplier and therefore the ability of commercial banks to generate new cash by lending. However, on the other hand, obligatory reserves represent non-liquid and cost assets for commercial banks.

During the last ten years, there has been a significant decrease of the obligatory reserve requirements for deposits in national currency (Table 1.3.2.). This decrease facilitates the increase of the money multiplier and thus the increase of the money supply in the economy.

Table 1.3.2. Changes in the Obligatory Reserve Requirements of the CBU

Period	On-demand Deposits and Fixed-term Deposits up to 3 Years	Fixed-term Deposits over 3 Years	Deposits in Foreign Currency	Deposits by Individuals
Before 01.06.1996	30 percent	10 percent	0 percent	0 percent
from 01.06.1996	25 percent	10 percent	0 percent	0 percent
from 01.12.1997	20 percent	10 percent	0 percent	0 percent
from 01.03.2000	20 percent	20 percent	0 percent	0 percent
from 04.07.2004	20 percent	20 percent	0 percent	0 percent
from 01.02.2005	15 percent	15 percent	5 percent	0 percent

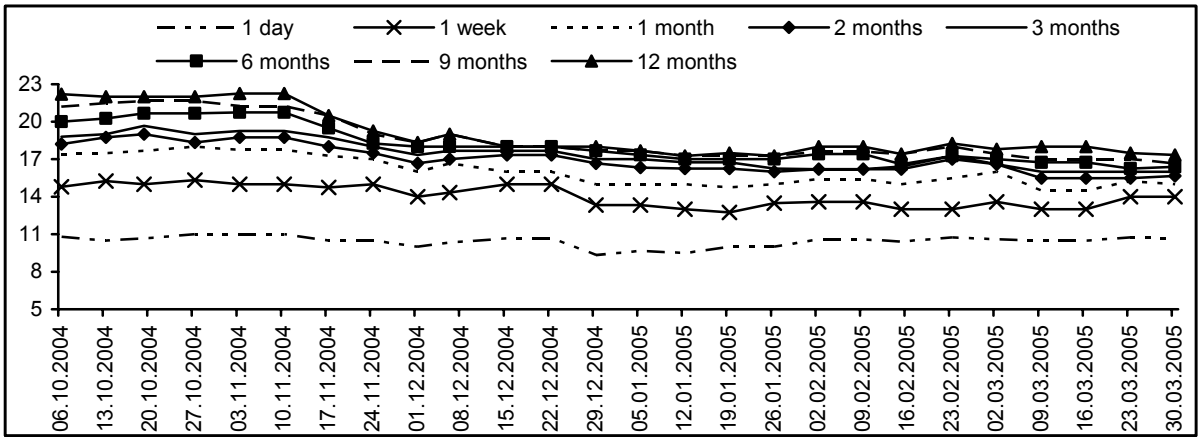
Source: the CBU.

As a result of the decrease in the obligatory reserve requirements for deposits in national currency, an increase in the efficiency and profitability of commercial banks can be anticipated, due to the possibilities for the additional use of attracted resources in their asset transactions, which will facilitate the development of the real sector of the economy.

The introduction of obligatory reserve requirements for deposits in foreign currency illustrates on the one hand the growth in savings of financial market participants in foreign currency, and on the other hand the decrease in the money supply of foreign currency in the economy due to the convertibility of current accounts transactions implemented in 2003.

Interbank Interest Rates. In 2004, a system of rates for interbank cash assets - UZIBOR[6] was introduced. Until then the interest rates on the interbank market of Uzbekistan were not market-adjusted. The present system offers a more transparent environment, allowing more profitable placement of commercial banks' assets, and increasing liquidity and turnover of the short-term cash instruments market[7]. Figure 1.3.3. demonstrates the dynamics of the interest rates of the interbank market for short-term loans (1 day, 1 week, 1 month, 2 months, 3 months, 6 months, 9 months and 12 months) for the fourth quarter of 2004 and the first quarter of 2005.

Figure 1.3.3. Interest Rates on the Interbank Loans Market (October 2004 – March 2005).



Source: estimates by the author based on data from the Birzhevoy Vestnik Vostoka Newspaper.

As seen from the Table, during the six months of the reviewed period, a decrease in interest rates was observed due to the general dynamics of the decrease in all interest rates (including the discount rate of the CBU) on the money market on the one hand, and to macroeconomic factors – such as the maintenance of a low level of inflation in the economy – on the other hand.

The Development of the Banking System. The beginning of 2005 was characterized by the active processes of banking system reform. On the one hand, there was the consolidation of banking capital through mergers and acquisitions, and on the other hand, there was a horizontal increase of the range of banking services through the growth of mini-banks and the development of credit unions and microfinancing organizations offering banking services.

The consolidation of bank capital was observed on the one hand through the merger of Aviabank with CapitalBank[8] and UzJilSberBank with Zamin Bank; and on the other hand through the acquisition of Business Bank by the banking system due to the cancellation of its license for banking operations[9] by the CBU. In order to fully satisfy the demand of the population for modern housing, the accelerated development of the construction of housing in rural areas and small towns, and the widespread introduction of long-term mortgage lending on preferential terms, the shareholders of UzJilSberBank and ZaminBank have made a decision to merge and create a joint stock commercial mortgage lending bank – the Ipoteka-Bank[10] – on their basis. Thus, as of 1 April 2005, the banking system was composed of 29 banks, which was four banks less than in the respective period of the previous year.

6 This system was developed and introduced by the Banklararo Maslahat Xizmati, LLC, under the Association of Banks of Uzbekistan. Since May 2004 all banks and market makers have provided data on their interest rates and since October 2004 they have been regularly published in the mass media (Birzhevoy Vestnik Vostoka). In addition, data on interbank market interest rates are daily posted at www.uzibor.uz. At present seven banks participate, including: NBU, Asaka Bank, Narodny Bank, CapitalBank, Ipak Yuli Bank, Ravnak-Bank and PakhtaBank (Bankovskiye Vedomosti, issue 15, April 2005).

7 Bankovskiye Vedomosti, issue 15, April 2005.

8 In line with Article 17 of the law "On the Central Bank of Uzbekistan" and on the basis of the decision by a joint meeting of AviaBank and CapitalBank shareholders, Aviabank was merged with CapitalBank. All the rights and obligations of AviaBank were transferred to CapitalBank (Bankovskiye Vedomosti, issue 7, 09 February 2005).

9 On the grounds of the violation of regulatory requirements by Business Bank, the Central Bank cancelled the license of Business Bank for the right to perform banking transactions (Bankovskiye Vedomosti, issue 12, 16 March 2005

10 In accordance with the Resolution by the President of the Republic of Uzbekistan "On Further Development of the Construction of Housing and the Housing Market" dated 16 February 2005 the bank's major objectives are the following: introduction of a system of long term mortgage lending on preferential terms and offering loans for individuals and developers engaged in the construction of housing.

There are 20 credit unions in the country. The development of this segment of banking services is facilitating the improvement of the financial market and the access to credit resources, as well as the increase of competition in offering credit resources.

At present the number of mini-banks is growing. The development of the mini-bank network allows additional benefits to be offered to customers and ensures the strengthening of competition among banks. As of 1 April 2005 the number of mini-banks had reached 1383, which is 420 mini-banks more than in the respective period of the previous year (963 units). According to UN experts the share of the population not covered by banking services in developing and transition countries reaches 80% (compared to 5-6% in the USA)[11]. In Uzbekistan the potential demand for financial services is considerably increasing the existing supply of banking services. Therefore we may expect further growth of the mini-bank network.

The Capitalization of Banks. The growth of the aggregate capital of commercial banks was 3.24%. While the aggregate capital of banks by 1 April 2004 amounted to UZS 819.7 billion, by 1 April 2005 it had reached UZS 846.3 billion. The aggregate growth of bank capital was achieved by additional issues of shares by a number of commercial banks. For instance, Tadbirkor Bank made a decision to increase its authorized capital from UZS 3 billion to UZS 4 billion[12]. RavnakBank and TuronBank announced the increase of their authorized capital by UZS 650 million[13] and UZS 600 million respectively[14]. As a result of the merger of CapitalBank and Aviabank, the shareholders decided to additionally increase the authorized capital from UZS 2.8 billion to UZS 3 billion[15].

Asset Transactions of Commercial Banks. The aggregate assets of commercial banks have grown from UZS 4 trillion, 438 billion to UZS 5 trillion, 87 billion or by 14 percent over the first quarter of 2004. Credit transactions have become one of the major sources of the increase, as well as the rapid growth of transactions with securities.

Credit Transactions. In the first quarter of 2005, banks were focused on the support and development of small businesses and farmers. The targeted credit resources offered by the banks increased from UZS 92.5 billion to UZS 98.4 billion or by 6.37% over the first quarter of 2004, with long term loans accounting for 72% of the total.

Transactions with Securities. In the first quarter of 2005 total transactions with shares in the national currency accounted for UZS 8439.5 million and 11 million shares. The value of transactions in the first quarter of 2005 grew by 17% over the respective period of the previous year. The weight of shares in the total turnover of the banks accounted for 6.0 percent or UZS 178.1 million. The largest transaction with bank shares was registered with shares of GallaBank and totalled UZS 79.4 million. The value of the shares of GallaBank was the highest, reaching UZS 98.1 million and accounting for 55.1% of the total.

In the first quarter of 2005 the major issuer of bank shares was PakhtaBank. Its weight in the total issue by banks accounted for 15.8%. It was followed by UzPromStroyBank – 12.9%, UzJilSberBank – 10.0%, KhamkorBank – 7.6%, Asaka Bank – 6.9% and GallaBank – 6.3%. Out of the total amount of placed bank shares, 94.1% are common shares, and 5.9% are priviledged shares. Individuals own 23.7% of all the placed shares of banks while legal entities own 76.3%.

In the first quarter of 2005 commercial banks undertook 3 corporate bonds issues in the total amount of UZS 1.08 billion. In addition three commercial banks – NBU, UzDaewoo Bank and Uktam Bank – undertook one issue of certificated deposit each for a total amount exceeding UZS 23 billion.

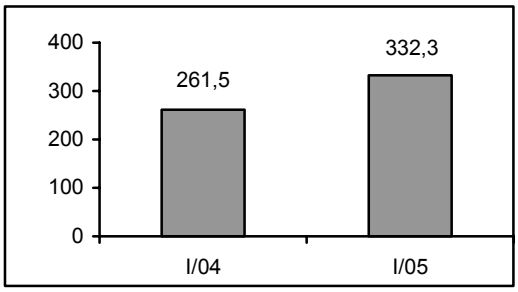
Transactions with Liabilities of Commercial Banks. The growth of cash deposits of the population in commercial banks is continuing. While on 1 April 2004 the cash balances of the deposits of the population accounted for UZS 261.5 billion, by 1 April 2005 they had reached UZS 332.3 billion, an increase of 27% (Figure 1.3.4.). This growth was ensured by the increase in income of the population and the high interest rates on fixed-term deposits for individuals in the national currency.

11 Economicheskoye Obozreniye, issue 11, 2004.
12 In 2004 the authorized capital of Tadbirkor Bank totalled UZS 3 billion. In order to reach the compulsory capital sufficiency level of UZS 4 billion it was decided to float additional shares worth UZS 1 billion (Bankovskiye Vedomosti, issue 11, 09 March 2005).
13 RavnakBank at the General Meeting of its shareholders announced the increase of its authorized capital by the issue of 650 thousand additional shares (par value of one share is UZS 1000). Bankovskiye Vedomosti, issue 1, 05 January 2005.
14 TuronBank at the General Meeting of its shareholders announced the increase of its authorized capital by the issue of 600 thousand additional shares (par value of one share is UZS 1000). Bankovskiye Vedomosti, issue 12, 16. March 2005.
15 Shareholders of CapitalBank and Aviabank decided on the merger. In addition it was decided that after the merger CapitalBank will be transformed from a private to a joint stock bank. The aggregate equity reached UZS 2.8 billion (CapitalBank - USZ 1.1. bilion and Aviabank UZS 1.7 billion). In order to increase the authorized capital to UZS 3 billion, an issue worth UZS 200 million will be announced. Bankovskiye Vedomosti, issue 1, 05 January 2005.

The banking system represented by Narodny Bank was empowered to attract additional resources through the mechanism of a cumulative pension system[16]. At present in 200 branches and 7 mini-banks of Narodny Bank there are units equipped with the appropriate software engaged in processing the data on the cumulative pension system (NPS). As of today, about 4 million individual cumulative pension accounts have been opened. Funds of the NPS can be invested in government securities, corporate stock, deposits of commercial banks, interbank loans, real estate, loans to business entities and other assets.

Asset-liability Transactions by Commercial Banks. The new system of wire transfers Travelex has been launched in Uzbekistan. At present two outlets have been opened at branches of Narodny Bank. At the first stage it is envisaged to open outlets in 11 regional branches of Narodny Bank and three Tashkent branches of TrustBank. Currently the Travelex system is successfully operating in more than 80 countries, including the US, Canada, most of the EU countries, South Africa, Australia, New Zealand, Russia and the other CIS countries.

Figure 1.3.4. Cash Deposits of the Population in Banks (UZS billion)

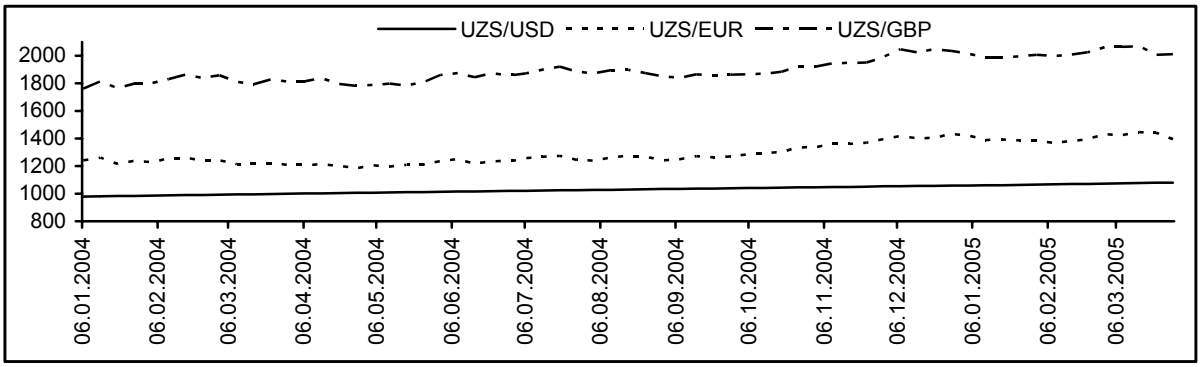


Source: the CBU

1.4. Foreign Exchange Policy

The foreign exchange policy of the CBU in the first quarter of 2005 was aimed at the intensification of the participation of authorized banks in foreign trade and the maximal attraction of foreign exchange by them in order to perform transactions on the OTC foreign exchange market. The measures undertaken by the CBU for ensuring a sustainable exchange rate and the support of international reserves at a level sufficient for the implementation of monetary and foreign exchange policy facilitated the stability of the national currency exchange rate. The CBU continued the consistent reduction of the national currency exchange rate (Figure 1.4.1.).

Figure 1.4.1. Nominal Exchange Rate of the UZS to the USD, the UZS to the EUR, the UZS to the GBP



Source: the CBU.

The nominal exchange rate of the UZS to the USD in the first quarter of 2005 decreased by 2.08 percent compared to the previous period. The exchange rate of foreign cash decreased by 2.0 percent (Table 1.4.1.).

Table 1.4.1. Exchange Rate of the UZS to the USD (average indicators during 2000-2004)

Period	CBU Exchange Rate (UZS/USD)	Changes to the Previous Period (in percent)	Exchange Rate of Foreign Currency in Cash (UZS/USD)	Changes to the Previous Period (in %)
2000	236.6	89.9	450.1	183.5
2001	422.9	78.8	829.0	84.2
2002	770.8	82.3	1093.8	31.9
2003	979.39	26.0	995.1	-9.0
2004	1058.0	8.026	1062.5	6.8
04/I	989.1	1.0	993.8	1.0
05/I	1080.0	2.08	1083.5	2.0

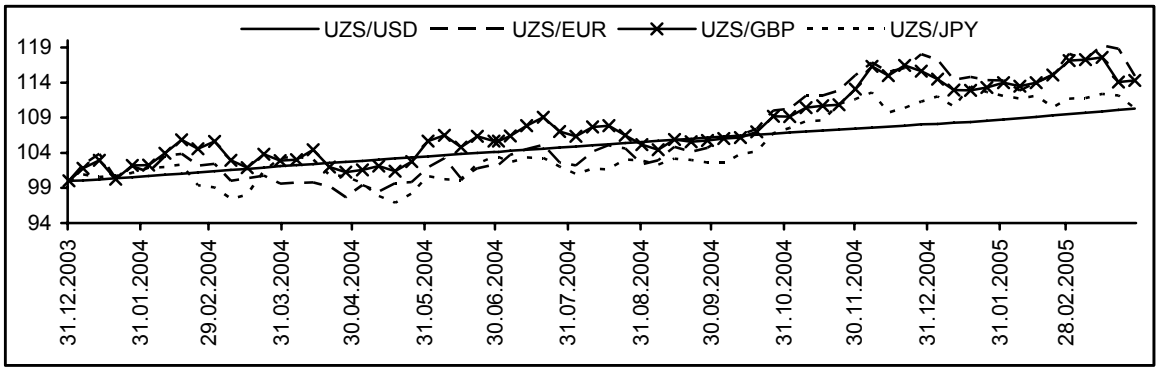
Source: The CBU.

16 The Cabinet of Ministers Resolution "On Measures for the Implementation of the Law of the Republic of Uzbekistan On a Cumulative Pension Support for Nationals" dated 21 December 2004. (Bankovskiye Vedomosti, issue 14, 30 March 2005).

In the first quarter of 2005 the exchange rate of the national currency to the USD was devalued by equal rates, while the dynamics of the national currency exchange rate to other reserve currencies was characterized by high volatility (Figures 1.4.1 and 1.4.2.). This is explained by the fact that the CBU regulates the exchange rate taking into account seasonal fluctuations with regard to the USD and maintaining a sufficient amount of gold reserves. The volatility of the exchange rate to the Euro, British Pound and Yen is related to the world financial market situation. For instance, in the first quarter of 2005 the exchage rate of the USD to EUR strengthened considerably[17]. The strengthening of the US dollar was caused mainly by economic factors, including the regular increase of the rate on federal funds by the Federal Reserve System. This rate was 2.75% by the end of the first quarter. The reason for the increase of this rate was increased inflation expectations. Although the foreign trade deficit of the USA still remains at the highest recorded levels (in January it accounted for USD 58.3 bill.), the total net acquisitions of US assets by foreign investors during this period increased (in January it totaled USD 91.5 bill.), which considerably covered the foreign trade deficit[18]. An overall decrease of business activity was registered in the European Monetary Union countries[19].

The stable decreasing trend in the national currency exchange rate could be explained by the impact of the following factors: the inflation expectations and changes in monetary aggregates, the condition of the foreign trade balance and the inflow of foreign capital.

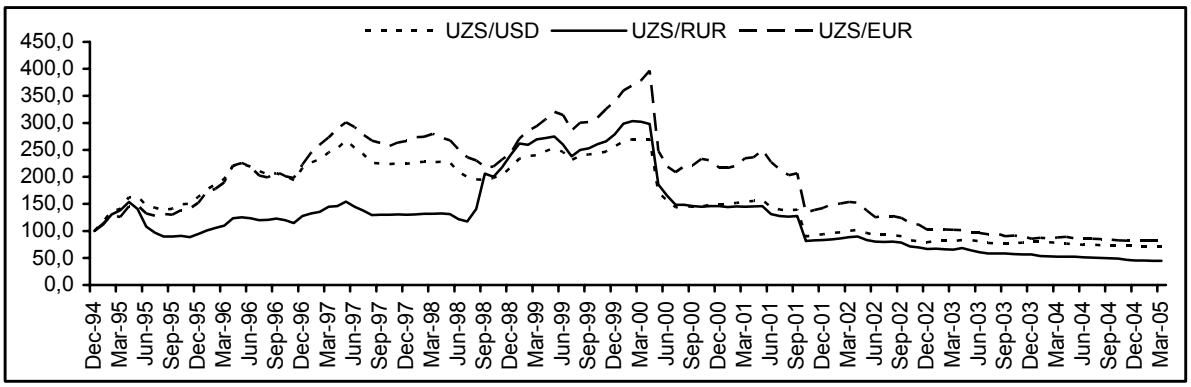
Figure 1.4.2. Index of the Nominal Exchange Rate of the UZS to the USD, UZS/EUR, UZS/GBP and UZS/JPY.



Source: the CBU, estimates by the author.

Real Exchange Rates. According to the results of the first quarter of 2005 there was a decrease in the real exchange rate of the national currency. The exchange rate to the USD decreased by 7.6%, to the Euro by 7.2% and to the Russian Ruble by 15.3% as opposed to the respective indicators for the previous year (Figure 1.4.3.). This is explained by the relatively moderate devaluation of the nominal exchange rate of the UZS and the more rapid decrease of the consumer price index. The gradual decrease of the real exchange rate of the national currency to the currencies of the major trade partners of Uzbekistan is facilitating price competition of local products on international markets.

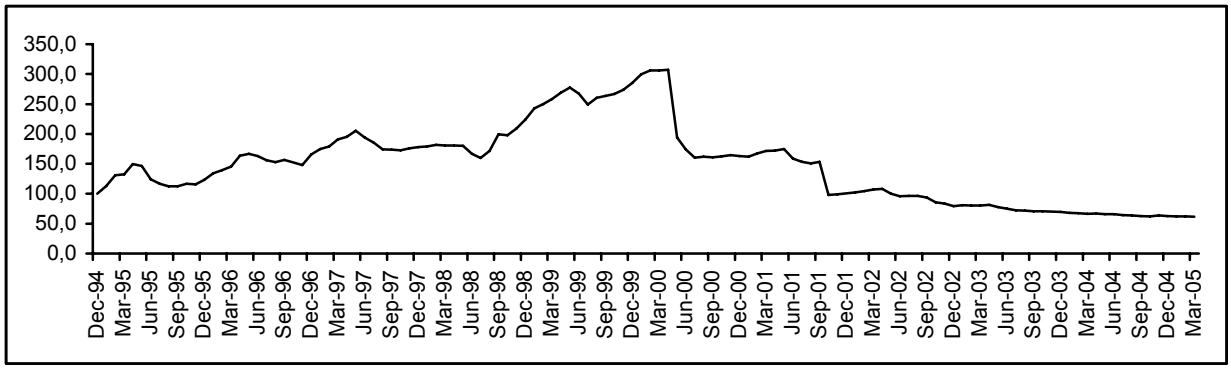
Figure 1.4.3. The Real Exchange Rate of the UZS to the USD, UZS/EUR and UZS/RUR (December 1994=100)



Source: International Financial Statistics (IFS), IMF; the CBU, estimates by the author.

17 The maximum value of the EUR/USD exchange rate by the end of December 2004 reached 1.3668, while the minimum – 1.2729.
18 The Expert, issue 11 (458), March 21-27, 2005.
19 There was a decrease in the business index (IFO) in Germany, a fall in consumer expenditures in France, a decrease in industrial orders and a foreign trade balance deficit in the Eurozone, as well as significant outflow of direct and portfolio investments (see The Expert, issue 12 (459), 28 March - 3 April 2005 for more details).

Figure 1.4.4. The Real Effective Exchange Rate of the UZS (December 1994 =100)



Source: International Financial Statistics (IFS), IMF; the CBU, estimates by the author.

1.5. Prices and Inflation

According to the results of research by the World Bank and the international practice of economic development, positive growth rates are achieved only at an annual inflation level under 40 percent. In order to reach maximum economic growth rates (above 5% a year) it is necessary to decrease inflation rates by 7% a year on average. Therefore high inflation prevents economic growth. At annual average inflation rates above 40%, economic growth ceases, as a rule.

In Uzbekistan, during the first quarter of 2005, GDP increased by 4.8% as opposed to the respective period of the previous year, while the inflation level according to the consumer price index (CPI) increased by 4.2% during the respective period. This is fully in accordance with the World Bank's conclusion about the interrelation of economic growth and inflation (Table 1.5.1).

Table 1.5.1. Key Inflation Indicators for Uzbekistan during 2000-2005 (growth of prices in % to the respective period of the previous year)

Years	Consumer Price Index (consolidated)	Foodstuffs	Other Goods	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
04/I	0.7	-6.4	7.2	26.6
05/I	4.2	0.5	4.5	19.2

Source: The State Statistics Committee of Uzbekistan

As a result of the tight monetary policy of the CBU, the total growth of prices in the consumer sector increased 2.2 percent in the first quarter of 2005 (in percent to December of last year). The overall inflation level among other factors was affected by the growth of prices for foodstuffs (from 0.0 percent to 2.9 percent), specifically for fruit and vegetables due to the relatively cold winter, and the decrease in prices for non-foodstuffs (from 2.0 percent to 0.8 percent) and services (from 4.6 percent to 1.5 percent) (Table 1.5.2, and Figure 1.5.1.).

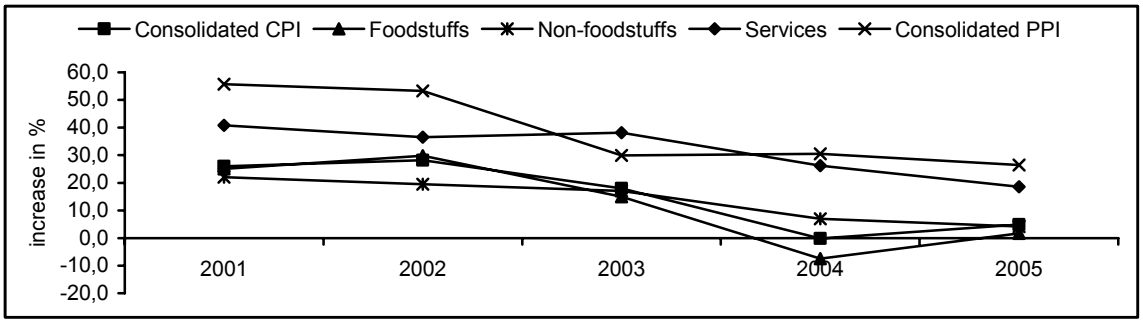
Table 1.5.2. Inflation Level during the 1 Quarter of 2004, 2005 (growth of prices in %)

	Average Monthly Level		To December of the Previous Year	
	2004	2005	2004	2005
Consumer Price Index	0.4	0.7	1.1	2.2
Foodstuffs	0.0	1.0	0.0	2.9
Non-foodstuffs	0.7	0.3	2.0	0.8
Services	1.5	0.5	4.6	1.5

Source: The State Statistics Committee.

During the first quarter of 2005 the increase in prices (tariffs) by the consumer price index ranged from 0.77 percent (in Andijan Region) to 3.43 percent (in Tashkent City).

Figure 1.5.1. The Inflation Level Dynamics during 2001-2005 (increase of prices in March of the current year to the respective month of the previous year, in%)



Source: The State Statistics Committee.

Such fluctuation was caused mainly by two factors accounting for a rather significant weight in the consumer basket: the growth of prices for fruit and vegetables (weight – 8.5%) and the growth of tariffs for utility services (weight – 6.4%). In Tashkent during the period under review, prices for fruit and vegetables increased by 34.1% and tariffs for utility services by 5.5%, while in Andijan the respective indicators were 6.1% and 1.0%.

Table 1.5.3. Inflation in Uzbekistan during the first quarter of 2005 by Region (%)

Region	Price Increase	Average Monthly
The Republic of Uzbekistan	2.23	0.74
Andijan	0.77	0.26
Namangan	1.21	0.40
Fergana	1.56	0.52
Kashkadarya	1.86	0.62
Samarkand	1.94	0.64
Surkhandarya	1.98	0.66
Tashkent	2.03	0.67
Bukhara	2.09	0.69
The Republic of Karakalpakstan	2.17	0.72
Navoi	2.41	0.80
Sirdarya	2.44	0.81
Jizzakh	2.69	0.89
Khorezm	2.75	0.91
Tashkent City	3.43	1.13

Source: The State Statistics Committee.

An analysis of the impact of the growth of prices and tariffs on the overall inflation level indicates that in the first quarter of 2005 as opposed to the first quarter of 2004 the impact of the growth of tariffs for fee-based services decreased from 62% to 10.4% and of non-foodstuffs from 40.4% to 7.8%. The most significant impact on inflation was caused by the growth of prices for foodstuffs: from -2.4% to 81% (Table 1.5.4.).

Factor analysis of the inflation processes in the economy of the Republic of Uzbekistan during the first quarter of 2005 indicated that the largest impact on the inflation level was caused by the growth of expenditures (70.8%), the money supply (19.6%) and inflation expectations (7.8%).

Table 1.5.4. Factor Analysis of Inflation in the Consumer Sector during the first quarter of 2004-2005. (excluding fruit and vegetables)

	2004	2005
CPI	100.0	100.0
Foodstuffs	-2.4	81.8
Non-foodstuffs	40.4	7.8
Services	62.0	10.4

Source: the Ministry of Economy of Uzbekistan

In the first quarter of 2005, inflation of supply tended to surpass inflation of demand: wholesale prices for industrial goods increased by 2.2% a month on average, while consumer prices rose by 0.7%.

Factor analysis of the sources of growth of producer prices for industrial goods indicated that the increase in prices for power resources (73.5%), followed by the devaluation of the OTC exchange rate (6.0%) had the most significant impact on inflation in the real sector in the first quarter of 2005 (Table 1.5.5).

Table 1.5.5. Factor Analysis of Inflation in the Real Sector during the 1 quarter of 2005

	Impact on the CPI (percent)	In % of total
All factors	6.8	100.0
Increase of the tariffs for power resources	5.0	73.5
The OTC exchange rate	0.4	6.0
Wages	0.0	0.0
Transportation Costs	0.2	2.8
Other factors	1.2	17.8

Source: the Ministry of Economy of Uzbekistan

The growth in prices for imported goods is affected by both the changes in the OTC exchange rate as a basis of customs tariff computation, and by the so-called parallel rate (for goods sold by individual “carpetbaggers” at the bazaars).

In the first quarter of 2005 the changes in the exchange rate had little effect on the CPI (0.4%), as the OTC exchange rate devaluation accounted for 2.0%.

As a result of further reduction of subsidies, tariffs for utility services in the country have increased on average by 2.4%, including: in Sirdarya Region by 5.8%, in Fergana Region by 5.0%, in Bukhara Region by 4.6% and Jizzakh Region by 4.1%, and in Tashkent City by 5.1%.

In the first quarter of 2005, tariffs for cold potable water in the country increased on average by 10.3%, for sewerage services by 6.8%, for hot water supply by 9.6% and central heating by 10.6%. However the fees for natural gas and electric power did not change during the period under review.

Thus, taking into consideration that in the first quarter of 2005 the Public Budget was executed with a surplus and the money supply increase was not significant, we may draw the conclusion that inflation in the consumer sector was largely of a non-monetary kind.

2. Institutional and Market Reforms

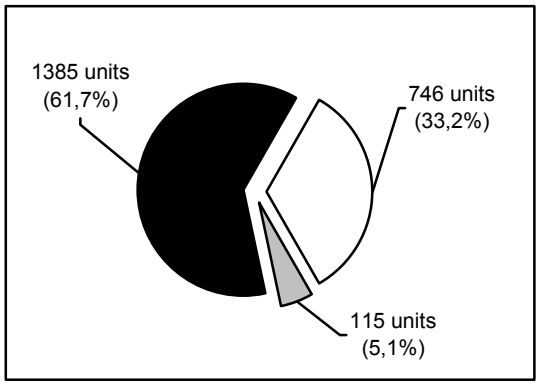
2.1. Denationalization and Privatization, Property Types

2246 facilities of state property were included into the program of denationalization and privatization for 2005-2006, which is 1482 less than the number of facilities privatized in the similar program of 2003-2004, as the process of mass state property privatization comes to an end.

The new privatization program consists of a list of state property facilities, divided into groups (Graph 2.1.1.). The largest of them is the first group, consisting of 1385 facilities. These are joint stock companies and limited liability companies established at previous privatization stages, in which it was decided to sell state assets in statutory funds to private owners at exchange auctions, and also social infrastructure facilities (recreation areas, kindergardens, etc.) and uncompleted construction sold fully to private owners.

The second group consists of 115 production enterprises and non-production facilities that are in a difficult financial position. They are subject to transfer in 2005 on a competitive basis to private ownership at zero redemption value, with the condition that the new owners accept investment liabilities aimed at the financial rehabilitation of these enterprises and facilities within 1 - 2 years.

Graph 2.1.1. Distribution of Enterprises Included in the Denationalization and Privatization Program for 2005-2006, in Groups (%)

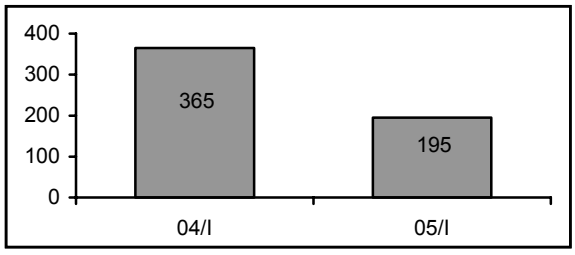


Source: State Property Committee of Uzbekistan

The third group includes 746 strategically important joint-stock companies and limited liability companies (large power stations, chemical industrial complexes, cotton-ginning plants etc), in whose statutory funds it was decided expedient to maintain a state share of participation. In the majority of these companies the state block of shares is maintained at the 51.0% level. Only in some joint–stock companies which have certain holding structures (e.g. the state–joint-stock company "Uzbekenergo», "Uzbekistan Temir Yullari» etc.), was it decided to keep 100% of the shares as state property.

A new program of denationalization and privatization was approved on March 14, 2005. Thus, for nearly the entire first quarter of the current year, the State Property Committee was engaged in the privatization of facilities that were not included in this program but went through the stage of pre-sale preparation and for which applications were submitted by private investors and work collectives of privatized enterprises.

Graph 2.1.2. The Number of Privatized Facilities (Units)



Source: State Property Committee of Uzbekistan

In the first quarter of 2005, 195 production enterprises and social infrastructure facilities were transferred into non-state property (Graph 2.1.2. and Annex 2.1.1.), which was 170 units or 53.4% less than in the similar period of the previous year.

The majority of facilities to be privatized were from agriculture and the water industry (29), the oil and gas industry (17) and social infrastructure (68); by territories the largest number of privatized facilities were in Tashkent city (37), Surkhandarya (21) and Tashkent (19) regions.

The trend of selling privatized facilities predominantly to private ownership (183) was maintained (Table 2.1.1.). On the the base of other privatized facilities in the first quarter of 2005, 1 joint stock company ("Uzexpomarkaz kurgazma kompaniyasi") and 11 limited liability companies were established. The small number of companies established in the process of privatization compared with the similar period of the previous year is explained by the fact that in the current year mostly small state facilities were offered at auction.

Table 2.1.1. The Number of Non-State Owned Enterprises Created in the Course of Privatization

Period	Number of Founded Enterprises	Including		
		Joint-Stock Companies	Limited Liability Companies	Private Enterprises
04/I	352	13	70	269
05/I	195	1	11	183

Source: State Property Committee of Uzbekistan

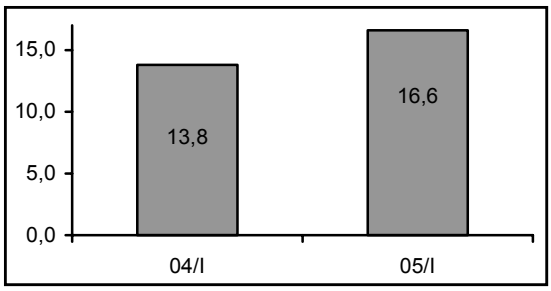
The process which began in 2003, of the sale into private ownership of state-owned and unplaced shares of joint-stock companies and the shares in statutory funds of the limited liability companies created on the basis of earlier privatized enterprises, continued. In the first quarter of 2005, blocks of shares of 55 joint stock companies in the total amount of UZS 10.1 bn. and shares in statutory funds of 40 limited liability companies in the total amount of UZS 347.5 mill. were sold —accounting to 67.3% and 36.8% respectively, of the similar period of the previous year.

State-owned and unplaced blocks of shares of 29 joint stock companies in the total amount of UZS 1.4 bn. were sold using a new mechanism of graduated reduction of starting price. In addition, 56 real estate facilities worth UZS 259.9 mill. and USD 87,500, with payment of redemption value in national currency at the Central Bank rate, were sold using this mechanism.

33 state-owned facilities were transferred to private individuals on a competitive basis at zero redemption value with the condition that the new owners accept investment liabilities aimed at the financial rehabilitation of unprofitable and insolvent production and infrastructure facilities. Total investment liabilities accepted amounted to UZS 3.7 bn., which exceeds the minimum amount of these liabilities set by the State Property Committee by 1.3 times.

In the first quarter of 2005, UZS 16.6 bn. arrived in the special accounts of the State Property Committee from the sale of state-owned facilities. The growth rate compared with the respective period of the previous year reached 20.3% (Graph 2.1.3.).

Graph 2.1.3 Privatization Proceeds (Bn. Soum)



Source: State Property Committee of Uzbekistan

The largest volume of funds (UZS 11.8 bn. or 71.1%) came from the sale of shares of privatized enterprises in the exchange and off-exchange markets, including proceeds on operations concluded in the fourth quarter of the previous year, which is 1.6 times more than for the similar period of the previous year. At the same time, proceeds from the sale of real estate facilities decreased by 30.2% as a result of mainly small facilities being offered to auctions.

Funds received from the privatization of state property are transferred on a monthly basis in a stated order to national and local budgets, as well as to privatized enterprises with state participation in their statutory funds, in accordance with their applications, for the purposes of technical re-equipment and modernization of production. They are also distributed based on specific governmental decrees in order to finance various socio-economic projects. In addition, based on corresponding governmental decisions, funds resulting from the sale of shares of enterprises of the power industry, chemical industry, municipal economy and the Academy of Sciences are directed in the full amount for the purposes of technical re-equipment and modernization of production at these enterprises with the deduction of operational expenses.

In light of the creation of the Chamber of Commerce and Industry in 2004, a governmental decision was made in March this year authorizing a monthly transfer to the Chamber of 5.0% of funds resulting from privatization, with the exclusion of funds distributed based on specific governmental decrees.

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

Lines of Proceeds Distribution	04/I	05/I
State Budget	41.3	28.2
Local Budgets	21.2	18.7
The Chamber of Commerce and Industry	-	1.1
Enterprises under Privatization	2.9	2.9
Distributed on the basis of specific governmental decrees	34.6	49.1
Total	100	100

Source: State Property Committee of Uzbekistan

In the first quarter of 2005 UZS 11.0 bn. were distributed, including UZS 5.4 bn. or 49.1% based on specific governmental decrees –, which is 14.5 p.p. more than in the similar period of the previous year (Table 2.1.2.). As a result of that and also of transferring UZS 121.0 mill. to the Chamber of Commerce and Industry, a reduction occurred in the first quarter of 2005, compared with the similar period of the previous year, of state and local budgets in the structure of funds distributed from privatization (by 13.1 and 2.5 p.p. respectively).

2.2. Market Infrastructure

By April 1, 2005 registrations were made in the State Registry of Securities of 13591 issuances of shares amounting to UZS 3204.2 bn. and 90 issuances of corporate bonds from 66 issuers in the amount of more than UZS 51.6 bn., including for the first quarter of 2005:
– 33 issues of shares with a total issuance volume of UZS 93.9 bn;
– 3 issues of corporate bonds in the amount of UZS 1.1 bn.

Shares and corporate bonds in the total amount of UZS 29.3 bn. were sold on the securities market in the first quarter of 2005, which is UZS 3.4 bn. (10.4%) less than for the similar period of the previous year. A reduction in the volume of securities sold took place due to a more than 2-fold decline in the first quarter of 2005 in the primary sale of shares of enterprises into privatization. This is related to the fact that in the beginning of the current year, state-owned and earlier unplaced blocks of shares of many enterprises were blocked and were not offered at auction until the approval of a new privatization program. However, in spite of this, the tendency remained of sales of shares forming the predominant part of the total sale of securities (72.7%). The total amount of shares sold was UZS 21.3 bn. (Table 2.2.1 and Annex 2.2.1), which is 70.1% of the total sales for the similar period of the previous year.

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

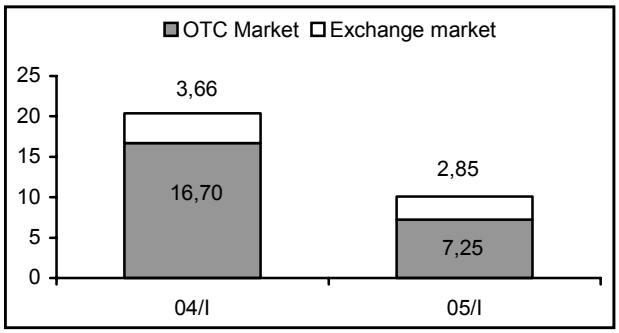
Period of Time	Primary Market		Secondary Market		Total	
	Sum	In % to the total	Sum	In % to the total	Sum	In % to the total
04/I	20.36	67.2	10.03	33.8	30.39	100
05/I	10.1	47.4	11.2	52.6	21.3	100

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

The primary sale of shares tended to occur in the off-exchange market, i.e. by way of conducting tender biddings or direct negotiations with investors. Preferences in such sales are given to those investors who are prepared, in addition to purchasing shares, to assume obligations to invest in production development.

Shares worth UZS 2.9 bn. were sold on the primary stock-exchange market, while UZS 7.25 bn. worth were sold on the off-exchange market (Graph 2.2.1). The shares of these market segments in the total volume of the primary sale of shares were 28.2% and 71.8% respectively, compared with 18.0% and 82.0% in the similar period of the previous year.

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



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

The highest share in the total volume of transactions on the primary stock-exchange market in the first quarter of 2005 belonged to the enterprises of the state joint-stock company “Uzbekenergo” (19.5%), Association “Uzqurilishmateriallari” (14.8%), the Ministry of Agriculture and Water Industry (14.3%) and the state joint-stock company “Uzengilsanoat” (13.1%).

Most transactions on the purchase and sale of shares on the primary market were made by foreign investors (40.2% of total sales on the primary securities market). They have purchased large blocks of shares of the joint-stock companies “Shifobahsh buloq” (85.9 %), “Uichi ip-yigiruv” (73.1%), “Karbonat” (25.0%) and “Toj Metal” (25.0%).

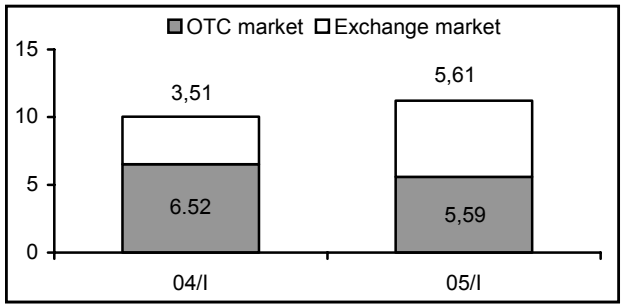
However, the share of foreign investors in the total purchase-and-sale transactions made on the primary securities market declined compared with the similar period in 2004 by 38.5 p.p. This was caused by the poor showing of foreign investors in tenders conducted on the sale of shares of large industrial enterprises whose privatization is carried out under individual projects.

The activity of small business enterprises and large joint-stock companies intensified greatly on the primary securities market. Their share in the total volume of transactions on the primary sale of shares of enterprises into privatization made up 24.4% and 22.4% respectively, which was 16.8 and 19.6 p.p. greater than in the first quarter of 2004.

As a result of the exemption from taxation for a period of 5 years, starting from 2003, on individuals' income from dividends on shares of economic organizations based on privatized enterprises, there has been a stable increase in interest in this category for investors, as observed in their purchase of shares on the primary securities market. In the first quarter of 2005 they purchased 1.6 times more shares than in the similar period of last year. However, the share of this category of investors in the total volume of transactions made on the primary market remains low (4.6%). This is related mainly to the difficulty for individuals to obtain information on joint stock companies, the profitability of their shares and the development prospects of these companies and also to the low interest of stock exchange brokers in serving minor investors.

The trend remained of passive participation in the purchase of shares of commercial banks, investment funds and managing companies placed on the primary market. In the first quarter of 2005 their share in the total volume of transactions on the primary securities market was less than 1%.

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



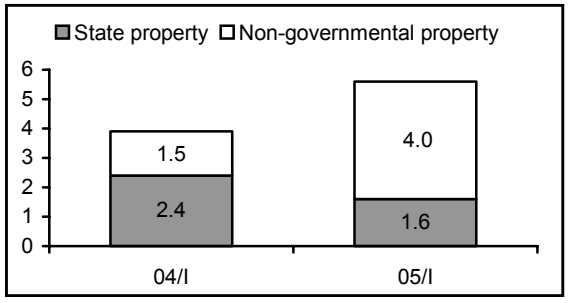
Source: Center on Coordination and Control of Operation of the Securities Market at the State Property Committee of Uzbekistan

The large-scale sale of shareholdings of many state-owned investment-attractive joint stock companies to private individuals and legal entities since 2003 impacted positively on the development of the secondary securities market. In the first quarter of 2005 transactions on the purchase-and-sale of shares were concluded in the amount of UZS 11.2 bn. or 11.7% more than in similar period of the previous year. At the same time, sales in the exchange segment of the secondary market, where predominantly large blocks of shares are offered for biddings, grew by 59.8% and amounted to UZS 5.6 bn. (Graph 2.2.2.), while in the off-exchange market they fell by 14.1%, also amounting to UZS 5.6 bn. The expansion of sales on the off-exchange market is held back by the insufficient development of this segment's infrastructure on the secondary market, which creates difficulties when selling small blocks of shares, especially in the regions of the republic.

The largest share in the total sales of the secondary securities market were of the shares commercial banks (30.9%), joint stock companies not incorporated into associations (20.6%), enterprises of the joint stock company "Uzqurilishmateriallari" (13.2%), the state joint stock company "Uzengilsanoat" (5.8%), the joint stock company 'Uzdonmahsulot" (4.9%), and the associations "Uzyogmoytamakisanoat" (2.5%) and "Uzpakhtasanoat" (2.2%).

A tendency was observed towards increased circulation on the securities market of corporate bonds issued by several investment-attractive joint stock companies and limited liability companies ("Almalik Mining and Smelting Enterprise", "Amantaytau goldfields", "Nuron Savdo" etc). In the first quarter of 2005 purchase-and-sale transactions of corporate bonds in the amount of UZS 8.0 bn. were concluded, exceeding the level of the similar period of the previous year 3.5 times; of these, bonds were sold on the primary market in the amount of UZS 4.1 bn. (20.5 times increase), and on the secondary market of UZS 3.9 bn. (1.9 times increase).

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



Source: Republican Real Estate Exchange

At the Republican Real Estate Exchange and its branches (henceforth: RREE), besides regular electronic exchange biddings (three times a week), 219 auction and tender biddings were conducted in the first quarter of 2005. The shares of exchange sales and off-exchange sales in the total amount of facilities sold were 77.3% and 22.7% respectively. This indicates the long-term tendency towards the predominant sale of real estate facilities through auction biddings.

5.6 thousand real estate facilities worth UZS 11.0 bn. (Graphs 2.2.3, 2.2.4 and Annex 2.2.2) were sold. Growth rates compared with the respective period of the previous year were 45% for the number of facilities sold and 29% for the volume of sales. The greater increase of the quantitative indicator of facilities sold compared with the cost indicator results from the offering of mainly small facilities of low price to auction by the government before accepting the new privatization program.

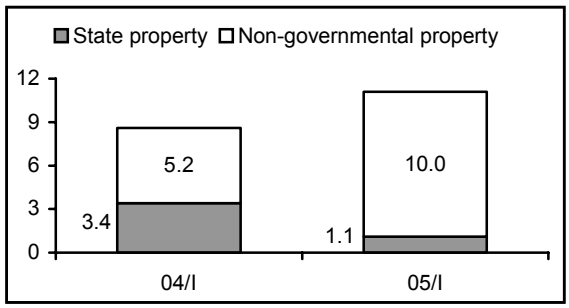
Over the reporting quarter 1.6 thousand state-owned facilities were sold worth UZS 1.1 bn. which was 66.7% and 32.4% respectively, compared with the similar period of the previous year. The average selling price of an object fell from UZS 1426 thousand to UZS 667 thousand.

In the first quarter of 2005, the volume of sold real estate offered for auction by private legal entities and individuals significantly increased. 4.0 thousand non-state-owned facilities worth UZS 10.0 bn. were sold – respectively 2.7 and 1.9 times more than in the first quarter of the previous year. This proves the increasing role of the RREE in the development of the private sector of the country.

In quantity and cost structure of property sold at the RREE, the share of agricultural facilities (stock buildings, poultry farms) grew considerably. In the first quarter of 2005, 2484 facilities worth UZS 3416 mill. were sold (Annex 2.2.2.), which is respectively 3.9 and 3.5 times more than in the similar period of the previous year. As a result of that, the share of these real estate facilities in the quantity structure of property sold increased by 27.8 p.p., and in the cost structure – by 19.5 p.p. (Table 2.2.2.).

The tendency remained of the larger part of RREE proceeds being formed by proceeds from the sale of residential and non-residential premises and other property. 1072 facilities worth UZS 34 mill. were sold, making up 46.5% of the proceeds of the Exchange (Table 2.2.2.). However, the share of this group of facilities in the total number of property sold was just 19.1%. These data show that the average selling price of premises for various purposes significantly exceeded the average selling price of facilities of other property groups. Proceeds from only 168 administrative and production premises, the majority of which (161 units) were offered at auction by private legal entities and individuals, exceeded UZS 3.0 bn and amounted to 60.7% of the total selling cost of facilities from this group.

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



Source: Republican Real Estate Exchange

In the first quarter of 2005, 499 trade and communal services facilities were sold, which is 1.7 times more than in the similar period of the previous year. At the same time, proceeds from their sale fell by 44.1% due to the offering at auction of small facilities at a low price. As a result, the share of trade and communal services facilities in the proceeds of the RREE fell by 14.7 p.p. and made up 17.0% (Table 2.2.2).

199 units of construction facilities in progress worth UZS 509 mill. were sold. Growth rates compared with the similar period of the previous year were 8.2% and 48.4% respectively. Their share remained low both in the total number of properties sold at the RREE and the proceeds, due to the small volumes of sale of this category of facilities (3.5% and 4.6%).

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

Types of Property	04/I		05/I	
	Quantity	Amount	Quantity	Amount
Construction in Progress	4.8	4.0	3.5	4.6
Commercial and Consumer Services Property	7.6	31.7	8.9	17.0
Property of Agricultural and Water Industry	16.4	11.4	44.2	30.9
Land Plots	56.0	1.8	24.3	1.0
Residential and Non-Residential Premises, Other Property	15.2	51.1	19.1	46.5
Total	100	100	100	100

Source: Republican Real Estate Exchange

The right was established for the life-long heritable ownership of 1363 state-owned units of land plots and assigned for individual housing construction worth UZS 104.8 mill. The number of land plots, for which the right-to-own was granted to private individuals decreased compared with the similar period of the previous year by 806 units (37.2%) due to the reduction in their number offered to auction by local authorities. As a result of that and also of the increase in sales of other types of real estate, especially agricultural facilities, the share of land plots in the total number of properties sold through the RREE fell by 31.7 p.p. and amounted to 24.3%.

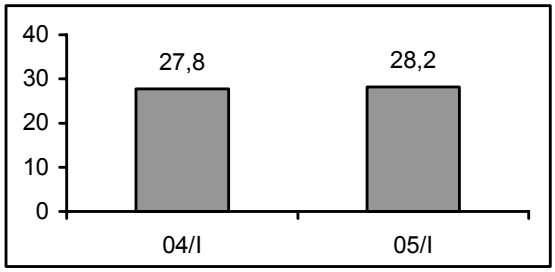
In addition to the types of property shown in Table 2.2.2, the sale of shares in the statutory funds of limited liability companies offered at auction by the government and private individuals is continuing for the second year at the RREE. In the first quarter of 2005, shares in the statutory funds of 74 limited liability companies were sold, of which shares in the statutory funds of 40 companies were offered at auction by the government and of 34 companies – by private individuals. In the corresponding period of the previous year shares in the statutory funds of 116 limited liability companies were sold (1.6 times more), of which 113 were state-owned and just 3 belonged to private individuals. Due to the approval of a new privatization program aimed at the expansion of the private sector of the economy in the near future, considerable growth in offering state-owned shares in the statutory funds of limited liability companies at auction is expected.

2.3. Small Entrepreneurship

The implementation of measures for strengthening state support and accelerating the processes of forming market infrastructure to serve small businesses facilitated further SE development in all sectors of the economy and the increase of its share in the country's GDP. In the first quarter of 2005, small business entrepreneurship was characterized by its increased contribution to the economic growth of the country and the rise in the number of the employed and the establishment of new jobs. Small enterprises and microfirms operating in the sector of foodstuffs and agricultural products production had a major impact on the increase of the SE share in the GDP (0.4 p.p.).

In the period concerned the trend continued of the individual entrepreneurship providing the highest contribution to GDP – 14.5%. The increase in the share of microfirms in GDP was 0.4 p.p. over the corresponding period of 2004 and reached 6.5%. The share of small enterprises in GDP fell by 0.1 p.p. as a result of the decrease in industrial production output and in paid services (Tables 2.3.2, 2.3.7; Annex 2.3.2).

Graph 2.3.1. Share of SE in the GDP of Uzbekistan, (in %)



Source: State Statistics Committee of Uzbekistan

The high growth of SE's share in GRP was noted in Samarkand (51.1%), Jizzakh (45.2%), Namangan (42.6%) and Khorezm (40.9%) regions mainly due to production growth at farms and dekhkan farms. It also grew in Sirdarya (39.4%), Surkhandarya (37.0%), Bukhara (32.5%) regions and the Republic of Karakalpakstan (34.8%). A reduction of SE share in GRP was noted in the regions of Andijan – by 4.4 p.p., Kashkadarya – by 1.8 p.p. and Navoi – by 0.4 p.p. and in Tashkent city – by 2.8 p.p. as a result of both a reduction in the number of operating SE entities, and a decrease in their industrial production output (Tables 2.3.2, 2.3.4).

Table 2.3.1. Main Indicators of Development of Small Enterprises

Indicators	Unit	04/ I	05/ I
Share of Small Entrepreneurship in GDP of Uzbekistan	%	27.8	28.2
Number Employed in Small Entrepreneurship	Thous. persons	5680.6	6236.2 *)
Share of employed in small enterprises in the total number employed in the economy	%	60.4	64.0
Number of employed in economic agents **)		1041.5	1258.3 *)
Small enterprises	Thous. persons	231.5	239.3
Microfirms	Thous. persons	810.0	1019.0
Number of new jobs in small enterprises ***)	Unit	113.3	112.3
Number of operating small enterprises per 1000 persons	Unit	8.7	9.4

Source: State Statistics Committee of Uzbekistan
*) Estimation
**) Employed at enterprises in various areas of activity
***) Based on data of the Ministry of Labor and Social protection of population.

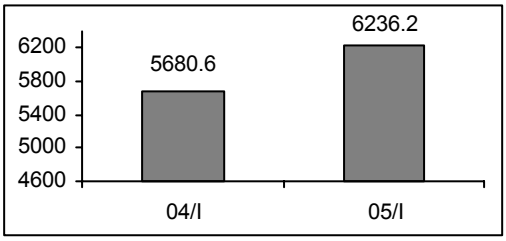
The growth in the number of persons employed in SE in the first quarter of 2005 amounted to 9.8% compared with the respective period of last year and in total it reached more than 6.2 million persons (Table 2.3.3, Graph 2.3.2.), which indicates the positive influence of this sector on resolving social problems. The share of those employed in SE in the total number of employed in the economy increased to 64.0% as compared to 60.4% due to the growth in the number of enterprises and employees in the consumer complex and also due to newly established SE entities in basic sectors – machine-building, metallurgy, the fuel and energy complex and the chemical industry. The total number of new jobs created in SE amounted to 112,300.

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

	Total		Including					
			Small Enterprises		Microfirms		Individual Businesses	
	04/I	05/I	04/I	05/I	04/I	05/I	04/I	05/I
R. of Uzbekistan	27.8	28.2	7.3	7.2	6.1	6.5	14.4	14.5
R. of Karakalpakstan	32.8	34.8	8.3	8.2	10.6	14.3	13.9	12.3
Andijan	34.2	29.8	6.6	5.5	5.8	6.0	21.8	18.3
Bukhara	29.7	32.5	6.8	7.5	7.5	8.3	15.4	16.7
Jizzakh	45.5	45.2	6.6	5.9	10.4	11.3	28.5	28.0
Kashkadarya	22.8	21.0	4.9	3.8	5.2	5.5	12.7	11.7
Navoi	13.0	12.6	2.4	2.2	2.9	2.7	7.7	7.7
Namangan	39.3	42.6	9.2	9.5	8.4	8.7	21.7	24.4
Samarkand	50.8	51.1	10.7	10.6	7.4	8.1	32.7	32.4
Surkhandarya	34.2	37.0	6.0	6.1	7.2	7.6	21.0	23.3
Sirdarya	37.1	39.4	9.8	9.7	6.5	7.8	20.8	21.9
Tashkent	28.1	28.8	7.1	7.2	5.4	5.8	15.6	15.8
Fergana	32.2	34.4	7.5	7.6	7.0	8.0	17.7	18.8
Khorezm	38.2	40.9	6.6	7.9	7.5	7.2	24.1	25.8
Tashkent city	40.9	38.1	16.0	14.5	10.7	9.9	14.2	13.7

Source: State Statistics Committee of Uzbekistan

Graph 2.3.2. Number of Employed in SE (thous. persons)



Source: State Statistics Committee of Uzbekistan

A high growth rate of those employed was observed in economic agents and amounted to 20.8%; in quantitative terms this number reached 216.8 thous. persons (Table 2.3.1, Annex 2.3.1).

In the majority of the regions, growth in the number of employed in SE was characterized by rates higher than average rates in the country (9.8%), except for: Andijan (8.4%), Samarkand (8.1%), Sirdarya (8.1%), Fergana (7.7%) regions and Tashkent city (7.3%), where it was somewhat lower.

In the first quarter of 2005 the number of operating enterprises of SE increased by 22.9 thousands, an increase of 110.3% over the respective period of 2004 (Table 2.3.4). At the same time, the share of operating enterprises of SE in the total number of enterprises registered in the republic in general fell to 83.4% vs. 86.8% in the first quarter of 2004. The reduction of this indicator is related with the increase in the number of liquidated enterprises of SE in Andijan, Jizzakh, Samarkand and Navoi regions.

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

Regions	04/I	05/I	Growth rate, %
R. of Uzbekistan	5680.6	6236.2	109.8
R. of Karakalpakstan	311.8	345.6	110.8
Andijan	534.4	579.1	108.4
Bukhara	377.9	422.5	111.8
Jizzakh	215.9	239.0	110.7
Kashkadarya	473.7	536.1	113.2
Navoi	149.0	164.4	110.3
Namangan	367.2	407.8	111.1
Samarkand	624.7	675.6	108.1
Surkhandarya	391.1	436.6	111.6
Sirdarya	176.5	190.8	108.1
Tashkent	531.5	587.0	110.4
Fergana	665.9	717.5	107.7
Khorezm	300.9	333.0	110.7
Tashkent city	560.1	601.2	107.3

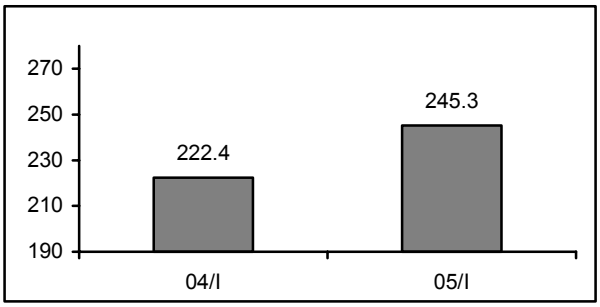
Source: State Statistics Committee of Uzbekistan

High growth in the number of operating enterprises compared with the similar period of 2004 was observed in Kashkadarya (54.4%), Khorezm (33.1%), Surkhandarya (17.1%) and Bukhara (14.3%) regions. An increase in the number of enterprises occurred also in the Republic of Karakalpakstan, Tashkent and Sirdarya regions and Tashkent city. The highest share of operating enterprises in the total number of enterprises registered was noted in Kashkadarya – 94.4%, Sirdarya – 91.4%, Bukhara – 90.5% regions and the republic of Karakalpakstan – 90.7% (Table 2.3.4.). Significant growth in the operating SE entities was connected with a change in the system of arranging agricultural production, where farming plays a leading role as the most promising and efficient form of conducting business in the country.

The growth in the number of operating SE entities per 1000 persons overall in the republic amounted to 8.0% and reached 9.4 units vs. 8.7 units in the respective period of 2004 (for comparison: in developed countries this indicator is more than 35 units).

In the first quarter the highest growth rates of operating SE entities were registered in agriculture – 123.1% – as a result of significant growth in the number of both small enterprises (25.9%) and microfirms (23.0%), which was caused by the break-up of large shirkat farms and their transformation into farms. A high growth rate of 114.3% was observed in the number of operating entities in transport and communications.

Graph 2.3.3. Number of Operating SE, (thous. units)



Source: State Statistics Committee of Uzbekistan

Table 2.3.4. Number of Operating SE Entities by Region, (thous. units)

Regions	04/I		05/I	
	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, %
R. of Uzbekistan	222.4	86.8	245.3	83.4
R. of Karakalpakstan	12.2	90.1	13.4	90.7
Andijan	18.8	88.9	14.6	68.6
Bukhara	17.5	91.8	20.0	90.5
Jizzakh	16.6	90.4	14.4	77.8
Kashkadarya	29.4	93.7	45.4	94.4
Navoi	9.2	93.2	8.9	83.9
Namangan	12.3	76.8	13.0	73.9
Samarkand	20.2	88.8	18.6	80.9
Surkhandarya	11.1	82.1	13.0	81.7
Sirdarya	10.0	94.4	11.0	91.4
Tashkent	16.1	84.9	17.9	87.5
Fergana	18.7	86.7	20.1	79.8
Khorezm	12.7	85.6	16.9	84.9
Tashkent city	17.6	71.2	18.5	73.2

Source: State Statistics Committee of Uzbekistan

As for other sectors of the economy, in the period concerned, a reduction in the number of operating SE entities occurred. The biggest decrease occurred in industry (13.3%), mainly due to a reduction in the number of microfirms, construction (5.4%), trade and public catering (7.8%) (Table. 2.3.5).

SE entities produced 77% less industrial output than in the similar period of 2004, their share in total production output accounting for 8.4% (Table 2.3.6, Annex 2.3.2). A reduction in the volume of production by small and individual enterprises occurred as a result of a sharp decrease in the number of operating enterprises in this sector, partially formed stocks of orders for the current period, including those of non-foods, and also the lack of adequate working capital for production development.

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

Indicators	04/I	05/I
R. of Uzbekistan	222.4	245.3
Industry	21.1	18.3
Small enterprises	2.2	2.0
Microfirms	18.9	16.3
Agriculture	130.0	160.1
Small enterprises	2.7	3.4
Microfirms	127.4	156.7
Transport and Communications	2.1	2.4
Small enterprises	0.4	0.4
Microfirms	1.7	1.9
Construction	11.2	10.6
Small enterprises	0.8	0.9
Microfirms	10.3	9.7
Trade and Public Catering	42.7	39.4
Small enterprises	7.9	6.7
Microfirms	34.8	31.6

Source: State Statistics Committee of Uzbekistan

In the first quarter of 2005 SE enterprises reduced consumer goods production by 0.9 p.p., mainly due to the reduction of production (1.2 p.p.) at small enterprises. Production growth (0.3 p.p.) was observed in microfirms and it remained stable in the individual sector as well. A positive fact in the development of the SE sector was the implementation of localization projects. In particular, the production of various types of household appliances, construction materials, special-

ized products for colleges and lyceums, sport equipment and other production from local raw materials were launched. The share of SE in the total production of foodstuffs increased by 3.7 p.p., resulting from an increase in production in all SE economic entities, but especially in the sector of individual entrepreneurship, where growth accounted for 3.1 p.p.

In agricultural production the share of SE grew by 0.3 p.p. over last year's level and accounted for 93.6% (Table 2.3.6). The increase (0.4 p.p.) in agricultural production by dekhkan farms had a major impact on growth. Their share made up 90.4% of the total agricultural production by SE entities.

In the total volume of retail turnover the share of SE increased by 0.3 p.p. mainly due to an increase in the share of microfirms to 6.2% vs 5.0% in the similar period of 2004.

SE share in the total volume of paid services stabilized. An insignificant reduction of share (0.2 p.p.) did not lead to any considerable changes in SE development in this sector. While the share of small enterprises in the volume of paid services to the population decreased, the share of private individual entrepreneurs increased and amounted to 36.0%, i.e. it remains high and sustainable.

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

Indicators	04/I	05/I
Industry		
Share of small enterprises in the total volume of production output	9.1	8.4
Small Enterprises	3.9	3.5
Microfirms	1.9	1.9
Individual Business	3.3	3.0
Share of small enterprises in the total volume of consumer goods production	22.3	21.4
Small Enterprises	8.8	7.6
Microfirms	2.0	2.3
Individual Business	11.5	11.5
Share of small enterprises in the total volume of foodstuffs production	31.3	35.0
Small Enterprises	7.9	8.2
Microfirms	1.9	2.2
Individual Business	21.5	24.6
Agriculture		
Share of small enterprises in the total volume of production output	93.3	93.6
Small Enterprises	0.7	0.7
Microfirms	2.6	2.5
Dekhkan Farms	90.0	90.4
Retail Turnover		
Share of small enterprises in the total volume of commodity turnover	40.2	40.5
Small Enterprises	7.9	7.7
Microfirms	5.0	6.2
Individual Business	27.3	26.6
Paid Services		
Share of small enterprises in the total volume of paid services	42.3	42.1
Small Enterprises	3.5	3.2
Microfirms	2.9	2.9
Individual Business	35.9	36.0

Source: State Statistics Committee of Uzbekistan

The reduction in the share of SE entities in total industrial output by more than 13.0% and the seasonality in agricultural production influenced the situation with regard to foreign economic activity. The share of SE in the total volume of exports decreased by 4.1 p.p. and amounted to 4.6% vs. 8.7% in the respective period of 2004. (Table 2.3.7). In addition, low rates of export are also caused by shortcomings in the quality management system, which should be the foundation for a rise in the competitiveness of small enterprises and the high demand for their products in both domestic and international markets.

In the territorial structure of export of SE production, a high growth rate was maintained in the shares of Namangan (8.6 p.p.), Sirdarya (2.0 p.p.) and Surkhandarya (0.5 p.p.) regions and the Republic of Karakalpakstan (6.9 p.p.). In all other regions, decline in export activity was noted, with the biggest declines occurring in Samarkand (11.4 p.p.), Tashkent (23.2 p.p.), Fergana (7.7 p.p.) and Khorezm (5.7 p.p.) provinces due to a reduction in industrial production volumes and low competitiveness (Table 2.3.8).

The situation with regard to import activity is more favorable. The share of SE imports in the total volume remained at the same level (29.4%), with small enterprises accounting for a significant proportion (13.7%) as well as microfirms (11.6%). Their growth rates, respectively, were 0.1 and 1.0 p.p. compared with the similar period of the previous year. Machines and equipment accounted for a significant share of imports, which facilitates the formation of domestic enterprises with modern technological foundations and the establishment of modern production.

In a regional context, the share of SE imports in the total volume of imports increased in the Republic of Karakalpakstan by 12.1 times, Bukhara – 2.1 times, Kashkadarya – 2.2 times and Navoi – 1.8 times. The increase in imports resulted from an increase in the import of modern machines, techniques and technology for actively developing businesses to help launch import-substituting products in order to saturate the domestic market with quality goods in high demand. At the same time, the decline in import activity of SE entities was observed in Jizzakh, Namangan, Surkhandarya, Sirdarya, Tashkent and other regions, mainly due to the decline (by 1.1 p.p.) in activity in this area of individual entrepreneurship (Table 2.3.8).

Table 2.3.7. Share of SE Entities in the Foreign Economic Activity, (%)

Indicators	04/I	05/I
Export		
Share of SE in the total volume of exports	8.7	4.6
Small Enterprises	4.0	3.2
Microfirms	3.6	0.4
Individual Business	1.2	1.0
Import		
Share of SE in the total volume of imports	29.4	29.4
Small Enterprises	13.6	13.7
Microfirms	10.6	11.6
Individual Business	5.2	4.1
Number of SE Entities engaged into the foreign economic activity, units	1807	2016

Source: State Statistics Committee of Uzbekistan

The growth achieved by SE entities participating in export-import operations amounted to 11.6% compared with the respective period of last year (Table 2.3.7 and Annex 2.3.3), which indicates an expansion of their foreign economic activity in the international market.

Table 2.3.8. Share of SE in the Foreign Economic Activity of Regions, (%)

Regions	Share of SE exports in the total volume of exports		Share of SE imports in the total volume of imports	
	04/I	05/I	04/I	05/I
R. of Uzbekistan	8.7	4.6	29.4	29.4
R. of Karakalpakstan	2.0	8.9	6.1	74.1
Andijan	3.6	2.1	7.8	5.3
Bukhara	2.2	1.3	42.2	86.8
Jizzakh	2.0	1.7	98.9	46.7
Kashkadarya	2.6	1.4	16.3	35.2
Navoi	0.3	0.2	1.7	3.0
Namangan	65.3	73.9	81.5	39.3
Samarkand	26.2	14.8	47.9	41.9
Surkhandarya	4.0	4.5	94.5	33.9
Sirdarya	0.6	2.6	85.3	36.4
Tashkent	25.2	2.0	49.8	34.6
Fergana	16.9	9.2	43.4	35.2
Khorezm	6.0	0.3	66.3	42.6
Tashkent city	10.0	7.0	28.9	35.1

Source: State Statistics Committee of Uzbekistan

The sustainable development of small business and private entrepreneurship is one of the significant factors ensuring the economic growth of the country. At present, the small enterprises of Uzbekistan have reached dynamic development in all spheres of the economy, particularly in the complex of consumer goods production, construction, trade, services, and agriculture. Among the priorities aimed at encouraging the development of industry, particular importance is given to the localization of finished goods production, componentry and materials on the base of local raw materials – where namely small and private businesses are very significant. This means that small entrepreneurship should acquire a new role and become one of the most important factors in the implementation of the modern stage of the country's industrialization.

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

Indicators	2000	2001	2002	2003	2004	04/I	05/I
The number of enterprises in privatization	374	1449	1912	1519	1228	365	195
The number of non-state owned enterprises established on the basis of privatized property	372	1238	1800	1452	1228	352	195
Joint stock companies	152	227	223	75	28	13	1
Limited liability companies	117	184	325	396	162	70	11
Private enterprises	103	827	1252	981	1038	269	183
Proceeds from privatization (bn. Soums)	14.3	23.2	43.6	56.1	78.4	13.8	16,6

Source: State Property Committee of Uzbekistan

Note: Several joint stock companies were established through the merger of assets of a number of state-owned enterprises or the splitting-up of assets of an enterprise.

Annex 2.2.1. Dynamics of Sales of Shares on the Securities Market (bn. Soums)

Indicators	2000	2001	2002	2003	2004	04/I	05I
Total shares sold on the securities market	17.11	26.13	41.74	74.7	115.03	30.39	21,30
On the primary market	6.23	12.26	16.33	53.9	62.08	20.36	10,1
Exchange segment	4.60	6.84	10.53	19.7	18.48	3.66	2,85
Off-exchange segment	1.63	5.42	5.80	34.2	43.6	16.70	7,25
On the secondary market	10.88	13.87	25.41	20.8	52.95	10.03	11,2
Exchange segment	0.63	1.10	4.60	12.4	22.76	3.51	5,61
Off-exchange segment	10.25	12.77	20.81	8.4	30.19	6.52	5,59

Source: Center on Coordination and Control of Operation of the Securities Market

Annex 2.2.2. Quantity and Value of Property Sold through the Republican Real Estate Exchange (units/ mill. Soums)

Types of property	2000		2001		2002		2003		2004		04/I		05/I	
	Quantity	Value	Quantity	Value	Quantity	Value	Quantity	Value	Quantity	Value	Quantity	Value	Quantity	Value
Construction in progress	296	630	265	559	180	832	586	1176	896	1449	184	343	199	509
Trade and consumer services facilities	419	450	548	1221	436	1039	954	3203	1423	7232	294	2713	499	1882
Property of bankrupt enterprises	435	1028	565	1264	289	719	372	1559	23	524	-	-	-	-
Property taken against arrears to the budget	-	-	2211	1345	2230	1409	209	388	3	1	-	-	-	-
Property taken on court's decision	-	-	496	415	343	312	147	391	26	149	-	-	-	-
Agriculture and water industry facilities	602	450	510	367	413	396	904	653	2516	4376	636	976	2484	3416
Land plots	5700	254	8662	504	8335	551	7391	490	6296	618	2169	159	1363	105
Residential and non-residential facilities	1491	3368	1959	6675	2058	10913	3350	15600	3416	13928	589	4371	1072	5134
Total	8943	6180	15216	12350	14284	16171	13913	23460	14599	28277	3872	8562	5617	11046

Source: The Republican Real Estate Exchange

Annex 2.3.1. Main Indicators of level of Development of SE

Indicators	Units	2000	2001	2002	2003	2004	04/I	05/I
Share of Small and Medium Business in GDP	%	31.0	33.8	34.6	35.0	35.6	27.8	28.2
Small and Medium Enterprises and Microfirms	%	13.1	14.8	15.7	16.5	18.6	13.4	13.7
Number of Operating Legal Entities	Thous. Units.	149.3	177.7	215.7	210.1	237.5	222.4	245.3
Number of employed at SE.	Thous. Persons	745.3	801.8	931.2	1045.1	1349.0	1009.3	1258.3

Source: State Statistics Committee of Uzbekistan

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

Areas of Activity	2000	2001	2002	2003	2004	04/I	05/I
Industry	11.3	14.1	14.1	10.9	10.7	9.1	8.4
Agriculture	72.4	75.6	76.4	78.1	80.9	93.3	93.6
Retail Turnover	45.9	45.8	43.8	42.4	41.8	40.2	40.5
Paid Services	37.9	39.9	41.3	45.4	47.4	42.3	42.1

Source: State Statistics Committee of Uzbekistan

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

Indicators	2000	2001	2002	2003	2004	04/I	05/II
Exports, %	10.2	9.0	7.5	6.9	7.3	8.7	4.6
Imports, %	27.4	26.9	24.9	33.0	32.7	29.4	29.4
Number of Entities Participating in Foreign Economic Activity, thousand units	2.8	2.5	2.7	3.2	3.8	1.8	2.0

Source: State Statistics Committee of Uzbekistan

3. Structural – Investment Policy

3.1. Industry

Positive development dynamics were maintained in industrial production. The industrial growth index in the first quarter of 2005 was 108.3%. In the production structure of GDP, the share of industry rose to 27.4%, exceeding by 4.5 p.p. the level of the first quarter of last year.

High indicators of the foreign trade activity of automakers positively affected the structural parameters of machine-building development. The production of machine-building output increased by 49.5% vs. last year's level (Table 3.1.1). The intensive increase of cost parameters was ensured mainly by the increase in the number of cars produced – by more than 1.9 times.

Positive results from localizing business development, aimed at reducing reliance on imports and decreasing the cost of production, led to a tendency towards low dynamics in the rise in prices for the output of the machine-building sector. The index of prices for machine-building sector production exceeded the level of last year by only 4.9 p.p., which was one of the factors which strengthened the position of national producers in the international market. The share of export supplies in car production increased from 45.5% to 54.7%.

Steps taken to encourage the sales of cars with consumer loans issued by the country's commercial banks contributed to an increased demand for cars in the domestic market. At the same time, a trend of unsustainable growth was observed in the electrical and agricultural machine-building industries. In the first quarter of 2005, the production of tractors decreased by 5.4% and refrigerators and washing machines – by 68.3%.

Table 3.1.1. Indices of Industrial Production Output

	Index of industrial production output (in % to the previous period)	
	04/I	05/I
Industry	108.8	108.3
Electric-Power Industry	103	98.2
Fuel Industry	109.1	99.2
Ferrous Metallurgy	119.1	127.4
Non-Ferrous metallurgy	100.7	100.7
Chemical Industry	96.1	107.3
Machine-Building	135.3	149.5
Timber, Wood-Working Industry	121.6	120.3
Construction Materials Industry	115.0	104.4
Light Industry	105.4	113.1
Foodstuffs Industry	102.1	100.1
Other	141.1	106.1

Source: State Statistics Committee of Uzbekistan

Sustainable high demand in the domestic and international markets for ferrous and non-ferrous metals was the major factor in the increase achieved in the metallurgical complex. The growth in the index of production in ferrous metallurgy amounted to 27.4%. The high liquidity level of products facilitated the increase in the volume of steel production by 17.3% and rolled ferrous metals by 22.7%. The maintenance of favorable domestic and international prices for ferrous and non-ferrous metals contributed to the positive dynamics of their export. The export of metallurgical production grew by 52.6%. As a result, the share of these sectors in the production of industrial output increased from 16.7% to 18%, and in the structure of exports – from 7.0% to 9.7%.

Under an increase in domestic demand, a tendency of increasing production in the chemical complex sectors was observed. In the first quarter of 2005 the index of output of chemical production was 7.3%. Growth in cost parameters was achieved mainly by a rise in prices. The price index of producers of chemical products reached 125.3% over the respective period of the previous year. The dynamics of the parameters of the main types of chemical industry production (in kind) tended towards an increase in the production of phosphate fertilizers – by 6.2%, sulphuric acid – by 4.3%, and chemical plant protectants – by 32.8%. At the same time, a slight decline occurred in the production of nitric fertilizers– by 2.0% and synthetic resins and plastics – by 6.4% (Table 3.1.2.).

The trend of falling demand in the domestic and international market for chemical fibers and threads due to low price competitiveness contributed to a continued fall in their production – by 61.2%. The efficiency of steps to reduce the cost of production of chemical fibers and threads will define the further dynamics of the sector's development.

Prices remain a factor which determines the development of the sectors of the fuel and energy complex (FEC). Price indices in the power and fuel industries exceeded the existing price level in industry as a whole by 27.3 p.p. and by 38.7 p.p. respectively. Under a declining trend of production of major industrial output (in kind) the share of FEC sectors in the structure of industry increased from 22.9% to 26.9%. In conditions of maintaining high costs in the production of major types of industrial output, the faster rise in prices for energy resources significantly impacted the level of profitability of the sectors.

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

	Unit	Production of major products (in corresponding units)		Indices of production of major products (in % to previous period)	
		04/I	05/I	04/I	05/I
Power Industry					
Electric Power	Mill.K.W.H.	13672	13273	102.8	97.1
Fuel Industry					
Oil and Condensate	Thous. tons	1768.9	1476.9	100.4	83.5
Gas	Mill.m^3	15528.4	15285.4	106.8	98.4
Liquefied gas	Thous. tons	47.2	51.6	134.9	109.8
Coal	Thous. tons	614	762	117.4	124.3
Metallurgy					
Steel	Thous. tons	132.8	155.7	110.3	117.3
Rolled Ferrous Metals	Thous. tons	121.5	149.1	114.2	122.7
Machine-Building					
Tractors	Units	649	614	111.5	94.6
Cotton Harvesting Machines	Units				
Excavators	Units	13	1	108.3	7.7
Cars	Units	13300	26290	177.3	197.7
Damas"	Units	1963	3825	114.8	194.9
"Tico "	Units	1133	-	101.6	-
"Nexia "	Units	6697	14950	163.9	2.2 times
"Matiz "	Units	3507	7515	5.9 times	2.1 times
Color TVs	Units	10985	13484	2.1 times	122.7
Isolated cable	Km	968	435	3.5 times	44.9
Refrigerators and Deep-Freezers	Units	743	116	7.4 times	15.6
Air-Conditioners	Units	72	868	-	12.1 times
Washing machines	Units	526	286	5.2 times	54.4
Chemical Industry					
Mineral Fertilizers	Thous. tons	212.4	210.0	102.4	98.9
Nitric fertilizers	Thous. tons	189.8	186.0	106.4	98.0
Phosphate fertilizers	Thous. tons	22.6	24.0	77.4	106.2
Synthetic Ammonia	Thous. tons	261.6	257.1	101.0	98.3
Sulphuric Acid	Thous. tons	207.0	218.2	96.2	104.3
Synthetic Resins and Plastics	Tons	25922	24270	2.0 times	93.6
Chemical fibers and threads	Tons	2196	853	52.9	38.8
Synthetic detergents	Tons	573	70	107.1	12.2
Chemical protectants of plants	Tons	811	1077	132.1	132.8
Paintwork materials	Tons	1239	1651	126.8	133.6
Construction Materials Industry					
Walling	Mill.units of conditional bricks	26.1	12.6	104.4	77.3
Cement	Thous. tons	987.9	1048.8	131.5	106.2
Asbestos-cement sheets	Mill. Conditional tiles	64.3	62.3	90.8	96.9
Ceramic tile	Thous.m^2	126.9	89.0	94.0	70.1
Light Industry					
Cotton fiber	Thous. tons	336,8	413,1	97.7	122.7
Cotton yarn	Thous. tons	42.1	39.4	107.1	94.2
Raw silk threads	Tons	108.6	116.8	2.1 times	98.6

Source: State Statistics Committee of Uzbekistan

The strengthening position of the coal industry within the fuel and energy complex, connected with the implementation of a set of measures for the stage-by-stage re-equipment and modernization of the sector, became an important feature of the current period. The coal production index (in kind) had one of the highest levels in the structure of industrial production – 124.3%, which to a great extent compensated for the decline in the production of oil and condensate by 16.5%, and of natural gas – by 1.6%.

The growth index of light industry production exceeded the previous year's level by 7.7 p.p. and amounted to 13.1%. A major contribution to this growth was made by the cotton-ginning industry, which formed more than 69% of total light industry production. In the first quarter of 2005, the production of raw cotton increased by 22.7%, which allowed last year's declining trend to be overcome. The export of cotton fiber in kind and cost

terms grew by 56.4% and 17.4% respectively. In the structure of export revenues of the country, the share of the cotton-ginning sector grew from 25.5% to 27.3%.

The tendency of a slowing down of prices for light industry production positively affected the dynamics of the development of the processing sectors oriented to final domestic demand. The index of price increases in the first quarter of 2005 amounted to 107.0% vs. 138.4% for the same period of previous year (Table 3.1.3). As a result of increasing demand, production in kind also grew for: knit-work – by 2.4%, hosiery – by 57.0%, and footwear – by 5.7%. At the same time, production declined for: cotton yarn – by 5.8% and threads of raw silk – by 1.4%.

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

	04/I	05/I
Industry	129.7	127.5
Electric -Power Industry	159	154.8
Fuel Industry	153.6	166.2
Ferrous Metallurgy	126.7	110.6
Non-Ferrous Metallurgy	155.6	143.9
Chemical Industry	125.1	125.3
Machine-Building	101.3	104.9
Timber, Wood-Working Industry	105.5	100.9
Construction Materials Industry	120.7	116.5
Light Industry	138.4	107
Foodstuffs Industry	106	116

Source: State Statistics Committee of Uzbekistan

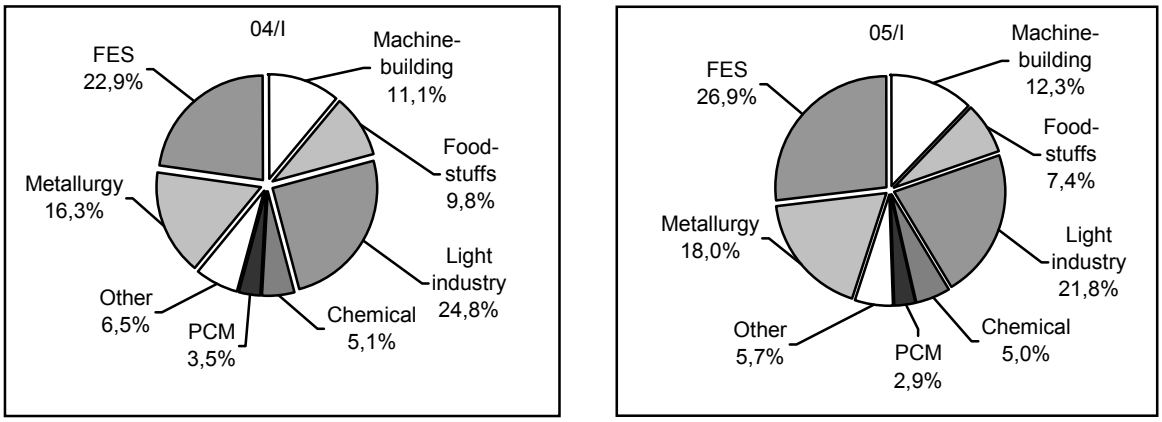
In contrast, the dynamics of changing indices of prices of producers in the foodstuffs industry tended to accelerate. Indices of price increases for foodstuffs in the first quarter of 2005 amounted to 116.0% vs. 106.0% in the previous year. Bringing domestic prices near import prices under conditions of maintaining low solvent demand became one of the factors in the formation of the low dynamics of development of the foodstuffs industry. The index of growth in the sector amounted to 0.1%. Production of sugar, flour, macaroni, etc. fell. However, increasing production rates of canned goods, vegetable and animal oils, cheese, etc. facilitated a positive trend in reducing imported foodstuffs by about 15%.

In the first quarter of 2005, the production of construction materials increased by 4.4% mainly due to a rise in production of cement by 6.2%. Major factors behind the declining production of walling – by 22.7%, asbestos-cement sheets – by 3.1% and ceramic tiles – by 29.9% were seasonal changes and also the high competitive advantages maintained by imported finished products. An expected rise in the custom rates for certain construction materials will positively affect the dynamics of the production activity of domestic producers.

The trend of growing price competitiveness of domestic furniture production caused by the control over the level of domestic prices impacted greatly the dynamics of development of the woodworking industry. The growth index of producers' prices in the woodworking industry accounted for just 0.9% of the level of the respective period of the previous year, which led to increased domestic demand. According to the results of the first quarter of 2005, the production growth index in the sector was high, amounting to 20.3%.

The results of the sectors' development indicated that factors such as the rise in prices and the state of domestic and external demand continued to affect the dynamics of structural changes. In the total structure of industrial output the share of the raw material sector grew from 39.2% to 44.9%, including from 22.9% to 26.9% for the sectors of the fuel and energy complex and from 16.3% to 18.0% for the metallurgical complex (Graph 3.1.1.).

Graph 3.1.1. Structural Changes in Production of Industrial Output (%)



Source: State Statistics Committee of Uzbekistan

The share of the machine-building sector increased significantly from 11.1% to 12.3%, however the reduction in the share of foodstuffs and light industry from 34.6% to 29.2% led to a fall in the efficiency of structural

transformations in general in industry. The total share of the processing industries of machine-building, light and foodstuffs industry decreased from 45.1% to 41.5%. The share of the industries of the chemical complex remained virtually at the same level and accounted for 5.0%.

3.2. Consumer Goods Market

In the first quarter of 2005, consumer goods production grew 16.4% compared with the corresponding period of 2004, including 0.2% for foodstuffs and 33.6% for non-foods (Table 3.2.1). This trend is due to the implementation of special programs on the localization of businesses on the base of local resources and the expansion of the domestic production of consumer goods. Such programs envisage a set of measures for organizing and expanding production of non-foods and foodstuffs by sectoral and territorial enterprises, small and private entrepreneurs, joint ventures and enterprises with foreign investments.

High growth rates in the non-foods group (Table 3.2.1, Annex 3.2.1) were achieved due to the growth in the production of cars (by 97.7%) and home appliances (TV-sets – 22.7%, air-conditioners –12.1 times), which was facilitated greatly by the implementation of projects under programs of production localization by enterprises "Uzavtoprom" Joint-Stock Company, "Uzeltekhsanoat" Association and "Roison electronics" JV.

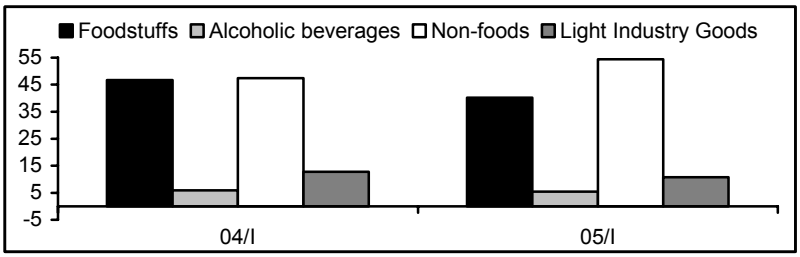
Table 3.2.1. Consumer Goods Production Dynamics in % to previous period)

	04/I	05/I
Consumer Goods	114.9	116.4
Foodstuffs	117.6	100.2
Alcoholic beverages	101.7	106.5
Non-Foods	114.2	133.6
Light Industry Goods	101.8	98.3

Source: State Statistics Committee of Uzbekistan.

Accelerated development of the production of non-foods for final consumption with high added value, aimed at the saturation of the domestic market and export, led to changes in the structure of consumer goods production. As a result, in the first quarter of 2005 the share of non-foods in overall production of consumer goods exceeded 50.0% and grew 7.0 p.p. over the first quarter of 2004 (Graph 3.2.1, Annex 3.2.2).

Graph 3.2.1. Structure of Consumer Goods Production (%)



In light industry goods sold predominantly on the domestic market, an increase was observed in the production of carpets and carpet goods (by 2.8%), knitwear goods (by 2.4%) and footwear (by 5.7%). Completion of the reconstruction of hosiery works within "Uzengilsanoat" State Joint Stock Company allowed the production of hosiery to be increased by 57.0% (Table 3.2.2).

A decline in the production of cotton fabrics as a result of ongoing reconstruction of large textile industrial complexes in Andijan, Surkhandarya, Khorezm regions and Tashkent city led to decreased growth rates of light industry goods by 1.7 p.p. (Tables 3.2.1, 3.2.2, Annex 3.2.5).

The production of foodstuffs in the republic remained virtually at the same level of the first quarter of 2004 (growth 0.2%) (Table 3.2.1).

Favorable climatic conditions for agricultural production in 2004 (cotton, fruit and vegetables, grapes), facilitated an increase in processing by food industry enterprises in the first quarter of 2005. As a result, production increased of canned fruit and vegetables (by 79.1%), refined cotton oil (by 12.0%), and vodka and liquors (by 4.3%) (Table 3.2.2).

Table 3.2.2. Industrial Production of Major Types of Consumer Goods * (as % to previous period)

	04/I	05/I
Cotton Fabrics	86.2	83.4
Silk Fabrics	104.6	88.9
Carpets and Carpet Goods	103.6	102.8
Hosiery	104.3	157.0
Knitwear Goods	91.3	102.4
Footwear	68.0	105.7
Milk and Dairy Products	2.2 times	88.6
Cheese, including brynza	100.0	107.1
Canned Goods	114.2	183.8
Granulated Sugar	149.8	44.6
Flour	2.3 times	88.7
Bread and Baked Goods	75.4	83.9
Pasta	123.3	41.6
Vegetable Oil	86.4	114.1
Grape Wine	74.6	90.3
Vodka and Liquors	99.2	104.3
Non-alcoholic Beverages	5.5 times	11.1 times
Filterless and Regular Cigarettes	85.0	93.9

Source: State Statistics Committee of Uzbekistan.
* The data cited on large-scale enterprises

Stabilization of the activity of “Coca-Cola ichimligi Uzbeksiatn LTD” resulted in an increase in production by large enterprises of non-alcoholic beverages (11.1 times) (Table 3.2.2).

The technical re-equipment and reconstruction undertaken in 2005 of mills at “Asaka don mahsulot” JSC in Andijan region, “Karakul don mahsulot” in Bukhara region, “Osiya Afrosiyob” in Samarkand region, “Oqoltin don” in Sirdarya region and “Galla Alteg” in Tashkent city resulted in a slight reduction in floor production by large enterprises (Table 3.2.2).

Despite the reduction in production by large enterprises of milk and dairy products, flour, pasta and baked goods, their supply to the domestic market was not reduced, due to the strong activity of small business agents at the territorial and sectoral level. In particular, the Russian company ‘Vimm-Bill-Dann –foodstuffs” that bought shares of the largest milk industrial complex in Uzbekistan – “Toshkentsut” – established a foreign enterprise “VBD Toshkent” LLC. In addition to reconstruction and modernization of the milk plant, the company plans production of 20 to 50 dairy products for the domestic market and export. Joint ventures of “Nestle” and “Bostanlyk sut” have been performing successfully in the Uzbekistan market.

An inadequate supply of raw materials to “Shakar Investment” JV led to a decrease in granulated sugar production (Table 3.2.2).

Table 3.2.3. Consumer Goods Production in the Regions of the Republic of Uzbekistan (in % to previous period)

	04/I	05/I
R. of Uzbekistan	114.9	116.4
R. of Karakalpakstan	119.0	117.1
Andijan	133.3	180.3
Bukhara	107.8	104.7
Jizzakh	113.0	120.6
Kashkadarya	127.0	107.8
Navoi	107.3	98.3
Namangan	124.7	112.1
Samarkand	100.3	110.1
Surkhandarya	129.5	101.8
Sirdarya	108.0	109.9
Tashkent	106.6	107.7
Fergana	113.2	115.8
Khorezm	96.6	96.5
Tashkent City	115.7	107.4*

Source: State Statistics Committee of Uzbekistan.
*) Without “Shakar Investment” JV and “Toshkent Tukimachilik Kombinati” JSC

The highest growth of consumer goods production (by 80.3%) was observed in Andijan region due to stable performance of “UzDaewooAuto” JV (Table 3.2.3, Annex 3.2.4). In the first quarter of 2005 the share of the region in the territorial structure of consumer goods production rose by 10.0 p.p. compared with the first quarter of 2004 and reached 28.3% and in the structure of non-foods production it achieved 48.9% (Table 3.2.4, Annex 3.2.5)

Among other regions of the republic growth of consumer goods production above country-average level took place in Jizzakh region (by 20.6%) and the republic of Karakalpakstan (by 17.1%) (Table 3.2.3). In the latter case it was ensured to great extent by steps taken in this region to develop production small, private enterprises and enterprises with foreign investments that according with the Decree of the President of 8 January 2004 # 3376 “On additional measures on encouraging small business development in the Republic of Karakalpakstan and Khorezm region” pay taxes at rates reduced by 50%.

In the territorial structure of consumer goods production in addition to Andijan region, Samarkand, Tashkent, Fergana regions and Tashkent city have the highest shares (Table 3.2.4).

The reconstruction of light industry enterprises in Khorezm region and the inadequate supply of raw materials resulted in decreased production rates for light industry goods and ultimately for non-foods and consumer goods, as their share in the structure of regional production is quite high. A similar situation is being observed in Navoi region (Annex 3.2.5).

Table 3.2.4. Territorial Structure of Consumer Goods Production (%)

	04/I	05/I
R. of Uzbekistan	100.0	100.0
R. of Karakalpakstan	2.0	2.0
Andijan	18.3	28.3
Bukhara	8.9	8.0
Jizzakh	2.7	2.8
Kashkadarya	4.4	4.1
Navoi	2.2	1.9
Namangan	4.5	4.4
Samarkand	9.3	8.8
Surkhandarya	2.7	2.3
Sirdarya	1.6	1.5
Tashkent	10.3	9.5
Fergana	9.1	9.1
Khorezm	3.1	2.6
Tashkent City	20.9	14.7*

Source: Calculated by the author based on the data from the State Statistics Committee of Uzbekistan. *) Without “Shakar Investment” JV and “Toshkent Tukimachilik Kombinati” JSC

Nevertheless, trends of consumer goods production in the first quarter of 2005 allow continued growth at the rate of 10-12% to be expected over the whole year, as well as quite a high level of supply of domestic manufacture to the domestic market and increasing exports.

3.3. Agrarian Sector

The agrarian sector remains a priority sector in the economy of the country and impacts the activity of interlinked sectors that jointly with agriculture generate the overwhelming part of Uzbekistan's GDP. Transformations implemented in agriculture have led to the shift of a significant part of the most important types of agricultural production to the private sector.

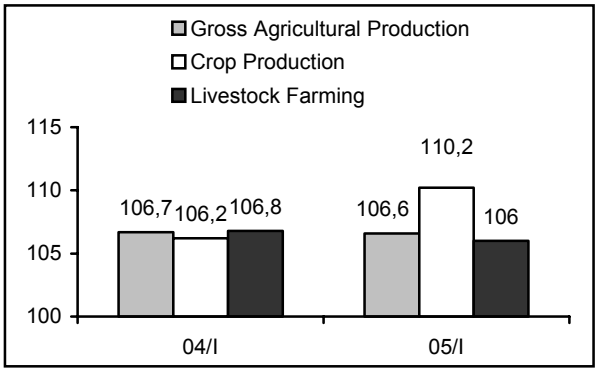
The share of agriculture in the structure of GDP fell in the first quarter of 2005 by 0.6 p.p. in comparison with the corresponding period of the previous year and accounted for 9.1% (vs. 9.7% in the first quarter of 2004). Steps taken with regard to reform, support and liberalization ensured growth in gross agricultural production of 6.6% greater than the respective period of 2004. At the same time, growth rates of crop production were 110.2% (in the first quarter of 2004 106.2%) and of livestock farming 106.0% (106.8%). There were no significant changes in types of ownership and types of products in the structure of gross agricultural production. In the first quarter the trend of a high share of livestock farming production was maintained – 84.3% (86.2% in the first quarter of 2004) although in comparison with the previous year it fell by 1.9 p.p., whereas the share of crop production rose accordingly by 1.9 p.p. and was 15.7% vs. 13.8% in the respective period of the previous year (Table 3.3.1, Graphs 3.3.1, 3.3.2).

Table 3.3.1. Main Indicators of Development of Agriculture

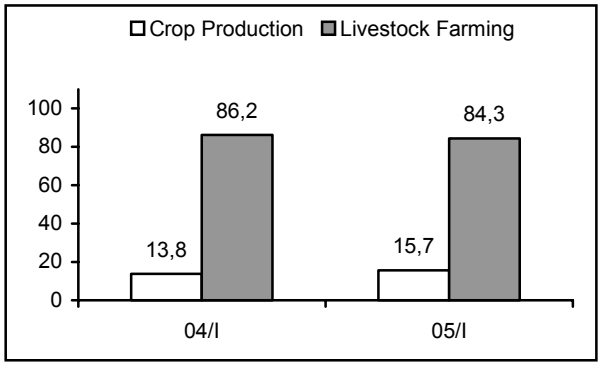
Indicators	Units	04/I	05/I	04/ I to 03/ I, %	05/I to 04/I, %
Gross production of agriculture	Mill. Soum	461.0	532.5	106.7	106.6
Including crop production	Mill. Soum	63.8	83.4	106.2	110.2
- livestock farming	Mill. Soum	397.2	449.1	106.8	106.0
Share of agriculture in GDP	%	9.7	9.1	-	-
Structure of production by types of ownership					
- state	%	0.3	0.2	-	-
- non-state	%	99.7	99.8	-	-
Number of population employed in agriculture	Thous. Persons	2814.1	2794.6	99.3	99.3

Source: State Statistics Committee of Uzbekistan

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



Graph 3.3.2. Structure of Gross Agricultural Production (%)



Source: State Statistics Committee of Uzbekistan

In the first quarter of 2005, 445 loss-making and low-profit shirkats were liquidated and 22,700 farms were established on their basis in a competitive environment. 722,900 hectares of lands were assigned to these farms; of these, 471,200 hectares are areas under cultivation. Of the newly established 22,700 farms, 15,100 farms or 66.5% are specialized in cotton and grain-growing. From 2005 on, all farms performing government contractual work are financed by soft loans (3% per annum vs. 5% in previous year).

Thanks to favorable natural conditions and the economic situation in the agrarian sector, growth was achieved in comparison with the previous year's level on: vegetables (growth – 14.1%), karakul pelts (8.7%), wool (7.8%), meat (6.6%), milk (5.8%) and eggs (2.6%). Stable growth was observed in dekhkan farms and farms; they produced more than 81.5% of the total production of vegetables (72.2% in the first quarter of 2004), meat 95.6% (95.5 % in the first quarter of 2004), milk 98.6% (98.0% in the first quarter of 2004), while the share of shirkat farms fell noticeably, due to their reorganization into farms (Tables 3.3.2, 3.3.3, 3.3.4, 3.3.5).

Table 3.3.2. Main Indicators of Agricultural Production in all Categories of Farms

Products	Units	04/I	05/I	05/I in % to 04/I
Vegetables	Tons	9526	10869	114.1
Meat (live weight)	Thous. tons	204.7	218.3	106.6
Milk	Thous. tons	752.7	796.4	105.8
Eggs	Mill. pieces	346.5	355.4	102.6
Karakul pelts	Thous. pieces	207.2	225.2	108.7
Wool	Tons	166	179	107.8

Source: State Statistics Committee of Uzbekistan

Table 3.3.3. Main Indicators of Agricultural Production in Agricultural Enterprises

Products	Units	04/I	05/I	05/I in % to 04/I
Vegetables	Tons	2653	2039	76.9
Meat (live weight)	Thous. tons	9.2	9.6	104.3
Milk	Thous. tons	15.1	11.5	76.1
Eggs	Mill. pieces	172.9	160.6	92.9
Karakul pelts	Thous. pieces	82.7	83.2	100.6
Wool	Tons	30	12	40.0

Source: State Statistics Committee of Uzbekistan

Table 3.3.4. Main Indicators of Agricultural Production in Farms

Products	Units	04/I	05/I	05/I in % to 04/I
Vegetables	Tons	470	703	149.6
Meat (live weight)	Thous. tons	3.6	4.2	117.9
Milk	Thous. tons	17.6	19.8	112.4
Eggs	Mill. pieces	14.5	14.4	99.0
Karakul pelts	Thous. pieces	5.4	6.3	116.7
Wool	Tons	3	4	133.3

Source: State Statistics Committee of Uzbekistan

Table 3.3.5. Main Indicators of Agricultural Production in Dekhkan Farms

Products	Units	04/I	05/I	05/I in % to 04/I
Vegetables	Tons	6403	8127	126.9
Meat (live weight)	Thous. tons	191.9	204.5	106.5
Milk	Thous. tons	720.0	765.1	106.3
Eggs	Mill. pieces	159.1	180.4	113.4
Karakul pelts	Thous. pieces	119.1	135.7	113.9
Wool	Tons	133	163	122.6

Source: State Statistics Committee of Uzbekistan

Growth was observed in the analyzed period in the population of cattle (except for pigs – due to a reduction in the reserve of forage and also in the demand for this product), especially on dekhkan farms and farms. The role of the private sector in livestock farming is growing, as a result of which 96.6% of the total population of cattle (95.5% in the first quarter of 2004), including 97.5% of cows (96.6%), 74.8% of sheep and goats (72.7%), 77.4% of pigs (68.9%), 85.3% of horses (82.9%) and 71.1% of poultry (68.6%) are farmed at present on dekhkan farms and farms (Tables 3.3.6, 3.3.7, 3.3.8, 3.3.9).

Table 3.3.6. Livestock and Poultry Population on All Categories of Farms (thous. heads)

	04/I	05/I	05/I % to 04/I
Cattle	5806.4	6167.0	106.2
Cows	2546.3	2701.0	106.1
Pigs	83.5	78.7	94.3
Sheep and Goats	10634.5	11368.8	106.9
Poultry	167434	17915.3	107.0
Horses	145.4	150.8	103.7

Source: State Statistics Committee of Uzbekistan

Table 3.3.7. Livestock and Poultry Population in Agricultural Enterprises (thous. heads)

	04/I	05/I	05/I % to 04/I
Cattle	263.1	208.8	79.4
Cows	85.8	68.7	80.1
Pigs	26.0	17.8	68.5
Sheep and Goats	2901.6	2863.5	98.7
Poultry	5263.1	5172.6	98.3
Horses	24.8	22.1	89.1

Source: State Statistics Committee of Uzbekistan

Table 3.2.8. Livestock and Poultry Population on Farms (thous. heads)

	04/I	05/I	05/I % to 04/I
Cattle	297.2	312.8	105.2
Cows	94.6	99.2	104.9
Pigs	13.5	13.7	101.5
Sheep and Goats	334.4	443.4	132.6
Poultry	680.4	661.1	97.2
Horses	9.7	11.4	117.5

Source: State Statistics Committee of Uzbekistan

Table 3.3.9. Livestock and Poultry Population on Dekhkan Farms (thous. heads)

	04/I	05/I	05/I % to 04/I
Cattle	5246.1	5645.4	107.6
Cows	2365.9	2533.1	107.1
Pigs	44.0	47.2	107.3
Sheep and Goats	7398.5	8061.9	109.0
Poultry	10799.9	12081.6	111.9
Horses	110.9	117.3	105.8

Source: State Statistics Committee of Uzbekistan

Breeding campaign is being successfully conducted. As of today 838,700 lambs were received (in 2004 – 767,100 lambs), and of these 755,200 lambs were kept (91.3%) (in 2004 – 659,100 lambs). A distinctive feature of the considered period is that a sharp rise in the number of farms was observed. By 1 April 2005 the number of farms increased by 20,000 and reached 116,700. 3.5 mill. hectares were assigned to farms (in 2004 – 2.5 mill. hectares); of these about 2.7 mill. hectares are areas under cultivation or 72.4% of the total sown area (Table 3.3.10.).

Table 3.3.10. Activity of Farms in the First Quarter of 2005

	Units	04/I	05/I	05/I in % to 04/I
Agricultural production	Bill. Soum	11.2	13.8	113.4
Including crop production	Bill. Soum	1.5	2.2	123.0
- livestock farming	Bill. Soum	9.7	11.6	111.9
Share of farms in Gross Agricultural Production	%	2.4	2.6	-
Incl. –crop production	%	0.3	0.4	-
- livestock farming	%	2.1	2.2	-
Number of farms	Units	96745	116741	120.7
Area of lands assigned to them	Thous. Hectares	2531.1	3502.4	138.4
Number of employees on farms	Thous. Persons	654.5	680.2	103.9
Average per farm	Persons	26.2	30.0	114.5

Source: State Statistics Committee of Uzbekistan

In order to enhance the efficiency of agricultural activity, 259 mini-banks were established (in the first quarter of 2004 – 146), 398 alternative MTF (208), 170 centers for selling mineral fertilizers (206), 285 centers for selling fuel (215), 112 centers offering veterinary services (85), 86 networks of information-consulting services (38), 111 networks for purchasing and selling agricultural goods (46), and 366 associations of water consumers (156) that serve 1,032,200 hectares of agricultural lands. However, farmers continue to delay payments for services provided for the water supply, which impacts negatively on the activity of the AWCs. For instance, in the first quarter of 2005 just 19.2% of the total services rendered were promptly paid for. As of 1 April of the current year, 73,800 farms had established 884 AWCs on a voluntary basis and arranged water supplies and other intra-economic services on a contractual basis.

In the period concerned, the strengthening of the material and technical base of the agrarian sector continued. As of 1 April 2005 810 tilling and transporting tractors had been supplied to the agricultural sector (in 2004 – 662), including 710 on a leasing basis (the first quarter of 2004 – 508), as well as 65,000 tons of diesel fuel and 127,800 tons of mineral fertilizers, including 120,000 tons nitrogen fertilizers, 6,100 tons of phosphate fertilizer and 1,700 tons of potash fertilizers.

In comparison with farms there were no significant changes in the development of dekhkan farms and shirkats. Farms played a major role in changing forms of management. A high growth rate of production in farms of 113.4% in the first quarter of 2005 vs. 111.4% in the respective period of 2004, in dekhkan farms of 107.3% (106.9%) and a slowing growth rate in shirkats of 96.4% (103.4%) were observed. The share of dekhkan farms dominates in the structure of gross agricultural production with 90.4% (in the first quarter of 2004 – 90.0%), while the role of shirkats 7.0% (7.6%) and farms 2.6% is small (Tables 3.3.10,3.3.11, 3.3.12).

Table 3.3.11. Activity of Dekhkan Farms in the First Quarter of 2005

	Units	04/I	05/I	05/I in % to 04/I
Agricultural production	Bill. Soum	414.8	481.6	107.3
Including –crop production	Bill. Soum	50.2	67.4	112.9
- livestock farming	Bill. Soum	364.6	414.2	106.5
Share of dekhkan farms in gross agricultural production	%	90.0	90.4	-
Including –crop production	%	10.9	12.6	-
- livestock farming	%	79.1	77.8	-
Number of dekhkan farms	Units	4446.5	4542.5	102.2
Area of land assigned to them	Thous. Hectares	675.6	676.6	100.1
Average number of employees in dekhkan farms	Thous. Persons	1252.8	1269.8 *)	101.4

Source: State Statistics Committee of Uzbekistan
*) Estimation

Table 3.3.12. Activity of Agricultural Enterprises (Shirkats) in the First Quarter of 2005

	Units	04/ I	05/ I	05/ I in % to 04/ I
Agricultural production	Bill.soum	35.0	37.1	96.4
Incl. –crop production	Bill soulm	12.1	13.8	97.8
- livestock farming	Bill. soum	22.9	23.3	95.7
Share of agricultural enterprises in gross agricultural production	%	7.6	7.0	-
Incl. –crop production	%	2.6	2.6	-
- livestock farming	%	5.0	4.4	-

Source: State Statistics Committee of Uzbekistan

In general in the period concerned, positive shifts were observed towards intensifying market transformations in agriculture through the priority development of farms.

At the same time, certain issues remain, related to the further improvement of the mechanism for transforming shirkats into farms and for strengthening contractual relations based on market principles. The system of infrastructure of different types of management providing services to agricultural commodity producers requires priority development.

3.4. Investment

The favorable macroeconomic environment established in the Republic has facilitated the intensification of investment processes. In the course of implementing the Investment Program for 2005, the total amount of investment in fixed assets from January to March 2005 increased by 4.2 % over the corresponding period last year, reaching UZS 502.2 billion (Annex 3.4.1). A number of joint ventures with foreign participation were launched in the light industry sector, specializing in cotton yarn, knitted goods and garment production. Construction is progressing on major facilities such as the Kungrad Sodium Plant, an airport in Navoi City, Rezakh, Kengulsay and Typolan water reservoirs, the railroad Tashkent-Boysun-Kumkurgan and others.

The process of structural transformations in the economy facilitated the growth of investments channeled to the non-public sector by 8.5 percent points, reaching a 67.7% share of the total amount of investments into the development of the economy (Table 3.4.1).

Table 3.4.1. Capital Investment Break-Down by Form of Ownership (%)

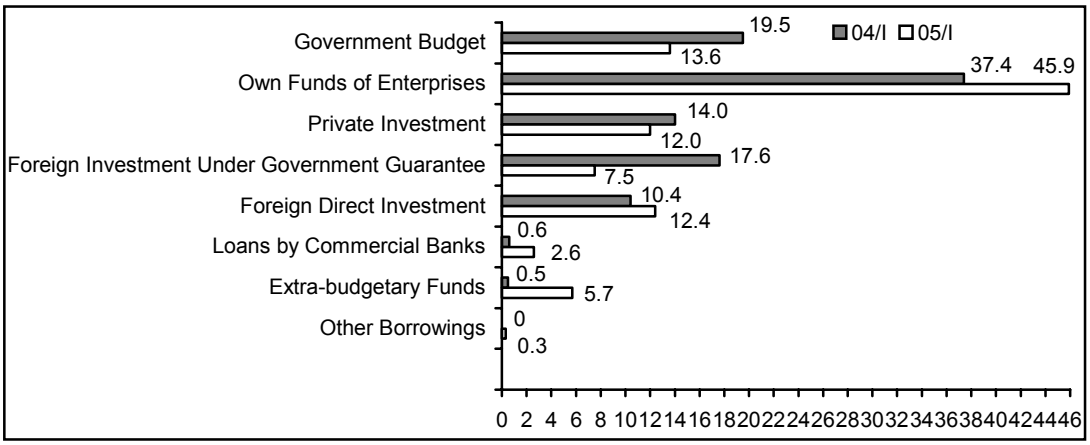
	04/I	05/I
Capital Investment	100	100
Public Property	40.8	32.3
Non-public Property	59.2	67.7

Source: State Statistics Committee of Uzbekistan

The progress of economic reforms has made an impact on the structure of investment by source of funding. The own funds of enterprises remained a key source of investments into fixed assets in January-March 2005. Their weight in the total amount of investments increased by 8.5 percent, accounting for 45.9 percent. The financial sustainability of businesses was supported by a boost in privatization processes and by improvement in the fiscal policy of the government towards decreasing the tax burden on producers.

The upward trend in foreign investment in the structure of sources of funding was a result of newly passed legislative and regulatory acts, specifically the Cabinet of Ministers Resolution “On Additional Measures for Strengthening the Legal Protection of Foreign Direct Investment.” The weight of foreign direct investment in the total structure increased by 2.0 percent and accounted for 12.4% (Figure 3.4.1). The Resolution was aimed at considerably increasing the growth of the private sector and the attraction of foreign investment.

Figure 3.4.1. Capital Investment Break-Down by Source of Funding (%)



Source: State Statistics Committee of Uzbekistan.

The government decision to increase the responsibility of the banking sector for implementing monetary policy encouraged the growth of investment funded by commercial bank loans. As a result, investment by commercial banks increased by 2 percent and accounted for 2.6 percent of the total.

The efforts of extra-budgetary funds (Road Fund of Uzbekistan and so forth) ensured the increase of their share in total capital investment by 5.2 percent. Funds from extra-budgetary funds were mainly allocated to the construction and repair of roads and railways.

The curtailment of government involvement into the economy entailed a decrease in the share of the public budget in total investment and facilitated financial decision-making by businesses themselves. The weight of government investments decreased by 5.9 percent, and the weight of foreign loans under Government guarantee by 10.1 percent points, accounting for 13.6 and 7.5 percent respectively of the total invested in the first quarter of 2005. The weight of private investment (savings) in sources of funding decreased by 2.0 percent and accounted for 12 percent. Savings were mainly targeted towards the purchase and construction of housing.

Table 3.4.2. Capital Investment by Sector of the Economy (%)

	04/I	05/I
Total	100	100
Production, including:	63.4	67.4
Industry	25.8	33.1
Agriculture	5.0	2.9
Construction	0.2	2.8
Transportation and Communications	21.7	22.0
Trade and Public Catering	1.4	1.3
Other	9.3	5.3
Non-production	36.6	32.6

Source: State Statistics Committee of Uzbekistan

In January-March of the current year, investments were mainly focused on the development of base sectors of the economy (industry, transportation, communications), which facilitated the growth of investment into production to 67.4 percent. In the comparable period of last year, this indicator accounted for 63.4 percent (Table 3.4.2). The development of the above sectors ensures the economic independence of the country, encouraging the acceleration of the development of infrastructure.

Structural transformations in the economy – towards the output of competitive goods and the localization of industries – facilitated growth in the demand for investment in industry. The share of investment in industry sectors in January-March increased by 7.3 percent and accounted for 33.1 percent of total investment. Facilities in four joint ventures in light industry were launched using own and leveraged capital. Development began of the Kandym group of hydrocarbon fields, the construction of a compressor plant at Gazly PHG, the Dekhkanabad Potash Fertilizer Plant and the reconstruction of Samarkand Chemical Plant. The modernization of Tashkent Thermoelectric Station is progressing. Efforts are being undertaken to launch production of universal tilling tractors at UzCase-Tractor joint venture.

In the transportation and communications sectors, capital investment increased by 0.3 percent. Their share in total capital investment accounted for 22.0 percent. Construction of the Tashkent-Baisun-Kumkurgan railroad and Navoi city airport and the reconstruction of international highways is continuing.

Investments into agriculture decreased by 2.1 percent. Their share in total capital investment accounted for 2.9 percent. Funds were mainly invested in the construction of major water management facilities in Jizzakh and Sirdarya regions. Construction of a drainage system in South Karakalpakstan and reconstruction of pump stations on the Amu-Zang canal is pending.

In the analyzed period of the current year there were considerable changes in the distribution of foreign investment into the capital assets of the economic sectors. The share of foreign capital investment in production reached 90.6%of the total foreign investment, an increase of 8.7%. Shares of foreign investment into industry and agriculture reached 65.3% and 2.0% of the total, i.e. increased by 20.2 and 1.8 percent respectively. Construction of the above-mentioned facilities is funded largely by foreign investment, which affected the growth of their shares in industry and agriculture. The share of foreign investment in transportation and communications decreased by 4.4 percent and accounted for 21.9 percent of the total (Table 3.4.3).

The structure of investment into industry sectors changed as well. Among major investment areas were fuel and power, chemical, petrochemical and light industry sectors. The development of the Kandym group of hydrocarbon fields, the exploration works in Ustyurt area, the development of new non-ferrous metals deposits, and the modernization of Kokand Superphosphate Plant owe to the increase in the financial sustainability and attractiveness of key industry sectors for foreign investors.

Table 3.4.3. Foreign Capital Investment by Economic Sector (%)

	04/I	05/I
Total:	100	100
Production, including:	81.9	90.6
Industry	45.1	65.3
Agriculture	0.2	2.0
Construction	0.0	0.7
Transportation and Communications	26.3	21.9
Trade and Public Catering	0.0	0.0
Other	10.3	0.7
Non-production	18.1	9.4

Source: State Statistics Committee of Uzbekistan.

The share of investment into the fuel sector reached 23.1 percent of the total investment into industry. With growth in the share of investment by 2.3 percent into the metallurgical sector, by 0.2 percent into mechanical engineering and by 0.5 percent into the food sector, their shares increased to 12.9, 2.3 and 3.5 percent of the total respectively (Table 3.4.4).

Table 3.4.4. Capital Investment by Industry Sector (%)

	04/I	05/I
Industry, Total	100	100
Power	11.5	9.5
Fuel	13.7	23.1
Metallurgy	10.6	12.9
Machine Building	2.1	2.3
Light	28.1	15.1
Food	3.0	3.5
Chemical and Petrochemical	24.7	10.5
Building Materials	2.0	4.9
Other	4.3	18.2

Source: State Statistics Committee of Uzbekistan

Capital investment into the building materials sector, facilitated by the program of sector development, increased by 2.9 percent, accounting for 4.9 percent of the total (reconstruction of 'Quartz' JSC and 'Kashkadarya Marble' LLC, and the incorporation of private companies for the production of soft roofing, walling and facing materials on the basis of local raw resources).

The share of investment into export-oriented sectors decreased: for light industry from 28.1 to 15.1 percent and for the chemical and petrochemical industry from 24.7 to 10.5 percent. The implementation of the above-listed projects will facilitate investment growth in the chemical and petrochemical industry, while implementation of the program for attracting investment into the textile sector will spur capital investment into light industry. Investment in the power sector fell to 9.5 percent, i.e. by 2.0 percent. The modernization of the Tashkent Thermoelectric Station and work on the relocation of high voltage lines may contribute to increasing investment activity in the power sector.

Table 3.4.5. Capital Foreign Investment by Industry Sector (%)

	04/I	05/I
Industry, Total	100	100
Power	8.8	6.6
Fuel	2.1	6.3
Metallurgy	0.0	11.3
Machine Bulding	0.2	0.2
Light	55.2	31.9
Food	0.6	2.6
Chemical and Petrochemical	32.0	1.2
Building Materials	0.0	8.7
Other	1.1	31.2

Source: State Statistics Committee of Uzbekistan

Changes in foreign investment flows affected the distribution of capital investment in industry. Foreign investment into metallurgy and building materials reached 11.3 and 8.7 percent respectively. The considerable growth of foreign investment into metallurgy was related to the technical re-equipment of Navoi Mining and Smelting Combine, while in the building materials sector it was due to the implementation of the program of accelerated development (Table 3.4.5).

The share of foreign investment into the fuel sector increased by 4.2 percent and into the food sector by 2.0 percent. Their weight in the first quarter reached 6.3 and 2.6 percent respectively of total foreign investment into industry development. Foreign investment into light industry decreased by 23.3 percent, and in the chemical and petrochemical industry by 30.8 percent. In the power sector, foreign investment fell to 6.6 percent, i.e. decreased by 2.2 percent. The funding of machine building remained at the same level, i.e. 0.2 percent, as projects envisaged by the Investment Program were not commenced in the first quarter.

Table 3.4.6. Capital Investment by Use (%)

	04/I	05/I
Total	100	100
Building and Assembly	52.6	48.5
Machinery, Equipment, Tools	36.1	37.7
Other Costs	11.3	13.8

Source: State Statistics Committee of Uzbekistan

In construction, the decrease in development facilitated the progressive transformation with regard to use. As a results, the share of building and assembly works decreased by 4.1 percent to 48.5 percent. The share of investment into the purchase of machinery and equipment increased by 1.6 percent and accounted for 37.7 percent of total investment. Positive shifts in use will ensure a decrease in the wear of active fixed assets, i.e. increase their technological level (Table 3.4.6).

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

Period	Industry	Including:									
		Electric-Power Industry	Fuel Industry	Ferrous Metal-lurgy	Non-Ferrous Metallurgy	Chemical In-dustry	Machine-Building	Construction Materials In-dustry	Light Industry	Foodstuffs Industry	Other *
2000	100.0	8.5	15.3	1.3	10.2	6.0	9.9	5.4	19.1	13.3	11.0
2001	100.0	8.1	13.2	1.4	10.9	6.0	11.2	5.2	20.0	12.6	11.4
2002	100.0	7.7	13.4	1.5	13.3	5.9	10.3	4.6	19.5	14.3	9.5
2003	100.0	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
04/I	100.0	10.4	12.5	2.0	14.3	5.1	11.1	3.5	24.8	9.8	6.5
05/I	100.0	11.1	15.8	2.4	15.6	5.0	12.3	2.9	21.8	7.4	5.7

***** including Timber, Wood-Working Industry
Source: State Statistics Committee of Uzbekistan

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

Period	Industry	Including:								
		Electric-Power Industry	Fuel Industry	Ferrous Metal-lurgy	Non-Ferrous Metallurgy	Chemical Indus-try	Machine-Building	Construction Materials Indus-try	Light Industry	Foodstuffs In-dustry
2000	105.9	101.1	99.7	118.7	102.5	115.8	89.7	104.3	117.0	108.5
2001	107.6	95.8	96.4	110.6	101.8	106.8	124.8	105.9	112.4	109.4
2002	108.3	101.5	102.4	104.3	105.9	113.8	108.8	102.2	109.0	119.2
2003	106.2	101.8	100.6	109.1	99.0	105.2	130.8	104.3	106.2	106.8
03/I	104.0	100.6	97.5	104.4	101.1	102.6	108.8	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
2004	109.4	100.3	105.8	128.5	105.0	104.5	134.5	108.2	105.2	104.7
04/I	108.8	103.0	109.1	119.1	100.7	96.1	135.3	115.0	105.4	102.1
05/I	108.3	98.2	99.2	127.4	100.7	107.3	149.5	104.4	113.1	100.1

Source: State Statistics Committee of Uzbekistan

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

	2000	2001	2002	2003	2004	04/I	05/I
Consumer Goods	106.2	107.6	108.4	108.4	113.4	114.9	116.4
Foodstuffs	110.5	110.2	116.1	106.6	109.9	117.6	100.2
Alcoholic beverages	108.1	102.6	95.5	98.2	100.9	101.7	106.5
Non-Foods	101.7	106.3	103.7	112.1	118.6	114.2	133.6
Light Industry Goods	117.3	110.7	105.8	112.2	99.4	101.8	98.3

Source: State Statistics Committee of Uzbekistan

Annex 3.2.2. Structure of Consumer Goods Production (%)

	2000	2001	2002	2003	2004	04/I	05/I
Consumer Goods	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	46.1	40.2
Alcoholic beverages	11.9	9.9	8.6	7.6	6.8	6.0	5.4
Non-Foods	43.5	44.5	44.3	48.2	50.4	47.9	54.4
Light Industry Goods	11.6	12.0	11.6	14.0	12.3	13.5	10.8

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

Annex 3.2.3. Dynamics of Production of Major Types of Consumer Goods by Industrial Enterprises* (in % to previous period)

	2000	2001	2002	2003	2004	04/I	05/I
Cotton Fabrics	108.1	110.8	106.9	97.8	82.0	86.2	83.4
Silk Fabrics	102.0	98.3	97.4	100.3	91.4	104.6	88.9
Carpets and Carpet Goods	69.6	104.8	108.3	2.8 times	140.2	103.6	102.8
Hosiery	119.0	63.3	77.0	188.4	110.0	104.3	157.0
Knitwear Goods	97.1	85.7	82.4	100.6	95.9	91.3	102.4
Footwear	111.3	149.1	109.5	99.9	81.9	68.0	105.7
Milk and Dairy Products	91.3	99.2	115.9	107.6	183.4	2.2 times	88.6
Cheese, including brynza	89.5	82.2	74.3	78.4	89.1	100.0	107.1
Canned Goods	104.5	97.1	101.3	119.8	80.9	114.2	183.8
Granulated Sugar	48.6	2.8 p	7.6 p	114.2	78.0	149.8	44.6
Flour	95.8	103.4	87.1	73.7	145.6	2.3 times	88.7
Bread and Baked Goods	106.7	100.2	99.5	55.2	89.0	75.4	83.9
Pasta	107.5	110.0	81.0	60.4	110.1	123.3	41.6
Vegetable Oil	108.0	96.2	93.8	97.8	100.5	86.4	114.1
Grape Wine	88.4	118.6	116.7	73.4	59.9	74.6	90.3
Vodka and Liquors	99.1	92.5	92.5	96.6	107.1	99.2	104.3
Non-alcohol Beverages	107.7	76.6	93.1	25.3	26.9	5.5	11.1 times
Filterless and Regular Cigarettes	72.8	89.8	101.0	92.5	94.6	85.0	93.9

Source: State Statistics Committee of Uzbekistan
* Indicators for 2003-2005 cited on large-scale enterprises.

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

	2000	2001	2002	2003	2004	04/I	05/I
R. of Uzbekistan	106.2	107.6	108.4	108.4	113.4	114.9	116.4
R. of Karakalpakstan	105.9	113.5	104.3	104.7	110.3	119.0	117.1
Andijan	92.6	123.7	97.8	120.3	145.3	133.3	180.3
Bukhara	105.9	107.4	103.3	106.0	107.8	107.8	104.7
Jizzakh	123.6	119.3	159.3	129.0	115.2	113.0	120.6
Kashkadarya	113.1	112.7	108.5	108.8	117.1	127.0	107.8
Navoi	115.5	99.98	114.5	105.3	97.3	107.3	98.3
Namangan	124.3	111.8	118.1	114.0	110.4	124.7	112.1
Samarkand	92.4	102.6	102.5	106.8	109.9	100.3	110.1
Surkhandarya	111.9	100.9	114.8	106.2	115.2	129.5	101.8
Sirdarya	110.1	120.2	103.0	104.2	107.5	108.0	109.9
Tashkent	112.5	114.1	106.6	107.1	111.7	106.6	107.7
Fergana	111.3	98.1	106.4	101.6	119.2	113.2	115.8
Khorezm	107.8	94.0	95.0	114.5	101.4	96.6	96.5
Tashkent City	111.3	101.3	120.2	102.7	103.4**	115.7	107.4*

Source: State Statistics Committee of Uzbekistan
*) Without “Shakar Investment” JV and “Toshkent Tukimachilik Kombinati” JSC
**) This does not include JV Coca-Cola and JV Sugar Investments

Annex 3.2.5. Consumer Goods Production in the Regions of the Republic of Uzbekistan in the first quarter of 2005

	Production (in % to previous period)					Territorial structure of production * (%)					Commodity structure of production * (%)				
	Con-sumer Goods, Total	Food-stuffs	Alcoholic Bever-ages	Non-Foods	Light Industry Goods	Con-sumer Goods, Total	Food-stuffs	Alcoholic Bever-ages	Non-Foods	Light Industry Goods	Con-sumer Goods, Total	Food-stuffs	Alcoholic Bever-ages	Non-Foods	Light Industry Goods
R. of Uzbekistan	116.4	100.2	106.5	133.6	98.3	100.0	100.0	100.0	100.0	100.0	100.0	40.2	5.4	54.4	10.8
R. of Karakalpakstan	117.1	115.1	102.7	139.8	146.9	2.0	3.4	4.7	0.7	2.8	100.0	68.5	12.8	18.7	15.6
Andijan	180.3	103.4	78.6	190.1	86.5	28.3	4.1	2.2	48.9	11.3	100.0	5.8	0.4	93.8	4.3
Bukhara	104.7	102.1	100.0	107.0	104.5	8.0	8.0	5.9	8.2	16.9	100.0	40.0	4.0	56.0	22.9
Jizzakh	120.6	119.2	13.7	145.4	111.3	2.8	6.4	0.02	0.4	0.7	100.0	91.8	0.03	8.2	2.9
Kashkadarya	107.8	108.9	29.5	120.8	120.8	4.1	8.5	0.7	1.1	4.3	100.0	81.0	0.9	15.1	11.4
Navoi	98.3	111.3	78.0	91.4	56.6	1.9	2.0	1.1	1.9	1.9	100.0	42.7	3.3	54.0	10.6
Namangan	112.1	114.0	117.3	107.2	113.4	4.4	7.3	3.2	2.3	9.4	100.0	67.2	4.0	28.7	23.4
Samarkand	110.1	120.3	109.8	101.1	103.9	8.8	10.7	8.8	7.4	4.6	100.0	48.6	5.5	45.9	5.7
Surkhandarya	101.8	103.5	83.4	107.3	98.9	2.3	4.6	3.8	0.5	0.9	100.0	79.8	8.9	11.3	4.0
Sirdarya	109.9	109.9	100.4	118.5	124.1	1.5	2.9	2.9	0.4	1.4	100.0	75.3	10.4	14.3	9.5
Tashkent	107.7	105.0	125.6	100.3	123.9	9.5	9.7	43.2	6.0	13.4	100.0	41.0	24.8	34.2	15.3
Fergana	115.8	99.8	69.8	126.2	156.2	9.1	7.0	1.6	11.3	13.8	100.0	31.1	1.0	67.9	16.5
Khorezm	96.5	118.7	76.9	73.5	55.3	2.6	3.9	4.1	1.4	4.2	100.0	61.5	8.7	29.8	17.7
Tashkent City	107.4**	113.6**	108.1	100.2**	68.2	14.7	21.5	17.7	9.4	14.4	100.0	58.7	6.5	34.8	10.6

Source: State Statistics Committee of Uzbekistan. Non-foods including light industry goods.
* Calculated by the author based on the data from the State Statistics Committee of Uzbekistan.
**) Without “Shakar Investment” JV and “Toshkent Tukimachilik Kombinati” JSC

Annex 3.3.1. Main Indicators of Agricultural Production Development

	Units	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	04/I	05/I
Raw cotton	Thous. tons	3934	3350	3646	3206	3600	3002	3265	3122.4	2822.5	3535.4	-	-
Grain	Thous. tons	3115	3562	3776	4148	4331	3929	4072	5551	6103.1	6017.1	-	-
Potatoes	Thous. tons	440	514	692	691	658	731.1	744	777.2	834.4	892.7	-	-
Vegetables	Thous. tons	2725	2497	2384	2403	2680	2645	2778	2935.6	3301.4	3315.9	9.5	10.9
Fruits and Berries	Thous. tons	602	605	548	544	489	791	801	842.9	765.8	846.3	-	-
Grapes	Thous. tons	621	478	512	336	344	624,2	573	516.4	401.5	577.6	-	-
Melons	Thous. tons	472	470	376	470	518	451.4	466	479.1	587.3	571.3	-	-
Meat (live weight)	Thous. tons	853	801	801	809	822	842	854	865	936.7	998.3	204.7	218.3
Milk	Thous. tons	3665	3403.9	3406	3495	3543	3633	3665	3721.3	4031.1	4280.5	752.7	796.4
Eggs	Mill. Pieces	1232	1057	1075	1165	1240	1254	1288	1368.9	1632.4	1860.3	346.5	355.4

Source: State Statistics Committee of Uzbekistan

Annex 3.4.1. Dynamics of Investment in Current Prices

	Capital Investment UZS billion	Increase to the respective period of the previous year, %
1995	88.7	2
1996	176.6	7
1997	276.6	17
1998	396.4	15
1999	537.4	2
2000	744.5	1
2001	1320.9	3.7
2002	1442.4	3.8
2003	1867.4	4.5
2004	2473.2	5.2
04/I	377.5	-0.4
04/I-II	912.0	2.2
04/I-III	1529.6	3.0
05/I	502.2	4.2

Source: State Statistics Committee of Uzbekistan.

Annex 3.4.2. Capital Investment by Form of Ownership (%)

	2000	2001	2002	2003	2004	04/I	04/I-II	04/I-III	05/I
Capital Investment	100	100	100	100	100	100	100	100	100
Public Property	63.8	47.0	40.9	40.4	41.4	40.8	45.6	43.0	32.3
Non-public Property	36.2	53.0	59.1	59.6	58.6	59.2	54.4	57.0	67.7

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

	2000	2001	2002	2003	2004	04/I	04/I-II	04/I-III	05/I
Total	100	100	100	100	100	100	100	100	100
Government Budget	29.2	21.5	25.0	17.7	14.9	19.5	21.1	18.4	13.6
Enterprises	27.1	31.0	40.0	41.8	43.2	37.4	38.6	38.5	45.9
Savings	12.0	10.3	12.0	11.1	12.4	14.0	13.4	15.8	12.0
Foreign Investment under Sovereign Guarantee	19.8	23.2	15.7	19.2	14.5	17.6	14.2	12.9	7.5
Foreign Direct Investment	3.4	4.8	4.7	7.1	10.0	10.4	9.5	9.6	12.4
Centralized Bank Loans	5.2	5.9	0.1	0.0	0.0	0.0	0.0	0.0	0.0
Loans by Commercial Banks	1.7	2.2	1.5	1.9	2.3	0.6	0.8	2.4	2.6
Extra-budgetary Funds	1.2	0.5	0.3	0.4	2.4	0.5	2.2	2.2	5.7
Other Borrowings	0.4	0.6	0.7	0.8	0.3	0.0	0.2	0.2	0.3

Source: State Statistics Committee of Uzbekistan.

Annex 3.4.4. Capital Investment by Economic Sector (%)

	2000	2001	2002	2003	2004	04/I	04/I-II	04/I-III	05/I
Total	100	100	100	100	100	100	100	100	100
Production	57.5	63.1	57.1	63.0	64.1	63.4	58.1	56.5	67.4
Industry	29.7	38.9	32.4	28.0	28.6	25.8	24.3	26.7	33.1
Agriculture	5.7	5.5	5.8	4.3	3.4	5.0	3.0	3.0	2.9
Construction	0.5	0.6	0.4	0.5	0.4	0.2	0.3	0.5	2.8
Transportation and Communications	16.7	14.0	10.0	20.3	23.1	21.7	19.8	17.2	22.0
Trade and Public Catering	4.3	1.5	2.6	3.3	1.3	1.4	1.3	1.4	1.3
Other Areas	0.6	2.6	5.9	6.6	7.3	9.3	9.4	7.7	5.3
Non-production	42.5	36.9	42.9	37.0	35.9	36.6	41.9	43.5	32.6

Source: State Statistics Committee of Uzbekistan

Annex 3.4.5. Capital Investment by Industry Sector (%)

	2000	2001	2002	2003	2004	04/I	04/I-II	04/I-III	05/I
Industry, Total	100	100	100	100	100	100	100	100	100
Power	5.3	3.8	6.4	9.5	9.5	11.5	11.9	11.1	9.5
Fuel	20.2	32.2	29.0	21.3	20.3	13.7	18.1	17.7	23.1
Metallurgy	9.0	11.4	14.5	22.3	16.4	10.6	13.0	13.8	12.9
Mechanical Engineering	13.8	14.6	10.9	3.7	3.2	2.1	2.4	2.4	2.3
Light	7.9	15.9	14.1	21.4	20.7	28.1	21.7	23.8	15.1
Food	8.4	5.8	6.0	3.8	5.0	3.0	4.8	5.5	3.5
Chemical and Petrochemical	26.7	9.9	11.1	9.2	7.6	24.7	16.9	11.0	10.5
Building Materials	0.9	1.2	1.2	1.6	2.0	2.0	2.6	2.4	4.9
Other	7.8	5.2	6.8	7.2	15.3	4.3	8.6	12.3	18.2

Source: State Statistics Committee of Uzbekistan

Annex 3.4.6. Capital Investment by Use (%)

	2000	2001	2002	2003	2004	04/I	04/I-II	04/I-III	05/I
Total	100	100	100	100	100	100	100	100	100
Building and Assembly	61.0	48.2	53.1	48.4	45.6	52.6	53.8	50.9	48.5
Machinery, Equipment, Tools	25.0	39.5	35.1	39.7	43.6	36.1	32.4	37.6	37.7
Other Costs	14.0	12.3	11.8	11.9	10.8	11.3	13.8	11.5	13.8

Source: State Statistics Committee of Uzbekistan

4. Foreign Trade

4.1. Trade balance, Exports and Imports

In the first quarter of 2005, in comparison with the corresponding period of the previous year, the foreign trade turnover of Uzbekistan increased by 10.0% and amounted to 2.3 bn. USD (Table 4.1.1.). At the same time, 57.9% of the total volume of the foreign trade turnover consisted of export operations, while imports accounted for 42.1%. The volume of exports increased by 9.7%, remaining at a maximal quarter value of 1.3 bn. USD for the second quarter in a row. Imports grew more rapidly than exports, increasing by 10.4% and amounting to 0.96 bn. USD.

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

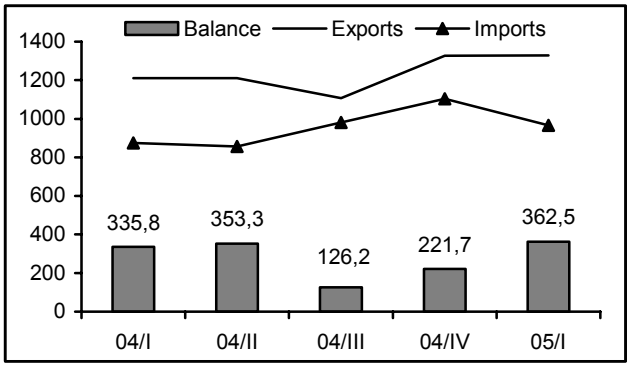
Indicators	04/I	05/I	Change in volume, %
			05/I to 04/I
Foreign trade turnover	2084.2	2293.3	110.0
CIS countries	610.0	737.7	120.9
Non-CIS countries	1474.2	1555.6	105.5
Exports	1210.0	1327.9	109.7
CIS countries	324.7	342.4	105.5
Non-CIS countries	885.3	985.5	111.3
Import	874.2	965.4	110.4
CIS countries	285.3	395.3	138.6
Non-CIS countries	588.9	570.1	96.8
Trade balance	335.8	362.5	X
CIS countries	39.4	-52.9	X
Non-CIS countries	296.4	415.4	X
Structure of foreign trade turnover, %	100.0	100.0	X
CIS countries	29.3	32.2	X
Non-CIS countries	70.7	67.8	X

Source: State Committee on Statistics of Uzbekistan

As before, the favorable conjuncture of the world markets for the main raw-commodity (cotton-fiber, gold, and copper) exports of Uzbekistan remained a positive factor for the growth of exports. World prices for these commodities have increased on average by 2% - 5%[1] in comparison with the first quarter of 2004. The program adopted in the country for attracting investments to the textile industry for the period of 2005-2008 has facilitated the growth of exports of finished products. One of the main tasks, stated in the program is the production of high-quality and compatible textile goods with high value added and the achievement of exports of textile goods at a volume of no less than 80 per cent of output.

During the first quarter of 2005, the ratio of exports to imports was 1.37, including 0.87 with the CIS, and 1.73 with foreign countries, as opposed to indicators of 1.38; 1.14; 1.50 respectively in the corresponding period of 2004. As a result, the active trade balance amounted to 362.5 mill. USD, showing an increase of 26.7 mill. USD (Graph 4.1.1.). In the first quarter, the positive balance resulted from trade with foreign countries and increased in comparison with the corresponding period of 2004 by 119.0 mill. USD, amounting to 415.5 mill. USD. The trade balance with the CIS amounted to negative 52.9 mill. USD.

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

The increase in the volume of exports, in comparison with the first quarter of 2004, was observed in all major groups of commodities (Table 4.1.2.), except foodstuffs and energy carriers. Enterprises in such associations as "Uzeltechprom", "Uzavtoprom", "Uzmetkombinat", "UzKTJM", "Uzplodovoshvinpromholding", and the service "Agency on Communications and Information Development" increased their export volumes.

Exports of machinery and equipment increased by 0.2%, as did chemical products. As a result, the share of exports of machinery and equipment amounted to 7.7% (a decline of 0.7 p.p. in comparison to the first quarter of 2004) and chemical products – 3.8% (by 0.3 p.p.), (Table 4.1.2., Appendix 4.1.2). The volume of sales of the only car manufacturer in Central Asia, the joint venture "UzDaewooAuto", increased significantly, mainly to Russia. And this in turn ensured the leadership of the company in that market. "UzDaewooAuto" competes with Russian car manufacturing companies. According to the Russian mass media, prices for

1 The author's calculations based on data from the Internet.

"Vaz" cars have increased and almost equal the prices of Uzbekistan-made "Nexia" cars, while "Vaz" decreased its production by 4.7% in the first quarter of 2005, in comparison to the first quarter of 2004[2]. As a result in the first quarter of 2005 14 383 cars were exported from Uzbekistan, which is 2.4 times more than the same indicator of the last year[3].

During the period under review, exports of cotton fiber increased by 17.4% and exports of ferrous and non-ferrous metals increased by 52.6%. As a result, the share of cotton fiber in the total volume of exports increased by 1.8 p.p. and equaled 27.3%; non-ferrous and ferrous metals – by 2.7% p.p. and amounted to 9.7%.

Table 4.1.2. Commodity Structure of Exports (%)

Groups of commodities	Share in total volume of exports, %		Change in volume, %
	04/I	05/I	05/I to 04/I
Cotton fiber	25.5	27.3	117.4
Foodstuffs	4.3	2.9	74.5
Chemical products, plastics, and plastic goods	4.1	3.8	100.2
Energy carriers	8.0	7.2	97.8
Non-ferrous and ferrous metals	7.0	9.7	152.6
Machinery and equipment	8.4	7.7	100.2
Services	11.3	11.2	109.3
Other	31.4	30.3	106.0
Total	100.0	100.0	109.7

Source: State Committee on Statistics of Uzbekistan

The volume of exports of services increased by 9.3%, more than 70% of which are transport services; about 30% of exports of transport services came from services of air transport.

Exports of foodstuffs, in comparison to the first quarter of 2004, decreased by 25.5%, and their share in the total volume of exports decreased by 1.4 p.p. and equaled 2.9%. The decline resulted mainly from the reduction in exports from the enterprises of "Uzkhlebproduct" and 'Uzgushtsutsanoat", aimed at better meeting the needs of the domestic market.

The 2.2% decrease in exports of energy carriers was caused by a decrease in the supply of petroleum products. As a result, the share of energy carriers in the total volume of exports decreased by 0.8 p.p. and equaled 7.2%.

On the imports side of the trade balance, as in the previous periods, increase was observed in all commodities groups except for foodstuffs (Table 4.1.3., Appendix 4.1.3.).

Table 4.1.3. Commodity Structure of Imports (%)

Groups of commodities	Share in total volume of imports (%)		Change in volume, %
	04/I	05/I	05/I to 04/I
Foodstuffs	9.1	7.0	84.9
Chemical products, plastics and plastic goods	11.5	11.9	114.0
Energy carriers	2.1	2.3	117.6
Non-ferrous and ferrous metals	7.5	9.8	144.3
Machinery and equipment	50.2	47.2	104.0
Services	9.6	9.9	114.3
Others	10.0	11.9	131.3
Total	100.0	100.0	110.4

Source: State Committee on Statistics of Uzbekistan

Significant growth was observed in imports of non-ferrous and ferrous metals – by 44.3%, the commodity group "other" – by 31.3%; energy carriers – by 17.6%; chemical products – by 14.0%; and services – by 14.3%. Accordingly, their shares in the total volume of imports increased and equaled 9.8%; 11.9%; 2.3%, 11.9%, and 9.9% respectively. Imports of goods made of ferrous-metals increased, as did imports of timber, pharmaceutical products and automobile wheels.

The volume of imports of the leading group of commodities, machinery and equipment, increased by 4.0% in comparison to the first quarter of 2004, while its share in total imports decreased by 3.0% and equaled 47.2%. Imports of internal-combustion engines increased in volume (by 3.7 times), as did imports of laboratory equipment (by 3.9 times), and computer equipment (by 1.2 times).

During the period under review, imports of foodstuffs decreased by 15.1% in comparison to the first quarter of 2004, while their share in total imports decreased by 2.1 p.p. and equaled to 7.0%.

The tendency of strengthening and improving traditional trade relations with CIS countries continued. As a result, in comparison to the first quarter of 2004, trade turnover with CIS countries grew more rapidly (by 1.21 times) than trade turnover with foreign countries (by 1.06 times). At the same time, the share of partners from CIS countries in total trade turnover increased from 29.3% in the first quarter of 2004 to 32.2% during the period under review, while trade turnover with foreign countries declined from 70.7% to 67.8% (Table 4.1.1.). During the period under review, this correlation resulted from the shift of a portion of imports to CIS countries.

2 Business Vestnik Vostoka, #15, April 14, 2005
3 Statistics Committee of Uzbekistan

The growth rate of imports from the CIS increased (by 38.6%) while imports from foreign countries decreased (by 3.2%). Accordingly, the share of imports from CIS countries increased from 32.6% to 40.9%, while the share of imports from foreign countries decreased from 67.4% to 59.1 % (Tables 4.1.1., 4.1.4.). A significant shift of supplies of foodstuffs, machinery and equipment to CIS countries took place, allowing for the more rational use of the economic resources of the republic, because of the import of less expensive goods from CIS countries.

During the period under review, exports to CIS countries, in comparison to the first quarter of 2004, increased by 1.06 times, while those to foreign countries increased 1.11 times. Accordingly, the share of exports to CIS countries decreased from 26.8% to 25.8%, while exports to foreign countries increased from 73.2% to 74.2% (Tables 4.1.1., 4.1.4). A decrease in the export of cotton fiber to CIS countries was observed, as well as in exports of foodstuffs, chemical products, and energy carriers. At the same time, exports of the same commodities to foreign countries increased. This, in turn, provided the necessary conditions for obtaining foreign currency to address issues related to structural reforms in the real sector of the economy, and to develop the high-tech sectors of industry that are mainly oriented to foreign markets.

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

Countries	Share in total volume, %			
	Of Exports		Of Imports	
	04/I	05/I	04/I	05/I
Total	100.0	100.0	100.0	100.0
CIS countries	26.8	25.8	32.6	40.9
Kazakhstan	2.6	4.0	5.3	6.5
Russia	11.1	14.1	20.9	25.1
Tajikistan	3.6	3.1	1.5	0.4
Ukraine	1.2	1.4	2.8	6.2
Other countries	8.3	3.2	2.1	2.7
Foreign countries	73.2	74.2	67.4	59.1
Belgium	2.2	0.9	0.6	0.6
Great Britain	6.7	8.7	1.6	1.5
Germany	1.1	1.2	6.4	6.8
India	4.6	0.6	0.6	0.9
Iran	6.7	8.8	1.2	0.9
China	2.1	2.1	8.8	3.9
South Korea	1.6	1.1	8.4	15.1
Netherlands	0.2	0.4	0.7	0.6
USA	2.4	2.4	14.3	3.6
Turkey	5.5	6.6	6.0	4.2
France	0.3	0.5	1.1	1.1
Switzerland	7.4	5.8	0.3	0.5
Japan	0.2	0.4	1.6	1.7
Other countries	32.2	34.7	15.8	17.7

Source: State Statistics Committee of Uzbekistan

The following countries became the main trade partners for Uzbekistan's exports: Russia – 14.1% of exports (139.5% to the level of the first quarter of 2004), Iran – 8.8% (144.1%), Great Britain – 8.7% (142.6%), Turkey – 6.6% (131.9%), Switzerland – 5.8% (86.2%), Kazakhstan – 4.0% (172.6%), Tajikistan – 3.1% (95.0%), and the USA – 2.4% (113.0%) (Table 4.1.4., Appendix 4.1.4.). The volume of exports to India decreased by 7.3 times. As a result, its share of exports declined by 4.0 p.p. and equaled 0.6%.

The majority of imports (71.4%) was delivered from eight countries: Russia, whose share of total imports equaled 25.1% (132.1% to the level of the first quarter of 2004), South Korea – 15.1% (197.7%), Germany – 6.8% (118.9%), Kazakhstan – 6.5% (135.8%), Ukraine – 6.2% (243.3%),Turkey – 4.2% (78.3%) , China – 3.9% (49.2%) and the USA – 3.6% (28.1%) (Table 4.1.4., Appendix 4.1.5.). The volume of imports from Switzerland increased 2.4 times.

The most positive balances of trade turnover were formed with Iran, Switzerland, Great Britain, Turkey and Tajikistan, while the most negative balances were observed in trade with South Korea, Russia, Germany, and the Ukraine.

Thus, in the first quarter of 2005, foreign trade turnover continued to increase, while the tendency of a growing positive trade balance strengthened and trade with CIS countries increased as well.

4.2. Enterprises with Foreign Investments

In Uzbekistan, during the first quarter of 2005, work continued on the implementation of previously adopted measures related to the further improvement of the investment climate in the country and the attraction of foreign investments in accordance with state programs on privatization, modernization, technical re-equipment and the reconstruction of enterprises, as well as the creation of new jobs in regions with a high level of the labor force.

The Program of Attracting Investments into the Textile Industry for the period of 2005-2008, which was approved by the Decree of the Cabinet of Ministers (on 27.01.05), has had a significant influence on the further stimulation of domestic and foreign investments into the textile industry and the rational allocation of enterprises based on the availability of their own reliable raw-material base of cotton. The main objectives of the Program included: organizing modern production with a final technological cycle of reproduction of cotton fiber, producing high-quality, compatible textile goods, ensuring exports of textile products at a volume no less than 80 per cent of total goods produced, and allocating textile enterprises, above all, in districts with a high unemployment level.

As a result, according to the final indicators of the first quarter of 2005, enterprises with foreign investments (EFI) produced goods, works and services in the amount of 586.0 bn. UZS, of which industrial products made up 82.7% (Table 4.2.1.). The number of operating enterprises increased by 165 units, or by 7.2% in comparison to the same period of the previous year. During the same period 8204 jobs were created.

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

Indicator	Unit of measurement	04/I	05/I	05/I in % to 04/I
Number of operating enterprises with foreign investments (by the end of period)	units	2282	2447	107,2
Volume of production of goods, works and services of enterprises with foreign investments (in current prices)	bn. UZS	414.8	586.0	x
Volume of industrial production (in current prices)	bn. UZS	357.9	484.8	x
Registered number of employees (without part-time workers, to end of period)	people	103,658	111,862	107.9
Foreign trade turnover	mill. USD	408.1	573.6	140.6
Exports of EFIs	mill. USD	164.3	206.4	125.6
Imports of EFIs	mill. USD	243.8	367.2	150.6
Share of EFIs in the foreign trade turnover of the republic	%	19.6	25.0	x
Share of EFIs in the total volume of exports	%	13.6	15.5	x
Share of EFIs in the total volume of imports	%	27.9	38.0	x

Source: State Statistics Committee of Uzbekistan

Enterprises with foreign investments accounted for 25% of the total foreign trade turnover of Uzbekistan, and 15.5% of total exports and 38% of total imports of the republic. During the period under review, the share of EFIs in the foreign trade turnover of the republic increased by 5.4 p.p., including by 1.9 p.p. in exports. The significant increase of the share of EFIs in imports (by 10.1 p.p.) was conditioned by the more rapid growth rates of EFI imports (by 50.6%) than that of exports (by 25.6%).

During the first quarter of 2005, exports of all EFIs in the country amounted to 206.35 mill. USD or 125.6% of the level of the first quarter of 2004.

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

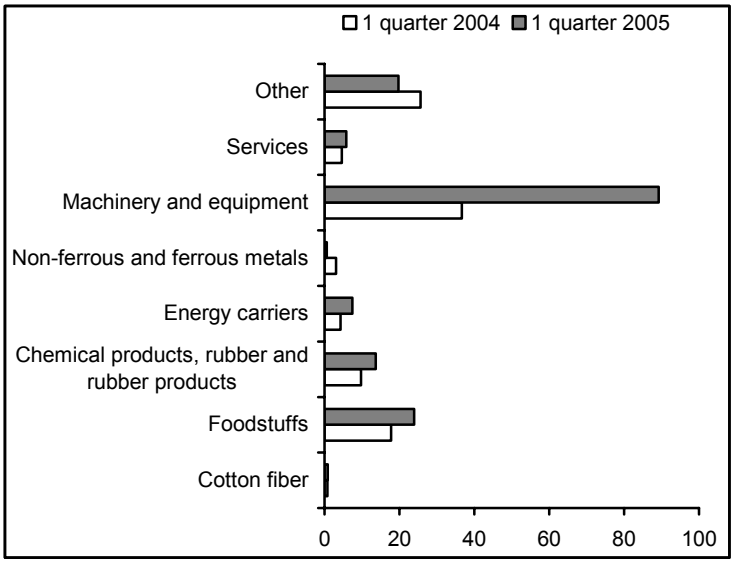
	04/I		05/I		05/ in % to 04/I
	mill. USD	%	mill. USD	%	
Total	164.3	100	206.4	100	125.6
Cotton fiber	2.3	1.4	3.2	1.5	138.0
Foodstuffs	9.3	5.7	9.4	4.5	100.4
Chemical products	4.9	3.0	6.8	3.3	140.5
Energy carriers	4.1	2.5	7.1	3.4	171.4
Ferrous and non-ferrous metals	2.6	1.5	0.7	0.4	28.0
Machinery and equipment	37.3	22.7	91.0	44.1	244.0
Services	6.3	3.8	8.6	4.2	137.1
Other	97.5	59.4	79.6	38.6	81.6

Source: State Statistics Committee of Uzbekistan

During the period under review, positive changes were observed in the structure of exports of EFIs. The commodity structure of exports of EFIs (except for the group of commodities "other", which includes products of the construction materials production industry, non-foodstuff consumer goods and others) was dominated by machinery and equipment, whose share equaled 44.1% (Table 4.2.2.), as a result of an increase in export volumes of more than 2.4 times. Exports of energy carriers increased significantly (by 71.4%) as did those of chemical products (by 40.5%).

In the structure of total exports of the Republic of Uzbekistan large shares of EFI exports were observed in export of machinery and equipment (89.3%) and foodstuffs (23.9%) (Graph 4.1).

Graph 4.1 Share of Enterprises with Foreign Investments in the Commodity Structure of Exports of the Republic of Uzbekistan, %



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

The predominance of the commodity group "machinery and equipment" in the commodity structure of exports of enterprises with foreign investments is explained by the increase in production of automobile manufacturing enterprises and the growth of their compatibility. The growth of production of passenger cars at the JV "UzDaewooAuto" in the first quarter of the current year, in comparison to the corresponding period of the previous year, equaled 97.7%, including the production of "Matiz" by 2.1 times, and of "Damas" by 1.9 times. Preconditions for the increase in competitiveness of products of the joint venture included such factors as a reduction in the list of materials and spare parts to be imported, by expanding domestic production in accordance with the program of localization. The increasing demand for passenger cars of the joint venture is a clear sign of their increased competitiveness. For instance, just in the first quarter of the current year, more than 57% of the total production was exported to the Russian Federation, which is 2.5 times more than in the corresponding period of last year.* Presently, the passenger cars of the JV hold the first place in the ranking of sales of foreign cars in the Russian market.

In the territorial structure of EFI exports, the list of leading exporting regions included Navoi, Andijan, Tashkent and Fergana provinces and the city of Tashkent. Their share accounted for more 90.8% of the total exports of EFIs of the Republic (Table 4.2.3.).

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

	04/ I		05/ I		05/ I in % to 04/ I
	mill. USD	%	mill. USD	%	
Total	164.3	100	206.4	100	125.6
R. Karakalpakstan	0.1	0.0	1.7	0.8	by 22 times
Andijan	35.8	21.8	89.1	43.2	2.5 p
Bukhara	2.1	1.3	2.4	1.2	114.8
Jizzakh	0.0	0.0	0.4	0.2	by 15.8 times
Kashkadarya	3.5	2.1	2.5	1.2	71.0
Navoi	44.0	26.8	35.0	16.9	79.4
Namangan	5.2	3.1	5.2	2.5	101.2
Samarkand	6.2	3.8	5.3	2.5	85.0
Surkhandarya	0.2	0.1	0.7	0.4	by 3.1 times
Sirdarya	0.5	0.3	0.5	0.3	95.2
Tashkent	21.6	13.1	22.5	10.9	104.2
Fergana	22.0	13.4	16.1	7.8	73.1
Khorezm	1.0	0.6	0.2	0.1	22.1
City of Tashkent	22.1	13.4	24.8	12.0	112.3

Source: State Committee on Statistics of Uzbekistan

* Source: Pravda Vostoka. #93. May 11. 2005. page 1

EFIs from the Republic of Karakalpakstan, Jizzakh, Surkhandarya, and Sirdarya 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. At the same time, in these regions (except Sirdarya) the volume of exports of EFIs has grown at more accelerated rates in comparison to other regions of the Republic. Thus, EFIs of the Republic of Karakalpakstan increased their export volumes by 22 times, while EFIs in Jizzakh province have increased export volumes by 15.8 times and EFIs of Surkhandarya have achieved an increase of 3.1 times.

During the period under review, the volume of imports of products, work and services of EFIs throughout the Republic amounted to 367.2 mill. USD, which is 50.6% more than in the corresponding period of 2004. (Table 4.2.4).

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

	04/I		05/I		05/I in % to 04/I
	mill. USD	%	mill. USD	%	
Total	243.8	100	367.2	100	150.6
Foodstuffs	39.4	16.2	35.5	9.7	90.0
Chemical products	29.4	12.0	39.5	10.7	134.3
Energy carriers	1.1	0.4	1.2	0.3	115.4
Ferrous and non-ferrous metals	12.1	5.0	24.9	6.8	206.3
Machinery and equipment	136.9	56.2	228.6	62.3	167.0
Services	10.2	4.2	13.0	3.5	127.0
Other	14.7	6.0	24.5	6.7	166.3

Source: State Committee on Statistics of Uzbekistan

During the period under review, the commodity composition of imports of enterprises with foreign investments was dominated by such commodity groups as machinery and equipment (62.3%), chemical products (10.7%), and products of the metallurgy complex (6.8%), which is explained by the accelerated growth rates of imports in those commodity groups (by 1.7, 1.3, and 2 times respectively). This acceleration took place mainly due to the launch of new enterprises of foreign investments, the expansion of operations of existing ones, the launch of new technological equipment, and the provision of other investment goods (Table 4.2.4.).

A 10% decrease in the import of foodstuffs resulted from the introduction of 5 and 10 percent tariff rates in place of zero percent rates for certain types of foodstuffs in order to protect the domestic market. In addition, the decrease in the import of certain types of foodstuffs was facilitated by the growth of domestic production (by 17.6%); in particular, the production of vegetable oil increased by 14.1% in the first quarter of 2005 in comparison with the first quarter of 2004.

In the first quarter of 2005, the foreign trade turnover of EFIs with countries of the CIS increased by 73.3 mill. USD, and with other foreign countries – by 92.2 mill. USD (Table 4.2.5). The more rapid growth rate of exports to CIS (190.6%) than to other foreign countries (90.6%) is mainly explained by the insufficient competitiveness of certain types of products of JV in the markets of foreign countries (except CIS) and by the use of traditional channels of sales in the countries of the CIS. As a result, trade turnover with the CIS ended up with a positive balance (55.6 mill. USD), whereas the balance with other foreign countries was negative (-216.4 mill. USD).

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

	Volume, mill. USD		Share in total volume, %		05/I in % to 04/I
	04/I	05/I	04/I	05/I	
Foreign trade turnover	408.1	573.6	100	100	140.6
Countries of CIS	90.5	163.8	22.2	28.6	181.0
Other foreign countries	317.6	409.8	77.8	71.4	129.0
Exports	164.3	206.4	100	100	125.6
Countries of CIS	57.6	109.7	35.1	53.1	190.5
Other foreign countries	106.7	96.7	64.9	46.9	90.6
Imports	243.8	367.2	100	100	150.6
Countries of CIS	32.9	54.1	13.5	14.7	164.4
Other foreign countries	210.9	313.1	86.5	85.3	148.5
Trade balance	-79.5	-160.8	x	x	X
Countries of CIS	24.7	55.6	x	x	
Other foreign countries	-104.2	-216.4	x	x	x

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

During the period under review, the share of foreign trade turnover of EFIs with the countries of the CIS increased from 22.2% to 28.6%, including in exports – from 35.1% to 53.1%.

Despite the tendency of decrease, the share of EFIs' trade turnover with other foreign countries remained relatively high, at 71.4%. This is explained by the fact that after gaining independence, Uzbekistan's foreign trade was characterized by reorientation to markets of non-CIS foreign countries. At the same time, the share of the most developed countries in the list of importers of Uzbekistan's goods and services has been growing continuously. The main favorable condition for such a reorientation was the opportunity to sell major export commodities at world prices and receive hard currency. Moreover, joint venture companies with foreign investments had the opportunity to use the markets of their trading-partner countries.

A review of operations of enterprises with foreign investments for the first quarter of 2005 indicated that in the foreign trade balance of EFIs, imports still exceeded exports. At the same time, with regard to EFIs, not all regions finished the first quarter with a negative balance of foreign trade. For example, the Republic of Karakalpakstan, Bukhara, Navoi, Namangan, Surkhandarya, Tashkent and Fergana provinces had a positive foreign trade balance with a total amount of 244.8 mill. USD.

During the past several years, measures for the elimination of regional disproportions in the problems of attracting foreign investments have been implemented in the Republic. According to the information on implementation of the "Program of Attracting Foreign Investments to the Regions for the Period of 2005-2007", during the first quarter of 2005 46 projects were implemented, including 15 on establishing joint productions. New joint productions include two enterprises in Bukhara province, two in Jizzakh province, and two in Khorezm province. During the first quarter of 2005, such enterprises as JV "Akbar Ali", specialized in the production of 2.5 thousand tons of cotton yarn per year; JV "Ay Demir" – the production of 9.5 mill. pairs of socks, 5 mill. pairs of pants for men, and 424 mill. units of clothing per year; and JV "Bursel Tashkent" – the production of 56 mill. units of textile products a year, and others.

Annex 4.1.1. Trade Balance (mill. USD)

Period	Export	Import	Trade balance
2000	3264.7	2947.4	317.3
2001	3170.4	3136.9	33.5
2002	2988.4	2712.0	276.4
2003	3725.0	2964.2	760.8
2004	4853.0	3816.0	1037.0
04/I	1210.0	874.2	335.8
05/I	1327.9	965.4	362.5

Source: Economic Trends, quarterly issue Uzbekistan. Tacis. July-September, 2001; State Committee on Statistics of Uzbekistan.
* The author's calculations based on the data from the State Committee on Statistics of Uzbekistan.

Annex 4.1.2. Commodity Composition of Exports (%)

Period	Cotton fiber	Food-stuffs	Chemical products, plas-tics and plastic goods	Energy carriers	Ferrous and non-ferrous metals	Machinery and equip-ment	Ser-vices	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	3264.7
2001	22.0	3.9	2.7	10.2	7.0	3.9	14.6	35.7	100.0	3170.4
2002	22.4	3.5	3.0	8.1	6.4	3.9	15.9	36.8	100.0	2988.4
2003	19.8	2.7	3.1	9.8	6.4	5.9	14.4	37.9	100.0	3725.0
2004	18.1	3.8	4.7	12.4	8.6	7.4	11.8	33.2	100.0	4853.0
04/I	25.5	4.3	4.1	8.0	7.0	8.4	11.3	31.4	100.0	1210.0
05/I	27.3	2.9	3.8	7.2	9.7	7.7	11.2	30.3	100.0	1327.9

Source: Economic Trends, quarterly issue Uzbekistan. Tacis. July-September, 2001; State Committee on Statistics of Uzbekistan.
* The author's calculations based on the data from the State Committee on Statistics of Uzbekistan.

Annex 4.1.3. Commodity Composition of Imports (%)

Period	Food-stuffs	Chemical products, rub-ber and rubber products	Energy carriers	Non-ferrous and ferrous metals	Machinery and equip-ment	Ser-vices	Other	Total (%)	Total (mill. USD)
2000	12.3	13.6	3.8	8.6	35.4	8.5	17.8	100.0	2947.4
2001	10.8	12.7	1.9	10.9	41.2	10.3	12.2	100.0	3136.9
2002	12.5	15.1	1.3	8.0	41.4	10.6	11.1	100.0	2712.0
2003	9.9	12.8	2.7	7.9	44.4	10.2	12.1	100.0	2964.2
2004	6.8	12.5	2.1	10.3	46.0	11.1	11.2	100.0	3816.0
04/I	9.1	11.5	2.1	7.5	50.2	9.6	10.0	100.0	874.2
05/I	7.0	11.9	2.3	9.8	47.2	9.9	11.9	100.0	965.4

Source: Economic Trends, quarterly issue Uzbekistan. Tacis. July-September, 2001; State Committee on Statistics of Uzbekistan.
* The author's calculations based on the data from the State Committee on Statistics of Uzbekistan.

Annex 4.1.4. Geographical Structure of Exports (%)

Period	Total (mill. USD)	Total (%)	CIS coun-tries	Kazakh-stan	Russia	Ukraine	Other coun-tries	Foreign countries	Belgium	Great Britain	Iran	South Korea	Nether-lands	USA	Turkey	Switzer-land	Other countries
2000	3264.7	100.0	35.9	3.1	16.7	4.7	11.4	64.1	1.1	7.2	2.2	3.3	2.6	1.6	3.0	8.3	34.8
2001	3170.4	100.0	34.4	3.7	15.8	4.7	10.2	65.6	1.5	6.3	2.6	4.2	2.4	2.6	2.6	5.6	37.8
2002	2988.4	100.0	27.6	2.7	10.6	5.4	8.9	72.4	2.4	7.7	5.8	2.2	1.5	2.6	3.4	6.3	40.5
2003	3725.0	100.0	26.0	2.7	12.3	3.9	7.1	74.0	1.9	7.5	7.4	1.5	0.4	2.9	3.5	5.4	43.5
2004	4853.0	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
04/I	1210.0	100.0	26.8	2.6	11.1	1.2	11.9	73.2	2.2	6.7	6.7	1.6	0.2	2.4	5.5	7.4	40.5
05/I	1327..9	100.0	25.8	4.0	14.1	1.4	6.3	74.2	0.9	8.7	8.8	1.1	0.4	2.4	6.6	5.8	39.5

Source: Economic Trends, quarterly issue Uzbekistan. Tacis. July-September, 2001; State Committee on Statistics of Uzbekistan.
* The author's calculations based on the data from the State Committee on Statistics of Uzbekistan.

Annex 4.1.5. Geographical Structure of Imports (%

Period	Total (mill. USD)	Total (%)	CIS countries	Kazakh-stan	Russia	Ukraine	Other countries	Foreign countries	Great Britain	Ger-many	China	South Korea	USA	Turkey	France	Japan	Other countries
2000	2947.4	100.0	38.2	7.3	15.8	6.1	9.0	61.8	2.0	8.7	2.5	9.8	8.7	3.3	2.9	1.9	22.0
2001	3136.9	100.0	37.2	6.2	19.2	7.1	4.7	62.8	2.5	7.8	2.9	11.1	6.4	3.4	4.0	4.2	20.5
2002	2712.0	100.0	36.9	6.7	22.0	4.5	3.7	63.1	2.7	7.8	4.2	9.5	12.1	3.2	2.1	0.7	20.8
2003	2964.2	100.0	38.3	6.6	23.3	4.6	3.8	61.7	2.6	9.8	5.5	7.9	7.7	4.8	1.6	2.0	19.8
2004	3816.0	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
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
05/I	965.4	100.0	40.9	6.5	25.0	6.2	3.2	59.1	1.5	6.8	3.9	15.0	3.6	4.2	1.1	1.7	21.3

Source: Economic Trends, quarterly issue Uzbekistan. Tacis. July-September, 2001; State Committee on Statistics of Uzbekistan.
* The author's calculations based on the data from the State Committee on Statistics of Uzbekistan.

Annex 4.2.1. Commodity Structure of EFI Exports, (%)

	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
04/ I	164.3	100	1.4	5.7	3.0	2.5	1.5	22.7	3.8	59.4
05/ I	206.4	100	1.5	4.5	3.3	3.4	0.4	44.1	4.2	38.6

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

Annex 4.2.2. Commodity Structure of EFI Imports (%)

	Total. mill. USD.	Total %	Cotton fiber	Foodstuffs	Chemical products	Energy carriers	Ferrous and non-ferrous metals	Machinery and equipment	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	1165.7	100	12.0	13.9	0.5	6.0	56.3	4.5	6.7
04/ I	243.9	100	16.2	12.0	0.4	5.0	56.2	4.2	6.0
05/ I	367.2	100	9.7	10.7	0.3	6.8	62.3	3.5	3.5

Source: State Committee on Statistics of Uzbekistan

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

Annex 4.2.3. Territorial Structure of EFI Exports (%)

	Total. mill. USD	Total %	R. Karakal-pakstan	Andi-jan	Bukhara	Jizzakh	Kashka-darya	Navoi	Naman-gan	Samar-kand	Surkhan-darya	Sirdarya	Tash-kent	Fergana	Khorez m	City of Tash-kent
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	443.0	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
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
05/I	367.2	100	0.8	43.2	1.2	0.2	1.2	16.9	2.5	2.5	0.4	0.2	10.9	7.8	0.1	12.0

Source: State Committee on Statistics of Uzbekistan

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

Annex 4.2.4. Territorial Structure of EFI Imports (%)

	Total. mill. USD	Total %	R. Kara-kalpakstan	Andi-jan	Bukhara	Jizzakh	Kashka-darya	Navoi	Naman-gan	Samar-kand	Surkhan-darya	Sirdarya	Tash-kent	Fergana	Khorez m	City of Tash-kent
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	0.3	25.3	1.0	3.3	5.1	6.5	2.2	2.1	0.0	0.9	10.3	9.8	1.0	32.2
2002	704.8	100	0.4	27.1	2.1	3.8	0.7	4.1	2.2	3.9	0.2	0.3	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	1165.7	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
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
05/ I	367.2	100	0.4	42.6	0.3	0.2	1.1	3.4	1.2	1.5	0.1	0.4	3.7	2.0	0.2	43.0

Source: State Committee on Statistics of Uzbekistan

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

5. Living Standards and the Labor Market

5.1. Incomes and Expenditures of the Population

The securing of stable economic growth, the maintenance of a moderate level of inflation and the implementation of social programs facilitated the growth of per capita GDP by 3.6% and the growth of per capita real monetary income of the population by 13.6%.

In the first quarter of 2005, the tendency of increase in the share of monetary income in aggregate population income continued. The results of a budgetary survey of households indicated that in the period of January-February 2005, the share of monetary income in aggregate population income equaled 85.7%, while the share of the income in kind amounted to 14.3% (Table 5.1.1.).

The gap between monetary and non-monetary income remains significant. In rural areas the share of income in kind equaled 21.2%, while urban residents had 5.9%. Wages remain the main source of aggregate income of urban residents (42.4%), while rural residents relied on revenues from entrepreneurial activities, which also included income from sales of agricultural products (34.2%) and income in natural terms.

In certain regions of the country, income in kind remains the main source of the population's income. In six regions, the share of income in kind in the aggregate income of population exceeded the national average and reached: 47.1% in Khorezm province, 30.1% in Samarkand province, 20.8% in the Republic of Karakalpakstan, 17.7% in Bukhara province, 16.6% in Navoi province, and 16.4% in Jizzakh province. In those regions, income in kind resulted mainly from non-monetary income from garden-plots, which is explained by: a) the high level of employment in individual farms and dekhkan entities; b) the relatively low level of employment and unstable wages in official sectors of the economy.

The share of wages in aggregate income of the population equaled 21.2% in Khorezm province, 22.6% in Samarkand province, and 20.1% in Bukhara province. Regions with a high level of wages in aggregate income of the population have a low level of income in natural terms. Such regions include Tashkent province (level of wages 49.7% and income in kind – 6.2%), Sirdarya province (45% and 7.5%), and Tashkent city (49.1% and 3.6%).

Table 5.1.1. Aggregate Income of Population, (%)

	Aggregate Income	Monetary income				Income in kind
		Wages	Social transfers	Income from entrepreneur-ship*	Other income	
R. Karakalpakstan	100	26.4	27.2	20.6	5.0	20.8
Andijan	100	25.5	23.0	33.6	6.8	11.1
Bukhara	100	20.1	12.4	46.4	3.4	17.7
Jizzakh	100	34.1	14.0	35.5	-	16.4
Kashkadarya	100	28.8	20.0	36.0	4.7	10.5
Navoi	100	45.0	15.3	18.1	5.0	16.6
Namangan	100	20.2	13.5	50.4	3.2	12.7
Samarkand	100	22.6	22.7	24.3	0.3	30.1
Surkhandarya	100	18.0	22.2	36.2	10.5	13.1
Sirdarya	100	45.0	15.5	31.1	0.9	7.5
Tashkent	100	49.7	17.3	22.6	4.2	6.2
Fergana	100	29.0	20.1	34.0	6.5	10.4
Khorezm	100	21.2	13.4	18.2	0.1	47.1
Taskhent city	100	49.1	18.1	15.6	13.6	3.6
R. Uzbekistan	100	31.6	18.1	30.2	5.8	14.3
Urban	100	42.4	17.0	25.6	9.1	5.9
Rural	100	22.7	19.0	34.2	2.9	21.2

* income from entrepreneurship, including income from sales of agricultural products and income from property.
Source: based on data from the study of budgets of households. State Committee Statistics of the Republic of Uzbekistan, January-February, 2005.

The balance of monetary income and expenses of the population shows that in the first quarter of 2005, nominal monetary income on average increased by 19.8% (against 16.2% in the first quarter of 2004). The growth of monetary income of the population resulted mainly from an increase in wages of 26.6% and a 35.7% increase in social transfers. As a result, in the structure of monetary income of the population, the share of wages equaled 26.9% (as against 25.4% in the first quarter of 2004), and the share of social transfers – 15.4% (against 13.7%) (Table 5.1.2.).

Table 5.1.2. Structure of Monetary Income of the Population (based on the balance of income and expenses of population)

Indicators	In percentage of total volume		in % to the corresponding period of the previous year	
	04/I	05/I	04/I	05/I
Monetary income, total	100	100	116.2	119.8
wages	25.4	26.9	116.7	126.6
pensions, benefits, stipends	13.7	15.4	130.5	135.7
income from sales of agricultural products	31.8	30.3	113.8	113.9
income from entrepreneurship and other income	29.1	27.4	112.8	112.8

Source: State Statistics Committee of Uzbekistan

Interregional differentiation in income of the population remained at the level 1:5. Provinces with an average per capita monetary income higher than the national average included such provinces as Navoi, Tashkent and the city of Tashkent. In the provinces of Jizzakh, Kashkadarya, Samarkand, Surkhandarya, Khorezm, and the Republic of Karakalpakstan, per capita average income was 60-70% of the national average. The increase in industrial potential and investment attractiveness in those regions will stimulate the growth of wages and per capita income of the population and will also facilitate the maintenance of a moderate level of interregional differentiation in the country (2.5 – 3 times).

In the structure of monetary expenses of the population, a seasonal increase in expenses for consumption was observed. Consumption expenses in monetary income of the population had a tendency to increase from 77.6% to 78.0% (Table 5.1.3.).

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

Periods	Monetary income of population	Of which monetary expenses			Cash remainder
		Consumption expenses	Compulsory payments and mandatory contributions	Bank deposits, purchase of securities and hard currency	
2004/I	100	77.6	7.8	14.9	-0.3
2005/I	100	78.0	7.3	14.3	0.4

Source: State Statistics Committee of Uzbekistan

In the structure of consumption expenses of the population, both urban and rural, the share of non-foodstuffs decreased (from 20.5% to 18.5%), while the share of paid services increased (from 13.8% to 14.2%). Non-consumption expenses, which in addition to compulsory payments and monetary savings, include expenses on the purchase of real estate, livestock, poultry, and goods for individual business activities, as well as expenses on maintaining home-based agricultural businesses, increased from 14.8% in January – February of 2004 to 16.4% in the first quarter of 2005. This growth was provided by the increase in non-consumption expenses of the urban population from 13.9% January – February of 2004 to 17.1% in the period under review (Table 5.1.4.).

Table 5.1.4. Structure of Expenses of the Population*, (%)

Periods		Expenses of population	of which consumption expenses				non-consumption expenses
			foodstuffs	non-foodstuffs	services	other expenses	
2004/I	Nationwide	100	50.3	20.5	13.8	0.6	14.8
	urban	100	49.0	20.0	16.5	0.6	13.9
	rural	100	51.9	21.1	10.6	0.6	15.8
2005/I	Nationwide	100	50.4	18.5	14.2	0.5	16.4
	urban	100	48.7	18.3	15.6	0.3	17.1
	rural	100	52.2	18.7	12.8	0.7	15.6

Source: based on data from the study of budgets of households. State Committee Statistics of the Republic of Uzbekistan,
* for January- February of the corresponding periods

In the structure of consumption expenses of the population, the share of foodstuffs increased from 59.1% in January – February of 2004 to 60.2% in the period under review as did the share of paid services – from 16.2% to 17.0%. The main reason for the increase in the population's expenses for paid services is related to seasonal increases in expenses of the urban population for agricultural products, and the increase in expenses for services – the increase in expenses of urban and rural residents for housing and communal services (Table 5.1.5.). In order not to allow unreasonable growth of tariffs for communal services, the Cabinet of Ministers of the Republic of Uzbekistan adopted a Decree on February 11, 2005. According to the Decree: a) operational expenses for technical maintenance are to be carried out at the expense of owners of houses,

and consequently, needn't be included in the expenses of vendors of cold water, hot water and heating; b) tax privileges for companies and owners of houses are determined; c) councils of owners of houses and vendors are not allowed to collect money individually from the population for provided housing-communal services, including operational expenses, by direct cash payments, without receiving the money through banks.

Table 5.1.5. Structure of Consumption Expenses* (in % to consumption expenses)

Periods		Consumption expenses of population	including expenses for:								
			food-stuffs	non-food-stuffs	services	including:					other
						housing/communal	transport	consumer services	education	healthcare	
2004/I	National	100	59.1	24.1	16.2	6.2	5.4	1.6	1.1	0.4	0.6
	Urban	100	57.0	23.2	19.2	7.0	6.5	1.4	1.7	0.6	0.6
	Rural	100	61.6	25.2	12.6	5.3	4.2	1.8	0.5	0.2	0.6
2005/I	National	100	60.2	22.1	17.0	6.6	5.4	2.1	0.6	0.4	0.7
	Urban	100	58.7	22.1	18.8	7.7	5.6	1.8	0.6	0.4	0.4
	Rural	100	61.8	22.2	15.2	5.4	5.1	2.3	0.5	0.4	0.8

Source: according to data from research on budgets of households. State Committee on Statistics of Uzbekistan
*for January-February of a corresponding period

On the whole, during the first quarter of 2005, an increase in the real income of the population was observed, along with an increase in the share of monetary income in the structure of aggregate income of the population, and a decrease in the share of income in kind. The growth of monetary income of the population was mainly provided by an increase in wages and social transfers. The seasonal increase in expenses of the urban population for foodstuffs and payments for services facilitated the increase in the share of consumer expenses in the structure of expenditures of the population.

5.2. Domestic Trade and Services

In the first quarter of 2005, the growth of the volume of services rendered remained higher than the growth of the sales of goods. As a result, the share of services in the total volume of goods and services sold to the population amounted to 20.3% as opposed to 18.4% in the first quarter of 2004 (Table 5.2.1.).

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

Period	Volume of sales of goods and services		Including			
			Sales of goods		Sales of services	
	Bill. UZS	%	Bill. UZS	%	Bill. UZS	%
2004/I	1311.5	100	1069.6	81.6	241.9	18.4
2005/I	1558.0	100	1241.9	79.7	316.1	20.3

Source: State Statistics Committee of Uzbekistan

The volume of retail trade turnover amounted to 1241.9 bn. UZS, while the volume of paid services amounted to 316.1 bn. UZS. At the same time, trade turnover increased by 8.7% (5.1% in the 1st quarter of 2004), and paid services increased by 14.2% (11.8% in the 1st quarter of 2004) (Table 5.2.2.). The main factors in the growth of retail trade turnover and paid services were: the sustained moderate level of inflation, the growth of real income of the population, and the increase in the volume of production of consumer goods.

Table 5.2.2. Retail Trade Turnover and Paid Services

Period	Retail Trade Turnover		Paid Services	
	Bill. UZS	Growth rate against corresponding period of the previous year, %	Bill. UZS	Growth rate against corresponding period of the previous year, %
2004/I	1069.6	105.1	241.9	111.8
2005/I	1241.9	108.7	316.1	114.2

Source: State Statistics Committee of Uzbekistan

Retail Trade Turnover. In the first quarter of 2005, the volume of retail trade turnover was formed mainly from Andijan, Fergana, Tashkent provinces and the city of Tashkent, which is explained by the relatively high level of monetary income and the moderate level of increase in prices in those regions (Table 5.2.3.). Interregional differentiation in retail trade turnover had a tendency of gradual growth from 1:5.2 to 1:5.4, which was due to the low efficiency of operation of the market mechanism that regulates the flow of goods into retail trade networks, especially those of rural trade enterprises.

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

Regions	Monetary income per capita, thous. UZS		Consumer Price Index		Retail trade turnover per capita, thous. UZS		Paid services per capita, thous. UZS	
	04/I	05/I	04/I	05/I	04/I	05/I	04/I	05/I
R. Karakalpakstan	35.9	45.8	102.3	103.5	20.4	24.5	3.6	5.3
Andijan	67.1	72.8	103.9	103.8	53.8	57.2	5.6	7.5
Bukhara	61.1	70.1	101.1	104.8	36.3	43.8	8.8	11.9
Jizzakh	42.9	45.3	102.1	103.6	25.3	29.0	4.7	6.8
Kashkadarya	48.1	53.6	103.5	104.7	30.1	33.7	3.8	5.0
Navoi	96.8	112.8	99.9	103.6	34.4	43.0	8.7	12.5
Namangan	44.8	55.4	100.4	102.7	33.5	37.8	4.8	6.5
Samarkand	41.7	50.7	100.2	105.6	29.4	33.5	5.8	7.6
Surkhandarya	45.1	55.2	98.9	105.1	29.2	34.7	4.5	6.0
Sirdarya	44.6	50.1	101.0	103.0	23.6	26.4	4.3	6.1
Tashkent	66.0	76.0	100.2	103.1	45.6	51.7	6.1	7.7
Fergana	61.5	66.1	100.7	104.6	44.9	48.0	5.6	7.9
Khorezm	41.3	49.4	101.2	106.7	24.6	30.9	6.4	10.1
Taskhent city	183.6	238.2	99.8	104.2	105.4	133.7	42.2	50.4
R. Uzbekistan	63.9	75.6	100.7	104.2	40.9	47.5	9.4	12.1
Level of inter-regional differentiation	5.11 times	5.25 times	-	-	5.16 times	5.46 times	11.83 times	10.08 times

Source: State Statistics Committee of Uzbekistan

The share of non-governmental trade turnover in the total volume of retail trade increased from 98.9% in the first quarter of 2004 up to 99.1% in the period under review. The share of the informal sector in the total volume of retail trade turnover tended toward gradual decrease. Dekhkan markets (grocery markets) accounted for 48% of retail trade turnover, while enterprises specialized in retail trade – for 25.4%.

In the structure of trade turnover, the ratio of foodstuffs to non-foodstuffs has been shifting towards a decrease in foodstuffs (from 57.4% in the first quarter of 2004 to 56.0% in the period under review) and an increase in non-foodstuffs (from 42.6% to 44.0%). During the first quarter of 2005, the ratio of foodstuffs to non-foodstuffs, in the structure of trade turnover was 56.0% and 44.0% (Table 5.2.5.).

Table 5.2.4. Structure of Retail Trade Turnover Per Capita

Regions	Retail trade turnover per capita, UZS thous.		In percent to total volume			
			Foodstuffs		Non-foodstuffs	
	04/I	05/I	04/I	05/I	04/I	05/I
R. Karakalpakstan	20.4	24.5	11.8	13.3	8.6	11.2
Andijan	53.8	57.2	27.1	33.8	26.7	23.4
Bukhara	36.3	43.8	22.1	27.4	14.2	16.4
Jizzakh	25.3	29.0	13.8	14.2	11.5	14.8
Kashkadarya	30.1	33.7	18.3	18.0	11.8	15.7
Navoi	34.4	43.0	18.6	23.2	15.8	19.8
Namangan	33.5	37.8	14.5	21.9	19.0	15.9
Samarkand	29.4	33.5	18.6	20.7	10.8	12.8
Surkhandarya	29.2	34.7	14.7	20.0	14.5	14.7
Sirdarya	23.6	26.4	13.4	14.4	10.2	12.0
Tashkent	45.6	51.7	23.3	22.1	22.3	29.6
Fergana	44.9	48.0	23.2	24.5	21.7	23.5
Khorezm	24.6	30.9	14.4	17.7	10.2	13.2
Taskhent city	105.4	133.7	73.8	80.6	31.6	53.1
R. Uzbekistan	40.9	47.5	23.5	26.6	17.4	20.9
Level of inter-regional differentiation	5.16 times	5.46 times	6.25 times	6.06 times	3.67 times	4.74 times

Source: State Statistics Committee of Uzbekistan

In the structure of retail trade turnover, in comparison to the same period of the previous year, sales of foodstuffs decreased, while sales of non-foodstuffs increased, especially those of medicines, automobiles, and construction materials (Table 5.2.5.). Such a shift in the structure of trade turnover might be explained by the saturation of the domestic market and the increase in solvent demand of the population.

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

Indicators	04/I	05/I
Total goods sold, including	100	100
Foodstuffs	57.4	56.0
Bread	3.4	3.0
Meat and meat products	14.6	12.7
Milk and dairy products	1.3	1.1
Alcoholic beverages	3.9	3.3
Non-foodstuffs	42.6	44.0
Fabrics	1.5	1.3
Clothing and underwear	1.6	1.4
Footwear	1.7	1.5
Medicines	1.1	1.4
Automobiles	5.4	5.7
Construction materials	1.0	1.3

Source: State Statistics Committee of Uzbekistan.

Services. The volume of per capita public services paid for by the population increased from 9.4 thous. UZS in the first quarter of 2004 to 12.1. thous. UZS in the period under review. The tendency of decrease in interregional differentiation in average per capita consumption of services continued – from 1:13.8 in the first quarter of 2003, to 1:11.8. in the first quarter of 2004, to 1:10.1 in the first quarter of 2005. In some regions, the increase in the level of real income and wages along with expansion of the network of enterprises that render paid services, determined a reduction of interregional differentiation of average per capita consumption of services in the Republic. In all provinces of the Republic (except Tashkent city) the physical volume of paid services increased at accelerated rates (from 114.2% in Tashkent province to 134.8% in Khorezm province) (Table 5.2.6.).

Table 5.2.6. Regional Composition of Retail Trade Turnover and Paid Services

Regions	Retail trade turnover, UZS bn.			Paid services, UZS bn.		
	04/I	05/I	Growth rate in relation to previous year, in comparable prices, %	04/I	05/I	Growth rate in relation to previous year, in comparable prices, %
R. Karakalpakstan	31.7	38.5	112.4	5.6	8.4	129.6
Andijan	129.6	134.6	100.1	12.9	17.5	123.1
Bukhara	54.9	66.3	114.1	13.2	18.0	120.3
Jizzakh	26.6	30.5	109.5	4.9	7.1	129.1
Kashkadarya	71.6	80.4	107.7	9.0	12.0	117.1
Navoi	28.1	35.0	117.8	7.0	10.1	125.6
Namangan	68.1	78.7	110.1	9.9	13.6	116.6
Samarkand	84.4	96.6	107.5	16.5	22.0	119.0
Surkhandarya	55.3	66.0	109.8	8.4	11.3	118.2
Sirdarya	16.0	17.9	105.4	2.9	4.1	127.1
Tashkent	112.0	127.6	106.3	15.0	19.0	114.3
Fergana	132.8	137.1	102.5	15.9	22.6	118.9
Khorezm	35.5	44.4	112.2	9.0	14.5	134.8
Taskhent city	223.0	288.3	114.9	91.8	108.8	103.5
R. Uzbekistan	1069.6	1241.9	108.7	241.9	316.1	114.2

Source: State Statistics Committee of Uzbekistan.

In the structure of paid services, the share of housing/communal, healthcare, and education services has been increasing. The share of housing/communal services increased from 21.3% in the first quarter of 2004 to 23.6% in the period under review, provided by increases in electric power supply (from 6.8% to 8.1%), gas supply (from 6.5% to 7.4%), central heating (from 1.4% to 1.7%), and hot-water supply (from 1.8% to 2.0%) (Table 5.2.7.). Positive tendencies of growth, observed in the share of healthcare and education services in the structure of paid services, were mainly provided by the growth of solvent demand of the population and the efficiency of social programs implemented in those directions.

Table 5.2.7. Structure of Paid Services Rendered to the Population (in % to total volume)

Types of services	04/I	05/I
Total services rendered	100	100
Consumer services	13.8	13.1
Public transportation	34.6	33.0
Communication services	11.6	11.0
Housing and communal services	21.3	23.6
Supply of electricity	6.8	8.1
Water-supply	1.1	1.1
Gas-supply	6.5	7.4
Central heating	1.4	1.7
Hot- water-supply	1.8	2.0
Sewage	0.4	0.3
Sanitary cleaning	0.1	0.4
Cultural and tourism services	1.1	1.0
Physical culture and sports	0.3	0.2
Health care	1.8	2.1
Sanitary and health resorts	0.5	0.5
Services of education system, training of population	6.4	7.1
Legal and banking	1.7	1.6
Other	6.9	6.8

Source: State Statistics Committee of Uzbekistan

Social infrastructure. In the first quarter of 2005, 1079.9 thous. sq. m. of houses were built (18.3 thous. sq. m more than in

the first quarter of 2004), there were 685 policlinic visits (an increase of 160 visits), and 557.2 km of gas-supply (increase by 5.6 km) and 927.9 km. of water-supply pipelines (increase by 33 km) were laid. These figures also included 927.9 thous. sq. m. of housing (86% of total volume), 524.1 km of gas (97% of total volume) and 331.8 km (97% of total volume) water supply pipelines provided in rural areas (Table 5.2.8.).

Table 5.2.8. Provision of Objects in the Social Sphere

	Measure units	04/I	05/I
Provision of houses, total, including	Thous. sq. m	1061.6	1079.9
individual housing construction	Thous.sq.m	1060.5	1066.2
In rural areas	Thous. sq.m	924.1	927.9
Policlinics (including RMP)	Visits	525	685
Including in rural areas	Visits	525	685
Gas-supply lines	Km	551.6	557.2
Including in rural areas	Km	542.6	542.1
Water-supply lines	Km	308.3	341.3
Including in rural areas	Km	298.6	331.8

Source: State Statistics Committee of Uzbekistan.

The increase in the provision of objects of social infrastructure provided the population with: housing – 14.3 sq. m. per resident; hospital beds – 54.9 hospital beds per 10 thousand people; preventive healthcare institutions – 155.2 per 10 thousand people; coverage of students in one shift – 71.3%; and central water-supply – 80.7%. A significant gap remained between urban and rural areas in the availability of social infrastructure objects in the first quarter of 2005 in such indicators as the ratio of hospital beds (79.4 hospital beds per 10 thous. city residents versus 41 in rural areas) and preventive healthcare institutions (197.5 units per 10 thous. people in urban and 131.1 in rural areas).

The differentiation among regions with regard to the availability of objects of social infrastructure equaled the following: availability of housing – 2.3 times (9.7 sq. m. per resident in Andijan province and 22.5 sq. m. per resident in Khorezm region), availability of hospital beds – 1.9 times (44.8 hospital beds per 10 thous. people in Surkhandarya province and 84.9 – in Tashkent city), availability of preventive healthcare institutions – 2.3 times (95.8 units per 10 thous. people in Surkhandarya province and 222.6 units in Sirdarya province), coverage of students in one shift – 1.3 times (64.2 % in the Republic of Karakalpakstan and 85.5% in Bukhara province), water-supply – 1.5 times (66.2 % in Bukhara province an 99.6% in Tashkent city), natural gas – 1.5 times (63.5% in Surkhandarya province and 97.5% in Tashkent city).

Table 5.2.9. Availability of Objects of Social Infrastructure

Regions	Availability					
	Housing sq. m. per resident	Hospital beds per 10 thous. people	Preventive health-care institutions per 10 thous. people	Coverage of students in 1 shift, %	Central water-supply, %	Natural gas, %
R. of Karakal-pakstan	15.4	59.1	145.1	64.2	71.0	94.1
Andijan	9.7	60.0	172.5	68.7	90.2	68.9
Bukhara	13.7	46.2	176.7	85.5	66.2	83.6
Jizzakh	12.8	47.8	154.2	74.7	75.4	73.2
Kashkadarya	12.8	52.8	116.5	67.4	80.8	73.0
Navoi	19.2	52.3	176.7	70.7	76.8	79.9
Namangan	13.0	64.3	145.7	71.9	80.1	80.6
Samarkand	14.1	52.0	126.5	67.1	76.4	87.6
Surkhandarya	12.7	44.8	95.8	64.5	85.8	63.5
Sirdarya	14.8	63.7	222.6	73.8	94.4	84.9
Tashkent	13.7	45.0	191.0	71.7	93.8	85.4
Fergana	14.5	47.3	149.2	73.4	90.8	78.8
Khorezm	22.5	50.5	144.5	78.6	71.7	97.4
Taskhent city	17.4	84.9	216.9	78.0	99.6	97.5
R. of Uzbekistan	14.3	54.9	155.2	71.3	82.2	80.7
Urban area	14.9	79.4	197.5	72.7	-	-
Rural area	14.0	41.0	131.1	70.6	79.1	75.1

Source: State Statistics Committee of Uzbekistan.

In general, in the first quarter of 2005, the overall economic situation and measures on reforming the sectors of social sphere had a positive effect on the growth of solvent demand of the population. The structure of consumption of households gradually changed towards a decrease in expenses for foodstuffs and an in-

crease in expenses for services. A positive trend in the share of education and healthcare services was observed. In the future, the following issues need to be addressed: a) reduction of the difference in living standards between urban and rural residents; b) reduction of interregional differences in income and consumption of households; c) increase of the population's interest in saving; d) increase of the investment activity of the population.

5.3. Employment and the Labor Market.

Population. The permanent population of the Republic of Uzbekistan increased by 77,6 thousand people within the first quarter of 2005, amounting to 26,098.9 thousand people by 1 April 2005. This increase occurred mainly in rural areas, where 57,7 thousand people or 74.4% of the total increase, were born – an indication of the continuing development of the de-urbanization processes in the country (Annex 5.3.1).

The population of Uzbekistan is growing on the basis of natural migration. In 2005, the rise in birth rate that began in 2004 continued. 127.1 thousand children were born over the quarter, which is 7.7 thousand more than in the respective period of 2004. This is a demographic echo from the high birth rates of the mid 1980s and will continue over the next two years as the generation of women born during that period reach their active fertility age. This recent trend has a generally positive impact on the demographic situation in the country. The role of the rural area in reproduction processes is strengthening. Of those born in the first quarter of 2005, rural areas accounted for 69.5% vs. 69.3% in the respective period of the previous year.
35,3 thousand people died in the first quarter of 2005, which is 0.9 thousand people more than in the first quarter of 2004. Of those deaths, cities accounted for 43.7% and rural areas accounted for 56.3%. In the previous period this ratio was the same.

In total the natural growth of the population for the first quarter of 2005 amounted to 91,8 thousand people, which is 6,8 thousand people more in the respective period of the previous year.
As for emigration, Uzbekistan still has a negative balance (-14,400 people), but in the first quarter of 2005 it somewhat decreased (by 0.7 thousand people) in comparison with the corresponding period last year.

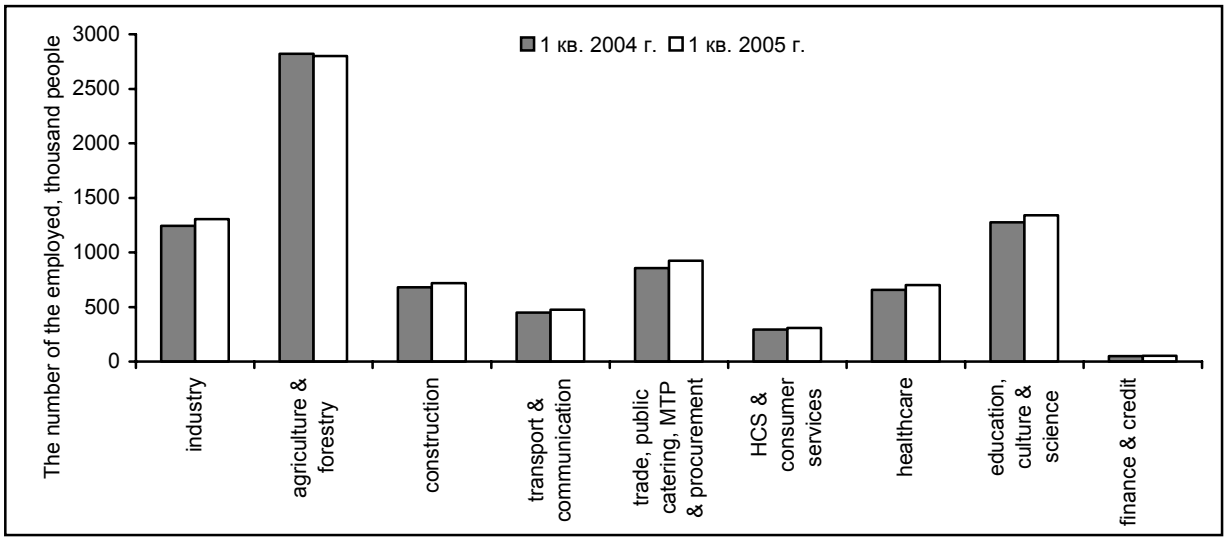
Employment of the Population. In the first quarter of 2005 both absolute and relative growth in the employment of the population somewhat accelerated. The number of those employed in the economy reached 9,750.2 thousand people and increased by 339,4 thousand people (3.6%) vs. 322,6 thousand (3.5%) in the first quarter of 2004, i.e. an increase of 16,8 thousand people. The growth in employment is based on sustainable economic growth, which, establishes conditions for new jobs. In the first quarter of 2005, 128,3 thousand jobs were created, of which 93,3 thousand (72.7%) were in rural areas, where more than half of growth in labor resources has occurred. Growth of personnel took place in almost all sectors except for agriculture, where the number of employed fell by 19,8 thousand people (by 0.7%). The continuing process of the withdrawal of excessive labor from that sector results in the fall in agrarian employment. In the first quarter of 2005, in comparison with the same period of 2004, there was a considerable rise in the number of industrial workers – by 61,7 thousand people (by 5.0%); that is 1,100 people more than in all of 2004 (Annex 5.3.2). Such a favorable tendency, indicating also changes in the labor priorities of population, has been caused to a great extent by the structural transformations in the economy and the implementation of an industrial policy strategy ensuring accelerated growth in labor-intensive businesses. The rise in industrial personnel accounted for 18.2% of the total growth of those employed in the economy over this period.

Among other industries of the real sector, construction should be noted for its rise in employment, in comparison to the respective period of the previous year, of 39,6 thousand people (an increase of 5.8%). Considerable growth in employment took place in trade, public catering, MTP and procurement (by 7.7%), which accounted for 19.5% of the total growth in employment. In general, in the first quarter of 2005, in comparison with the corresponding period of the previous year, employment in manufacturing rose by 182,2 thousand people (by 2.9%) and reached 6,545.3 thousand people or 67.1% of the total number of those employed in the economy.

The process of reforming the economy is creating preconditions for accelerated growth in non-material production. In the first quarter of 2005, the number of workers in that sphere increased by 157,2 thousand people, and its share in the total structure of the working population increased from 32.3% to 32.9%, which reflects favorable trends in employment at present. The sectors of non-material production contributed 46.3% to the corresponding growth in the number of workers.

From non-production sectors, education, culture, art, science and scientific service stand out for their increase in the number of workers (by 62,5 thousand people or by 4.9%). These sectors contributed 18.4% to the total growth in employment during the reporting period. In 2005, accelerated growth in employment continued in transport and communication services for the population (by 11,5 thousand people or by 8.4%) (Figure 5.3.1).

Figure 5.3.1. Employment Structure by Sectors



Source: State Statistics Committee of Uzbekistan

In 2005 the trend of ensuring employment mainly through the non-state sector of the economy continued. In comparison with the respective period of the previous year its share rose from 76.9% to 77.1%. Entrepreneurship, the strengthening private sector, and the increasing number of farms play a major role in ensuring the employment of the population.

Current Labor Market. In the first quarter of 2005, the number of people applying to the labor exchange, seeking jobs increased. 106,2 thousand job seekers were registered, which is 1,400 people more than in the respective period of the previous year. This ended the trend towards a decreasing number, which had continued for over two years. Especially significant increases occurred in Samarkand (by 41.1%) and Khorezm (by 11.2%) regions. The highest number of those registered as job seekers was in Fergana (14.1% of total number), and also Samarkand (12.3%) and Namangan (11.1%) regions, which indicates a more tense employment situation in these regions, Improving the inflow of the work force to labor exchanges requires adjusting the current investment programs in those regions and expanding labor-intensive industries in order to broaden job placement opportunities for the population.

The rise in job placements of those who applied to labor exchanges should be noted. In the first quarter of 2005 these reached 75.8% as opposed to 72.7% in the respective period of the previous year. The highest levels of job placements were reached in Surkhandarya (87.0%), Samarkand (85.6%), Fergana and Namangan (over 81%) and Jizzakh (80.4%) regions (Table 5.3.1). This situation has resulted to a great extent from strengthened social partnerships with regard to issues of the job placement of the population.

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	34.8
04/I	104.8	76.2	72.8	36.6
05/I	106.2	80.5	75.8	37.0

Source: computed from data from the Ministry of Labor and Social Protection of Population.

As the outcome of the existing ratio between work force supply and demand, the total number of unemployed obtaining official status in the republic in the first quarter of 2005 (36,9 thousand people) remained virtually at the level of the previous year. However, in a number of regions it rose significantly: in Bukhara region – by 36.8%, Kashkadarya region – by 27.1%, Sirdarya region – by 23.2% and Jizzakh region – by 22.2%, which is related with the increase in the number of disengaged workers in these regions and the high inflow of the work force to the labor market.

As a negative tendency, the reduction in the first quarter of 2005 of the number of unemployed participating in public works should be noted. This accounted for just 6,000 people vs. 7,700 people in the respective period of the previous year. To some extent this is related to insufficient focus of the appropriate services on solving this issue.

By the end of the quarter there were vacant job places on the labor exchanges (25,000), but as opposed to the respective period of the previous year, their number had fallen by 2,600. A relative increase in vacancies occurred in Samarkand, Khorezm and Jizzakh regions, which is connected with the rise in the qualitative imbalance of supply and demand of the work force in those regions' labor markets.

In the first quarter of 2005, the situation with regard to retraining and skills development of those needing retraining somewhat improved. 10,500 people received occupational training in appropriate structures vs. 9,500 people in the respective period of the previous year. However, throughout the entire Fergana valley and in Sirdarya region as well, this indicator decreased. An analysis of relative indicators of occupational training helped to reveal worse–off regions. In the first quarter of 2005, in general in the republic, 99 out of 1000 registered people received occupational training, of which Tashkent city accounted for 535 people, Tashkent and Kashkadarya regions for 30 people, Surkhandarya region – 33 people, and Namangan region - 42 people. Considering the qualitative imbalance in supply and demand of the work force in the current labor market, these indicators seem to be highly insufficient. In order to solve this problem, training aids need to be strengthened, focusing on specialization in training and the retraining of personnel in the system of employment services.

The role of rural areas in the current labor market is growing continually. In the first quarter of 2005, rural areas accounted for 75.4% of those registered as job seekers, 76.0% of those employed with assistance from labor exchanges and 71.4% of unemployed obtaining official status (Table 5.3.2).

Table 5.3.2. Employment in Urban and Rural Areas

Year	Registered as jobseekers, thousand people		Placed in jobs, 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	84.4	73.2
04/I	27.4	77.3	18.9	57.3	68.9	74.2
05/I	26.1	80.1	19.3	61.2	73.9	76.4

Source: computed on data from the Ministry of Labor and Social Protection of Population.

This proves the necessity of expanding the use of labor in rural areas by establishing businesses for reprocessing agricultural production from local raw materials, as well as non-agricultural enterprises.

Export of Work Force. In 2005, new steps to expand the organized export of labor from Uzbekistan have been undertaken. New agreements have been signed, in particular, with the USA and UAE. However, a certain share of labor migration still takes place on an unorganized basis.

Appendix 5.2.1. Volume of Sales of Goods and Services to the Population

Periods	Volume of sales of goods and services		Including			
			Sales of goods		Sales of Services	
	bn. UZS	%	bn. UZS	%	bn. UZS	%
2000	2097.4	100	1787.5	85.2	309.9	14.8
2001	3172.2	100	2699.9	85.1	472.3	14.9
2002	4497.7	100	3786.3	84.2	711.4	15.8
2003	3259.9	100	4325.1	82.2	934.8	17.8
2004	5991.3	100	4764.7	79.5	1226.6	20.5
04/I	1311.5	100	1069.6	81.6	211.9	18.4
05/I	1558.0	100	1241.9	79.7	316.1	20.3

Source: State Statistics Committee of Uzbekistan.

Appendix 5.2.2. Retail Trade Turnover and Paid Services

Periods	Retail trade turnover		Paid services	
	in current prices, bn. UZS	Growth rates against previous year, in comparable prices, %	in current prices, bn. UZS	Growth rates against previous year, in comparable prices, %
2000	1787.5	107.6	309.9	115.7
2001	2699.9	109.6	472.3	114.7
2002	3786.3	102.1	711.4	108.6
2003	4289.7	104.2	934.8	107.9
2004	4764.7	104.7	1226.6	113.8
04/I	1069.6	105.1	241.9	111.8
05/I	1241.9	108.7	316.1	114.2

Source: State Statistics Committee of Uzbekistan.

Appendix 5.2.3 Availability of Objects of Social Infrastructure

Periods	Availability					
	Housing sq. m. per resident	Hospital beds per 10 thous. people	Preventive healthcare institutions per 10 thous. people	Coverage of students in 1 shift, %	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	155.0	71.1	81.8	79.8
2004	14.4	54.9	155.2	71.3	82.2	80.2
04/I	14.1	55.7	158.4	71.1	-	78.2
05/I	14.3	54.8	156.1	71.3	82.2	80.7

Source: State Statistics Committee of Uzbekistan.

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

Year	Entire Population		Urban		Rural	
	Number	Growth, %	Number	Growth, %	Number	Growth, %
2000	24487.7	1.5	9165.5	0.9	15322.2	1.8
2001	24813.1	1.3	9225.3	0.7	15587.8	1.7
2002	25115.8	1.2	9286.9	0.7	15828.9	1.5
2003	25427.9	1.2	9340.7	0.6	16087.2	1.6
2004	25707.4	1.1	9381.3	0.4	16326.1	1.5
2005*	26021.3	1.2	9441.9	0.6	16579.4	1.6
04/ I (by 1.04.04)	25777.2	0.3	9397.2	0.2	16380.0	0.3
05/ I (by 1.04.05)	26095.0	0.3	9460.7	0.2	16634.3	0.3

*) Data by beginning of 2005 indicated after their adjustments by Statistics bodies
Source: State Statistics Committee of Uzbekistan

Annex 5.3.2. Employed Population by Sector of the National Economy (on average for the period, thousand people)

	1 quarter 2004	Ratio in % to total number of the employed	1 quarter 2005*)	Ratio in % to total number of the employed	Q1 2005 in % To Q2 2004
Employed - total	9410.8	100.0	9750.2	100.0	103.6
In manufacturing	6363.1	67.6	6545.3	67.1	102.9
Industry	1243.3	13.2	1305.0	13.4	105.0
Agriculture and Forestry	2821.5	30.0	2801.7	28.7	99.3
Transport and Communication	310.3	3.3	327.1	3.3	105.4
Construction	679.1	7.2	718.7	7.4	105.8
Trade, Public Catering, MTP, and Procurement	857.4	9.1	923.6	9.5	107.7
Other	451.5	4.8	469.2	4.8	103.9
In Non-Material Production	3047.7	32.4	3204.9	32.9	105.2
Transport and Communication	137.4	1.5	148.9	1.5	108.4
Housing and Communal Services, and Consumer Services	292.2	3.1	308.4	3.2	105.5
Healthcare, Physical Culture and Social Provision	657.0	7.0	699.9	7.2	106.5
Education, Culture, Art, Science and Scientific Service	1276.7	13.6	1339.2	13.7	104.9
Finance and Credit	51.0	0.5	52.3	0.5	102.5
Other	633.4	6.7	656.2	6.8	103.6
In the State Sector, %	23.1	x	22.9	x	x
In the Non-State Sector, %	76.9	x	77.1	x	x

*) estimation
Source: State Statistics Committee of Uzbekistan.

6. Socio-economic development of regions

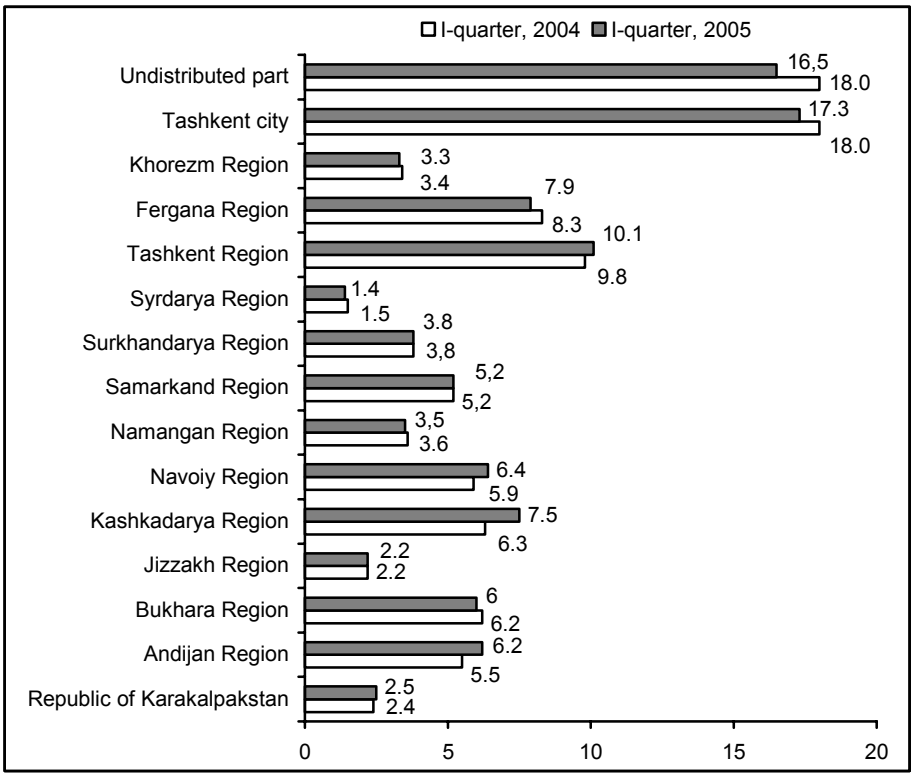
According to the results of the first quarter of 2005, the regions of Uzbekistan (the Republic of Karakalpakstan, 12 provinces and Tashkent city) developed at relatively sustainable rates.

In the first quarter of 2005, growth of the main economic indicator – GDP – equaled 104.8%, with higher indicators in the following provinces: Andijan – 111.0%, Jizzakh – 106.5%, Namangan – 106.9%, and Surkhandarya – 106.7%. Those high growth rates in the above-mentioned provinces were obtained as a result of positive trends in the development of the real sector of the economy (Appendix 6.1).

In comparison with the first quarter of 2004, the territorial structure of GRP underwent certain changes.

As before, the greatest share of GRP belonged to Tashkent city – 17.3% – although it decreased by 0.7 p.p. in comparison with the previous period. Decreases in the share of GRP in the total volume occurred in Fergana (from 8,3% to 7,9%), Bukhara (from 6,2% to 6,0%), Namangan (from 3,6% to 3,5%), Syrdarya (from 1,5% to 1,4%), Khorezm (from 3,4% to 3,3%) regions. In the remaining provinces the share of GRP increased. Particularly high increases were observed in Andijan (from 5,5% до 6,2%), Kashkadarya (from 6,3% to 7,5%), Navoiy (from 5,9% to 6,4%), Tashkent (from 9,8% to 10,1%) regions. In Jizzakh, Samarkand and Surkhandary provinces the structure of GRP in the first quarter of 2005 remained the same as in the first quarter of 2004 - 2,2%, 5,2% and 3,8%. respectively. Changes in the structure of GRP in the regions were mainly related to structural reforms that took place in the sectoral structure of GRP, especially in industry and agriculture, as well as to increased investment activities in Bukhara, Jizzakh, Kashkadarya provinces and in the city of Tashkent (Graph 6.1).

Graph 6.1. The Share of Regions in the GDP of the R. of Uzbekistan Based on the Overall Results from the 1st quarters of 2004 and 2005 (%)



Source: State Statistics Committee of Uzbekistan

The GRP index of per capita production has changed within the period under review. Groupings of regions on that indicator show that in the first quarter of 2004, the first group of regions with an index of higher than 1.000 included Tashkent city and Navoi and Tashkent provinces, while in the first quarter of 2005, this group included Bukhara province as well. The second group (with an index from 0.500 to 1.000) included almost all the regions that were there in the first quarter of 2004, except Bukhara province, which shifted to the first group, and Surkhandarya province, which moved from the third group to the second group. However, certain changes took place in this group. Indices of the following provinces increased: Kashkadarya (from 0.666 to 0.820), Andijan (from 0.585 to 0.685) and Sirdarya (from 0.525 to 0.555). At the same time, indices of the following provinces declined: Fergana (from 0.738 to 0.725), Khorezm (form 0.595 to 0.593) and Jizzakh (from 0.563 to 0.558).

The third group (with indices of less than 0.500) included Samarkand and Namangan provinces and the Republic of Karakalpakstan. Although GRP indices in those regions significantly grew in comparison to the first quarter of 2004, which indicates positive trends in socio-economic development of the regions in the given period, those indices remain low (Appendix 6.1).

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

1st quarter, 2004	Index	1st quarter, 2005	Index
I. High level	Over 1.000	I High level	Over 1.000
Tashkent city	2.257	Tashkent city	2.113
Navoi province	1.753	Navoi province	2.060
Tashkent province	1.012	Tashkent province	1.075
II. Medium level	from 0.500 to 1.000	Bukhara province	1.041
Bukhara province	0.974	II. Medium level	from 0.500 to 1.000
Fergana province	0.738	Kashkadarya province	0.820
Kashkadarya province	0.666	Fergana province	0.725
Khorezm province	0.595	Andijan province	0.685
Andijan province	0.585	Khorezm province	0.593
Jizzakh province	0.563	Jizzakh province	0.558
Sirdarya province	0.525	Sirdarya province	0.555
III. Low level	below 0.500	Surkhandarya province	0.528
Surkhandarya province	0.473	III. Low level	below 0.500
Samarkand province	0.457	Samarkand province	0.472
Namangan province	0.434	Namangan province	0.441
Republic of Karakalpakstan	0.352	Republic of Karakalpakstan	0.412

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

In the first quarter of 2005 all regions secured high growth rates of **industrial production** in comparison to the first quarter of 2004. In that regard, the following regions led the list: Republic of Karakalpakstan (141.3%), Andijan (153.5%), Jizzakh (120.0%), Khorezm (118.5%), Namangan (112.4%), Surkhandarya (111.7%), Samarkand (111.6%), Sirdarya (111.4%), Bukhara (108.5%) and Tashkent (107.8%) provinces. Those 10 regions out of 14 had growth rates of industrial production higher than the republican average (108.3%).

High growth rates in industry were achieved because of expansion of production in basic sectors, especially in the fuel and energy complex, machinery building, light and foodstuffs industry, as well as due to activation of investment potential in those regions.

The index of the level of industrial development (calculated per capita), in comparison to the first quarter of 2004 increased in the Republic of Karakalpakstan (from 0.207 to 0.255), Andijan (from 0.939 to 1.161), Kashkadarya (from 1.055 to 1.398), Navoi (from 4.086 to 4.251) and Surkhandarya (from 0.294 to 0.303) provinces and in Tashkent city (from 1.568 to 1.162). In the remaining regions the index declined, including in Bukhara, Jizzakh, Namangan, Samarkand, Sirdarya, Tashkent, and Fergana provinces. The lowest volume of industrial production per capita was observed in the Republic of Karakalpakstan (25.2 thous. soums), which is 16.6 times lower than in Navoi province (421.1 thous. soums) and 4.5 times lower than in Andijan province and Tashkent city (Appendix 6.1).

Growth rates of production of **consumer goods** increased in the first quarter of 2005 in all regions, except Navoi (98.3%) and Khorezm (96.5%) provinces. The main reasons for the decline in the growth rates of consumer goods production in those regions include non-fulfillment of objectives for production of key consumer goods in large enterprises as well as the low quality of those goods and declining demand for them. Thus, in Navoi province the following enterprises decreased their volume of production: NMMK, “Navoi Azot” SC, “Balikchilik-2003” LLC, and “Navoinonzavodi” SC. In Khorezm region 12 out of 36 main industrial enterprises decreased production of consumer goods.

High growth rates of consumer goods were observed in the Republic of Karakalpakstan (117.1%), Andijan (180.3%), Jizzakh (120.6%), Fergana (115.8), Namangan (112.1%), Samarkand (110.1%), Sirdarya (109.9%), and Tashkent (107.7%) provinces and Tashkent city (107.4%). In the indicated regions, growth of consumer goods production was facilitated by the significant development of small and private entrepreneurship, the use of local raw materials by producers of consumer goods, as well as the stimulation of production of consumer goods in the regions by means of various privileges and simplifications of procedures for licensing new enterprises.

The consumer goods production index (per capita) significantly increased in Andijan (from 1.998 to 3.147) Jizzakh (from 0.618 to 0.704) and Samarkand (from 0.789 to 0.799) provinces. In the remaining regions the index declined in comparison with the first quarter of 2004 (Appendix 6.2).

The lowest indicator of consumer goods production per capita was observed in the Republic of Karakalpakstan (7.1 thous. soums) and the highest in Tashkent city (55.2 thous. soums). 10 out of 14 regions demonstrated a consumer goods production index lower than the republican level.

In **agricultural** production output all the regions had high growth rates in the first quarter of 2005 in comparison with the same period of 2004, especially Navoi (109.7%), Bukhara (109.4%), Kashkadarya (109.0%), Surkhandarya (108.8%) and Andijan (107.7%) provinces.

In 7 out of 14 regions growth rates on that indicator were higher than the republican level (106.6%). High growth rates were ensured due to the effective work of farm and dekhkan entities (Appendix 6.1).

In terms of per capita agricultural production, indices were quite high in a majority of regions; in 8 regions they were higher than the republican level. The decline of the index for that indicator was observed in the Republic of Karakalpakstan (from 0.361 to 0.311), Andijan (from 0.845 to 0.797), Jizzakh (from 1.504 to 1.246), Fergana (from 1.058 to 0.984) and in Khorezm (from 1.529 to 1.350) provinces.

In the remaining regions the index increased, particularly in Kashkadarya, Namangan, Samarkand, and Sirdarya provinces (Appendix 6.2).

In the first quarter of 2005 **investment activity** significantly increased in such provinces as Bukhara (135.1%), Jizzakh (125.0%), Kashkadarya (125.8%), Sirdarya (166.1%), Fergana (by 2.4 times), and Tashkent city (126.1%). This was caused by an expansion of activities for increasing the investment attractiveness of regions, especially for foreign investors. In Bukhara and Jizzakh provinces, investments were directed mainly at the construction of objects related to the social sphere (hospitals, public catering points) and the expansion of consumer services in rural areas. In Kashkadarya province the 1st energy block on Talimarjan GRES was launched, work was conducted on the expansion of sources by “Mubarekneftgaz”, and operations were begun in two joint ventures in the sphere of industry and services and technical basis in agriculture.

In Sirdarya province, gas- and water-management facilities were launched, which in turn facilitated improvements in the gas- and water-supply in rural areas; in Fergana province, more than 120 facilities were under construction, including within the frameworks of the program “Manziliy dastur”; in Tashkent province the majority of investments were used for developing transport and communications services and re-equipping industrial enterprises, as well as for the construction and reconstruction of lyceums and schools.

A decrease in the volume of investments occurred in the Republic of Karakalpakstan (by 54.4%), Andijan province (by 25.7%), Samarkand (by 18.4%), Tashkent (by 3.4%) and Khorezm (by 6.0%) provinces. The decrease in investments, in comparison with the first quarter of 2004, in those regions took place for the following reasons: in the Republic of Karakalpakstan – because of the reduction in hired jobs and completion of construction in the Kungrad detergent plant, the decrease in the volume of investments in the State stock company “Uzbekiston temir yollary” and because of the completion of construction of railroads; in Andijan and Samarkand provinces tender sales were delayed as were deadlines for repayments on construction and reconstruction of objects in the social sphere (vocational colleges and schools). In the other regions, in 2004 construction was completed on production and social objects, and investments, especially from budget, were decreased (Appendix 6.1).

In the first quarter of 2005 in comparison with the first quarter of 2004 investments mainly grew in Bukhara (from 1.144 to 1.554), Jizzakh (form 0.410 to 0.561), Kashkadarya (from 1.374 to 1.667). Sirdarya (from 0.511 to 0.694) and Fergana (from 0.275 to 0.662) provinces and the city of Tashkent (from 2.800 to 3.086); in the remaining regions investments declined. In 9 out of 14 regions indices were lower than the republican level. The biggest per capita investments were in Tashkent city (58.9 thous. soums) (Appendix 6.2).

As to **retail turnover**, in the first quarter of 2005, high growth rates were achieved in all regions, especially in Navoi (117.8%), Bukhara (114.1%), Khorezm (112.2%), Namangan (110.1%), Surkhandarya (109.8%), Jizzakh (109.5%) provinces, Tashkent city (114.9%) and in the Republic of Karakalpakstan (112.4%).

In 8 out of 14 regions retail turnover growth rates were higher than the republican average (108.7%). High growth rates in that indicator were achieved thanks to the creation of favorable conditions for the development of retail trade and the creation of a large number of retail trade objects and objects of consumer services and public catering, especially in rural areas (Appendix 6.1).

In comparison with the first quarter of 2004, retail turnover indices decreased in a majority of the regions. However, they grew in the Republic of Karakalpakstan (from 0.489 to 0.513), Navoi (form 0.841 to 0.906), Surkhandarya (from 0.711 to 0.729), Khorezm (from 0.606 to 0.649) provinces and Tashkent city (from 2.516

to 2.831). In 10 regions indices of that indicator were lower than the republican level. The highest per capita retail turnover volume was observed in Tashkent city (133.7 thous. soums), the lowest – in the Republic of Karakalpakstan (24.5 thous. soums) (Appendix 6.2).

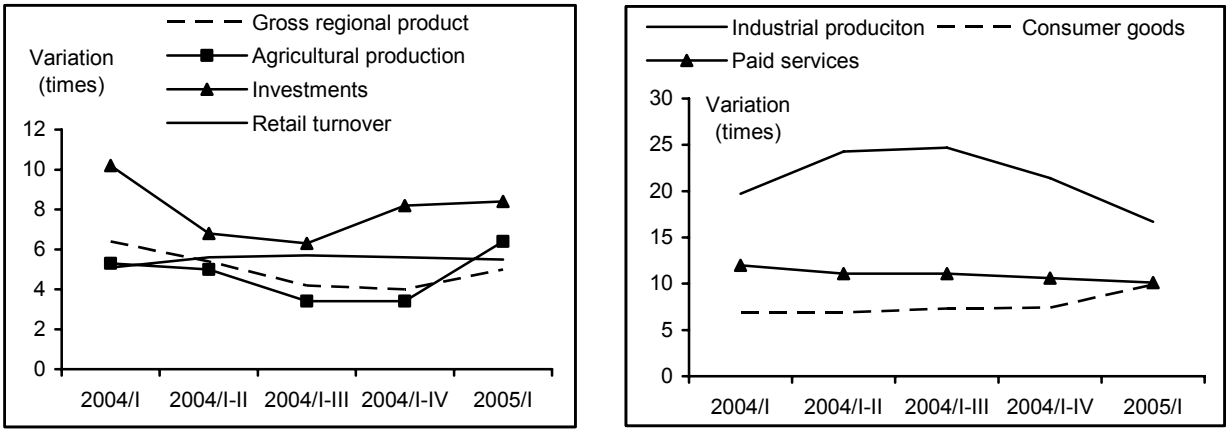
In the first quarter of 2005, significant growth rates were achieved in **paid services.** Especially high growth rates in the first quarter of 2005 were achieved in Khorezm (134.8%), Jizzakh (129.1%), Sirdarya (127.1%), Navoi (125.6%), Andijan (123.1%), Bukhara (120.3%) provinces and in the Republic of Karakalpakstan (129.6%). In 13 out of 14 regions, growth rates for that indicator were higher than the republican average. High growth rates of paid services in the regions are explained by the growth of solvent demand of the population and expansion of the private sector, especially in healthcare, education communication services and city public transportation, as well as by the effective realization of regional and target programs related to the development of the services sphere (Appendix 6.1).

Per capita indices on paid services increased in a majority of regions, while decreasing in Namangan (from 0.542 to 0.540) and Tashkent (from 0.652 to 0.638) provinces and Tashkent city (from 4.548 to 4.197). 12 out of 14 regions had indices lower than the republican level. The lowest indicator of per capita paid services was observed in the Republic of Karakalpakstan (5.3 thous. soums), the highest – in Tashkent city (50.4 thous. soums) (Appendix 6.2).

During the period under review, inter-regional differentiation of GRP decreased (from 6.4 times in the 1st quarter of 2004 to 5.0 times in the 1st quarter of 2005), of industrial production – from 19.7 times to 16.7 times (excluding Navoi region, where it decreased from 7.7 times to 5.9 times), and of paid services – from 12.0 times to 10.1 times (excluding Tashkent city, where it decreased from 2.5 times to 2.4 times). For the remaining indicators the inter-regional differentiation increased: for consumer goods production – from 6.9 times to 9.9 times, for agriculture – from 5.3 times to 6.4 times, for investments – from 10.2 times to 12.3 times (excluding Tashkent city, where it decreased from 6.8 times to 2.1 times) and for retail turnover – from 5.1 times to 5.5 times (Graph 6.2).

Analysis has shown that the formation of inter-regional differentiation was largely caused by Navoi province (industry) and Tashkent city (on other indicators), with their significant economic potential in comparison with such an underdeveloped region as the Republic of Karakalpakstan, where per capita indicators of the real sector of the economy remain low. Apart from the above-mentioned regions, inter-regional differentiation has tended to decline, but still remain quite high (Graph 6.2).

Grpah 6.2. Dynamics of the Level of Differentiation of Socio-Economic Development of the Regions for the 1st quarter of 2004 and 1st quarter of 2005.



The conducted analysis of the socio-economic development of the regions in the first quarter of 2005 has shown that economic potential continued to grow in such underdeveloped regions as the Republic of Karakalpakstan, Jizzakh, Namangan, Surkhandarya and Sirdarya provinces. Inter-regional differentiation continued to decline on such key indicators as GRP, industrial goods production, and paid services. However, a significant gap still remains between strong and weak regions, especially with regard to production of industrial goods and consumer goods. Natural and economic potential is not utilized sufficiently in Kashkadarya, Surkhandarya, and Jizzakh provinces.

There remains significant potential for the economic growth of the regions and the creation of necessary conditions for increasing living standards: in the deployment of industries in rural areas and in the development of small and private entrepreneurship in those areas, as well as in strengthening the material-technical and financial base of local authorities.

Appendix 6.1. Dynamics of the 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	04/I	05/I
R. of Karakalpakstan	89.7	98.3	100.9	110.1	108.7	103.5	103.0
Andijan Province	102.8	108.9	102.9	102.8	106.2	106.1	111.0
Bukhara Province	104.2	103.5	102.0	101.4	106.1	100.0	104.5
Jizzakh Province	104.2	106.5	110.0	107.5	107.7	105.1	106.5
Kashkadarya Province	99.0	105.0	109.4	105.4	105.7	103.2	103.8
Navoi Province	103.2	101.4	104.7	103.9	107.6	102.5	102.0
Namangan Province	108.0	104.5	103.2	102.1	107.7	103.2	106.9
Samarkand Province	104.6	103.5	107.9	106.9	106.5	104.2	104.1
Surkhandarya Province	105.5	108.0	103.7	105.3	105.9	103.6	106.7
Sirdarya Province	102.6	102.9	97.5	102.5	108.4	102.8	104.6
Tashkent Province	110.9	104.2	103.4	102.5	109.0	104.1	104.5
Fergana Province	106.1	99.5	104.8	100.5	104.9	102.1	103.5
Khorezm Province	94.8	103.0	103.6	103.8	108.2	102.5	104.4
Tashkent City	104.5	104.3	101.5	104.4	104.0	105.5	103.0
R.of Uzbekistan	103.8	104.2	104.0	104.4	107.7	104.8	104.8

Source: State Committee on Statistics of Uzbekistan

Industrial Production

Regions	2000	2001	2002	2003	2004	04/I	05/I
R.of Karakalpakstan	111.2	95.9	94.9	100.3	123.5	117.7	141.3
Andijan Province	90.0	128.1	105.5	118.6	135.8	126.9	153.5
Bukhara Province	103.9	107.7	103.3	102.5	109.1	108.4	108.5
Jizzakh Province	122.7	119.9	130.3	114.1	112.8	114.3	120.0
Kashkadarya Province	101.9	104.4	112.1	114.4	110.0	111.4	103.0
Navoi Province	102.2	100.6	106.5	99.4	106.0	101.4	100.1
Namangan Province	126.1	118.2	112.5	113.0	109.4	109.0	112.4
Samarkand Province	97.3	105.7	106.7	111.1	113.4	115.0	111.6
Surkhandarya Province	107.9	104.1	113.1	104.6	109.2	106.4	111.7
Sirdarya Province	106.7	101.3	122.4	100.1	107.2	103.2	111.4
Tashkent Province	108.8	109.1	108.3	102.6	109.6	107.2	107.8
Fergana Province	108.5	101.4	108.7	102.4	104.3	103.6	106.3
Khorezm Province	103.5	100.3	103.9	98.9	102.9	100.1	118.5
Tashkent City	113.2	110.5	111.7	112.5	104.8	115.2	111.4*
R.of Uzbekistan	105.9	107.6	108.3	106.2	109.4	108.8	108.3

Source: State Statistics Committee of the Republic of Uzbekistan
*This does not include the JV Sugar Investment and Tashkent Textile Joint Stock Company

Consumer goods production

Regions	2000	2001	2002	2003	2004	04/I	05/I
R.of Karakalpakstan	105.9	113.5	104.3	104.7	110.3	119.0	117.1
Andijan Province	92.6	123.7	97.8	120.3	145.3	133.3	180.3
Bukhara Province	105.9	107.4	103.3	106.0	107.8	107.8	104.7
Jizzakh Province	123.6	119.3	159.3	129.0	115.2	113.0	120.6
Kashkadarya Province	113.1	112.7	108.5	108.8	117.1	127.0	107.8
Navoi Province	115.5	99.98	114.5	105.3	97.3	107.3	98.3
Namangan Province	124.3	111.8	118.1	114.0	110.4	124.7	112.1
Samarkand Province	92.4	102.6	102.5	106.8	109.9	100.3	110.1
Surkhandarya Province	111.9	100.9	114.8	106.2	115.2	129.5	101.8
Sirdarya Province	110.1	120.2	103.0	104.2	107.5	108.0	109.9
Tashkent Province	112.5	114.1	106.6	107.1	111.7	106.6	107.7
Fergana Province	111.3	98.1	106.4	101.6	119.2	113.2	115.8
Khorezm Province	107.8	94.0	95.0	114.5	101.4	96.6	96.5
Tashkent City	111.3	101.3	120.2	102.7	103.4*	115.7	107.4**
R.of Uzbekistan	106.2	107.6	108.4	108.4	113.4	114.9	116.4

Source: State Statistics Committee of the Republic of Uzbekistan
*This does not include the JV Sugar Investment and JV Coca-Cola
**This does not include the JV Sugar Investment and Tashkent Textile Joint Stock Company

Agricultural production

Regions	2000	2001	2002	2003	2004	04/I	05/I
R.of Karakalpakstan	65.6	90.5	101.2	129.8	112.5	109.1	105.8
Andijan Province	110.2	107.1	104.0	100.2	107.0	106.9	107.7
Bukhara Province	106.3	102.0	102.6	106.2	110.5	104.5	109.4
Jizzakh Province	100.1	106.9	113.2	112.0	111.2	108.9	106.8
Kashkadarya Province	89.4	106.9	119.9	106.2	109.0	107.7	109.0
Navoi Province	105.0	107.2	106.7	109.3	108.6	108.8	109.7
Namangan Province	111.5	101.4	101.5	102.9	112.7	104.0	104.7
Samarkand Province	104.8	103.9	112.4	110.0	108.4	107.6	105.2
Surkhandarya Province	106.7	110.5	102.8	106.4	106.7	106.0	108.8
Sirdarya Province	101.9	105.8	98.8	105.2	111.8	107.1	105.8
Tashkent Province	114.9	103.7	102.4	102.7	112.8	106.7	106.7
Fergana Province	113.5	100.4	105.2	100.6	110.0	106.4	104.6
Khorezm Province	82.8	103.6	106.4	110.5	114.1	106.3	104.2
Tashkent City					-		-
R.of Uzbekistan	103.1	104.2	106.0	105.9	110.1	106.7	106.6

Source: State Statistics Committee of the Republic of Uzbekistan

Investments

Regions	2000	2001	2002	2003	2004	04/I	05/I
R.of Karakalpakstan	83.0	105.8	113.9	118.0	98.3	в 2.3 р.	45.6
Andijan Province	101.0	118.4	105.1	107.0	62.5	100.1	74.3
Bukhara Province	108.0	119.2	103.2	100.6	168.2	в 2.1 р.	135.1
Jizzakh Province	111.0	77.5	112.3	84.0	111.0	92.6	125.0
Kashkadarya Province	93.0	130.2	93.4	112.0	81.4	56.5	125.8
Navoi Province	116.0	107.4	97.9	110.0	87.8	66.1	102.3
Namangan Province	103.0	96.0	100.1	102.0	95.5	107.2	102.8
Samarkand Province	104.0	107.1	99.8	108.0	109.6	104.8	81.6
Surkhandarya Province	102.0	115.7	101.1	104.0	102.0	в 2.3 р.	105.7
Sirdarya Province	100.2	101.3	84.4	106.0	150.9	45.5	166.1
Tashkent Province	106.0	112.1	102.0	108.0	122.0	147.2	96.6
Fergana Province	107.0	108.7	107.4	96.0	90.4	31.2	2.4 р.
Khorezm Province	102.0	95.5	103.3	92.0	2.2 р	97.4	94.0
Tashkent City	92.0	106.3	80.9	107.0	121.6	130.3	126.1
R.of Uzbekistan	101.0	104.0	103.6	104.5	105.2	99.6	104.2

Source: State Statistics Committee of the Republic of Uzbekistan

Retail turnover

Regions	2000	2001	2002	2003	2004	04/I	05/I
R.of Karakalpakstan	103.6	117.9	101.2	107.9	100.9	103.5	112.4
Andijan Province	106.4	109.3	107.3	100.0	89.2	102.0	100.1
Bukhara Province	110.3	114.7	107.0	101.1	102.9	100.2	114.1
Jizzakh Province	111.0	125.8	116.1	101.8	103.1	103.3	109.5
Kashkadarya Province	109.9	116.5	106.7	108.3	100.8	100.1	107.7
Navoi Province	105.4	113.3	103.8	104.3	123.5	109.1	117.8
Namangan Province	110.8	118.8	113.5	100.9	100.0	105.6	110.1
Samarkand Province	113.6	106.6	103.7	108.8	101.1	104.8	107.5
Surkhandarya Province	121.4	113.7	112.6	109.5	107.3	105.1	109.8
Sirdarya Province	105.8	102.1	91.1	100.3	103.6	101.1	105.4
Tashkent Province	123.3	115.9	101.2	108.6	111.5	110.9	106.3
Fergana Province	103.2	103.5	106.2	100.0	100.0	100.8	102.5
Khorezm Province	111.8	107.9	101.4	96.0	103.4	104.5	112.2
Tashkent City	100.2	104.7	89.9	110.2	114.2	109.2	114.9
R.of Uzbekistan	107.6	109.6	102.1	105.1	104.7	105.1	108.7

Source: State Statistics Committee of the Republic of Uzbekistan

Paid services

Regions	2000	2001	2002	2003	2004	04/I	05/I
R.of Karakalpakstan	114.2	105.1	112.4	111.3	109.2	120.4	129.6
Andijan Province	138.9	113.3	109.3	120.1	132.7	113.2	123.1
Bukhara Province	112.6	108.4	117.0	109.3	117.3	120.3	120.3
Jizzakh Province	110.4	116.2	114.2	114.1	118.5	116.1	129.1
Kashkadarya Province	137.2	114.6	121.9	108.2	102.6	104.8	117.1
Navoi Province	116.8	118.7	108.9	118.8	121.8	122.8	125.6
Namangan Province	137.0	115.5	110.8	122.6	117.4	111.8	116.6
Samarkand Province	118.1	121.8	104.0	124.5	113.9	118.4	119.0
Surkhandarya Province	109.6	114.2	114.3	112.6	111.7	113.7	118.2
Sirdarya Province	104.8	125.8	109.6	103.1	112.5	116.5	127.1
Tashkent Province	111.5	100.2	109.2	105.5	113.2	108.1	114.3
Fergana Province	115.5	113.5	110.5	112.4	119.6	119.1	118.9
Khorezm Province	107.9	106.4	102.0	107.0	119.2	123.9	134.8
Tashkent City	113.5	117.4	112.8	105.3	105.7	104.0	103.5
R.of Uzbekistan	115.7	114.7	108.6	107.9	113.8	111.8	114.2

Source: State Statistics Committee of the Republic of Uzbekistan

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

Gross Regional Product

Regions	2000	2001	2002	2003	2004	04/I	05/I
R.of Karakalpakstan	0.456	0.413	0.392	0.400	0.423	0.352	0.412
Andijan Province	0.911	0.935	0.834	0.764	0.744	0.585	0.685
Bukhara Province	1.109	1.155	1.101	1.053	1.085	0.974	1.041
Jizzakh Province	0.742	0.669	0.666	0.702	0.768	0.563	0.558
Kashkadarya Province	0.722	0.724	0.780	0.782	0.747	0.666	0.820
Navoi Province	1.039	1.267	1.490	1.685	1.705	1.753	2.060
Namangan Province	0.667	0.637	0.599	0.543	0.572	0.434	0.441
Samarkand Province	0.709	0.679	0.693	0.669	0.601	0.457	0.472
Surkhandarya Province	0.716	0.727	0.760	0.734	0.657	0.473	0.528
Sirdarya Province	0.807	0.822	0.776	0.754	0.768	0.525	0.555
Tashkent Province	1.040	1.017	1.032	1.041	1.032	1.012	1.075
Fergana Province	0.941	0.866	0.843	0.785	0.759	0.738	0.725
Khorezm Province	0.832	0.717	0.720	0.681	0.669	0.595	0.593
Tashkent City	1.563	1.665	1.671	1.682	1.678	2.257	2.113
R.of Uzbekistan	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	6.4	5.1
Excluding Tashkent city	2.4	3.1	3.8	4.2	4.0	5.0	5.0

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

Industrial production

Regions	2000	2001	2002	2003	2004	04/I	05/I
R.of Karakalpakstan	0.279	0.247	0.201	0.193	0.207	0.207	0.255
Andijan Province	0.909	1.071	0.979	0.960	1.028	0.939	1.161
Bukhara Province	1.100	1.096	1.133	0.996	0.952	1.083	0.955
Jizzakh Province	0.278	0.360	0.380	0.418	0.381	0.440	0.439
Kashkadarya Province	0.931	0.953	0.917	0.967	1.050	1.055	1.398
Navoi Province	3.144	3.318	4.046	4.490	4.431	4.086	4.251
Namangan Province	0.466	0.450	0.396	0.377	0.343	0.375	0.311
Samarkand Province	0.515	0.459	0.398	0.351	0.330	0.315	0.298
Surkhandarya Province	0.323	0.302	0.283	0.286	0.295	0.294	0.303
Sirdarya Province	0.460	0.541	0.427	0.429	0.402	0.533	0.474
Tashkent Province	1.368	1.487	1.569	1.537	1.650	1.604	1.514
Fergana Province	1.169	1.024	1.072	0.944	0.911	0.928	0.838
Khorezm Province	0.507	0.467	0.414	0.363	0.319	0.369	0.360
Tashkent City	1.700	1.744	1.729	1.823	1.468	1.568	1.162
R.of Uzbekistan	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	19.7	16.7
Excluding Navoi province	6.1	7.1	8.6	9.4	8.0	7.7	5.9

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

Consumer goods production

Regions	2000	2001	2002	2003	2004	04/I	05/I
R.of Karakalpakstan	0.425	0.400	0.341	0.332	0.307	0.344	0.328
Andijan Province	1.354	1.616	1.677	1.847	2.259	1.998	3.147
Bukhara Province	1.501	1.589	1.550	1.458	1.477	1.639	1.380
Jizzakh Province	0.266	0.385	0.573	0.655	0.723	0.618	0.704
Kashkadarya Province	0.616	0.656	0.560	0.615	0.470	0.507	0.447
Navoi Province	0.616	0.619	0.640	0.712	0.707	0.721	0.612
Namangan Province	0.665	0.579	0.571	0.561	0.573	0.609	0.546
Samarkand Province	1.226	1.072	1.016	0.884	0.836	0.789	0.799
Surkhandarya Province	0.433	0.377	0.364	0.356	0.403	0.365	0.317
Sirdarya Province	0.700	0.700	0.659	0.669	0.677	0.723	0.597
Tashkent Province	1.071	1.164	1.184	1.252	1.206	1.206	1.007
Fergana Province	1.076	1.009	0.934	0.844	0.903	0.824	0.830
Khorezm Province	0.787	0.543	0.551	0.544	0.501	0.568	0.469
Tashkent City	2.093	2.004	2.360	2.396	2.124	2.367	1.797
R.of Uzbekistan	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	6.9	9.9
Excluding Tashkent city	5.6	4.3	4.9	5.6	7.4	5.8	9.9

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

Agricultural production

Regions	2000	2001	2002	2003	2004	04/I	05/I
R.of Karakalpakstan	0.425	0.354	0.360	0.435	0.480	0.361	0.311
Andijan Province	1.170	1.119	1.150	1.051	1.042	0.845	0.797
Bukhara Province	1.340	1.375	1.321	1.376	1.418	1.242	1.245
Jizzakh Province	1.331	1.211	1.329	1.425	1.497	1.504	1.246
Kashkadarya Province	0.831	0.851	0.980	1.006	1.003	0.560	0.671
Navoi Province	1.238	1.144	1.149	1.218	1.218	1.222	1.231
Namangan Province	1.019	0.996	1.042	0.970	0.968	0.565	0.639
Samarkand Province	1.037	1.081	1.110	1.154	1.084	1.225	1.283
Surkhandarya Province	1.187	1.353	1.311	1.279	1.222	1.204	1.222
Sirdarya Province	1.397	1.501	1.373	1.393	1.636	1.286	1.346
Tashkent Province	1.511	1.539	1.268	1.255	1.242	1.916	1.996
Fergana Province	0.977	1.024	0.995	0.931	0.883	1.058	0.984
Khorezm Province	1.144	1.025	1.072	1.098	1.173	1.529	1.350
Tashkent City							
R.of Uzbekistan	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	5.3	6.4

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

Investments

Regions	2000	2001	2002	2003	2004	04/I	05/I
R.of Karakalpakstan	0.819	0.648	0.832	1.119	1.111	1.878	0.759
Andijan Province	0.552	0.505	0.439	0.641	0.377	0.382	0.250
Bukhara Province	0.705	0.627	1.063	0.701	1.174	1.144	1.554
Jizzakh Province	0.577	1.112	1.155	0.583	0.611	0.410	0.561
Kashkadarya Province	1.897	1.931	1.608	1.760	1.507	1.374	1.667
Navoi Province	2.014	2.535	2.125	2.213	1.835	1.707	1.548
Namangan Province	0.701	0.501	0.476	0.471	0.449	0.457	0.467
Samarkand Province	0.523	0.453	0.404	0.531	0.505	0.537	0.367
Surkhandarya Province	0.470	0.509	0.451	0.600	0.641	0.854	0.902
Sirdarya Province	0.772	0.754	0.713	0.592	0.819	0.511	0.694
Tashkent Province	0.747	0.762	0.899	0.872	1.085	1.235	1.040
Fergana Province	0.587	0.796	0.931	0.480	0.396	0.275	0.662
Khorezm Province	0.630	0.695	0.855	0.437	0.874	0.525	0.405
Tashkent City	2.730	2.272	2.131	2.864	3.088	2.800	3.086
R.of Uzbekistan	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	10.2	12.3
Excluding Tashkent city	4.3	5.6	5.3	5.1	4.9	6.8	2.1

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

Retail turnover

Regions	2000	2001	2002	2003	2004	04/I	05/I
R.of Karakalpakstan	0.470	0.485	0.491	0.505	0.503	0.489	0.513
Andijan Province	1.272	1.314	1.356	1.284	1.077	1.349	1.204
Bukhara Province	0.756	0.841	0.902	0.855	0.873	0.886	0.922
Jizzakh Province	0.420	0.530	0.630	0.602	0.617	0.623	0.612
Kashkadarya Province	0.662	0.697	0.715	0.755	0.768	0.735	0.708
Navoi Province	0.728	0.770	0.808	0.800	0.965	0.841	0.906
Namangan Province	0.691	0.747	0.805	0.773	0.720	0.801	0.795
Samarkand Province	0.791	0.709	0.707	0.744	0.711	0.717	0.706
Surkhandarya Province	0.588	0.594	0.665	0.700	0.716	0.711	0.729
Sirdarya Province	0.691	0.665	0.639	0.609	0.595	0.576	0.558
Tashkent Province	1.033	1.041	1.038	1.112	1.179	1.107	1.091
Fergana Province	1.219	1.145	1.232	1.153	1.076	1.141	1.011
Khorezm Province	0.662	0.685	0.668	0.610	0.605	0.606	0.649
Tashkent City	2.854	2.789	2.452	2.550	2.816	2.516	2.831
R.of Uzbekistan	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	5.1	5.5
Excluding Tashkent city	3.0	2.7	2.8	2.5	2.3	2.8	2.4

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

Paid Services

Regions	2000	2001	2002	2003	2004	04/I	05/I
R.of Karakalpakstan	0.410	0.340	0.358	0.380	0.393	0.379	0.440
Andijan Province	0.870	0.856	0.771	0.813	0.999	0.590	0.615
Bukhara Province	0.927	0.856	0.878	0.883	0.894	0.928	0.983
Jizzakh Province	0.455	0.441	0.448	0.481	0.488	0.502	0.560
Kashkadarya Province	0.463	0.420	0.423	0.462	0.420	0.410	0.415
Navoi Province	0.707	0.718	0.663	0.755	0.844	0.933	1.027
Namangan Province	0.500	0.479	0.448	0.506	0.504	0.542	0.540
Samarkand Province	0.626	0.612	0.606	0.687	0.666	0.620	0.632
Surkhandarya Province	0.480	0.441	0.444	0.457	0.469	0.475	0.491
Sirdarya Province	0.366	0.361	0.366	0.382	0.395	0.459	0.502
Tashkent Province	0.732	0.670	0.616	0.631	0.653	0.652	0.638
Fergana Province	0.610	0.553	0.556	0.586	0.631	0.600	0.655
Khorezm Province	0.707	0.596	0.581	0.602	0.659	0.696	0.833
Tashkent City	3.455	3.761	4.090	4.201	4.156	4.548	4.197
R.of Uzbekistan	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	12.0	10.1
Excluding Tashkent city	2.5	2.5	2.5	2.3	2.5	2.5	2.4

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

ANALYTICAL PART

1. Macroeconomic Trends in Fiscal Regulation and their Implications for the Economy in General: the Econometric Approach

By Sergey Chepel, PhD in Economics

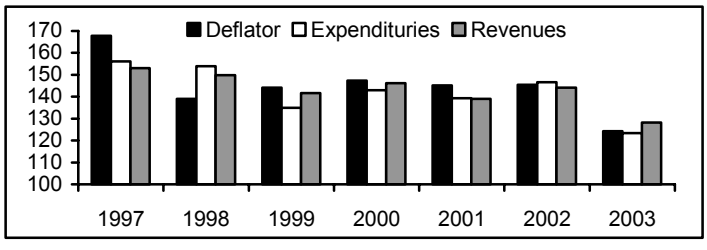
Fiscal regulation is a powerful tool of the government for affecting the economy in general, from setting up the necessary preconditions for the efficient operation of government institutions and support of the socially vulnerable population to the direct impact on production, consumption and foreign trade. However, an excessive tax burden or its uneven distribution by economic sector may lead to a considerable decrease in economic growth rates. *It is therefore crucial to analyze the trends formed during the last few years in the revenue and expenditure sections of the government budget, as well as their interrelations with indicators of sustainability and foreign trade and the growth of economic activity.*

The *key feature* of the dynamics of the revenue and expenditure sections of the government budget is the downward trend in their growth rates where cost indicators in nominal terms are used as input data. While in the beginning of the analyzed reporting period they were 50-55%, by 2004 they had decreased to approximately 20% (see Figure 1). In addition to the decrease in tax rates and the physical reduction of selected types of government expenditures, a considerable role was played by the price factor, as the growth rates of budget parameters decreased approximately at the same pace as inflation (GDP deflator). Correlation with the GDP deflator was 0.89 for revenue and 0.86 for the expenditure section of the government budget.

The comparison of the nominal growth rates of the revenue and expenditure sections of the government budget and the GDP deflator (Figure 3) allows one to note the *stability (or even small decrease) of revenues and expenditures in real terms during the last eight years (starting from 1997).* While total budget growth was 10.7 times during this period and revenue grew 11.2 times, the price level (based on GDP deflator) increased by 12.1 times, which *exemplifies the changes in the country's budget capacity.*

A similar trend, though to a lesser extent, is characteristic of budget indicator dynamics, expressed as a percentage of GDP. While a tendency towards decreasing revenues has been observed in general, during the last 5-6 years a sustainable trend developed towards a relative decrease (in percent to GDP) in the government budget , as it decreased from 35% in 1988 to 25% in 2003-2004 (see Figure 2). From the point of view of reducing the state tax burden, and thus, liberalizing the economy, this trend should be considered as a positive one. However, if we take into account all taxes, including payments to extra-budgetary funds and arrears, the consolidated budget would remain at a high level, varying according to our estimates from 42% to 47% of the GDP, indicating a high level of aggregate burden on the economy,[1] which increases *the risks of non-payment and insolvency.*

Figure 1. Total Revenue and Expenditure Dynamics in Relation to GDP Deflator (% year to year)



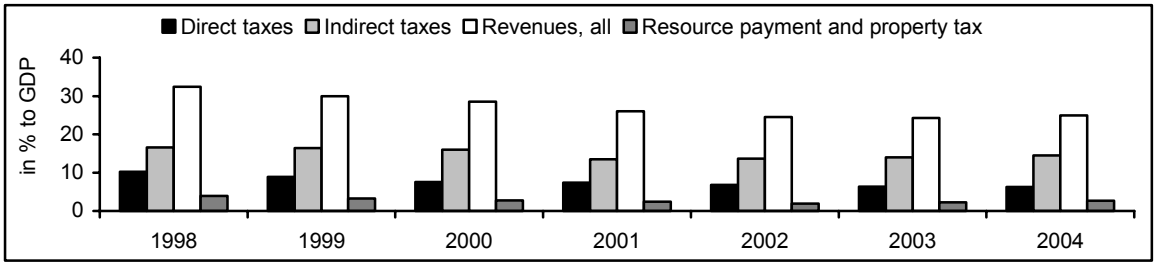
Source: Estimates by the author based on the quarterly data of economic forecasts for Uzbekistan.

Revenue structure was characterized by the continuing trend towards a further decrease in the share of direct taxes and an increase in the share of indirect taxes. This conclusion stems from analyzing Figure 2. The share of indirect taxes, beginning from 2001, remained at almost the same percent of GDP, while the share of direct taxes noticeably decreased. This implies the increase in the share of VAT and other indirect taxes in the structure of revenue, with rising costs and prices of products at each subsequent stage of the technological process, resulting in decreased competitiveness and other negative impacts. In addition, such a trend can reflect the deterioration of the financial position of real sector industries, as profit and personal income taxes are the base for direct taxes. This trend differs somewhat from trends peculiar to countries with the highest GDP growth rates (Malaysia, Thailand, South Korea). Direct taxes are their main source of budgetary revenues and the amount of budgetary revenues in the 1990s was within the range of 15% -20% of GDP.

1 The issue of basing the optimal level of the tax burden on the economy as a whole in general has been discussed in detail in the article by S. Chepel Economic Growth: Fiscal Policy and the Results of Quantitative Analysis. (co-authorship), quarterly analytical review 'Uzbekistan Economy', #7, 2004.

Proportionally to the reduction in the relative revenues of the government, budgetary expenditures have been decreasing as well. This has kept the budget deficit under one percent. Such a moderate deficit is one of the major factors behind declining inflation rates. On the other hand, the trend of declining relative budgetary expenditures complicates the ability to meet the objective of increasing the competitiveness of the national economy, a precondition for which is investment into human capital in order to increase the education and expertise level of labor resources.

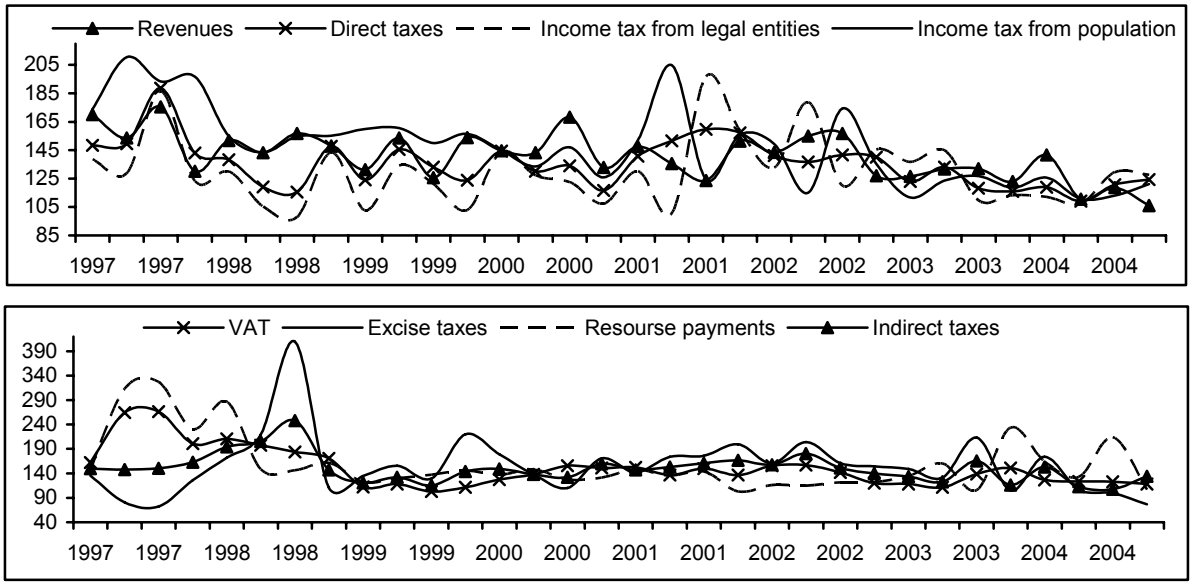
Figure2. Structure of Budgetary Revenues of the Republic of Uzbekistan in 1998 – 2004



Source: Uzbekistan Economic Trends and Ministry of Finance data (www.mf.uz/en/gb/st/c?n)

The dynamics of *the quarterly growth rates of the revenue and expenditure sections of the budget* is characterized by a *certain level of instability* (see Figures 3, 4). For instance, growth rates of personal income tax fluctuated in 1997-2004 from 10% to more than 100%, excise – from 0% to 400% etc. One interesting feature is that the degree of instability of the dynamics of direct taxes (left chart of Figure 3) is higher than that of indirect taxes (right chart), especially starting from mid 1998.

Figure 3. Real Growth Rates of Major Components of Budgetary Revenues in 1997-2004 (% quarter to quarter of respective period of previous year)



Source: Author's computations based on data of quarterly Economic Reviews on Uzbekistan.

At the same time, the peaks and falls in growth rates of revenues and expenditures of the budget are not of a seasonal nature and most probably have been caused by changes in the legislative base of fiscal policy or the financial situation in different sectors of the economy.

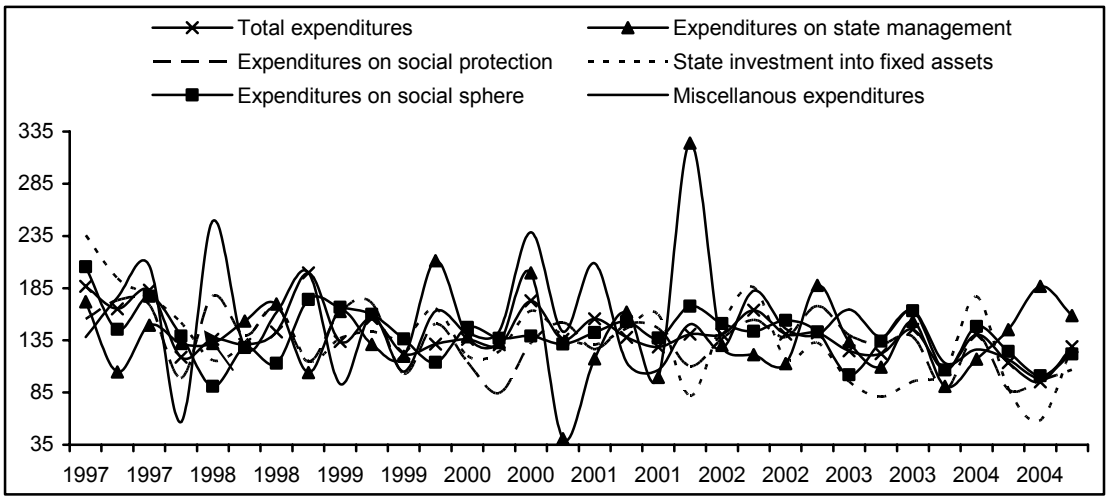
Indicators of the *expenditure part of the budget* are also characterized by unstable dynamics for 1996-2004 (Figure 4). The most considerable fluctuations were in the growth rates of expenditures for state management and state investments.

Econometrical analysis of the quarterly dynamics of the parameters of revenue and expenditure sections of the budget[2] has indicated a close statistically significant interrelation between them. The variation of major budget expenditure items explained by the dynamics in total budget revenues lies in the range from 54% for state investments to 75% for expenditures for state managements bodies.

2 The analysis of initial time series for stationarity, the search of regression equations meeting required statistical criteria and logic requirements, and the computation of elasticity ratios has been conducted by T. Kuznetsova, a researcher of the CEEP under the Ministry of Economy of the RUz.

In turn, the dynamics of budgetary revenues in the reporting period have been formed to a considerable extent under the influence of GDP dynamics, the level of salaries, exports and other indicators of economic activity. In particular, 63% of the variation in the dynamics of indirect taxes within the reporting period was explained by the changes in dynamics of GDP and VAT rates. Hence, the main precondition for the rise in expenditures for social needs and the strengthening of state institutions is ensuring sustainable economic growth and increasing its quality.

Figure 4. Growth Rates of Expenditures
(% quarter to quarter of respective period of previous year)



Source: Authors' computations based on data from quarterly Uzbekistan Economic Reviews.

International experience provides convincing evidence that one of the major preconditions for accelerating economic development is a moderate tax burden which does not hinder the majority of commodity producers from investing in the development of their businesses, creating new jobs, carrying out innovations and modernizing production. As mentioned above, the actual level of the tax burden over the last few years does not meet these demands and at present the Government of the Republic of Uzbekistan has set itself the objective of reducing it.

However, a complicated issue arises: which tax rates should be revised in the first place, and how will these changes impact the macroeconomic situation in general? Indeed, even the equal reduction of the tax burden on various types of taxes can lead to considerable variation, with other macroeconomic implications. Hence, a necessary precondition for reforming the tax system is obtaining and using evaluations of the dynamics of the reaction of the GDP and other growth indicators of economic activity to changes in tax burden parameters designed in the process of working through the options of the new tax system. Below, the results of the analysis of this problem obtained based on the econometrical approach (see Table 1) are considered.

Without going into the details of the technology of forming evaluations of elasticity ratios obtained based on one-two factor regression equations, we will simply state their distinctive features. Firstly, among 16 analyzed indicators of growth and foreign economic activity (GDP, growth rates of industry, agriculture, production of consumer goods, etc.) 6 indicators showed sensitivity to change in the indicator of the tax burden on the profit tax. Evaluations on these types of tax withdrawals show that a 1.0 percentage point (in % to GDP) reduction in the share of tax proceeds on profit tax (other conditions being equal) can increase growth rates of industrial output by 2.4 percentage points. Growth rates of consumer goods production will rise by 1.9 percentage points. Considerable additional increase can be expected in the export of finished products (16.1 p.p.); contract construction will increase; operations of SMEs will noticeably rise.

A reduction in the tax burden on VAT and other types of tax withdrawals has a similarly encouraging impact on the economy. At the same time, it should be kept in mind that the evaluations listed in Table 1 give a somewhat simplified picture as they reflect the possible *direct effect* of changes in tax burden parameters. The full effect can differ from the results described above, as there are many indirect interrelations and other factors in economy (e.g. investments) impacting growth and stability indicators. For example, additional growth in industry as a result of reducing the VAT rate can increase the demand for cargo transportation. These two factors together can encourage a rise in the income of the employed, which will increase the demand and production of consumer goods etc. However, detailed consideration of these and other indirect interrelations requires the development of special econometric models, which is beyond subject of present research.

Table 1. Elasticity Ratios of Economic Activity Indicators to Tax Burden Indicators

Tax Burden Indicators	Economic Activity Indicators	Levels of Elasticity Ratios
1. VAT share in GDP	Rise in Industrial Production	-2.5
	Rise in Non-Cotton Exports	-6.4
2. Excise share in GDP	Rise in Exports, total	-3.2
	Rise in Passenger Turnover	-1.8
	Rise in Turnover of Goods	-2.5
3. Profit Tax share in GDP		-2.4
	Rise in Industrial Production	-12.2
	Small Business share in GDP	
	Rise in Production of Consumer Goods	-1.9
	Rise in Contract Construction	
	Rise in Stock-Raising Production	-1.6
	Rise in Export of Finished Goods.	-2.4
		-16.1
4. Personal Income Tax share in Average Salary	Rise in Agricultural Production	-0.7
	Rise in Contract Construction	-0.3
	Rise in Exports, total	-4.7

Source: Results of econometrical analysis of quarterly dynamics of relevant indicators for 1997-2004 (growth rates in real terms, quarter of current year to similar quarter of previous year).
Note: The elasticity ratio shows change in growth indicator (in percentage points) under change in tax burden indicator by 1 p.p. (e.g. – 2.5 on industry shows that growth rate of industrial production can increase by 2.5p.p. under reduction of VAT in GDP by 1 p.p.).

In addition, it should also be taken into account that the encouraging effect on economic activity of reducing the tax burden has its limits. Under conditions when it is necessary to maintain the current level of budgetary expenditures, a reduction in the tax burden means a rise in the budget deficit. The effect of this, in turn, is an additional rise in prices (inflation) and a corresponding fall in growth indicators measured in real terms, i.e. with the deduction of inflation. Econometrical analysis of the interrelation between inflation and the budget deficit in particular indicated that the corresponding elasticity ratio was 0.65, i.e. an increase in the budget deficit by 1 p.p. in the reporting period led to an additional increase in quarterly growth rates of the wholesale price index (WPI) on average by 0.65 p.p. The equation is as follows:

WPI = 141.2 – 1.08 * **DEFICIT (-1)**; **AR(1)**; **AR(3)**; **MA(2)**
(0.49)

R^2=0.66; DW=1.8; F=9.1

As seen from the parameters of the equation, the budget deficit is the factor that explained two thirds of all variations of the inflation rate in the reporting period. Obviously the remaining one third depends on factors of growth in costs and inflationary expectations.

The direct reaction of the economy to decreasing the tax burden while taking into account the inflationary factor is shown in Table 2.

Table 2. Implications of One Percent Point Tax Burden Reduction by Major Types of Taxes and their Direct Impact on Growth and Exports Indicators (in percent)

Output Indicators	VAT		Excises		Corporate Income Tax	
	Less Inflation	With Inflation	Less Inflation	With Inflation	Less Inflation	With Inflation
1. Budget deficit (Minus indicates budget deficit).	-1.0		-1.0		-1.0	
2. Changes in Inflation (increase of major prices)	0.0	0.7	0.0	0.7	0.0	0.7
2. Growth Indicators	0.0	0.0	0.0	0.0	0.0	0.0
1. GDP	1.1	0.4	1.7	1.0	1.8	1.1
2. Gross Industrial Output (as per VAT)	2.5	1.7	0.0	-0.7	0.0	-0.7
3. Gross Agricultural Output	0.0	-0.7	4.4	3.7	1.1	0.4
4. Freight Turnover	0.0	-0.7	2.5	1.9	0.0	-0.7
5. Passenger Turnover	0.0	-0.7	1.8	1.1	0.0	-0.7
6. Consumer Goods Output	0.0	-0.7	0.0	-0.7	2.2	1.5
7. Cattle-breeding	0.0	-0.7	0.0	-0.7	2.4	1.7
8. SMEs Output Share in GDP	0.0	-0.9	0.0	-0.9	12.2	11.3
9. Contractual Works	0.0	-0.7	0.0	-0.7	0.0	-0.7
3. Export Potential Indicators	0.0	0.0	0.0	0.0	0.0	0.0
Exports, total (by excises)	4.8	4.0	3.5	2.6	2.4	1.6
2. Non-cotton exports	6.9	6.0	0.0	-0.9	2.3	1.4
3. Exports of finished products	0.0	-1.0	0.0	-1.0	4.1	3.0

Note: Estimates were obtained using the econometric model.

As seen from the results obtained, reducing the tax burden by the same level (by 1 p.p. in % to GDP) for different types of taxes has varied direct impact on the economy. GDP real growth rates increase from 0.4 p.p.

(for VAT) to 1.1 p.p. (income tax on legal entities)., Other indicators of growth and export change respectively. Hence, they can be used as a basis for various alternative approaches to reform of the tax system. If strengthening the encouraging influence of the tax system on growth is required, then it is necessary to focus major efforts on reducing the income tax burden on legal entities, as precisely these have a principal impact on GDP dynamics in the short run. If the priority objective is to encourage the potential development of exports, then the first target should be the reduction of the tax burden on VAT, including that on imported goods.

At the same time, in all versions of tax reform it is necessary to give priority to measures to level the tax burden, to improve tax administration and to increase the level of tax collectibility. Only in that case can two issues be solved simultaneously: reducing the tax burden as a necessary precondition for sustainable economic growth, and raising real budgetary revenues without undermining the macroeconomic stability achieved in recent years.

In conclusion, we will mention that the results obtained indicate considerable possibilities for applying the econometric approach in working out an efficient strategy for macroeconomic regulation. However, there are serious limitations of a technical and informational nature. Only the development of national statistics and the transition from yearly to quarterly macroeconomic dynamics, including of fiscal indicators as well, will allow these limitations to be overcome, taking into account both direct and indirect interrelations and building up new indicators which adequately reflect the real changes taking place in the national economy.

2. Uzbekistan's Accession to the WTO: Government Regulation and Protection of National Economy Sectors

By Valentina Baturina
CEEP

This article reviews: the experience of countries which have already joined the WTO, with regard to the protection of their domestic output; issues concerning the economic impact on the most vulnerable sector – the automotive sector – which should be addressed prior to WTO accession; and the country's long term development strategy and its implementation.

Industry is the most important sector of the economy, which favorably impacts on the social and economic development of Uzbekistan. Establishing an efficient and competitive industrial sector is Uzbekistan's strategy for both the mid-term and long-term periods.

Uzbekistan's accession to the WTO will facilitate innovations and technological progress in the industrial sector through the selection and purchase of efficient and reliable imported equipment. In addition, domestic exporters will have easier access to international markets and enjoy the most-favored-nation regime with all WTO country-members. Exporters will also have additional and beneficial transit routes for their goods, which is vital for foreign trade development.

However, taking into account the fact that the current state of processing industries is mainly characterized by a low level of competitiveness, the elimination of trade barriers may cause a negative impact on local commodity producers, as international companies will try to strengthen their positions in Uzbekistan with cheaper and more competitive goods. The automotive industry will be the most vulnerable, because its development level is not sufficient for normal competition. Therefore, if Uzbekistan were to accede to the WTO without taking into account the interests of all industry sectors, this could lead to a considerable decline in output, an increase in unemployment and a decrease in government revenues.

Achieving the results expected from WTO membership will in many ways depend on the conditions of Uzbekistan's joining the WTO and on the following factors: the level of development and implementation of instruments and measures for liberalizing the economy and regulating the development of economic sectors; price regulation and the establishment of an optimal system of taxation; the maintenance of subsidies in selected sectors; the attractiveness of foreign investments; the regulation of import tariffs and exports; the system of standardization and certification of goods; and other protective measures for national commodity producers.

It is obvious that the form and pace of Uzbekistan's accession to the WTO will heavily depend on the implementation of instruments and mechanisms for institutional transformations in industry, as well as the passage of laws meeting WTO standards, which will enable the utilization of the new set of measures necessary to protect vulnerable sectors. Reforms in industry may envisage the support of selected enterprises or sectors, as the WTO does not forbid protectionism. However, as noted by experts from developed countries who acknowledge the flaws of the WTO rules, it is necessary to present clearly defined justifications of protection measures, which should be primarily based on the economic interests of nations[1].

All this necessitates the development of a well-grounded strategy for the protection and support of domestic commodity producers' interests, enabling them to participate in world trade on generally accepted and equal terms. The development of such a strategy is primarily linked with the need to study the practices of WTO member countries with regard to reforms and to government policy on the regulation of the development of industry sectors.

The experience of WTO member-countries demonstrates that the protection of domestic output primarily calls for the development of macroeconomic policy, including foreign exchange policy. In the process of developing conditions for WTO accession, various countries undertook measures for increasing the efficiency of financial, credit, tax and customs instruments, while the regulation of the real exchange rate considerably decreased the need to use more selective regulators.

In addition to supporting selected industries, prior to WTO accession those nations implemented institutional reforms, including the reorganization and privatization of selected state-owned enterprises. Simultaneously they addressed issues of stimulating innovations and encouraging the implementation of new technologies by creating favorable conditions for their import, as well as attracting foreign investment, introducing certifica-

1 M. Barbasov, Integration of EC counties and the WTO, Central Asia and Caucasus, issue 2, 2001, Sweden.

tion and standardization, increasing production efficiency and competitiveness, gradually opening domestic markets while undertaking measures to protect the most vulnerable sectors, and professional training. Countries joining the WTO tried to strengthen their production capacity to ensure the output of cheaper, high-quality and competitive goods. Considerable attention was paid to the establishment of a reliable system of law enforcement, the professional skills of staff and a sound system of administration.

Chinese experience may be of practical use for Uzbekistan with respect to government regulation of the development of sectors of the economy at the preparatory stage of accession to the WTO**.** Reforms in industry, the gradual opening of the domestic market and the development of conditions for the protection of the most vulnerable sectors resulted in significant positive shifts in the industrial sector of China. The wide use of modern technologies, materials and parts imported from developed countries facilitated the increase in the quantity of finished products and their export to the world market.

The Chinese economy is rapidly developing and the country is becoming the leader in attracting and using direct foreign investments. As a WTO member, China is becoming an even more serious competitor on the world market. Among key measures and mechanisms for the regulation and protection of national industry sectors in China[2] we would like to emphasize the following:

Change of economic policy towards the following: the acceleration of institutional and market reforms in industry; the introduction of contemporary management methods; the creation of incentives for the rapid growth of finished products output, exports and a developed market; the review of foreign trade policy implementation; and the enforcement of legislation for the protection of national commodity producers in compliance with WTO principles.

Tariff policy focused on the development of measures for protection from an anticipated considerable reduction of foreign trade barriers. In establishing the maximum possible reduction of import tariffs a differentiated approach was used. For less sensitive groups with insignificant import volumes, tariffs were reduced to a large extent. For the most vulnerable groups of goods, import duty rates were kept at the highest possible level.

Due to the considerable protection of the domestic market in many sectors of Chinese industry, the level of prices is considerably higher than the world level. Therefore, protective measures prevented the expected considerable reduction of tariff and non-tariff barriers from causing severe import shocks.

Prior to accession to the WTO, the average level of import tariffs in China reached 17 percent, and after accession it declined to 15 percent in major sectors, and even more in selected ones. Only for a limited number of new sectors of industry was the maintenance of tariff protection at the level of 30 percent envisaged. In line with a bilateral agreement with the USA, in many sectors the average level of import tariffs was to be reduced to 9.44 percent, and to 7.1 percent in those sectors which are most attractive for US investment. About 2/3 of the said tariffs were to be reduced by 2003, while the remainder by 2005.

It is known that GATT-94 does not directly prohibit the introduction of export duties, but rather includes an appeal to all WTO member-counties to refrain from the practice of applying them, as they lead to the establishment of differentiated prices for domestic and foreign consumers. As export duties cover mainly resources and raw materials, i.e. the inputs intended for industrial purposes, the application of export duties is equivalent to a hidden subsidy of domestic sectors which consume such inputs. However, the subsidizing of selected industries or groups of national industries should be eliminated.

China managed to assert the possibility of maintaining both early **existing export duties** and the introduction of **new ones** if deemed appropriate.

Price policy consisting of maintaining control over prices on a wide spectrum of products and services related to production and technology (various types of petroleum products, fertilizers and grain cultures, vegetable oils, silk cocoons, cotton, etc.), which is an effective tool of government support of national producers in the industrial complex.

Policy aimed at the reduction or elimination of non-tariff barriers such as the licensing of imports, quoting, foreign currency control and technical inspection standards, as well as the lifting of quantitative limitations on major types of imports. This decrease in domestic market protection clearly results in a considerable increase of imports of industrial products, leading to increased competition on the domestic market, and potentially affecting both national producers and foreign investors operating in the country.

2 D. Kurbanov. Prospects for attraction of direct foreign investments under conditions of China's accession to the WTO. Economicheskoye Obozrenye, issue 11, 2001, Uzbekistan. Sh. Sabitov. China's Economy: Yesterday and Today. Economichesky Vestnik Uzbekistana, issues10/11, 2001.

The reduction of tariff protection was compensated for by measures raising technical barriers (standardization, certification, etc.).Measures on increasing output quality and price competitiveness were developed and implemented. Foreign companies intending to invest in new projects in China have to take into account all changes related to the adaptation period and the establishment of the new market situation.

China's experience indicates that in the process of WTO accession it is necessary to take advantage of the entire set of instruments and mechanisms in industry, particularly the introduction of modern management methods, the facilitation of the rapid development of finished products, the encouragement of exports and the development of a market for competitive and export-oriented sectors.

Uzbekistan's accession to the WTO necessitates deepening the liberalization of the economy, accelerating reforms in industry, and adopting laws compatible with WTO standards and instruments necessary for the protection of national sectors, especially newly-emerged ones. Wise tariff policy is needed, taking into consideration that there are many sensitive sectors in the country. Such sectors need a transition and adaptation period for the capitalization of their revenues and the mobilization of investment resources.

The most sensitive sectors in Uzbekistan are the textile and garment industries, as well as automotive industry. Bearing in mind that similar research has been already done on the textile industry ("Uzbekistan's Economy," issue 4, 2004), this paper attempts to assess the implications of WTO accession for the automotive sector which, being technologically intensive, determines the level of technological progress to a considerable extent.

In recent years the sector was characterized by the increase of competitiveness in foreign markets, with a price range of USD 8,000-8,800 for brand-new deluxe cars, while similar vehicles produced by world giants are far more expensive and are affordable only to affluent customers. However, taking into account that the vehicle market is rapidly expanding, especially due to the dramatic development of the automotive sector in China, the growth of the number of joint ventures in Russia in this sector, as well as the building of new facilities in neighboring countries, the automotive sector of Uzbekistan will inevitably face competition from foreign companies with increasing deliveries to international markets. Moreover, these counties are intending to produce both expensive and high-quality vehicles and affordable and reliable ones, creating competition and a possible loss of market for the national automotive sector.

Therefore, during the preparatory period of accession to the WTO it is necessary to evaluate the risks and threats for the national automotive sector, to analyze the scope of the impact of changes on national output dynamics and to develop a system of government policy measures for minimizing the negative implications for national producers.

UzDAEWOOauto holds the dominant position on the domestic market of vehicles. At present 17 enterprises are operating there. The sector accounts for 5.3% of total industrial output, employing a total of 7.5 thousand people. There is also a wide network of contiguous enterprises producing parts and components and servicing vehicles.

The development of the national automotive sector is primarily linked with domestic market capacity. With 0.3 vehicles per 1000 population, Uzbekistan lags behind many countries. In addition, the majority of the vehicles owned by the population are obsolete models more than 13 years old. Sales of brand-new vehicles on the domestic market do not exceed 3-5%[3]. Thus, there is increasing demand for output, especially for brand-new vehicles. The domestic market is apparently huge, and as the purchasing power of the population increases, sales of vehicles are ensured.

From 2001-2004, the sector underwent modernization, prompted mainly by the decrease in demand on the domestic market due to high prices compared to the similar class of vehicles produced by other companies. The development of new technologically interrelated facilities has enabled the output of vehicles to gradually be increased, resulting in improved dynamics of key operational indicators (Table 1). After the reconstruction and modernization of the enterprises, the output of vehicles reached 70.0 thousand units. The share of newly innovative products in total output reached 24%.

Table 1. Key Indicators of UzDAEWOOauto Development

Indicator	Units	2002	2003	2004
Share in total industrial output	%	5.6	5.1	5.3
Number of employees	people	7320	7092	7481
Output of vehicles	thous. units	34.7	40.5	70.0
Exports	thous. USD	67588.4	91242	193612
Imports	thous .USD	219686	175800	287978
Raw materials	thous .USD	177088	175642	287806
Equipment	thous .USD	42599	158.0	172.0

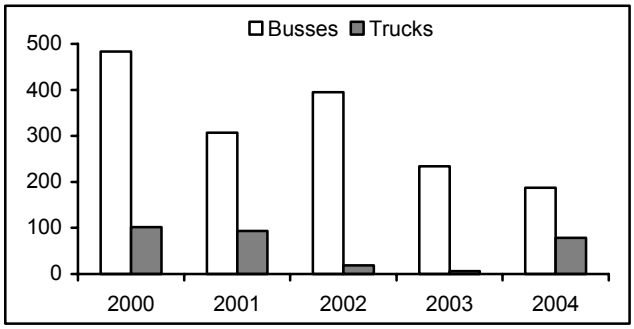
Source: Estimates by the CEEP based on data of State Statistics Committee of the RU and UzAvtoSanoat Association data.

3 http://www.abiz.ru/article.phd?id=2

Busses and trucks are produced by SamKochAvto JV, accounting for 2.0 percent of the total output in the sector. The enterprise is developing its technological capacity to attract foreign investors.

The decline of output from 2002-2004 is related to the irregular supply of imported components, which account for more than 90 percent of the material inputs in cost structure, rendering busses and trucks uncompetitive with regard to price (figure 1).

Figure 1. Production of Busses and Trucks in 2000-2004 (units)



The export of vehicles to non-CIS countries in gradually increasing but still accounts for a mere 0.2 percent of total exports. Vehicles are mainly exported to neighboring CIS countries. In 2004 over 35.7 thousand vehicles were exported, including 35 percent innovative models. The ratio of export specialization of the sector increased more than twofold in 2001-2004 (Table 2) as a result of the increase in output of new models.

Table 2. Ratio of Export Specialization of the Automotive Sector

Sector	Export Share (ES), %				Industrial Output Share (IOS), %				Export Specialization Ratio, (ER)			
	2001	2002	2003	2004	2001	2002	2003	2004	2001	2002	2003	2004
Automotive	2.0	2.3	2.5	3.9	5.5	5.6	5.1	5.3	0.36	0.41	0.49	0.73

Note: Ratio of export specialization (ER) is determined as a relation of the sector share in exports to share in industrial output: If ER $\geq$ 1, then the sector has high export specialization and sustainability in international markets. If ER < 1, then the sector has low export specialization and instability in international markets.

$$ER = \frac{ES}{IOS}$$

However the sector needs to address the following issues: the high cost of output, which increased by more than 46 percent in 2003-2004 due to the growth of prices for imported inputs; and the low profitability of sales and total profitability of output, also testifying to the non-competitiveness of products. This calls for ongoing modernization, based on the extensive use of advanced technologies, materials and parts, the reduction of costs, and the creation of competitive brands of vehicles, taking contemporary requirements into consideration. Unless the above issues are addressed, the domestic automotive sector would incur certain losses from accession to the WTO.

The scope of losses would depend on both the conditions of accession and on government regulation of the sector's development, i.e. establishing protective conditions in the preparatory period by manipulating tariffs, prices and investment policies, as well as other measures.

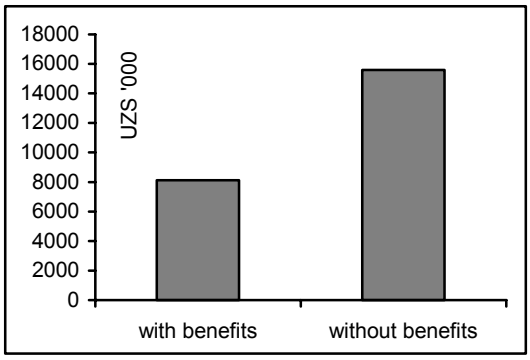
Without the above measures, only a reduction of customs duties for vehicles under open trade conditions will entail considerable changes in production dynamics. These will be especially tangible due to negative internal factors in the sector, such as low price competitiveness due to high output costs, the scarcity of material and financial resources, low capacity utilization, delays of payments for imported components and the lack of skilled labor.

Expert assessment of implications for the sector following Uzbekistan's accession to the WTO were made on the basis of the Nexia GLE vehicle with air-conditioner – which is in demand both on domestic and international markets – through the impact of tax, customs and other benefits on output and sales costs. The fact that imported inputs account for 60 percent of the output cost at their zero weighted average duty at present was taken into consideration. The change of possible output was estimated, taking into account output volumes under open trade conditions; output volume is based on current conditions and the ratio of decrease of demand for products. Output costs, both including all customs and other benefits and excluding them, were assumed as the base case scenario.

UzDAEWOOauto JV is exempt from all types of duties and taxes on the import of equipment and components necessary for the production of vehicles. Taking into account all customs benefits and preferences, the cost of a Nexia GLE with air-conditioner exceeds USD 9,000. Preliminary assessment indicated that without tax, customs and other benefits as per WTO requirements, the cost of the vehicle could increase by 90 percent, with output subsequently declining by more than 25 percent (figure 2).

Therefore, the domestic automotive sector may encounter the following risks following WTO accession:
– the possible decline of output due to technological limitations (low capacity utilization, insufficient competitiveness of products on the international market) and the lack of skilled labor;
– the decrease or elimination of exports;
– the openness of domestic markets for imports of vehicles, including second-hand foreign-made cars from other countries.

Figure 2. Growth of Production Costs (Nexia GLE with air-conditioner)



Under such conditions the sector's development strategy should focus on the transition to innovative development, integration into the world automotive system, ongoing restructuring and acceleration of foreign direct investment inflow. National automotive sector strategy is linked with heightened requirements for the growth of competitiveness and the efficiency of production. The sector needs to undertake active steps towards improving efficiency in key output factors (labor and capital), decreasing output costs, increasing exports – including new models of vehicles, accelerating the development of related sectors with regard to the production of import-substituting products, and utilizing new factors and sources of economic growth. The development strategy of the automotive sector has been based on sustainable dynamics of output (134.5% growth rate in 2004) and growth in the share of exports in total output (52%). Presently the sector's share in industry structures is small (5.3%); however, the increasing competitiveness of vehicles indicates that the sector has adapted to market conditions and in future may achieve high efficiency. The sector has reserves of competitive capacities, as well as already enjoying high labor and capital efficiency and real opportunities for the increase of exports.

Conclusion. It is possible to minimize the negative impact on the national automotive sector by developing a package of measures. During the preparatory stage, as Chinese experience demonstrates, priorities and principles of enforcing legislative solutions should be identified, and reasonable time schedules of accession should be estimated, in order to implement appropriate actions for the sake of national interests.

Major regulatory measures for the automotive sector in the transition period of WTO accession at the macroeconomic level include: improving the system of legal standards and entry, liberalizing trade, creating a competitive environment, improving conditions for the protection of national exporters, and increasing the investment attractiveness of local companies for foreign direct investment.

Methods and mechanisms of customs and tariff regulation in the automotive sector should be applied while taking into account the efficiency of its protection. Tariff regulation should be based on import duties rates, developed with the consideration of proposals by companies and the opinions of national commodity producers.

Certain attention should be paid to the development of conditions for increasing the interest of foreign investors, as well as to the establishment of joint ventures with world automotive giants.

The acceleration of the program of localization is also vital for the sector, as well as the development of parts production, allowing the share of domestically produced inputs in locally manufactures vehicles to be increased up to 50%, given the fact that Uzbekistan has certain advantages in this. It is necessary to improve the quality of domestic output, to develop a base of parts and inputs at world standards and to procure promising research and development designs. In addition, new types and models of vehicles should be developed and implemented jointly with foreign companies, importing necessary components. The majority of produced vehicles should not be expensive, in the range of $5,000-7,000. If no competitive vehicles are created, when the market opens, the price of many foreign made vehicles would be comparable with brand-new locally manufactured vehicles, which could result in the bankruptcy of the entire sector, with all of the social implications that would entail.

3. PILOT COMPUTATION OF THE SINGLE LAND TAX: AN ANALYSIS OF OUTCOMES

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The single land tax introduced in 1999 is one of the resource type of taxes. At present, this type accounts for a relatively small share of government revenues, although it can serve as a valuable and flexible tool for ensuring the efficient use of the material resources available in the country. In addition, the single land tax represents the so-called "integrated" type, as it is replaces a number of national and local taxes and therefore has not only resource tax specifics.

In accordance with paragraph 6 of the Cabinet of Ministers Resolution #567 dated 25 December 2003, the pilot computation of the single land tax based on normative land value was introduced for agricultural commodity producers in Samarkand and Tashkent regions as of 1 January 2004. Pursuant to the Cabinet of Ministers Resolution #610 dated 28 December 2004, similar pilot land tax computation was extended to agricultural producers of Surkhandarya region. This paper attempts to analyze the outcomes of this experiment, identify remaining problems and develop recommendations for their resolution.

Fairness in Taxation

There are two approaches in international practice towards fairness of taxation:
1. Based on the benefits received by the taxpayer from using a good, the object of taxation (in our case land plots used for agricultural purposes);
2. Based on the taxpayer's ability to bear the tax burden. In the selection of one or another approach, both philosophical and pragmatic considerations should be taken into account.
The criterion of relative equality of tax obligations is immediately related to the idea of fairness and envisages a distribution of taxes in line with clearly-defined and publicly approved approaches, as well as an absence of discrimination. Relative equality of obligations is achieved by horizontal and vertical equality. Horizontal equality means that taxpayers in similar conditions are subject to equal taxation. Vertical equality means that taxes paid by persons in different conditions are differentiated in accordance with such conditions. If we consider both horizontal and vertical equality, it is clear that levying tax obligations which are quantitatively similar in absolute terms for all members of society would not be complying with the given principle.

Thus, the objective of reforming the methodology of single land tax computation was to ensure the principle of fairness. In other words, while under the cadastre method of computation, the amount of fixed tax depended on various qualitative characteristics of agricultural land (soil) and was not related to the agricultural crops grown on the plot of land, under the normative method of computation, the amount of tax depends on the type of cultivated crops (in the case of crop production). This implies that the amount of tax paid under the normative method depends on the profitability of the agricultural crop.

Methodology Used for the Assessment of the Normative Value of Agricultural Land in Uzbekistan

Computation of the normative value of irrigated land. This is based on the relative valuation of land plots with regard to the natural conditions which are most important for crop cultivation (land appraisal), and the use of standard net income as a cost indicator. In land appraisal, the major characteristics of the soil as well as its natural conditions are taken into account, including the type or sub-type of soils, mechanical composition, remoteness of irrigation, availability of thermal resources, degree of salinity, erosion and so on. The highest rating of 100 points is assessed to the best soils with the highest productivity.

The normative net income from 1 hectare of irrigated agricultural land of various quality is computed using the following formula:

$$D_{n=} \frac{VP_n * P_n}{100}$$

where: D_n – normative net income from 1 hectare of agricultural land; VP_n – normative gross product from 1 hectare of agricultural land; P_n – standard estimated profit of agricultural production on lands of various quality in percent.

The normative net income may be computed depending on the structure of the sown areas and their agricultural specialization according to one of the two following options:
– main crop;
– combination of crops cultivated in the appraised object (farm, region).

The computation of normative gross product by main crop may be applied in regions with a high level of specialization in the growth of this crop. The degree of specialization is determined as the share of the main crop in commodity output (at least 60%). The normative gross product by main crop per 1 hectare is equal to the cadastre-based estimated crop capacity of this crop (centners/hectare) and its sales price (procurement, contractual, market). The computation of normative gross product by combination of crops may be applied to:
– the average structure of cultivated lands under appraisal and the sales prices for crops grown on them;
– the calculation of price by every agricultural crop in the total cultivated area.

The following formula is used for the computation:

$$\frac{X*P_1 + Z*P_2 + K*P_3}{(X + 3 + K)}$$

where: X – cost of raw cotton from 1 hectare; Z – cost of grain from 1 hectare; K – cost of forage crops from 1 hectare; P_1, P_2, P_3 – share of crops in percent.

To simplify the computation of normative gross product for cotton and grain, specially estimated adjustment indices can be used for cotton, depending on its share in the total crop structure of the cadastre object (Table2).

Table 1. Adjustment Indices of Cost of Gross Product for Cotton

Share of Cotton in Total Sown Area	Adjustment Index of Cost of Gross Product based on Cost of Raw Cotton from Total Sown Area
K1 - 30%	0.526
K2- 40%	0.594
K3 - 50%	0.661
K4 - 60%	0.729
K5 - 70%	0.797

The rate of return for agricultural production is established for various qualities of land, using the computation method on the percent of gross product cost and is shown in Table 3.

Table 2. Rate of Return for Agricultural Production

Score	Rate of Return in %	Score	Rate of Return in %
10	-	60	18
20	6	70	21
30	9	80	24
40	12	90	27
50	15	100	30

The normative price of 1 hectare of irrigated land is computed by the following formula:

$$Cn = \frac{Dn * K1}{R} * 100$$

where: C_n – normative price of 1 hectare of irrigated land; D_n – normative net income from 1 hectare of irrigated land; R – bank loan interest rate; K_1 – coefficient that takes into account economic and management efficiency.

Comparative Analysis of Cadastre and Normative Methods of Single Land Tax Computation

Figures 1 and 2 represent the distribution of agricultural areas and shares of single land tax amounts paid by agricultural commodity producers by specialization in Samarkand and Tashkent regions respectively. Figures were built on the basis of single land tax collection data in 2003, adjusted to 2004 conditions by using ratio equal to 1.5 times. Figures compare forecasted amounts of single land tax computed according to cadastre and normative methods. Adjustment ratios developed by some specialists made a tangible impact on computations (0.5 ratios for cotton and grain producers as well as for astrakhan producers). At present such adjustment ratios are not applied in computation of single land tax.

We may see from Figure 1 (Samarkand region) that the share of single land tax amount payable by cotton and grain producers decreases considerably from 69% to 59.5% under the normative method. And a similar trend is observed for tobacco producers – from 13% to 10.6%. For all other specializations the transition to the normative method increases the share of single land tax paid in the region.

Figure 1. Share of Specializations of Agricultural Uses of Land in Total Land Area and Payment of Single Land Tax According to Cadastre and Normative Methods (Samarkand Region)

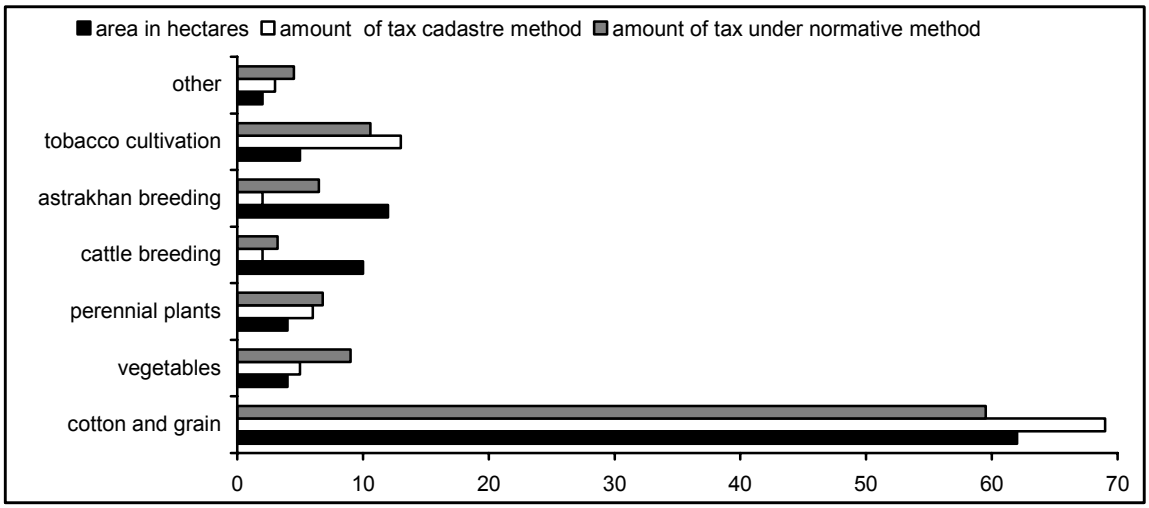
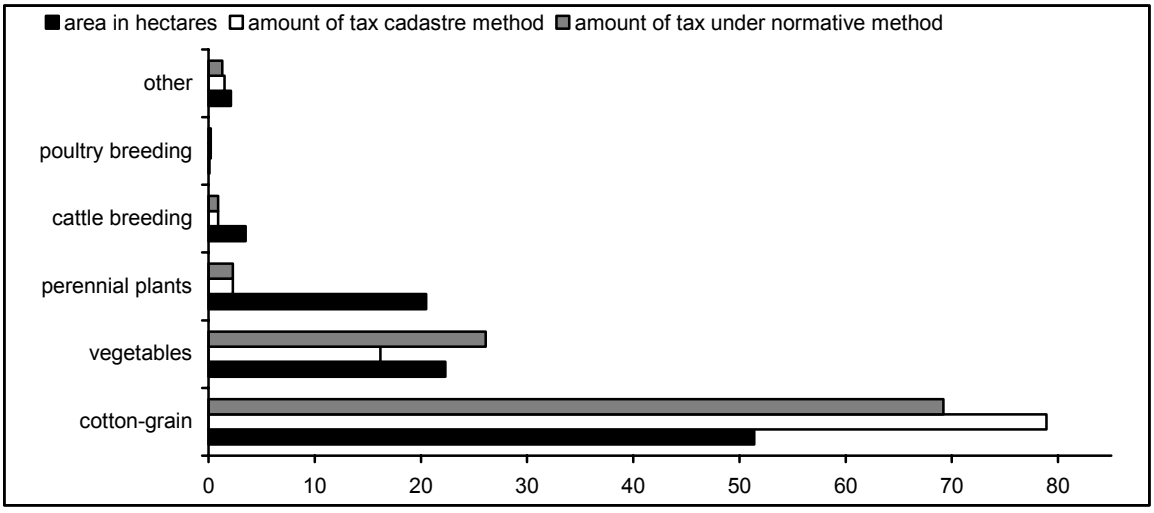


Figure 2. Share of Specializations of Agricultural Uses of Land in Total Land Area and Payment of Single Land Tax According to Cadastre and Normative Methods (Tashkent Region)



The redistribution of shares in the amount paid under single land tax in Tashkent region (see Figure 2) is somewhat different. Here as well as in Samarkand region the share of tax paid by cotton and grain producers decreases considerably, from 78.9% to 69.2%. However while in Samarkand region the redistribution of this share was relatively even, i.e. resulting in increases in the shares of other crop producers, excluding tobacco cultivation, in Tashkent region the decrease in the share of single land tax paid by cotton and grain producers occurred basically at the expense of the vegetable producers, whose share of taxes increased from 16.2% (under the cadastre method) to 26.1% (under the normative method). It is worth emphasizing that no changes in the shares of revenue generated by other crops in Tashkent regions occurred.

Thus, the following conclusions from the analysis of the numerical data from Figures 1 and 2 can be made. The introduction of a new method of single land tax computation leads, according to forecasted data, to a considerable decrease in the share of agricultural producers engaged in cotton and grain cultivation in total revenues generated from this tax. In Samarkand region their share computed using the normative method decreased by 9.5 percent compared with amounts computed under the cadastre method; and in Tashkent region by 9.7 percent respectively. Taking into consideration that the objective of this pilot application was achieving fairness in taxation, we may state that this objective was achieved partially. This is supported by the transfer of part of the single land tax burden from cotton and grain producers to other crop producers.

The negative aspect from the researchers' standpoint is the fact that, according to the forecast data for the Tashkent region, under the normative method of single land tax computation, part of the burden is almost fully transferred to vegetable producers, while the share of other crop producers in Tashkent region remains unchanged.

Table 3 below contains data on accrued and collected amounts of single land tax for the country in general and for three pilot regions. The level of 2003 is assumed as a base (100%), when the pilot procedure had not been applied. In addition, it is necessary to take into account the fact that in Surkhandarya region, the pilot procedure was introduced in 2005, while in Tashkent and Samarkand regions it was effective from 1 January 2004.

Table 3. The Revenues from the Unified Land Tax

Name of Regions	2003 (base)	2004 (in % to the base)	2005 forecast (in % to the base)
Tashkent			
Accrued	100.0	136.3	177.1
Collected	100.0	125.2	
Collectibility	90.4	83.0	-7.3
Samarkand			
Accrued	100.0	190.7	247.9
Collected	100.0	197.4	
Collectibility	74.5	77.2	2.6
Surkhandarya			
Accrued	100.0	128.1	166.6
Collected	100.0	120.2	
Collectibility	88.1	82.7	-5.5
Total in the republic			
Accrued	100.0	126.6	164.5
Collected	100.0	118.3	
Collectibility	80.3	67.0	-13.3

An analysis of the data presented in Table 3 indicates a considerable rise in the amount of accrued single land tax and a noticeable fall in the collectibility of this tax.

The importance of introducing the normative method of computing single land tax to the revenue part of the State budget of the Republic of Uzbekistan

In accordance with the classification of revenues of the State budget of the Republic of Uzbekistan, the single land tax is part of the land tax collected from legal entities and individuals. There are other taxes under this tax as well: the single land tax from legal entities on agricultural lands; the single land tax from legal entities on non-agricultural lands; and the land tax from individuals.

As stated above, the share of resource taxes – of which land tax forms a part – in forming the revenue part of the State budget is not high. This category of taxes is specifically important, as it can be a flexible tool for ensuring the rational use of the land resources available in the country.

Land tax collected from legal entities and individuals in 2003 made up 1.9% of total State budget revenues and 3.6% of local budget revenues of the Republic of Uzbekistan. The single land tax made up 0.6% and 1.1% respectively. It is necessary to mention the increasing role of the single land tax in the structure of land tax collected from legal entities and individuals. While in 2002 its share in the category of land taxes was 28.4%, when the State budget was executed in 2003, the share of the single land tax was 31.3%, having grown by 2.9 percentage points. If the current temporary approach to experimental regions is maintained and the normative method of computing the single land tax is subsequently applied to other regions of the Republic, the role of the single land tax will considerably rise.

The two experimental years of payment of the single land tax in Samarkand and Tashkent regions (2002-2003) were characterized by the relative evenness of payment, without significant problems or non-compliance with the minimum limits set in the procedure of payment stated in the instructions. Table 4 presents a comparative analysis of the amount of single land tax computed in Tashkent and Samarkand regions. The Table shows a comparison of the tax amount computed on cadastre in the conditions of 2004 (with 1.5 times indexation) based on data from the computed single land tax amount in 2003 with the amount of single land tax computed in the same conditions based on the normative cost of agricultural lands (at a 2% rate).

A comparative analysis of the two methods of computations shows that under the normative method in Samarkand region the amount paid on single land tax increases by UZS 8,281,340 thousand vs. the cadastre method (or 2.9 times); in Tashkent region – by UZS 6,991,374 thousand (or 2.5 times). In general, in the

two experimental regions, the amount paid to the budget from the single land tax when applying the normative method increased by UZS 15,272,713 thousand or 2.7 times vs. cadastre method.

It should be noted that the rise in the amount of the tax computed both in Samarkand and Tashkent regions takes place mainly because of the increasing amounts of tax paid by cotton and grain producers (in Samarkand region – by UZS 4,518,586 thousand, in Tashkent region – by UZS 4,377,715 thousand). At the same time, astrakhan breeding has the highest amounts paid in Samarkand region. Astrakhan pelt producers under the normative method, in accordance with computations made, pay 8.8 times more than under the cadastre method; vegetable producers – 5.41 times more; cattle breeders – 4.18 times more.

In Tashkent region under the normative method, the amount of single land tax for vegetable producers increases 4 times whereas for remaining producers (including cotton and grain) the increase is 2-2.5 times. The results of the analysis demonstrate that the experimental introduction of the normative method of computing the single land tax is of a clearly expressed fiscal nature directed at increasing the amount of single land tax channeled to the State budget (according to computations, by more than UZS 15 billion). In this case, the positive effect of increasing fairness is fully eliminated by the negative effect of the rising tax burden.

It should be kept in mind that the single land tax is a resource tax. The demand for land as a resource is extremely inelastic, which is why in the short run a rise in rates or fixed amounts of the tax leads not to a cancellation of rent agreements but to a rise in the amounts paid to the budget. However, such steps may seriously impact the economic development of agriculture in general and individual agricultural commodity producers in particular.

Table 4. Comparative Analysis of the Amount of Single Land Tax in Tashkent and Samarkand Regions (‘000 Soum)

Specialization	Square, hectares	Amount of tax on cadastre			Amount of tax in 2004			Deviation	
		2003	2004 (with 1.5 times indexation)	Tax per 1 hectare	Normative cost of agricultural lands	Tax amount on 2 % rate	Tax per 1 hectares	Absolute (6-3)	Relative (times) (6/3)
A	1	2	3	4	5	6	7	8	9
Samarkand region									
Cotton & grain	697 320	2000414	3 000 621	4.3	375 960 366	7519207	10.8	4518586	2.51
Vegetable growing	46050	140 550	210 825	4.6	57 004 903	1 140 098	24.8	929 273	5.41
Perennials	47932	187768	281 652	5.9	43 038 971	860 779	18.0	579 127	3.06
Cattle breeding	115884	64369	96554	0.8	20 162 051	403 241	3.5	306 688	4.18
Astrakhan breeding	139 886	62047	93071	0.7	40 948 596	818972	5.9	725 901	8.80
Tobacco growing	59515	373 283	559 925	9.4	66 760 257	1 335 205	22.4	775281	2.38
Others	23380	77469	116204	5.0	28 134 349	562 687	24.1	446483	4.84
Total in the region	1 129 967	2 905 900	4 358 850	3.9	632 009 493	12 640 190	11.2	8 281 340	2.90
Tashkent region									
Cattle breeding	36002	29544	44316	1.2	5451923	109 038	3.0	64722	2.5
Vegetable growing	226 946	510738	766 107	3.4	152 778 937	3 055 579	13.5	2 289 472	4.0
Perennials	208 482	72422	108 633	0.5	13 748 928	274 979	1.3	166 346	2.5
Poultry	524	5746	8619	16.4	988 262	19765	37.7	11 146	2.3
Others	21762	45605	68408	3.1	7518983	150 380	6.9	81972	2.2
Cotton & grain	522 992	2 479 624	3719436	7.1	404 857 568	8097151	15.5	4377715	2.2
Total in the region	1 016 708	3 143 679	4 715 519	4.6	585344601	11 706 892	11.5	6 991 374	2.5
Total for two regions	2 146 675	6 049 579	9074369	4.2	1 217 354 094	24 347 082	11.3	15 272 713	2.7

Conclusion

As follows from the comparative analysis conducted of the methods of computing the single land tax (by cadastre and by normative cost) the set objective set of ensuring fair taxation is not achieved fully. In Tashkent region, computations revealed that a “shift” occurs from the share of the amount paid by cotton and grain producers to that of vegetable producers, whereas the share of remaining producers does not change. In this context it seems necessary to develop and introduce adjustment ratios aimed at fair distribution.

According to the computations made, under the current situation, the experiment in Samarkand and Tashkent regions is of a rather fiscal nature. The absolute amounts paid by both cotton and grain producers (whose interests should be protected by anticipated tax reform) and other producers, increase. The amount of single land tax in two experimental regions paid to the State budget, according to computations, increases 2.7 times. In this connection, the development and introduction of adjustment ratios aimed at reducing the amounts paid is proposed.